

UNITED STATES TARIFF COMMISSION

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OPERATION OF THE  
TRADE AGREEMENTS PROGRAM  
WITH A SPECIAL CHAPTER ON THE KENNEDY ROUND

19TH REPORT  
1967

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**UNITED STATES TARIFF COMMISSION**

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UNITED STATES TARIFF COMMISSION

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OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

19th Report  
January-December 1967

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

Washington  
1969



## Preface

This report, the 19th issued by the United States Tariff Commission on the operation of the trade agreements program, relates to the period from January 1, 1967 through December 31, 1967. 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. 1/

During the year covered by this report, the Kennedy Round of multilateral trade-agreement negotiations was successfully concluded. In recognition of the importance of this event, the 19th report presents a comprehensive account of the major problems and issues encountered by the contracting parties at the Kennedy Round negotiations and the principal results achieved.

Other important developments, during 1967, discussed herein relate to: actions by the United States affecting its obligations under the trade agreements program; actions and programs initiated under the GATT to implement the General Agreement on Tariffs and Trade; and the major commercial policy developments in countries with which the United States has trade agreements.

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1/ The first report in this series was U.S. Tariff Commission, Operation of the Trade Agreements Program, June 1934 to April 1948, Rept. No. 160, 2d ser., 1949. Hereafter that report will be cited as Operation of the Trade Agreements Program, 1st report. The 2d, 3d, and succeeding reports of the Tariff Commission on the operation of the trade agreements program will be cited in similar short form.

The Trade Expansion Act of 1962 provided the legal framework for conduct of the trade agreements program during the year under review.

This report was prepared principally by Eleanor M. Hadley, John F. Hennessey, Jr., Magdolna Kornis, Peter R. Kressler, and George C. Nichols.

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## Chapter 1

### U.S. Actions in Connection With the Trade Agreements Program

At the close of 1967, the United States had trade-agreement obligations in force with nearly three-fifths of the nations of the world. The obligations had resulted primarily from the joint membership of the United States and its respective trading partners in the General Agreement on Tariffs and Trade (GATT). The remaining obligations had been incurred through bilateral agreements that were still operative between the United States and certain individual countries; most of the bilateral trade-agreement partners were in Latin America.

During 1967, five countries acceded to full membership in the GATT. The Kennedy Round of tariff negotiations was concluded in June 1967 after the participants had agreed to reduce substantially import duties on industrial products and to increase access for agricultural commodities. During the Kennedy Round, an International Grains Arrangement and an Antidumping Code were concluded and the Long-Term Arrangement in Cotton Textiles (LTA) was renewed. During 1967, trade in automotive products continued to expand between the United States and Canada, stimulated by the automotive products agreement that had been in effect between the two countries since 1965. During the year 16 groups of workers filed petitions for adjustment assistance under the Automotive Products Trade Act (APTA). In the year under review, the United States contracted new bilateral agreements and extended existing agreements in cotton textiles with nine countries. Also during 1967, the U.S. Tariff Commission conducted a

number of investigations under the escape-clause provisions of the Trade Expansion Act of 1962 (TEA) and an investigation under section 22 of the Agricultural Adjustment Act of 1933. These developments are discussed in detail in the sections that follow.

#### STATUS OF U.S. TRADE-AGREEMENT OBLIGATIONS

In recent years, U.S. trade-agreement obligations have originated both multilaterally and bilaterally. Multilateral obligations were contracted through U.S. participation in the GATT, and the bilateral through U.S. negotiations with individual countries. Obligations contracted under multilateral arrangements have predominated. Obligations assumed under bilateral agreements in recent years have been limited, primarily because of the accession to GATT membership of former bilateral partners of the United States.

At the end of 1967, the United States had trade-agreement obligations in force with 79 countries. Of these countries, 75 had mutual trade-agreement commitments with the United States as a result of their common membership in the GATT; 72 of them were full contracting parties, 1/2/ and the remaining three were provisional contracting parties. 3/ The United States also had trade-agreement

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1/ The term "contracting parties," when used without initial capitals (contracting parties) refers to member countries of the GATT, acting individually; when used with initial capitals (Contracting Parties), it refers to member countries acting as a group.

2/ Obligations with Switzerland resulted from both its full membership in the GATT and a bilateral trade agreement with the United States.

3/ Obligations with Iceland resulted from both its provisional membership in the GATT and a bilateral trade agreement with the United States.

obligations in force through bilateral agreements with four non-members of the GATT. During 1967, five countries acceded to full membership in the GATT; three of them--Argentina, Barbados, and Poland--already had trade-agreement commitments in force with the United States. 1/

The 79 countries with which the United States had trade-agreement obligations in force on December 31, 1967, are identified below:

GATT--Full Contracting Parties 1/

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

See footnotes at end of tabulation.

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1/ Argentina had been a provisional contracting party to the GATT, and also had a bilateral trade agreement in force with the United States; before achieving its independence in 1966, Barbados had been a Crown Colony of the United Kingdom, which had previously accepted the rights and obligations of the GATT on behalf of Barbados; since 1959, Poland had been participating in the work of the Contracting Parties under a special arrangement.

GATT--Provisional Contracting PartiesIceland 3/

Tunisia

United Arab Republic

Bilateral Trade Agreements 4/Argentina 5/  
El Salvador 6/Honduras 6/  
Iceland 3/  
Paraguay 6/Switzerland 7/  
Venezuela

1/ Czechoslovakia was also a full contracting party to the General Agreement; in October 1951, however, with the permission of the Contracting Parties, the United States had suspended its obligations to that country.

In May 1962, the United States suspended the application of its trade-agreement rates of duty to all products of Cuban origin, until such time as the President decided that Cuba was no longer dominated by the foreign government or foreign organization controlling the world Communist movement.

2/ Acceded during 1967.

3/ On Sept. 4, 1967, the Contracting Parties, in accordance with Article XXXVIII of the General Agreement, decided that Iceland could accede fully to the General Agreement. By the close of the year, however, Iceland had not yet acceded to full membership.

4/ The United States also had in force a preferential agreement with the Philippines, concerning trade and other matters. This agreement was concluded as a result of special legislation enacted during a transitional period following the institution of Philippine independence; it was not negotiated within the framework of the reciprocal trade-agreement program, which was inaugurated by the Trade Agreements Act of 1934 and was continued by the Trade Expansion Act of 1962. (See "Philippine Trade Agreement Revision Act of 1955," Public Law 196, 84th Cong. (Treasury Decision 53965; also Treaties and Other International Acts Series 3348, U.S. Dept. of State, Sept. 6, 1955).)

5/ The governments of the United States and Argentina agreed, on Dec. 27, 1967, that the bilateral agreement between the 2 countries would remain in effect until the consolidated schedule of the United States (Schedule XX) had been completed and so proclaimed by the President of the United States.

6/ The schedules of concessions and the provisions relating to them were terminated in January 1961 for Honduras, in June 1962 for El Salvador, and in June 1963 for Paraguay.

7/ The bilateral agreement between Switzerland and the United States, contracted in 1936, was still in force at the close of 1967.

U.S. trade-agreement obligations were not materially increased by the aforementioned accession of five countries to full membership in the General Agreement during 1967. Four of these countries-- Argentina, Ireland, Korea and Poland--acceded under Article XXXIII of the General Agreement, which provides the customary procedure for becoming a full contracting party. Barbados, on the other hand, acceded under Article XXVI, which permits a contracting party to sponsor the accession of a former territory on whose behalf it had previously accepted the rights and obligations of the General Agreement. 1/

The accession by Argentina to full membership in the GATT did not cause any significant change in U.S. or Argentine import duties on commodities traded between the two countries. 2/ Argentina had been a provisional member of the GATT for several years before 1967, and had concluded a bilateral trade agreement with the United States in 1941.

Similarly, the accession of Poland to full membership in the GATT resulted in no change of import duties on commodities traded between that country and the United States. 3/ In 1960, Poland had

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1/ Before achieving its independence in 1966, Barbados had been a Crown Colony of the United Kingdom. On Feb. 2, 1967, the United Kingdom advised the Contracting Parties that Barbados had acquired full autonomy in the conduct of its external commercial relations and was thereby qualified to become a full contracting party to the GATT.

2/ During the course of the Kennedy Round, Argentina made a number of concessions involving reduction of certain rates of duty. These reduced rates, however, had been in effect for the United States, under the U.S.-Argentine bilateral agreement. In October 1967, the United States formally accepted the accession of Argentina to full membership in the GATT.

3/ As one of the countries that engage in state-trading, Poland did not maintain a conventional tariff system and could not, upon its accession to full membership in the GATT, grant any effective duty concessions to the contracting parties. Accordingly, Poland, under the terms of its accession, agreed to increase by 7 percent annually the value of its imports from other members.

been granted most-favored-nation treatment by the United States. 1/

During 1967, a number of countries participated in activities sponsored under the General Agreement, either on a de facto basis 2/ or under special arrangement. Such participation served to establish limited trade-agreement relations between these countries and the United States. At the close of 1967, eight countries--Algeria, Botswana, Congo (Kinshasa), Lesotho, the Maldiv Islands, Mali, Singapore, and Zambia--were applying the General Agreement on a de facto basis; Cambodia had been participating in the work of the Contracting Parties from November 1958, under a special arrangement similar to a provisional accession.

#### TRADE-AGREEMENT NEGOTIATIONS

During 1967 the United States participated in two types of trade-agreement negotiations--those involved in concluding the Kennedy Round and those to satisfy claims for compensation that arose from the adoption of the Tariff Schedules of the United States in 1963. 3/ The Kennedy Round negotiations are the subject of Chapter IV

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1/ See U.S. Tariff Commission's Operation of the Trade Agreements Program, 14th report, p. 66, and 15th report, p. 14.

2/ In November 1960, the Contracting Parties had established a policy whereby the provisions of the General Agreement could be applied for a period of 2 years, subject to reciprocity, to a newly independent country to which, as a territory, the General Agreement had previously been applied. During the 2-year transition period, such a country could negotiate its future relations with the contracting parties to the General Agreement. In some instances, the Contracting Parties extended the de facto status beyond 2 years.

3/ The Tariff Schedules of the United States (TSUS) became effective on Aug. 31, 1963. The revised schedules replaced those originally set forth in the Tariff Act of 1930, as amended. For background on the TSUS, see Operation of the Trade Agreements Program, 16th report, pp. 45-46, 17th report, pp. 4-5, and 18th report (processed), pp. 9-12.

of this report; they will not be discussed further here. The compensatory negotiations are treated in the following paragraphs.

On June 30, 1967, the United States signed interim agreements with Canada, the United Kingdom, and Japan that terminated the remaining stages of some of the concessions that had been granted in the compensatory agreements with those countries. These concessions had covered commodities on which concessions were subsequently granted in the Kennedy Round negotiations.

The agreement with Canada terminated the remaining stages of the concessions that had been granted under the Interim Agreement of December 17, 1965 on the following products: hardboard and building board, ferrosilicon, locks and padlocks, steam and vapor-generating boilers, producer-gas and water-gas generators, air conditioning machines and parts, radio-television-phonograph combinations, aircraft and spacecraft parts, and game machines, including coin and disk-operated types. The agreement with the United Kingdom terminated the remaining stages of the Interim Agreement of April 5, 1966, on aircraft and spacecraft parts, and articles of unspun fibrous vegetable material and ivory. The agreement with Japan terminated the remaining stages of the concessions that had been granted under the Interim Agreement of September 6, 1966, on the following commodities: ferrosilicon, locks and padlocks, radio-television-phonograph combinations, ceramic sanitary ware and parts, mirrors, pipe tools and parts, screwdrivers, compound optical microscopes, projectors other than motion-picture projectors, toy figures of animate objects

and toys with a spring mechanism, slide fasteners and parts, cigar and cigarette lighters, mechanical pencils, articles of sponge, foam rubber or plastic, and rubber or plastic toys for pets.

IMPLEMENTATION OF THE U.S.-CANADIAN  
AUTOMOTIVE AGREEMENT

By December 31, 1967, the U.S.-Canadian Automotive Agreement had been in effect for 3 years. The agreement had provided for limited free trade in motor vehicles and original equipment parts; such treatment had been accorded by Canada in January 1965 and by the United States in December 1965 (retroactive to January).

The total two-way trade in automotive products 1/ between the United States and Canada was substantially greater in 1967 than in any of the 3 preceding years; in terms of value, the 1967 trade was approximately 50 percent greater than that in 1966, and about 350 percent greater than in 1964. In 1967, the value of U.S. exports of automotive products to Canada was 40 percent larger than in 1966, while the value of U.S. imports of similar products from Canada was 70 percent greater. The U.S. export balance of trade in automotive products with Canada in 1967 was about 17 percent smaller than in 1966, and 25 percent smaller than in 1964.

When the Congress enacted the Automotive Products Trade Act in

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1/ The trade data given in this section relate to U.S.-Canadian trade in all automotive products--both those that were duty-free under the agreement and those that were dutiable (e.g., replacement parts). Data are available on duty-free U.S. imports of automotive equipment from Canada, but are not available on duty-free Canadian imports of automotive equipment from the United States.

1965, 1/ it had established procedures whereby firms or groups of workers could apply for adjustment assistance to offset dislocations resulting from the implementation of the agreement. Sixteen petitions for such assistance were filed in 1967, all by groups of workers. Decisions on 14 of these petitions were rendered before the close of the year. In nine instances, the respective groups of workers were certified as eligible for assistance, while in four they were found to be ineligible. One petition was terminated without prejudice.

#### U.S. and Canadian Production and Trade In Automotive Products

During 1967, production and employment in the Canadian automotive industry increased to a record high level, while production and employment in the U.S. automotive industry continued to decline. By contrast, during the same year, the value of both U.S. and Canadian exports of automotive products to one another rose substantially, although the increase in Canadian exports of such products to the United States was proportionately much the greater.

The U.S. production of motor vehicles totaled 9.0 million units in 1967--the lowest annual output during the 5-year period 1963-67. The Canadian production of motor vehicles, on the other hand, rose to 947,000 units, from 902,000 units in 1966, 847,000 in 1965, and 671,000 in 1964. As a result, the Canadian share in the aggregate number of motor vehicles assembled in the two countries increased to

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1/ This act granted the President of the United States the authority to carry out the agreement.

nearly 10 percent in 1967, compared with about 8 percent in 1966, and 7 percent in 1965 and 1964. <sup>1/</sup> Canada's increased share in the combined output of assembled motor vehicles in the two countries was attributable, in considerable part, to the implementation of the U.S.-Canadian automotive agreement. Another contributing factor has been the more rapid rate of growth in recent years of the Canadian than of the U.S. consumer market for automotive products.

The average monthly employment in the U.S. motor vehicle and equipment industry increased from 798,000 workers in November 1964 to 894,000 in November 1966 (i.e., by 12 percent) but decreased to 849,000 workers in November 1967 (i.e., by 6 percent). Meanwhile, the average monthly employment in the Canadian automotive industry rose from 75,000 to 87,500 workers, or by 17 percent.

In 1967, the total two-way trade in automotive products between the United States and Canada was valued at more than \$3.3 billion, compared with \$730 million in 1964, \$1.1 billion in 1965, and \$2.2 billion in 1966. Although both U.S. exports of automotive products to Canada and Canadian exports of similar products to the United States rose substantially, the Canadian increase was proportionately much greater.

In 1967, U.S. exports of motor vehicles and parts to Canada were valued at \$1.8 billion. The value of such exports had increased from

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<sup>1/</sup> Canada's share of the value of the combined 2-nation production of motor vehicles was materially less than the percentages shown in the text, as Canadian-assembled vehicles incorporated a considerable proportion of parts made in the United States, while U.S.-assembled vehicles included only a negligible proportion of parts made in Canada.

\$654,000 in 1964, \$860,000 in 1965, and about \$1.3 billion in 1966. The corresponding Canadian exports to the United States were valued at nearly \$1.6 billion in 1967, compared with only \$76,000 in 1964, \$247,000 in 1965, and \$889,000 in 1966. Accordingly, the net U.S. export balance in its automotive trade with Canada declined to \$239 million in 1967 from \$422 million in 1966, \$613 million in 1965, and \$578 million in 1964, the year immediately preceding that in which the agreement became effective. 1/

In 1967, Canada continued to be the principal foreign market for U.S. exports of automotive products, as well as the primary supplier of U.S. imports of these commodities. During that year, Canada took 61 percent of U.S. exports of automotive products, compared with 52 percent in 1966 and 44 percent in 1965. Conversely, Canada supplied 61 percent of U.S. imports of such products compared with 48 percent in 1966 and 27 percent in 1965.

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1/ U.S. and Canadian statistics on U.S.-Canadian trade in automotive products differ materially. These differences arise largely from the fact that both countries measure imports that enter duty-free under the agreement more carefully than they measure exports that enter the other country duty-free. U.S. import statistics on such trade, for example, are prepared in accordance with the import classifications established by the Automotive Products Trade Act, which identify all free entries resulting from the agreement. U.S. export classifications, however, do not separately identify some exports of automotive parts. Hence, statistical series on the U.S. export trade balance in automotive products with Canada differ, depending on whether they are based on U.S. data, Canadian data, or a combination of the two. The figures in the text were derived from U.S. import and export statistics. For other series, see Second Annual Report of the President to the Congress on the Operation of the Automobile (sic) Products Trade Act of 1965, Committee on Finance, U.S. Senate, May 21, 1968.

## Action on Petitions Filed

The Automotive Products Trade Act of 1965 had provided that firms or groups of workers could apply to the Automotive Agreement Adjustment Assistance Board for compensation for dislocations attributable to the implementation of the agreement. In 1967, 16 groups of workers filed petitions under the Automotive Products Trade Act, requesting determination of their eligibility to apply for adjustment assistance. No firms filed petitions for assistance during the year.

The petitions filed during 1967 were as follows:

1. The International Association of Machinists and Aerospace Workers, Local No. 1268, on behalf of a group of workers at the Rockwell-Standard Corporation, Lyon Division, Adrian, Michigan, in January 1967.
2. The UAW International Union, Local No. 368, on behalf of a group of workers at Eaton, Yale & Towne, Inc., Spring Division, Detroit, Michigan, in February 1967.
3. The United Steel Workers of America, AFL-CIO, on behalf of a group of workers at Eaton, Yale & Towne, Inc., Lackawanna, New York, in February 1967.
4. The UAW International Union, Locals Nos. 72 and 75, on behalf of a group of workers at the American Motors Milwaukee Body Plant, Milwaukee, Wisconsin, in March 1967.
5. The UAW International Union, Local No. 72, on behalf of a group of workers at the American Motors Corporation, Kenosha, Wisconsin, in March 1967.
6. The UAW International Union, Local No. 7, on behalf of a group of workers at the Chrysler Jefferson Plant, Detroit, Michigan, in March 1967.
7. The UAW International Union, Local No. 435, on behalf of a group of workers at the General Motors Wilmington Assembly Plant, Wilmington, Delaware, in April 1967.

8. The UAW International Union, Local No. 664, on behalf of a group of workers at the General Motors Chevrolet Assembly Plant, Tarrytown, New York, in April 1967.
9. The UAW International Union, Local No. 664, on behalf of a group of workers at the General Motors Fisher Body Plant, Tarrytown, New York, in April 1967.
10. The UAW International Union, Local No. 314, on behalf of a group of workers at the Borg-Warner Corporation, Long Manufacturing Division, Detroit, Michigan, in June 1967.
11. The UAW International Union, Local No. 307, on behalf of a group of workers at Eaton, Yale & Towne, Stamping Division, Detroit, Michigan, in June 1967.
12. The UAW International Union, Local 314, on behalf of a group of workers at the Borg-Warner Corporation, Long Manufacturing Division, Detroit, Michigan, in August 1967.
13. The UAW International Union, Local No. 586, on behalf of a group of workers at the Rockwell-Standard Corporation, Bumper Division, Mishawaka, Indiana, in August 1967.
14. The UAW International Union, Local No. 314, on behalf of a group of workers at the Borg-Warner Corporation, Long Manufacturing Division, Detroit, Michigan, in November 1967.
15. The United Glass and Ceramics Workers of North America, AFL-CIO-CLC, Local No. 14, on behalf of a group of workers at the Pittsburgh Plate Glass Company, Works No. 4, Ford City, Pennsylvania, in November 1967.
16. The United Glass and Ceramics Workers of North America, AFL-CIO-CLC, Local No. 12, on behalf of a group of workers at the Pittsburgh Plate Glass Company, Works No. 1, Creighton, Pennsylvania, in November 1967.

These petitions were filed with the Automotive Adjustment Assistance Board, which is comprised of the Secretaries of Commerce, Labor, and Treasury. The President had delegated to the Board the responsibility of determining the eligibility of petitioners for adjustment

assistance. In accordance with the procedures established in the act, the Tariff Commission was requested by the Board to conduct an investigation of the facts relating to each petition and to prepare a report, which would assist it in making its determination. By the close of 1967, the Board had made determinations with respect to the first 13 petitions listed above, along with an earlier petition filed late in 1966. 1/ In nine cases, the Board determined that the operation of the agreement had been the primary factor causing the actual threatened unemployment or underemployment of the petitioning workers, and found the petitioners eligible for adjustment assistance. In four cases, the Board determined that the operation of the agreement had not been the primary factor; accordingly, the petitioners were not found to be eligible for adjustment assistance. In one case, the Board, in July 1967 without prejudice, terminated its investigation.

The number of workers certified by the Board as being eligible to apply for adjustment assistance is estimated to have been 290 at the Rockwell Standard Corporation, 440 at the Eaton, Yale & Towne, Inc., plants in Detroit and Lackawanna (N.Y.), 315 at the American Motors Corporation plants in Milwaukee and Kenosha (Wisc.), 265 at the Chrysler Jefferson Plant, 115 at the Tarrytown (N.Y.) plants of the General Motors Corporation, and 8 at the oil cooler plant of the Long Manufacturing Division of the Borg-Warner Corporation in Detroit; these constituted a total of more than 1,400 workers.

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1/ Petition filed on behalf of a group of workers at the Borg-Warner Corporation, Memphis, Tenn., in December 1966.

Approximately 2,500 workers had been certified as eligible for such benefits between the time that the adjustment procedure had gone into force and the close of 1967.

The APTA provided that assistance to workers could be in the form of unemployment compensation (trade readjustment), training, and relocation allowance. 1/ By December 31, 1967, the total payments under the act made by the Federal Government had amounted to more than \$3 million, virtually all of it in the form of unemployment compensation.

#### PARTICIPATION IN THE LONG-TERM COTTON TEXTILE ARRANGEMENT

During 1967, the United States continued its participation in the Long-Term Arrangement (LTA) Concerning Trade in Cotton Textiles. 2/ At the Kennedy Round concluded during the year, the LTA was extended for an additional 3-year period (i.e., until 1970); the negotiations relating to the extension are discussed in Chapter 4. Poland acceded to the LTA, thus raising its total membership to 31 nations. The United States maintained bilateral agreements concerning cotton textiles with 22 countries, the majority of which were also participants in the LTA. The total quantity of U.S. imports of cotton textiles of the type covered by the LTA was somewhat smaller in 1967 than in 1966.

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1/ Adjustment assistance to firms could consist of technical, financial, or tax assistance.

2/ For a more detailed account of the history and provisions of the LTA, and of earlier U.S. participation, see Operation of the Trade Agreements Program, 15th, 16th, 17th, and 18th Reports.

On December 31, 1967, the participants in the LTA numbered 31, including the following countries:

Group I--Industrialized countries

|           |                            |                |
|-----------|----------------------------|----------------|
| Australia | Finland                    | Netherlands    |
| Austria   | France                     | Norway         |
| Belgium   | Germany (Federal Republic) | Sweden         |
| Canada    | Italy                      | United Kingdom |
| Denmark   | Luxembourg                 | United States  |

Group II--Developing countries

|                             |                    |                      |
|-----------------------------|--------------------|----------------------|
| China, Republic of (Taiwan) | Israel             | Portugal             |
| Colombia                    | Jamaica            | Spain                |
| Greece                      | Korea, Republic of | Turkey               |
| Hong Kong                   | Mexico             | United Arab Republic |
| India                       | Pakistan           |                      |
|                             | Poland             |                      |

Group III--Industrialized - exporter country

Japan

Poland acceded to the agreement during 1967. Colombia, Mexico, and the Republic of China were participants in the LTA, although not contracting parties to the GATT.

During 1967, the United States imposed restraints 1/ under

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1/ A restraint is defined as a restriction of imports of cotton textiles classified in a specified category or group of categories from a single country to the level requested by the importing country, thus a country may impose more than one restraint against imports from a given country at one time. Under the LTA, trade in cotton textiles have been subdivided into 64 categories for administrative purposes. Under article 3, a participant in the LTA whose market is experiencing, or is threatened with, disruption by imports of cotton textiles may request another participant to restrict its exports of such products to a designated level; the minimum annual level that may be requested is the equivalent of actual exports (or imports) of the products concerned during the year terminating 3 months before the month in which the request is made. If the exporting country does not comply with the request within 60 days, the importing country is authorized to restrict entry of the products concerned to the level requested, i.e., to impose a restraint.

article 3 of the LTA on imports of cotton textiles from 3 countries. (Brazil, Malaysia, and Romania). At the close of the year, the United States was imposing 12 such restraints, involving imports under 18 categories; at the beginning of the year, 17 restraints were being imposed, involving imports under 18 categories. No restraints under article 3 were imposed against U.S. exports of cotton textiles during 1967.

During 1967, the United States had in force bilateral agreements with 22 countries under article 4 of the LTA. In recent years the agreements under article 4 have given rise to most of the restraints on imports of cotton textiles into the United States. Extensions of previous agreements or new agreements entered into force during 1967 for nine countries (Jamaica, Japan, Republic of Korea, Malta, Mexico, Pakistan, Poland, Portugal, and Spain), and on January 1, 1968, for three countries (Philippines, United Arab Republic, and Yugoslavia). Nearly all of these bilateral agreements contained overall limitations affecting total U.S. imports of 64 categories of cotton textiles 1/ and fixed specific ceilings on U.S. imports of certain cotton textiles from the various countries concerned. For the most part, the agreements were valid until the termination of the LTA; hence, their effective periods ranged from 1 to 4 years. In addition, the agreements provided for an annual increase of 5 percent in the import quotas and generally authorized transfer of quotas, to the extent of about 5 percent, from one category to another.

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1/ The agreements with India, Italy, and Japan limited only certain categories.

Most of the restrictions during 1967 on U.S. imports of cotton textiles pursuant to the LTA were imposed in accordance with the terms of these bilateral agreements. At the close of 1967, the United States had such agreements concerning cotton textiles in effect with the following 22 countries:

|                    |                           |                                |
|--------------------|---------------------------|--------------------------------|
| China, Republic    | Jamaica <u>2/</u>         | Poland <u>2/</u>               |
| of <u>1/</u>       | Japan <u>2/</u>           | Portugal <u>2/</u>             |
| Colombia <u>1/</u> | Korea, Republic           | Ryukyu Islands <u>1/4/</u>     |
| Greece             | of <u>2/</u>              | Singapore <u>4/</u>            |
| Hong Kong          | Malta <u>2/</u>           | Spain <u>2/</u>                |
| India              | Mexico <u>1/2/</u>        | Turkey                         |
| Israel             | Pakistan <u>2/</u>        | United Arab Republic <u>3/</u> |
| Italy              | Philippines <u>1/3/4/</u> | Yugoslavia <u>3/</u>           |

1/ Not a contracting party to the GATT.

2/ Latest agreement entered into force during 1967.

3/ Latest agreement was to enter into force on Jan. 1, 1968.

4/ Not a participant in the LTA.

In 1967, U.S. imports of cotton textiles of the type covered by the LTA were equivalent 1/ to nearly 1.5 billion square yards of cloth, which was lower than the record level of 1.8 billion in 1966, but higher than the 1.3 billion level of 1965. The most marked decline in 1967 occurred in the imports of cotton yarn, from an equivalent of 418 million square yards in 1966 to 170 million in 1967. In 1967, U.S. imports of cotton fabric were more than 10 percent lower than in 1966, while those of cotton wearing apparel and miscellaneous cotton textiles were only slightly lower.

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1/ Frequently, the statistics on U.S. general imports of cotton textiles are reported in units other than square yards, such as number of pounds, or in metric measures. For comparative purposes, the U.S. Department of Commerce has converted such statistics into their square-yard equivalents, using a uniform set of conversion factors for items not reported in square yards.

The record level of U.S. imports of cotton textiles in 1966 was attributable to heavy defense and military requirements during that year; this demand was supplied largely from domestic production. To replace the large volumes of domestic stocks diverted from the U.S. commercial market, the Government permitted the entry of an unusually high volume of imported cotton textiles by raising the restraint level for several LTA participants during that year. This action did not constitute an important factor, however, in the domestic market during 1967.

During 1967, as in the 3 preceding years, U.S. imports of textiles of man-made (synthetic) fibers continued to increase. In that year, such imports were equivalent in value to nearly two-thirds of the imports of cotton textiles, compared with less than a third of such value in 1964. Synthetic-fiber textiles, though competitive with cotton textiles, were not subject to import restraints.

#### GOVERNMENT ACTIONS AFFECTING TRADE-AGREEMENT ITEMS

During 1967, the Tariff Commission conducted a number of investigations under the escape-clause provisions of the Trade Expansion Act of 1962 (TEA), as well as one investigation under section 22 of the Agricultural Adjustment Act of 1933. Meanwhile, the Office of Emergency Planning (OEP) conducted several investigations under the national security provisions of the TEA.

The imposition of import restrictions has been authorized by certain U.S. legislative provisions to: (1) protect domestic industries

being injured by increased imports resulting from trade-agreement concessions; (2) prevent interference with agricultural programs of the U.S. Government; or (3) prevent the impairment of national security. In addition, governmental assistance of various kinds has been made available through other provisions to firms or groups of workers that established that they have been injured by increased imports resulting from trade-agreement concessions. Generally, an investigation by an agency of the Federal Government is required before imports can be restricted or adjustment assistance granted; the procedures invoked vary with the relevant statute. Several such investigations were conducted during 1967. The circumstances relating to these investigations are discussed in the remainder of this chapter.

#### The Escape Clause 1/

During 1967, the Tariff Commission conducted three investigations under the escape-clause provisions of trade-agreement legislation; it also made several reports reviewing economic conditions in industries producing articles that were the subject of earlier escape-clause actions. Escape-clause investigations are conducted under the provisions of section 301(b) of the Trade Expansion Act (TEA) of 1962. 2/

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1/ Since 1943, all trade agreements concluded by the United States have included a safeguarding provision commonly known as the standard escape clause. This clause provided, in essence, that either party to a trade agreement could modify or withdraw its concessions if increased imports resulting from the concessions caused or threatened injury to the domestic industry producing like or directly competitive articles.

2/ For a detailed account of the provisions of the TEA and the Executive orders establishing procedures for its operation, see the appendix to Operation of the Trade Agreements Program, 17th report.

During 1967, all the escape-clause investigations were instituted under the provisions of section 301(b)(1) of the TEA. The articles with which these investigations were concerned and the dates on which the respective investigations were initiated are shown below: 1/

Eyeglass frames and mountings-----Apr. 7, 1967  
 Barbers' chairs-----July 21, 1967  
 Broomcorn-----Sept. 27, 1967

By the end of the year, the Commission had released its report on one of these investigations; the other two investigations were still pending. In the investigations concerning eyeglass frames and mountings, the Commission unanimously found (October 6, 1967) that the articles in question were not being imported, as a result in major part of trade-agreement concessions, in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles. By December 31, 1967, however, the final reports of the Commission on barbers' chairs and broomcorn had not been released.

During 1967, the Tariff Commission submitted several reports to the President reviewing escape-clause actions; all of these actions had been taken under the provisions of section 351(d)(3) of the TEA. Formal procedure for the review of escape-clause actions, involving Commission investigations, had been established by the TEA. Section 351(d)(1) of that act requires the Commission to report annually to the President on developments in domestic industries in whose interest escape-clause action had previously been taken; sections 351(d)(2)

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1/ For more detailed information, see Fifty-first Annual Report of U.S. Tariff Commission, TC Publication 227, 1968, p. 2.

and (3) require the Commission, under specified circumstances, to advise the President of the probable economic effect on the industry concerned of a reduction or termination of an escape action taken by him pursuant to section 351 of the TEA or section 7 of the Trade Agreements Extension Act of 1951. 1/

During 1967, the Commission submitted four reports under the provisions of section 351(d)(3), following investigations and hearings conducted to determine whether or not escape-clause action should be allowed to terminate on October 11, 1967, for the articles concerned. The articles on which such reports were made and the dates on which the reports were submitted to the President, were as follows:

|   |                |
|---|----------------|
| Cotton typewriter-ribbon cloth-----       | May 11, 1967   |
| Wilton and velvet carpets and rugs-----   | Sept. 5, 1967  |
| Drawn or blown flat glass (sheet glass)-- | Sept. 8, 1967  |
| Stainless-steel table flatware-----       | Sept. 21, 1967 |

Following receipt of these four reports, the President permitted the escape actions on cotton typewriter-ribbon cloth and on stainless-steel table flatware to terminate on October 11, 1967. Termination of these actions restored the concession rates, effective immediately. 2/ On the same date, however, the escape-clause rates on Wilton and velvet carpets and rugs and on drawn or blown flat glass (sheet glass) were extended to January 1, 1970, by Presidential Proclamations 3815 and 3816, respectively. Earlier in the year, the

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1/ Most of the investigations that had been completed by the end of 1967 under the provisions of section 351(d)(2) had been initiated at the request of the President.

2/ The concession rate is the duty or duties in force on an imported commodity before escape-clause action is taken; it is restored when this action is terminated.

escape-clause rates on sheet glass, which had been in effect from 1962, had been reduced by Presidential Proclamation 3762 of January 11, 1967. <sup>1/</sup> Also on the latter date, the concession rates on watch movements and parts, which had been increased by Presidential Proclamation 3062 of July 27, 1954, had been restored, effective immediately, by Presidential Proclamation 3761.

Action Under Section 22 of the Agricultural  
Adjustment Act

In 1967, the Commission conducted an investigation under section 22 of the Agricultural Adjustment Act of 1933, as amended, involving imports of certain dairy products. In June, it reported its findings in this investigation.

Under section 22 of the Agricultural Adjustment Act, as amended, the President is authorized to restrict imports of any agricultural commodity, by imposing either fees or quotas within specified limits, whenever such imports render or tend to render ineffective, or materially interfere with, programs of the U.S. Department of Agriculture relating to agricultural commodities or products thereof. The Tariff Commission is required, under section 22, to conduct an investigation, when so directed by the President, and to make a report and recommendation to him.

On April 7, 1967, the President requested the Commission to conduct an investigation under subsections (a) and (d) of section 22 of

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<sup>1/</sup> The increased rates of duty had been terminated by the President on imports of certain types of sheet glass and reduced on the remaining types concerned, on Jan. 11, 1967.

the Agricultural Adjustment Act, as amended, to determine whether certain types of cheese and other dairy products were being imported, or were practically certain to be imported, into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the U.S. Department of Agriculture for milk and butterfat, and to determine related questions. The Commission reported to the President on June 15, 1967, upon completion of its investigation.

The Tariff Commission unanimously found that the dairy products concerned in the investigation were not being imported into the United States in such quantities as to render ineffective, or materially interfere with, the price-support programs of the Department of Agriculture, but that certain types of cheese and other dairy products were practically certain to be imported in sufficient quantities to interfere with such price-support programs. Accordingly, the Commission recommended that the President issue a proclamation pursuant to section 22(b) of the Agricultural Adjustment Act, as amended, establishing quantitative limitations on imports of certain specified dairy products; on June 30, 1967, the President followed this recommendation by issuing Proclamation 3790, effective June 30, 1967. 1/

The Presidential proclamation placed quotas on imports of a

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1/ For a detailed description of the findings and recommendations of the U.S. Tariff Commission on imports of these articles, see the Commission's report entitled "Dairy Products--Report to the President on Investigation No. 22-26 Under Section 22 of the Agricultural Adjustment Act, as Amended," TC Publication 211, Washington, D. C., June 1967.

number of dairy products that had been entering the United States in high volume; this was the first time that quotas had been imposed on imports of these types of dairy products. 1/ U.S. imports of dairy products had increased considerably in recent years; they had risen from a total of 900 million pounds (milk equivalent) in 1965 to 2.8 billion pounds in 1966; they were estimated 2/ at more than 4 billion pounds in 1967. The proclamation was expected to reduce annual imports of dairy products to about 1 billion pounds (milk equivalent), or to about 25 percent of the 1967 volume of imports.

#### National Security Investigations

During 1967, the Office of Emergency Planning (OEP) terminated one investigation that it had been conducting under the national security provisions of the Trade Expansion Act of 1962. It also initiated one new investigation during the year, and continued work on two others that had been started before 1967. The OEP had not concluded any of the three investigations by December 31, 1967.

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1/ For a number of years, the United States had imposed absolute quotas on imports of a variety of dairy products under the provisions of the Agricultural Adjustment Act, as amended. Such quotas under section 22 were first imposed in 1953, although imports of some dairy products had been subject to quota previously, under the provisions of the Defense Production Act and under the Second War Powers Act; quotas on imports of butter substitutes and other articles containing more than 45 percent of butterfat were established in 1957. Most of the quotas in force at the close of 1967 on imports of dairy products were imposed in 1953; the products involved included butter, and certain types of milk and cheese. Quotas had been increased on Edam and Gouda cheeses and Italian-type cheeses in 1960, on blue-mold cheese in 1962, and on Cheddar cheese in 1966.

2/ Annual total for 1967 estimated by the U.S. Department of Agriculture on the basis of actual quantity imported in the first 6 months of the year.

Under section 232 of the TEA, the Director of the OEP, upon the request of the head of any department or agency, upon the application of an interested party, or upon his own motion, is required to conduct an investigation to determine the effects of imports of an article upon the national security. If he is of the opinion that imports of such an article are threatening to impair the national security, he is to advise the President accordingly; if the President is in agreement, he is required to take whatever action that may be necessary to control the entry of such article.

On January 11, 1967, the OEP announced that it had terminated its investigation to determine whether imports of watches, movements and parts were threatening to impair the national security. Although the OEP had concluded its investigation in November 1966, the relevant formal announcement was made at the time when the Presidential proclamation was released. On the same date, the President also took action on the escape-clause restrictions that had been imposed on imports of such products. 1/

The OEP investigation concerning imports of watches, movements and parts had been undertaken in April 1965, at the request of the President; it had followed an earlier investigation that had been concluded in February 1958 by the Office of Defense Mobilization--the predecessor of the OEP. The 1967 investigation was conducted as a new and independent examination of the problem and took into account

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1/ See p. 23 for an account of earlier escape-clause action on imports of watch movements and parts.

many factors that had arisen after 1958, such as changes in military techniques and requirements. As in the earlier investigation, however, the OEP concluded that the level of U.S. imports of such products did not threaten to impair the national security.

On April 17, 1967, the Director of the OEP announced that a public hearing would be held to complete an investigation of the national security implications of controls on imports of asphalt and asphalt produced from imported crude and unfinished oils. This investigation had been preceded by a full review within the Government of the domestic issues involved, 1/ during which it was concluded that the national security would not be impaired by liberalization of the controls on imports of asphalt for use without further refining. The procedure used in this investigation marked the first time that a modification of the program 2/ was recommended in advance of the public hearing, but it had been followed because it was felt that prompt action was required to avoid possible undesirable consequences during the period in which public views were being obtained.

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1/ The Secretary of the Interior sought to assure that adequate supplies of finished asphalt would be available and that U.S. asphalt refineries would be protected from market dislocations and other economic hardships. To this end, inquiries were made to determine whether import restrictions that had been imposed earlier on crude and unfinished petroleum could be relaxed to permit the entry of these products in quantities sufficient to meet requirements for the production of asphalt, without detriment to the national security.

2/ The mandatory petroleum import control program was initiated in 1959. In 1964, an unsuccessful attempt had been made to exempt from import controls the asphalt content of crude and unfinished petroleum; such exemption was rejected by the OEP, which held that the import program was adequate to meet the national requirements. (See Operation of the Trade Agreements Program, 16th report, pp. 50-51.)

The President, following the recommendation of the Director of the OEP, amended Proclamation 3279 of March 1959, which had assigned to the Director of the OEP the responsibility for determining the national security implications of imports of petroleum and its primary derivatives, to give the Secretary of the Interior discretionary authority to place asphalt products imported into the United States 1/ under the general type of control applicable to imports of residual fuel oil into District I (the East Coast States.) 2/ The proclamation required that the Secretaries of State, Defense, Treasury, Interior, Commerce, and Labor would be consulted and that other agencies, such as the Departments of Justice and Transportation, would participate. As of December 31, 1967, this investigation was still under way.

Two investigations, initiated by the OEP in earlier years, were still in progress at the close of 1967; one was concerned with the quotas that had been imposed by the United States on imports of crude petroleum, unfinished oils, and finished petroleum products. 3/ Under the requirement to keep the President informed of circumstances that might necessitate further action, the OEP, at the request of the

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1/ Includes Puerto Rico.

2/ Investigations of the national security implications of imports of petroleum and its primary derivatives are authorized under section 6(a) of Presidential Proclamation 3279 of March 10, 1959, as well as under section 232 of the Trade Expansion Act of 1962.

3/ These quotas were the only such restrictions that had ever been imposed under the national security provisions of trade-agreement legislation. (See Operation of the Trade Agreements Program, 15th report, pp. 74-75; 16th report, pp. 50-51; 17th report pp. 16-17; and 18th report (processed), p. 26.

Secretary of the Interior, had initiated in April 1965 an investigation to determine whether the controls on imports of residual fuel oil intended for use as fuel should be continued or eliminated. The other investigation was concerned with the effect of imports of textiles on the national security. Under the national security provisions of the Trade Agreements Extension Act of 1958, this textile investigation had been initiated in 1962 by the Director of Civil Defense Mobilization.



## Chapter 2

### Operation of the General Agreement on Tariffs and Trade

#### INTRODUCTION

This chapter describes the principal developments during 1967 relating to the General Agreement on Tariffs and Trade (GATT), with the exception of the Kennedy Round, which is treated separately in chapter IV. These developments are presented under the following headings: (1) Activities in the interest of less developed countries; (2) regional economic arrangements; (3) actions relating to GATT obligations; and (4) other developments relating to the General Agreement.

The Contracting Parties 1/ held their 24th Session in November 1967. Once a year, these GATT members meet in full session to review the many actions by members coming under the purview of the General Agreement and to take joint action on various problems. During the intersessional period, the work of the Contracting Parties is carried on by a Council of Representatives and by several working parties, committees, and groups especially assigned to study and report on specific subjects related to the overall objectives of the agreement. At the 24th Session, the Contracting Parties took the

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1/ The term "contracting parties," when used without initial capitals (contracting parties) refers to member countries acting individually; when used with initial capitals (Contracting Parties), it refers to the member countries acting as a group.

following major actions:

Considered proposals to expand international trade in primary products;

Reviewed the quantitative restrictions maintained by GATT members;

Appraised actions by members to dispose of strategic materials and commodity surpluses;

Examined the United Kingdom steel "loyalty" rebate and the U.S. export subsidy on unmanufactured tobacco.

Approved Finland's and Uruguay's adjustment of their respective customs duties following devaluation of their currencies;

Examined reports on consultations held with members imposing import restrictions for balance-of-payments purposes;

Reviewed annual reports submitted by members of regional arrangements; and

Approved waivers permitting members to continue their preferential tariff treatment of certain designated imports.

On December 31, 1967, the full membership of the GATT consisted of the 75 contracting parties listed below--five more than at the beginning of the year:

|                          |                     |                   |
|--------------------------|---------------------|-------------------|
| Argentina <u>1/</u>      | Chad                | Gambia            |
| Australia                | Chile               | Germany, (Federal |
| Austria                  | Congo (Brazzaville) | Republic)         |
| Barbados <u>1/</u>       | Cuba                | Ghana             |
| Belgium                  | Cyprus              | Greece            |
| Brazil                   | Czechoslovakia      | Guyana            |
| Burma                    | Dahomey             | Haiti             |
| Burundi                  | Denmark             | India             |
| Cameroon                 | Dominican Republic  | Indonesia         |
| Canada                   | Finland             | Ireland <u>1/</u> |
| Central African Republic | France              | Israel            |
| Ceylon                   | Gabon               | Italy             |

See footnote at end of tabulation.

|                 |                  |                |
|-----------------|------------------|----------------|
| Ivory Coast     | Nicaragua        | Sweden         |
| Jamaica         | Niger            | Switzerland    |
| Japan           | Nigeria          | Tanzania       |
| Kenya           | Norway           | Togo           |
| Korea <u>1/</u> | Pakistan         | Trinidad and   |
| Kuwait          | Peru             | Tobago         |
| Luxembourg      | Poland <u>1/</u> | Turkey         |
| Madagascar      | Portugal         | Uganda         |
| Malawi          | Rhodesia         | United Kingdom |
| Malaysia        | Rwanda           | United States  |
| Malta           | Senegal          | Upper Volta    |
| Mauritania      | Sierra Leone     | Uruguay        |
| Netherlands     | South Africa     | Yugoslavia     |
| New Zealand     | Spain            |                |

1/ Acceded to the General Agreement during 1967.

At the close of 1967, three other countries--Iceland, Tunisia, and the United Arab Republic--were provisional GATT members, and one country--Cambodia--participated in the work of the Contracting Parties under a special arrangement. Moreover, eight countries--Algeria, Botswana, Congo (Kinshasa), Lesotho, Maldive Islands, Mali, Singapore, and Zambia--were now benefitting, as independent states, from a de facto application of the agreement pending the formulation of their future commercial policies. The provisions of the General Agreement had previously been applied to these states inasmuch as they had been dependent areas of member states.

#### ACTIVITIES IN THE INTEREST OF LESS DEVELOPED COUNTRIES

During 1967, the Contracting Parties continued to develop programs to improve the trade position of the less developed countries (LDC's). By the close of the year, 58 contracting parties had

ratified a protocol, 1/ which had formally incorporated a Part IV-- Trade and Development--into the General Agreement. The Committee on Trade and Development, created by the Contracting Parties in February 1965 to administer the provisions of Part IV, continued to study matters of vital importance to less developed countries. The Committee submitted its annual report in November 1967, in which it made recommendations relating to: the trade in tropical products, advance implementation of the Kennedy-Round duty reductions, import restrictions adversely affecting exports from developing countries, and the general expansion of trade among such countries. The Advisory Group on Trade Information and Trade Promotion Advisory Services reviewed the work of the GATT International Trade Center and made recommendations regarding its future activities. Finally, during the year, the GATT and the United Nations Conference on Trade and Development (UNCTAD) agreed to create a joint trade center to assist the developing countries in promoting exports.

#### Status of Part IV of the General Agreement

During 1967 seven additional GATT members 2/ ratified a protocol that had been opened in February 1965 to introduce a new Part IV on trade and development as part of the provisions of the General Agreement. Part IV comprised three new articles--articles XXXVI, XXXVII,

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1/ Opened on February 8, 1965.

2/ Argentina, Dominican Republic, Italy, Korea, Malaysia, Netherlands, and Portugal.

and XXXVIII--which provided a contractual and legal basis for action by the contracting parties to expand the foreign trade and stimulate the economic development of less developed member countries (LDC's).<sup>1/</sup> The protocol became effective in late June 1966, when it was ratified by two-thirds of the GATT members. Accordingly, by the close of 1967, the amendments set forth in the protocol were effective for 58 countries that had accepted it:

|                          |                    |                     |
|--------------------------|--------------------|---------------------|
| Argentina                | Guyana             | Norway              |
| Austria                  | India              | Pakistan            |
| Australia                | Indonesia          | Peru                |
| Brazil                   | Israel             | Portugal            |
| Burundi                  | Italy              | Rhodesia            |
| Cameroon                 | Ivory Coast        | Rwanda              |
| Canada                   | Jamaica            | Sierra Leone        |
| Central African Republic | Japan              | Spain               |
| Ceylon                   | Kenya              | Sweden              |
| Chad                     | Korea, Republic of | Switzerland         |
| Congo (Brazzaville)      | Kuwait             | Tanzania            |
| Cuba                     | Madagascar         | Togo                |
| Cyprus                   | Malawi             | Trinidad and Tobago |
| Czechoslovakia           | Malaysia           | Turkey              |
| Dahomey                  | Malta              |                     |
| Denmark                  | Mauritania         | Uganda              |
| Dominican Republic       | Netherlands        | United Kingdom      |
| Finland                  | New Zealand        | United States       |
| Gambia                   | Niger              | Yugoslavia          |
| Ghana                    | Nigeria            |                     |

Seven additional countries had accepted the protocol subject to ratification, but had not completed such actions by December 31, 1967:

|                            |             |
|----------------------------|-------------|
| Belgium                    | Luxembourg  |
| Chile                      | Upper Volta |
| Germany (Federal Republic) | Uruguay     |
| Greece                     |             |

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<sup>1/</sup> For a description of the three new articles in part IV, see Operation of the Trade Agreements Program, 17th report, pp. 29-32.

Seven other contracting parties--Burma, France, Gabon, Haiti, Nicaragua, Senegal, and South Africa--had not yet indicated their intentions concerning acceptance of the protocol.

#### Trade of Less Developed Countries

The Committee on Trade and Development submitted its second annual report to the Contracting Parties in November 1967. In it, the Committee outlined its activities and recommendations regarding preferential treatment for imports of tropical products, advance implementation of Kennedy-Round reductions on products of interest to developing countries, import restrictions affecting the exports of developing countries, expansion of trade among developing countries, and the economic problems of Chad.

The various items and recommendations contained in the report of the Committee on Trade and Development were discussed at length during the 24th Session of the Contracting Parties. Representatives of many developed and developing countries spoke extensively about the effects upon the economy of their respective countries of the concessions achieved at the Kennedy Round, the work that still remained to be done, and the urgent need to expand the trade of the less developed members of the GATT. The Committee's report, discussed in greater detail in the sections that follow, was adopted by the Contracting Parties without change.

Special treatment for imports of  
tropical products

During the Kennedy-Round negotiations, the Contracting Parties sought to establish procedures whereby imports of tropical products would be accorded tax- and duty-free entry in the markets of developed countries. Despite the concessions granted at the Kennedy Round by many contracting parties in regard to numerous tropical products, the objective of tax- and duty-free entry for all tropical products into the markets of the developed countries had not been realized. Importing contracting parties cited, as the principal reason for withholding duty-free treatment for all tropical products from all sources, the need to maintain preferential margins for certain suppliers of these products, or to protect domestic agriculture from import competition, or provide revenue. The Committee recommended that a Special Group on Trade in Tropical Products, which had been originally established by the Council in 1962, be reactivated to examine problems affecting trade in such products and to report to the Contracting Parties on methods for solving these problems.

Advance implementation of Kennedy-Round reductions  
on products of interest to developing countries

The developing countries participating in the Kennedy-Round discussions proposed that the tariff concessions ultimately negotiated on products of export interest to developing countries be implemented immediately after the conclusion of the negotiations, instead of in stages. Accordingly, the Trade and Development Committee invited

each of the developed contracting parties to submit by October 15, 1967, a list of products on which it was prepared to take such action. Ten countries--Canada, Czechoslovakia, Denmark, Finland, Japan, Norway, Sweden, Switzerland, the United Kingdom, and the United States--submitted such lists of concessions for advance implementation. The EEC advised the Committee that it was giving serious consideration to the question, while Austria said it was seeking legislative authorization for such action.

The Committee noted that, in some instances, the proposed advance implementation was conditional on parliamentary approval. Most of the developed countries emphasized that the lists they had submitted represented the best contribution they could make in this matter. Developing countries welcomed the response of the developed countries on this subject, but indicated that the proposed action fell short of expectations. They deemed that joint action by all developed countries was required if the developing countries were to derive the greatest benefits from the immediate implementation of concessions. They also suggested that, to assure that the trade of the developing countries would not be adversely affected, concessions on LDC products currently subject to preferential treatment by developed countries be implemented according to the agreed timetable. The Committee offered no recommendations on this matter.

Import restrictions affecting the exports  
of developing countries

During the year, the Comité had studied several proposals, formulated by the GATT Secretariat, designed to accelerate the removal of the remaining restrictions that adversely affected the exports of developing countries. A number of developing countries asked that developed countries establish target dates for the removal of the aforementioned restrictions. For those that were unlikely to be eliminated at an early date, the Committee suggested the following procedures: (1) Require countries maintaining restrictions on imports of agricultural products to examine how essential they were to domestic price-support operations and propose means for removing or reducing those on products of particular interest to the developing countries. These reports would then serve as a basis for detailed consultations between developed and developing countries regarding specific products, (2) Establish panels of experts to examine hard-core restrictions on imports of industrial products and identify the problems to be overcome, in order to achieve further relaxation. Some members of the Committee noted, however, that restrictions, especially those on imports of agricultural products, affected the trade of both developed and developing countries; hence, they proposed that the issue of their removal be examined by a GATT body having greater authority than that of the Committee on Trade and Development.

### Expansion of trade among developing countries

The Committee continued to explore the possibility of expanding trade among developing countries through both the negotiation of tariff and nontariff concessions among the developing countries and the review of other means of commercial exchanges among them. Informal exploratory discussions among a group of developing members of the GATT were continued into early 1967 and culminated in the exchange of provisional request lists by some of them. The Committee suggested that a negotiating committee, composed of interested developing countries, be established to examine certain suggested "ground rules" to be followed by the developing countries in future negotiations. The interest of developing countries that were not members of the GATT in participation in these negotiations was explored, as well as the possibility of initiating action in areas other than those connected with trade barriers.

### Economic problems of Chad

In January 1967, pursuant to the provisions of article XXXVIII of the General Agreement, the Committee established a working party to examine the economic problems of Chad and make appropriate recommendations. These problems had arisen primarily as a result of adverse world market conditions for raw cotton. The Committee brought the following important considerations to the attention of the Contracting Parties: (1) The heavy dependence of Chad's economy on cotton; (2) falling world prices of cotton during the past decade

had seriously hampered the country's economic development; (3) the need by Chad of maintaining a price-support system for cotton and of improving productivity; (4) the need of the country to diversify its economy and improve its transportation system; and (5) Chad's reliance on outside financial and technical assistance to supplement its own resources. The Committee suggested that Chad's problems, especially its dependence on outside resources, be brought to the attention of member governments and that copies of the report be sent to other international organizations.

#### GATT International Trade Center

The Advisory Group on Trade Information and Trade Promotion Advisory Services in the GATT met in June 1967 to review the past activities of the Trade Center and make recommendations concerning the expansion and direction of its future work. Representatives of both developed and developing countries praised the work of the Trade Center. Its export promotion efforts, training programs, and market information services were deemed to have rendered invaluable assistance to developing countries. Among the Group's major recommendations were the following:

1. Greater coordination should be sought between the activities of the Trade Center and those of other organizations, regional and international, concerned with export promotion;
2. Increasing emphasis should be placed on trade promotion advisory service and training programs;

3. Studies of general interest and market surveys of interest to developing countries relating to processed and manufactured goods should be undertaken;
4. A pool should be created to provide comprehensive information on tariffs and commercial policy;
5. The cooperative training program to assist national governments and other bodies in their trade promotion activities should be expanded.

At the 24th Session of the Contracting Parties, delegates of several GATT members again expressed their appreciation for the services rendered by the Trade Center and pledged support by their Governments of its projected programs. The Contracting Parties adopted the report of the Advisory Group without any further action.

#### Joint GATT/UNCTAD Trade Center

The promotion of LDC exports is an important activity of the UNCTAD. GATT's interest in the same subject is reflected in the activities of its International Trade Center. Within the United Nations system, several bodies and organizations, such as the Food and Agriculture Organization and the United Nations Development Program also engage in export promotion. In January 1967, the various U.N. organizations decided to combine their activities and resources in a joint U.N. program for the promotion of exports of developing countries.

In August 1967, the Director General of the GATT reported to the Contracting Parties that his discussions with the Secretary

General of UNCTAD had led to a proposal that the resources of their respective organizations be combined in a joint international trade center within the U.N. Export Promotion Program. He indicated that the proposed new Trade Center would assist the export promotion efforts of the developing countries by: (1) providing trade information, trade promotion advisory services, and training in export promotion; (2) undertaking studies to improve trade promotion and marketing; and (3) supporting related projects financed under United Nations technical cooperation programs. The Director General recommended that the Joint Center would be headed by a director appointed by agreement between the Secretary General of UNCTAD and the Director General of the GATT. The functions of the new Center would be similar to those of the existing GATT International Trade Center, which it would replace; UNCTAD, however, would provide personnel and funds for export promotion projects financed under U.N. technical cooperation programs. The Center's operational activities would be financed primarily through technical cooperation projects sponsored under the United Nations technical assistance programs.

Several contracting parties welcomed the preliminary agreement between the two Secretariats to create a joint GATT/UNCTAD Trade Center. They felt that combining the resources and experience of the two organizations should prove to be very advantageous and indicated that similar collaboration in other fields of interest to developing countries should be explored. Accordingly, a working party was appointed to study the proposal of the Director General

respecting the formation of a joint GATT/UNCTAD International Trade Center. The working party reported that its members were in general agreement that a strong, dynamic, and flexibly functioning Trade Center be established. The Contracting Parties adopted the report of the working party without any further action.

#### GATT Fellowship Program and Technical Assistance

At the 24th Session of the Contracting Parties, the Director General submitted his report on the progress of the GATT fellowship and technical assistance programs during the intersessional period. The fellowship program provides training in commercial policy to officials of less developed countries who have, or may have in the future, responsibilities for formulating and conducting the foreign trade policy of their countries. The program, which is administered with financial assistance from the United Nations, consists of two half-year courses given in Geneva annually--one in English and the other in French. By November 1967, a total of 215 officials from 68 countries had attended 24 courses that had been sponsored after 1955. Others were scheduled to attend the 25th course in February 1968. During 1966, GATT had also sponsored courses in foreign trade and commercial policy that were held in Africa--at Tananarive, Madagascar and Lagos, Nigeria, respectively.

During 1967, as in previous years, the GATT continued its activities in affording technical assistance to less developed countries and in undertaking development-plan studies; these and

other special projects were undertaken in cooperation with other international organizations. Thus, for example, the GATT Secretariat participated with the International Bank for Reconstruction and Development in a study of the export goals and policies adopted by the Republic of Korea for its second five-year development plan. Research work was continued on a long-term study of means to expand intraregional trade in West Africa and serve as a basis for inter-governmental negotiations concerning trade arrangements to be followed by the Economic Commission for Africa. In April 1967, the Economic Community of West Africa was established, during a ministerial conference of the West African countries. At that time, the GATT Secretariat, UNCTAD, and the Economic Commission for Africa agreed to expand and jointly complete the aforementioned study. Finally, the Secretariat agreed to assist Algeria in the field of export promotion and commercial policy.

A number of contracting parties stressed the great importance of GATT's fellowship and technical assistance programs in helping developing countries to overcome some of their difficulties and expressed the hope that the programs might be expanded in the future. The Contracting Parties took no action on this report.

## REGIONAL ECONOMIC ARRANGEMENTS

Many members of the GATT are also members of regional economic arrangements, such as customs unions or free-trade areas; under the General Agreement, they are required to report annually to the Contracting Parties on their activities in these organizations. <sup>1/</sup> During 1967, therefore, the Contracting Parties received reports from GATT countries participating in the following arrangements: The European Economic Community (EEC); the European Free Trade Association; the Latin American Free Trade Association; the Arab Common Market; the Central African Economic and Customs Union; the West African Economic Community; and the United-Kingdom Ireland Free Trade Area Agreement.

This section, which relates primarily to the activities of the GATT during 1967, summarizes the principal features of these reports, as well as the actions taken with respect thereto by the Contracting Parties. The major developments in commercial policy in the various regional groups in 1967, however, are discussed more fully in chapter 3.

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<sup>1/</sup> Article XXIV of the General Agreement permits the formation of a customs union or a free-trade area embracing the territories of two or more contracting parties, provided that the trade barriers imposed by the new trading entity on commerce with third countries are not generally more restrictive than those previously applicable. Both customs unions and free-trade areas aim to abolish import duties and other restrictions on substantially all trade between the participating countries. Countries participating in a customs union, however, also maintain, or plan eventually to maintain, a common tariff and other restrictions on trade with third countries, whereas the participants in a free-trade area continue to maintain their own external tariffs and other restrictions on commerce with nonmember countries.

Of necessity the reports discussed below relate frequently to actions taken before 1967. 1/

#### European Economic Community

The representative of the European Economic Community (EEC) reported to the Contracting Parties at their 24th Session on the Community's progress toward attaining a common market in industrial and agricultural products, as well as its further alignment of national duties with the Community's common external tariff. These and other developments in EEC policy are discussed below. 2/

#### The projected common market for industrial products

By July 1, 1967, the level of duties on internally traded industrial products had been reduced to 15 percent of the base rates that had been in force on January 1, 1957. On July 1, 1967, following a series of consecutive reductions in duty during the Community's 10-year transitional period, an additional reduction of 5 percent became effective. The remaining duties on such intraregional trade were to be abolished by July 1, 1968.

#### Common agricultural policy

The elimination of duties on intraregionally traded agricultural products was also scheduled to be completed by July 1, 1968; this

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1/ Many of the details alluded to in these 1967 reports were covered more extensively in the 18th Report on the Operation of the Trade Agreements Program in the chapter dealing with major commercial policy developments.

2/ See Operation of the Trade Agreements Program, 18th report (processed), pp. 147-59.

goal was to be approached in stages, as provided for by regulations under the EEC common agricultural policy. On July 1, 1967, intra-Community duties on unmanufactured tobacco were reduced, in the second of two stages, to 20 percent of the basic duties; those on fruits and vegetables were eliminated on January 1, 1967. In addition, duties were suspended until 1968 on a number of primary products imported from third countries and of particular interest to developing countries.

During the intersessional period, the EEC made additional headway in developing its common agricultural policy. It completed common marketing regulations for vegetable oils and fats and for sugar, and substituted common (Community) price-support levels for national support levels for cereals, pork, eggs, poultry, rice, and olive oil. Moreover, it had established an agency--the European Agricultural Guidance and Guarantee Fund (EAGGF)--to help finance the Community's programs. The EAGGF was provided resources with which to reimburse member states for eligible expenditures incurred in implementing the Community's common agricultural policy. 1/

#### Common external tariff

The Community's common external tariff (CXT) for industrial products was scheduled to go into effect on July 1, 1968. By that date, the first two stages of duty reductions resulting from the Kennedy

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1/ See the section on the common agricultural policy of the EEC, ch. 3.

Round negotiations were also to be implemented. Meanwhile, the members had completed 60 percent of the cumulative adjustments necessary to achieve the projected alignment of the duties in their national tariffs with those in the common external tariff. As already noted, the common external tariff also became applicable to those agricultural products for which the common marketing regulations were put in effect during the year.

#### Status of the Community's trade

The Community had continued to experience a substantial deficit in the trade account of its balance of payments. This deficit, which resulted largely from increased imports from developing countries and the United States, amounted to \$1.3 billion in 1966. During that year, imports from third countries increased by about 7.5 percent, which was higher than the increase in 1965. Both exports to, and imports from, the United States had increased between 1965 and 1966, although the rate of growth in the imports was the greater. Imports from state-trading countries rose substantially, while those from western industrialized countries grew only moderately. In spite of its high degree of self-sufficiency in agricultural products, the Community continued to be the world's leading importer of such products. In 1966, the Community's imports of agricultural products from developing countries had increased at a more rapid rate than did those from other industrialized countries. The share supplied by the Associated African and Malagasy States in the total EEC imports

continued to be small--about 2.5 percent--compared with the shares of other groups of developing countries, such as Latin American and other African countries.

#### Associate members

The representative of Greece reported on developments that had occurred during 1967 as a result of the implementation of the Agreement of Association between his country and the Community. He stated that the elimination of customs duties and other trade barriers between Greece and its EEC partners had proceeded as scheduled in the Agreement of Association. On July 1, 1967, duties on industrial products exported to the Community were reduced to 15 percent of the basic rates in effect in July 1957. The corresponding duties on agricultural products of special interest to Greece (raisins, tobacco, wines) were reduced to within 30 percent of the basic rates. Moreover, quantitative restrictions on industrial products had been eliminated on November 1, 1962, and those on agricultural products were being reduced gradually.

The representative of Greece said that its duties on products imported from the Community had been reduced by amounts ranging from 25 to 40 percent of the basic rates for agricultural products and by 15 percent for all other commodities. He noted that the progressive implementation of the Agreement of Association had not hindered the development of trade between Greece and third countries. Between 1963 and 1966, the value of Greece's imports from those countries had

increased by 49 percent compared with 58 percent for the value of imports from the Community.

#### Review by the Contracting Parties

At the discussion that followed the presentation of the EEC report, a number of countries, including the United States, expressed concern about: (1) the protectionist character of the Community's common agricultural policy and the adverse effect it was likely to have, especially on the trade of traditional EEC suppliers; and (2) the number of preferential arrangements that were being developed under association agreements--particularly those set up under the Yaounde Convention, which did not provide for the creation of free-trade areas of a type permissible under article XXIV of the General Agreement. Some developing countries complained that both the EEC and the Associated African States continued to discriminate against the trade of nonassociated developing countries. They also held that, when preferences were granted to developing countries, such favors should be extended to all developing countries, which, in turn, should not be expected to reciprocate by according preferential treatment to products of developed countries.

The representatives of both the Community and of the Associated African and Malagasy States took the position that: (1) the preferential arrangements established under the Yaounde Convention had not injured the trade of other developing countries; (2) the share of EEC's imports accounted for by the trade with these member countries

was quite small; and (3) the preferential treatment accorded their products by the Community was a form of developmental aid, which they had negotiated with the EEC. With regard to the possibility that the Community's common agricultural policy might have adverse effect on the trade of third countries, the EEC representative said that such concern was not justified in view of the Community's increased imports of agricultural products and the persistent deficit in its trade account.

The reports by the representative of the Community and Greece were accepted by the Contracting Parties without any further action. No reports were submitted in 1967 by either Turkey or the Associated African and Malagasy States.

#### European Free Trade Association

In November 1967, the countries of the European Free Trade Association (EFTA) 1/ reported on measures that they had undertaken, after reporting at the 23d Session of the Contracting Parties, to implement the Stockholm Convention. 2/ They reported that the principal objective of the EFTA continued to be the creation of a large European market and the expansion of world trade. 3/ In pursuit of these objectives, the member countries had participated actively in, and

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1/ Austria, Denmark, Norway, Portugal, Switzerland, Sweden, and the United Kingdom. Finland became an associate member in 1961.

2/ See Operation of the Trade Agreements Program, 18th report (processed), pp. 72-75; also 17th report, pp. 34-35; 16th report, p. 15; 15th report, p. 29.

3/ See chapter 3 of this report.

contributed to the successful conclusion of, the Kennedy Round of tariff negotiations.

The EFTA report indicated that on December 31, 1966, the countries of the Association had achieved their basic objective--a fully operative free-trade area for most industrial products traded between members. On that date, the member countries removed the remaining 20 percent of the rates of duties that had been in effect in the base year 1960. On January 1, 1967, moreover, the member countries eliminated, with a few exceptions, the remaining quantitative import restrictions on industrial products.

The EFTA report further stated that its objective in the agricultural sector is "to facilitate an expansion of trade which will provide reasonable reciprocity to member states whose economies are largely dependent on exports of those products." <sup>1/</sup> During 1966, the report said, intra-EFTA trade in agricultural products increased at approximately the same rate as did that in manufactured products. In addition, members of the Association concluded one new agreement, signed between Denmark and Norway in December 1966, and two supplementary agreements--one between Denmark and Finland in November 1966 and another between Denmark and Sweden in March 1967.

The EFTA countries reported that on December 31, 1966, Finland in implementing its Agreement of Association had further reduced by 10 percent its import duties on a large number of industrial products

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<sup>1/</sup> GATT L/2864, p. 2.

of EFTA origin; moreover, it planned to eliminate the remaining 10 percent of the duties on these products on December 31, 1967. <sup>1/</sup> Finland had also effected a comparable reduction in duties on most of the remaining industrial products; duties on these products were scheduled to be abolished by December 1969, through three additional annual reductions of 10 percent. Despite a difficult balance-of-payments situation, Finland had also liberalized, effective January 1, 1967, its import quotas of a number of products; it planned to complete similar action by December 1967 for other products remaining under quota.

In the discussion that followed the presentation of EFTA's report a number of GATT members voiced concern that the bilateral agreements on agricultural trade concluded between individual EFTA members might limit the development of such trade with third countries and that the accelerated reduction of intraregional duties on cotton textiles might adversely affect EFTA imports of such products from third countries. The representative of Switzerland, speaking for the EFTA countries, replied that the bilateral agreements conformed with the provisions of both the Stockholm Convention and the GATT and that they provided reasonable reciprocity. He further stated that, in developing these agreements, the member countries had kept in mind particularly the interests of traditional exporters to their markets and that the effect of the agreements on internal and third-country interests would be reviewed annually.

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<sup>1/</sup> See Operation of the Trade Agreements Program, 18th report (processed), p. 74.

The Contracting Parties acknowledged the EFTA report and took no further action.

#### Latin American Free Trade Association

The annual report of the Latin American Free Trade Association (LAFTA) 1/ on its activities during 1966/67 was also submitted to the Contracting Parties at their 24th Session. The most significant development there during the year had been the meeting of Heads of State of the member countries of the inter-American system at Punta del Este, Uruguay, in April 1967. Most of the decisions at that meeting concerned economic integration and international trade in Latin America. More specifically, the Heads of State had agreed to establish, during a 15-year transitional period beginning in 1970, a Latin American Common Market based on an improved version of the LAFTA and CACM integration arrangements. The LAFTA report embodied the following information:

#### Council of Foreign Ministers

The Council of Foreign Ministers 2/ met in December 1966 and in August-September 1967 and acted on the following matters:

Relations with the CACM.--Established a Joint LAFTA/CACM Commission to coordinate the policies of the two groups and speed up the process of Latin American integration.

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1/ Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

2/ The Council of Foreign Ministers was created at the fifth annual conference of the LAFTA countries in November 1965.

Settlement of disputes.--Developed procedures for settling disputes between members, pending completion of parliamentary formalities by member governments.

Movement of LAFTA nationals.--Signed a protocol permitting nationals of member countries to move freely within the LAFTA territory upon presentation of valid identity, but without first obtaining a visa or permit.

Sub-regional agreements.--Approved the provisions of a sub-regional agreement presented by Chile, Colombia, Ecuador, Peru, and Venezuela.

Preferential tariff treatment.--Adopted resolutions indicating that Uruguay and Bolivia were eligible to the preferential tariff treatment to be accorded less-developed member countries, as provided under chapter VIII of the Treaty of Montevideo.

#### Activities of the Standing Executive Committee

During 1966 and 1967, the Committee acted on the following important items:

Commercial policy.--Set up a group of experts to draft a common external tariff by December 31, 1970.

Customs procedures and administration.--Appointed experts to prepare preliminary drafts of: procedures to be followed by members in determining customs value; information to be required on customs documents; and a uniform customs tariff.

Industrial matters.--Adopted guidelines for established study groups on iron and steel, petrochemicals, paper and cellulose, and problems of the less developed member countries; studied the possibility of integrating the manufacture of certain products of the chemical industry.

Agricultural matters.--Received recommendations from the Advisory Committee on Agricultural Matters, respecting: plant health, tobacco, fruit, coordination of agricultural policies, and the marketing of agricultural products.

Conference of the LAFTA Contracting Parties

The LAFTA countries held their eighth regular tariff negotiating conference from October 24 to December 20, 1966. There they negotiated about 500 concessions; three-fourths of these were on products not previously subject to concessions. About 140 of these represented renegotiated concessions; they concerned primarily products of the chemical and pharmaceutical industry and electrical machinery and appliances. More than 9,000 concessions had been exchanged by the member countries during all the conferences.

At the 24th Session of the Contracting Parties of the GATT, the representative of Argentina, speaking in behalf of the LAFTA countries, said that three-fourths of the growth in the value of trade that had occurred in LAFTA between 1962 and 1966 represented trade with third countries. He also indicated that quantitative restrictions had largely been eliminated on negotiated products, 80 percent of which consisted of chemicals, steel products, machinery, electrical equipment, and agricultural commodities. The representative of Argentina further noted the important decision of the Latin American Heads of State to establish, beginning in 1970, a Latin American Common Market.

Representatives of two contracting parties of the GATT commended the members of the LAFTA for the progress they had made in dismantling trade barriers within the area and for the projected change from a free-trade area into a common market.

The Contracting Parties took note of the LAFTA report without any further discussion.

#### Central American Common Market

Nicaragua--the only contracting party to the GATT that was also a member of the Central American Common Market (CACM) 1/--submitted no report on developments in that Market following its last report to the Contracting Parties. 2/ It had done so in previous years, but was not represented at the 24th Session of the Contracting Parties.

#### Arab Common Market

In November 1967, the countries of the Arab Common Market 3/ submitted their first report to the Contracting Parties, describing the headway that the new regional arrangement had made during the inter-session period. 4/

The decision to establish an Arab Common Market, formally announced in August 1964, followed the adoption of an Agreement for Arab Economic Unity, which became effective January 1, 1965. At their 23d Session, the Contracting Parties approved a report by a Working Party indicating that the Agreement was compatible with the relevant provisions of the GATT.

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1/ Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.

2/ See Operation of the Trade Agreements Program, 18th report (processed), pp. 77-80; also 17th report, pp. 35-36; 16th report, p. 16; and 15th report, pp. 29-30.

3/ Iraq, Jordan, Syria, and the United Arab Republic.

4/ For additional information on the Arab Common Market, see Operation of the Trade Agreements Program, 18th report (processed), pp. 80-82, and 17th report, pp. 36-37.

The report by the Arab Common Market listed the following principal accomplishments of the regional arrangement by November 1967:

Import duties on many industrial products originating within the region had been reduced by a total of 80 percent, 55 percent on others, and 30 percent on the rest.

Import duties on many agricultural products and on raw materials originating within the region had been eliminated and duties on most others reduced by a total of 60 percent.

To safeguard its revenue position, however, Jordan had retained its import duties on several important products.

A plan to establish an Arab Payments Union for member states was scheduled to be put in effect within a few months.

Freedom of movement of nationals of the Arab Common Market within the region was scheduled to begin by January 1, 1968.

The value of products traded among member states was higher in the first half of 1967 than in the corresponding period of 1966.

The report of the Arab Common Market also noted that a number of permanent committees and subcommittees--a Customs Committee, a Monetary and Financial Committee, an Economic Committee--would be created shortly to deal with specific problems of the region. Both the representative of the United Arab Republic and the chairman of the Council of Arab Economic Unity commented orally on most of the developments described in the aforementioned report. In response to a question from the representative of Australia, the chairman of the CAEU replied that a common external tariff of the Arab Common Market would be implemented in five stages, starting in 1970. Several GATT members expressed their gratification with the progress the

Arab Common Market had made during the period between the two sessions of the Contracting Parties.

The Contracting Parties took note of the report without any further action.

#### Central African Economic and Customs Union

At the 24th Session of the Contracting Parties, the representative of Chad reviewed developments during 1967 in the Central African Economic and Customs Union, 1/ even though he had not previously consulted in this regard with the other governments concerned. He stated that the Union had been established within the framework of the Organization of African and Malagasy States. Various achievements, particularly the adoption of a common customs tariff, he said, would lead to broader cooperation in the future, including the integration of economic policies of the member governments. This the CAECU would strive to achieve without adversely affecting the interests of third countries.

The representative of the United States stated that, although his delegation sympathized with the economic goals of the CAECU, it regretted that the Union had granted preferential tariff treatment to imports from the EEC, while the members of the Yaounde Convention had not. He said that such discrimination was undesirable in that it

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1/ The Central African Republic, Chad, Congo (Brazzaville), Gabon, and Cameroon--all formerly under French administration. These countries are also signatories of the Yaounde Convention between the EEC and 18 African and Malagasy States. For additional information, see Operation of the Trade Agreements Program, 18th report (processed), pp. 83-84; also 17th report, p. 36; 16th report, pp. 14-15.

did not promote economic development and prevented products from being imported from the cheapest sources of supply.

The Contracting Parties took note of the statement by the representative of Chad and expressed hope that the CAECU would submit a written report at the next session.

#### West African Economic Community

On May 4, 1967, in the city of Accra, Ghana, fourteen states in West Africa (including both English- and French-speaking countries) drew up Articles of Association for establishing a West African Economic Community (WAEC). <sup>1/</sup> In August, the Interim Council of Ministers of the new Community requested that the GATT grant observer status to the new Community. At their 24th Session, the Contracting Parties agreed to this request.

The Articles of Association of the WAEC declared that the Community aimed to: (1) promote economic development in the member states; (2) maximize the interchange of goods and services among its members; (3) further the expansion of trade, not only between the member states, but also between them and the rest of the world; and, (4) contribute to the economic development of the continent of Africa on the whole.

#### United Kingdom-Ireland Free Trade Area Agreement

In November 1967, the Government of the United Kingdom submitted its first report to the Contracting Parties on the implementation of its agreement with Ireland. The agreement, which had been concluded

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<sup>1/</sup> The Articles of Association were open for acceptance by the following Governments: Dahomey, Gambia, Ghana, Guinea, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta.

between the two countries in December 1965 had provided for the establishment of a free-trade area by July 1, 1975. <sup>1/</sup>

Both countries had participated in the Kennedy Round negotiations, where the Contracting Parties had authorized Ireland's accession to the GATT, subject to terms delineated in a protocol. Meanwhile, on July 1, 1966, the United Kingdom had eliminated virtually all protective import duties on Irish products. On July 1, 1966 and July 1, 1967, Ireland had effected the first two of a series of projected reductions, of 10 percent each, in its duties on most imports from the United Kingdom. Moreover, by July 1, 1966, Ireland had abolished all quantitative restrictions on imports of most goods to which the Agreement applied; nevertheless, because of difficulties that had developed in the Irish motor industry, it had found it necessary to reimpose its restrictions on imports of automobile tires from the United Kingdom during the period July 1 to December 31, 1967.

At the 24th Session of the Contracting Parties, the representative of the United Kingdom commented on developments that had occurred in the free-trade area during 1966/67, as described in the aforementioned report. Meanwhile, Ireland had obtained the necessary two-thirds majority approving its accession to the GATT. The representative of Ireland informed the Contracting Parties that his country, having completed the necessary parliamentary formalities, would shortly sign the Protocol of Accession. The Contracting Parties took note of the information submitted.

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<sup>1/</sup> See Operation of the Trade Agreements Program, 18th report (processed), pp. 85-86.

## ACTIONS RELATING TO GATT OBLIGATIONS

During 1967, several contracting parties initiated actions impinging on their obligations under the General Agreement. Nevertheless, when so doing they conformed with special provisions of the Agreement envisaging the occasional need for such action. Under designated circumstances, the Agreement permits contracting parties to act in a manner inconsistent with the broader objectives of the GATT to reduce customs duties, lower other trade barriers, and eliminate discriminatory practices in international commerce.

Article XII of the Agreement, authorizes a contracting party to impose restrictions on imports when necessary to prevent a serious decline in its foreign-exchange reserves and maintain equilibrium in its balance of payments. Article XVIII authorizes a contracting party, whose economy is in an early stage of development, to adopt protective duties and other measures to facilitate its development program, as well as to protect its external financial position. Articles XIX and XXVIII, authorize a contracting party, under designated conditions, to modify or withdraw tariff concessions. Under article XXV, moreover, the Contracting Parties may, in "exceptional circumstances not elsewhere provided for," grant, by two-thirds vote, a temporary waiver of any obligation imposed on a member country by the Agreement.

Members imposing restrictions for balance-of-payments purposes under the authority of articles XII or XVIII, however, are required to consult with the Contracting Parties periodically 1/; those

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1/ A Committee on Balance-of-Payments Restrictions represents the GATT in these consultations, in accordance with procedures established at the 17th Session of the Contracting Parties.

utilizing article XII must consult annually, and those utilizing article XVIII, biennially. Waivers granted under the authority of article XXV, or authorizations granted under article XXVIII, generally have fixed terminal dates, which may be extended.

Import Restrictions Applied Contrary to Obligations Under  
the GATT and Not Authorized by Waivers

Early in 1967, the Secretariat of the GATT requested all contracting parties to report all quantitative import restrictions currently being employed without having obtained authorization by the Contracting Parties. The Secretariat also requested newly independent countries that were applying import restrictions without authorization under article XVIII to submit reports describing their import control systems. They were informed that they could fully comply with this request without prejudicing their current status in the GATT.

By the close of the year, 18 countries that were maintaining restrictions of a "residual" 1/ character and 8 countries in the newly independent category had responded to the request by the Secretariat. Five other countries reported either that they maintained no import restrictions that were contrary to the provisions of the GATT or that those employed had been authorized by waivers. Some 20 countries either (1) failed to respond to the request by the Secretariat, (2) had previously stated that they applied no "residual" restrictions, or (3) had submitted reports that were out-of-date or incomplete.

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1/ Under the GATT rules, residual import restrictions are quantitative restrictions imposed originally for balance-of-payments purposes and maintained in force after the balance-of-payments difficulties have passed.

During the year, 13 additional countries responded to a similar request by the Director General in 1966. <sup>1/</sup> The Secretariat urged all members to respond regularly by reporting fully on all import restrictions being maintained. Because of the out-of-date or fragmentary character of the information available, the Secretary had been unable to answer satisfactorily many inquiries received from contracting parties seeking information for trade promotion purposes.

#### Import Restrictions for Balance-of-Payments Purposes

During 1967, ten contracting parties that were currently maintaining quantitative import restrictions for balance-of-payments purposes held consultations with the Committee on Balance-of-Payments Restrictions. Nine of these were applying such restrictions under provisions of either article XII:4(b) or article XVIII:12(b); the tenth failed to identify the authority for such action.

Under the provisions of the General Agreement, an individual contracting party resorting to quantitative restrictions for balance-of-payments purposes must consult with the Contracting Parties, as a body, regarding the nature, extent, and justification of such restrictions. A contracting party is also required to so consult, whenever it either applies new restrictions or intensifies those already existing; moreover, all contracting parties that continue to apply import restrictions already authorized under article XII or article XVIII:B must consult regularly with the Contracting Parties and establish that there is a

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<sup>1/</sup> Operation of the Trade Agreements Program, 18th report (processed), pp. 87-89.

continued need for such measures. Because of the interrelationship of quantitative restrictions and exchange control, the Contracting Parties are also required, pursuant to the provisions of article XV of the General Agreement, to consult with the International Monetary Fund respecting the appropriateness of such restrictions by any member of the GATT. Accordingly, an examination by the Fund is held in conjunction with that by the GATT.

Between May and October 1967, ten contracting parties consulted with the Committee on Balance-of-Payments Restrictions respecting import restrictions currently being maintained. In all instances, they had previously obtained temporary authorization to impose such restrictions under the provisions of either article XII or article XVIII:B. Earlier during the year each of these countries had held similar consultations with the International Monetary Fund.

At its consultations, the Committee received reports, not only from each of the contracting parties concerned, but also from the International Monetary Fund respecting the nature of the balance-of payments difficulties confronted by these countries. The Committee gave particular attention to the considerations deemed to warrant continuation of such restrictions. In effect, both the International Monetary Fund and the Committee took cognizance of whether the individual countries were conforming to their obligations under the two agreements and made appropriate recommendations directed ultimately to the complete removal of the restrictions requiring sanction. The member countries involved in the consultations, the dates on which the

consultations were held, and the authority under which the consultations were conducted are as follows:

| <u>Country</u>   | <u>GATT authority</u><br>(Article No.) | <u>Date consultation was</u><br><u>held or completed</u> |
|------------------|--|--|
| Chile-----       | XVIII:12(b)                            | October 18, 1967   |
| Finland-----     | XII:4(b)                               | October 16, 1967   |
| India-----       | XVIII:12(b)                            | July 25, 1967  |
| Indonesia-----   | XVIII:12(b)                            | October 20, 1967   |
| New Zealand----- | XII:4(b)                               | July 18, 1967  |
| Pakistan-----    | XVIII:12(b)                            | July 24, 1967  |
| South Africa---- | XII:4(b)                               | October 30, 1967   |
| Spain-----       | <u>1/</u>                              | May 12, 1967   |
| Tunisia-----     | XVIII:12(b)                            | October 23, 1967   |
| Turkey-----      | XVIII:12(b)                            | July 20, 1967  |

1/ Authority not clear

At the 24th Session of the Contracting Parties, the Committee recommended that the aforementioned member countries be permitted to continue to apply the identified import restrictions for balance-of-payments purposes. The Contracting Parties approved the recommendation of the Committee.

### Chile

Chile had informed the Committee that it intended to continue to apply its import restrictions. The Government had concluded that maintenance of these restrictions had been made necessary by the fact that world market prices for copper had declined appreciably--exports of this product have constituted Chile's principal source of foreign exchange. Hence, the authorities deemed that continuation of the restrictions would permit the Government to

regulate the flow of imports according to the availability of foreign exchange.

The representative of Chile reported that his Government had introduced a new customs tariff based on the Brussels Tariff Nomenclature and had simplified various import procedures and requirements. He added that these changes, which had led to a substantial increase in imports, coupled with tax reform initiated earlier, had put pressure on the country's balance of payments and produced a condition of austerity.

He reported that his Government's policy regarding the national economy was to achieve a higher rate of growth and a more equitable distribution of income. To this end, he said that the Government had initiated measures designed to: (1) double the production and exportation of copper in the short run and increase the diversification of exports in the long run; and (2) through a system of priorities regulating the flow and type of imports, ensure the optimum use of the country's foreign exchange earnings.

The consultations with the Monetary Fund confirmed that Chile's balance of payments had been adversely affected by three developments: a decline in the prices of copper, a net increase in foreign borrowing of about \$95 million by the Government, and an increase in imports. These developments were expected to result in a deficit of about \$20 million in the country's foreign-exchange balance in

1967, whereas there had been a surplus of \$140 million in 1966.

The Fund reported that the general level of Chile's restrictions was no higher than necessary to prevent a serious decline in its monetary reserves.

### Finland

Finland also requested consultations with the Committee; it reported that, despite stringent economic measures that it had been administering, pressure on Finland's balance of payments had continued unabated since its last consultation.<sup>1/</sup> The representative of Finland reported that the crisis in his country's balance of payments, which had been described at a meeting with the Committee in December 1966, had persisted; hence, his Government had taken additional control measures. Most important among these were: (1) upon the recommendation of the International Monetary Fund, a devaluation of the Finnish markka; (2) the application of a more selective credit policy by the Bank of Finland; and (3) the requirement of increased cash deposits, before exchange would be granted for designated imports.

To combat the inflationary effect of such devaluation, moreover, the Government indicated that it would impose a temporary export levy, abolish duties applied on certain items traded with members of the EFTA, and "freeze" the prices of commodities important to the cost-of-living index. The representative of Finland stated that the

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<sup>1/</sup> Operation of the Trade Agreements Program, 18th report (processed), pp. 93-94.

revenue, which his Government expected to earn by imposing the export levy, was to be used primarily to: (1) improve production in Government-controlled enterprises; (2) develop facilities for the production of energy; and (3) finance export credits and forest improvement projects. He also said that, since his Government did not plan to establish any new restrictions, import quotas were expected to remain at about the current level, and, hence, further relaxation of import restrictions would soon be forthcoming. He added, moreover, that Finland's remaining bilateral payments agreement with a Fund member, Colombia, would be terminated at the end of 1967.

The Fund reported that during 1966 the rate at which Finland's economy was expanding had continued to slow down; neither fixed investment nor exports had increased sufficiently. Moreover, the country had suffered a reduction of \$101 million in its gross claims against foreign currencies, following a reduction of \$95 million during 1965. The Fund also reported that during 1966, the Finnish Government had initiated several measures--such as raising taxes and other charges, curtailing government spending, and limiting central bank credits--in an effort to restore equilibrium in its balance of payments. The Fund deemed these measures to be warranted under the circumstances. It noted with approval that, in spite of Finland's balance-of-payments difficulties, that country had continued to reduce import restrictions and discriminations. By the end of 1967, Finland also expected to terminate its only remaining bilateral payments agreement with a member of the Fund.

India

Consultation with India concerned that country's desire to continue its restrictive policy respecting both external trade and payments. The representative of India stated that his country's economy had been undermined by two successive droughts; hence, India had been forced to deplete its foreign-exchange reserves in order to import large quantities of food grains. He added that, despite the stimulus provided to exportation by the devaluation of the rupee in June 1966, India's earnings from exports had declined. Two factors had contributed to this end--unfavorable demand conditions abroad and the reduced domestic supply of agricultural products available for export. The representative also attributed the decline in India's foreign-exchange reserves to increased charges for debt-servicing.

To cope with these conditions, India had been exploring whether friendly countries would extend additional assistance in the form of food or cash. The representative reported that meanwhile his Government's Fourth Plan would endeavor quickly to raise agricultural production, combat inflation, increase foreign-exchange earnings through exports, intensify the family planning program, and provide a more competitive climate for industry through the relaxation of administrative controls.

Meanwhile, the Fund reported that the devaluation of the rupee and India's import liberalization program--both of which measures were introduced in 1966--together with its efforts under the Fourth

Plan, should stimulate the country's economic growth. The Fund recommended that India reduce its government deficit, currently being financed through bank credit, and expand export earnings. Spokesmen for the Fund said that these measures, together with adequate foreign assistance, would enable India to progress further toward the removal of restrictions on imports and payments.

### Indonesia

Indonesia's economic condition, both internal and external, had been critical for several years; moreover, its situation was not expected to improve until the Government could implement a broad program of economic structural reforms. Accordingly, the hoped-for relaxation of Indonesia's import restrictions, if achieved, would have to be effected gradually, over a period of several years.

The representative of Indonesia stated that, primarily as a result of a serious decline in exports, his country's balance of payments had continued to deteriorate after 1963, when Indonesia had last consulted with the Committee. He said that, despite reforms implemented by the Government, the country's economy had been badly affected by continuous budget deficits and serious inflationary pressures. The representative further indicated that all reforms undertaken had been designed to assure that the rehabilitation and growth of the country's economy would be accomplished through the free play

of the market forces. Accordingly, starting in October 1966, the Government had initiated measures:

Converting many state enterprises into private undertakings and depriving the remaining state enterprises of their special privileges in obtaining capital and of fixing prices, thereby placing them on an equal competitive footing with private enterprises;

Returning the management of foreign enterprises from the state to their owners;

Ceasing to require import licenses for raw materials and designated essential commodities;

Enacting legislation providing both tax incentives and investment guarantees to foreign companies operating in Indonesia;

Adopting a single exchange-rate system.

Expanding the list of products that could be imported under open import licensing to cover nearly half of the items in the Indonesian tariff schedule;

Increasing to nearly 90 percent the share of export proceeds made available for free, nongovernmental imports;

Instituting measures to limit credit expansion and maintain a balanced budget.

These reforms were further strengthened in July 1967.

The consultations with the Fund revealed that Indonesia's balance-of-payments position in 1967 had benefited from agreements rescheduling its debt payments, and from the receipt of additional foreign aid amounting to about \$200 million. The Fund warned, however, that the country's balance-of-payments situation continued to be critical and that substantial foreign assistance was needed. It commended Indonesia on the progress achieved: in simplifying its

exchange system, in relaxing import restrictions, and in increasing its reliance on market forces to stimulate further growth of its economy.

### New Zealand

New Zealand reported that it continued to face serious balance-of-payments difficulties and that, as a result, the Government did not plan to relax its quantitative import restrictions. A sudden decline in world prices of wool at the end of 1966 had reduced substantially New Zealand's export earnings during late 1966 and early 1967; by May 1967, the country's foreign exchange reserves had declined to \$104 million--from \$127 million in May 1965. Moreover, New Zealand was encountering considerable difficulty in obtaining funds abroad.

New Zealand had initiated a series of measures to reduce the demand for foreign exchange, to increase earnings from exports, and to reduce internal demand. In May 1967, additional fiscal measures had been put into effect designed to increase the national revenue by \$NZ 50 million.

The Fund confirmed that although the New Zealand Government had tightened its exchange controls on current payments, it had decided not to increase, during 1967-68, quantitative import restrictions. The Fund recognized that New Zealand's balance-of-payments and foreign-exchange positions did not permit it to relax immediately its import restrictions; nevertheless, it urged that the Government

initiate additional measures to provide an ultimate basis for such relaxation. The Fund concluded that the general level of restrictions maintained by New Zealand did not exceed that necessary to prevent a serious decline in its foreign-exchange reserves.

#### Pakistan

The representative of Pakistan reported that during 1966 his country had been compelled to introduce administrative restrictions to curtail imports and thereby prevent further deterioration of its exchange position. He said that although Pakistan had achieved a satisfactory rate of growth during the period of its second Five-Year Plan (which had ended in June 1965), such progress had been interrupted during the first 2 years of the third Five-Year Plan. He added that after 1960 Pakistan had pursued a liberal import policy on the expectation that continued financial assistance from abroad would be forthcoming. Such assistance, however, had declined substantially during 1965-66 and was seriously delayed in 1966-67. Moreover, he said that, because of drought conditions, the country had experienced a severe decline in food production and had received reduced food supplies under U.S. Public Law 480. As a result of these developments, the Government had incurred short-term liabilities totaling \$115 million in its foreign-exchange account, particularly in financing the importation of food products.

In reviewing these developments, the Fund noted that Pakistan's import-control system and its multiple-exchange structure continued to be both complex and restrictive. Although the Fund did not object to Pakistan's retaining these arrangements temporarily, it did emphasize the need for an early re-establishment of a unitary exchange rate at a realistic level. It also urged that Pakistan terminate its bilateral-payments arrangements with Fund members and keep under review similar arrangements with nonmembers.

#### South Africa

In 1967, South Africa's balance-of-payments position took a serious turn for the worse, thereby precluding the Government from considering immediate relaxation of its import restrictions. The representative of South Africa reported that, following the relaxation of restrictions in 1966 and in May 1967, his country had experienced a considerable increase in imports. These developments, he added, had contributed to increased pressure on the country's reserves of gold and foreign exchange, especially as exports in 1967 failed to increase by a percentage as great as that in 1966. As a result, the country's reserves of foreign exchange had declined to R488 million, which was sufficient to finance less than 3-months' imports.

The representative indicated that various disinflationary measures had been initiated by his Government to: (1) increase the receipts from various direct and indirect taxes; (2) impose tighter

credit requirements; (3) induce increased public investment in tax-free savings bonds; (4) reduce the national budget for 1967/68; (5) sterilize a budget surplus from the 1966/67 account; and (6) reduce Government indebtedness to banks. Under the circumstances, he concluded that, although his Government was planning to simplify some import procedures, no further substantial relaxation of import controls was possible.

In its report, the Fund stated that during the first half of 1967, demand had continued to exert considerable pressure on the South African economy and had caused a rapid rise in imports. As a result, by mid-1967, the country's gold and foreign exchange reserves had decreased by \$155 million. The report confirmed the statement that the South African Government had instituted appropriate measures to improve its exchange position. The report concluded that these measures were sufficient to restore a better balance in the economy and to stem further decline in the country's foreign-exchange reserves; nevertheless, it indicated that the country's balance-of-payments situation would be kept in constant review.

### Spain

The representative of Spain reported that, unless Spanish products were accorded easier access to foreign markets, his country might find it necessary to further curtail imports through the use of

selective import restrictions. He stated that during 1966, the terms of trade for Spain's principal exports--agricultural products--had failed to improve appreciably, primarily because of import restrictions applied by countries that have been traditional outlets for these products. As a result, Spain's trade deficit in 1966 totaled \$2,338 million, which was about 14 percent higher than in 1965. <sup>1/</sup> He further stated that his country would continue to apply severe measures to curtail domestic demand and would forego the expansion of certain sectors of the economy, particularly agriculture, whose products could contribute to restored equilibrium in the trade balance.

In noting that Spain had made no further progress in reducing its import restrictions, the Fund concluded that the general level of such restrictions did not go beyond the extent necessary to stop a serious decline in its foreign exchange reserves. It called attention to the potential danger in the country's current balance-of-payments position and suggested that Spain adopt appropriate fiscal policies to increase domestic savings, thereby making funds available for greater investment at home.

### Tunisia

Tunisia notified the Contracting Parties that it would continue to apply import restrictions. It felt compelled to do so because chronic trade deficits had served to deplete its foreign-exchange reserves and because of the urgent need to implement its economic development plan. Tunisia's preliminary Three-Year Plan (1962-64),

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<sup>1/</sup> Operation of the Trade Agreements Program, 18th report (processed), pp. 102-103.

which was designed to pave the way for the first development plan, had cost the country \$550 million, a third of which had been obtained from external sources. Implementation of the first Four-Year Development Plan (1964-68) had cost an additional \$225 million, \$130 million of which had been financed abroad.

These expenditures, he said, coupled with deficits incurred in the trade account of the balance of payments had depleted the country's limited foreign exchange reserves. Accordingly, Tunisia had undertaken measures to: (1) review all fiscal charges applied to imports and especially to reduce duties imposed on raw materials and capital equipment; (2) review existing import restrictions, with a view to maintaining only those required to protect infant industries and designated economic sectors; (3) replace gradually bilateral quotas by a global quota system; and (4) reform its customs tariff by adopting a more detailed nomenclature to permit greater individualization of products than in the past.

The Fund confirmed that Tunisia had experienced successive balance-of-payments deficits, which had depleted its foreign exchange reserves and had sharply increased its short-term indebtedness. Its report further stated that Tunisia's system of trade and payments controls continued to be restrictive and it noted with satisfaction that the Tunisian authorities intended to liberalize its practices. The Fund pointed out that Tunisia's reliance on bilateralism had resulted in undesirable discriminatory practices and urged the Government to decrease its reliance on such arrangements.

Turkey

The Committee's consultation with Turkey was necessitated by increasing balance-of-payments difficulties in that country. The Committee was particularly concerned with the fact that Turkey had increased, from 5 to 10 percent ad valorem, a stamp tax (stamp duty) that it had been imposing on all imports. Turkey had not deemed this action to be in contravention of its commitments under the GATT. It regarded the tax as a measure to prevent further deterioration of its reserve position, rather than as a device to restrict imports.

The representative of Turkey reported that in 1966 his country's balance-of-payments position had further deteriorated, primarily as a result of a large trade deficit and heavy external debt services. Between 1965 and 1966, the value of Turkey's imports had risen by nearly 34 percent while that of exports had increased by only 19 percent; meanwhile, external debt payments had required more than 41 percent of Turkey's export earnings. The representative of Turkey noted, moreover, that his country was completing its first Five-Year Development Plan and intended to implement a second Five-Year Plan during 1968-72. The investment targets of the first plan, oriented towards import substitution, had been substantially achieved. The second plan would be oriented toward exports, but would seek to liberalize quantitative import restrictions and reduce customs duties.

The Fund report indicated that Turkey's deficit in the goods and

services account had increased from \$80 million in 1965 to \$175 million in 1966 and that, by the end of 1966, its reserves of gold and net foreign exchange had declined, by \$33 million, to a low level of \$20 million. Although the Fund did not object to Turkey's use, temporarily, of multiple-currency practices, it urged the country to terminate its bilateral payments arrangements with three Fund members.

#### Ceylon's Temporary Duty Increases

Meanwhile other contracting parties gave an accounting of various actions taken under individual waivers that had been granted. At the 24th Session of the Contracting Parties Ceylon reported on certain duty increases that it had continued to maintain under authorization of a waiver originally granted in 1961. Later, the waiver had been not only amended to authorize additional duty increases, but also extended to the end of 1968. 1/

The report described Ceylon's mounting difficulties in its balance-of-payments position dating back to the late 1950's. It noted that this serious situation had been caused primarily by a deterioration in the country's commodity terms of trade; moreover, recourse to strict import controls, increased and diversified exports, and substantial foreign aid had not reversed the trend. Inasmuch as new declines had occurred in the prices of Ceylon's principal exports, the Government did not expect its balance-of-payments position to improve in 1967. Accordingly, it saw no possibility of relaxing

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1/ Operation of the Trade Agreements Program, 18th report (processed), pp. 103-105; also 16th report, p. 19; 15th report, p. 39.

the existing import controls and deemed that, if the current pressure persisted, it might even have to resort to more rigid controls.

#### Turkish Stamp Tax

In a communication dated April 14, 1967, the Turkish Government informed the Contracting Parties that on February 13, 1967, it had increased, from 5 to 10 percent, a stamp tax then being imposed on all imports (in effect, an import surcharge). This action was undertaken in order to: (1) finance the country's economic development plan; (2) maintain internal price stability; and (3) prevent a further deterioration in the country's balance of payments. The new tax, which the Government was authorized to raise up to 15 percent, was to remain in effect until the end of the Second Five-Year Development Plan in 1972.

In April 1963, the Contracting Parties had granted Turkey a waiver, under article XXV:5 of the General Agreement, permitting it to apply the initial stamp tax of 5 percent on all imports, irrespective of whether Turkey had granted tariff concessions thereon. This levy was one of a series of fiscal measures introduced in March 1963 in connection with Turkey's first 5-year development plan.

At the 24th Session, the Contracting Parties approved the action of the Turkish Government and expressed the hope that the rate would not be raised to 15 percent. The Contracting Parties approved unanimously Turkey's request for the waiver.

### United Kingdom Steel Loyalty Rebate

In the fall of 1967, the British Steel Corporation, which had been established by the British Government in April of that year, when the steel industry was nationalized, announced that purchasers of wide strip mill products, particularly sheet and medium plate, would be granted a rebate of 30 shillings per ton--about 5 percent--if they certified that they had not used imported sheet or medium plate.

At the 24th Session of the Contracting Parties, the U.S. delegate stated that, in the opinion of his Government, the aforementioned rebate was not consistent with the obligations of the United Kingdom under the GATT and that the rebate would have adverse effects on international trade. He said that his Government desired to hold consultations with the United Kingdom on this matter under article XXII of the General Agreement.

The representatives of Canada and of Japan supported the U.S. position and indicated that they would like to participate in the consultations. The representative of the United Kingdom replied that the "loyalty" rebate was a temporary measure and that his Government, after having carefully considered the compatibility of the rebate with the provisions of the GATT, had concluded that no conflict was involved. He also said that the United Kingdom was prepared to hold consultations and supply additional information concerning this matter.

The Contracting Parties agreed that the GATT Council should appoint a working party to conduct the consultations.

Finland's Adjustment of Specific-type Duties  
Following Currency Devaluation

In November 1967, the Finnish Government advised the Contracting Parties that it intended to adjust all specific-type duties in its schedule of concessions, in accordance with procedures authorized by the General Agreement. Paragraph 6(a) of article II of the agreement permits a contracting party that has revalued its currency by more than 20 percent to make appropriate adjustments to its specific-type duties and charges. The action taken, however, must be in accord with the provisions of the International Monetary Fund. Such adjustments, moreover, were not to impair the value of the concessions originally granted by the contracting party. On October 12, 1967, with the concurrence of the IMF, Finland devalued its currency by about 31 percent. The Finnish Government assured the contracting parties that the envisaged increase in specific duties would not exceed that percentage.

Uruguay Adjusts Its Customs Duties and Seeks Authorization  
to Continue Existing Surcharges

On September 19, 1967, the Government of Uruguay increased its customs duties by 100 percent and notified the GATT Secretariat accordingly. Uruguay's customs duties, though levied nominally on an ad valorem basis, are, in effect, specific duties, since they are collected on the basis of fixed official values (aforos). The

increase in duties, therefore, was effected through an adjustment of the aforos, rather than of the rates stipulated in the tariff; it was undertaken in order to adjust the official valuation of imported goods for depreciation that had occurred in the value of the national currency, and thereby to protect the country's fiscal, exchange, and general economic position. The Government had announced a similar increase in the aforos in August 1964. <sup>1/</sup> Under the General Agreement, the Contracting Parties may authorize a country to increase specific-type duties when a change in the value of its currency warrants such an adjustment (article II:6). At the request of the Government of Uruguay, discussion of the increase in the aforos was deferred until after the 24th Session of the Contracting Parties.

Later, in November 1967, the Government of Uruguay requested the Contracting Parties to extend for an additional 6 months a waiver that had authorized it to impose various import surcharges. The waiver, approved at the 23d Session, was due to expire shortly. The Government of Uruguay stated that the circumstances that had prompted the original request for a waiver in May 1961 had worsened. As a result, the Government had been obliged to take severe measures to prevent further deterioration in the country's balance of payments and to meet the substantial commitments arising from its external debt. Uruguay's surcharges were examined by the Contracting Parties at their

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<sup>1/</sup> Operation of the Trade Agreements Program, 17th report, p. 50.

24th Session. The Uruguayan representative stated that the aforementioned difficulties in his country's balance of payments were the principal reason for requesting that the waiver be extended. He said that his Government needed to implement several new measures before it could undertake consultations with interested contracting parties. The representative of the four Nordic countries--Denmark, Finland, Sweden, and Norway--indicated that they opposed further extension of the waiver, because of the discriminatory manner in which surcharges were being applied. Ultimately, the Contracting Parties decided that early in 1968 both Uruguay's surcharges and its balance-of-payments position be reexamined.

#### U.S. Import Restrictions on Agricultural Products

Shortly before the opening of the 24th Session of the Contracting Parties, the United States submitted its 12th annual report on import restrictions affecting agricultural products. In March 1955, the Contracting Parties had granted the United States a waiver from its obligations under articles II and XI of the General Agreement to the extent necessary to permit certain actions taken by the U.S. Government under section 22 of the Agricultural Adjustment Act, as amended.

The report indicated that during 1967, import regulations under section 22 were in effect for the following products: wheat and wheat products, cotton of certain picker lap, peanuts, and various manufactured dairy products. Moreover, on June 30, 1967, by

proclamation of the President, quotas had been imposed on American-type cheeses, frozen cream, and designated articles containing 5.5 to 45 percent butterfat. Meanwhile, the quota in effect on Cheddar cheese was enlarged to permit increased entries. The report described the various actions (acreage allotments, marketing quotas, acreage diversion) taken by the U.S. Government during the year to bring about a better balance between the supply and demand of the products subject to section 22 regulation. It also gave an account of the efforts of the Government to increase the consumption of these commodities through various food assistance programs, both at home and abroad.

U.S. actions respecting individual products subject to import control under the provisions of section 22 were described as follows:

Cotton and cotton waste:--During the 1967-68 marketing year, import quotas were in effect for upland-type cotton, long staple cotton, and designated cotton waste; these quotas were identical to those employed during the previous year. During the 1966 and 1967 crop seasons, the U.S. Government continued its efforts to alleviate the cotton surplus problem, through production adjustment and related surplus disposal programs. It continued to market stocks of cotton in a manner designed to avoid disrupting domestic and foreign markets.

Dairy products.--During 1966-67, import controls were continued on certain dairy products to prevent imports from materially interfering with U.S. Government programs in behalf of the dairy industry. These programs were designed to bring supplies of dairy products into better balance with requirements, as well as to stabilize their prices and the incomes received by domestic producers. Primarily as a result of increased imports, the Commodity Credit Corporation, which conducts various support operations, was compelled to acquire, between January and the end of September 1967, dairy products having a milk-equivalent of about 7 billion pounds. Notwithstanding this action, prices of dairy products

after August 1967 were lower than a year earlier and, in the absence of import restrictions, would have declined even more.

Peanuts:--During 1966-67, the import quota established for peanuts under section 22 remained unchanged. It was to be continued during 1967-68. During the 1967 crop season, therefore, the U.S. Government had recourse to acreage allotments, a marketing quota program, as well as price-supports for peanuts. Despite efforts to limit production and dispose of surplus stocks, the supply of peanuts in 1967-68 was expected to exceed domestic use.

Wheat:--No change was made in 1966, and none was contemplated in 1967, in the import quotas that had been established under section 22 for wheat (wheat classified as fit for human consumption, together with flour, semolina, crushed and cracked wheat, and similar products). No quantitative import restrictions of any kind were being imposed on feed wheat. The U.S. Government continued to utilize several programs designed to stabilize production and prices--e.g., such operations as acreage allotments, marketing allocations, and price-support. Participation in the price-support program is conditional on participation in the acreage allotment program.

Upon receipt of the U.S. report, the GATT Council appointed a working party to examine the report and submit recommendations to the Contracting Parties before the close of the 24th Session. The working party took note of the U.S. difficulties in agriculture, particularly in the sector of dairy products. It also took cognizance of the efforts made by the U.S. Government to remedy the situation and the modicum of success it had attained in this respect. The members of the working party emphasized, however, that imports were not the sole cause of these difficulties, especially since imports were small relative to the U.S. total production and consumption. They expressed regret that, 12 years after the waiver had been granted, the United States not only continued to maintain restrictions on

agricultural products, but also intensified its restrictions on imported dairy products. Nevertheless, most members agreed that the difficulties encountered by the United States in the dairy sector reflected the troublesome world situation in that area. To remedy this situation, therefore, the working party urged the Contracting Parties to seek multilateral solutions, mutually acceptable to producers, exporters, and consumers, that would accord increased access to U.S. and other markets, and promote order and price stability in the international market.

Some members of the working party requested that the United States re-examine its programs for dairy products with a view to reducing or eliminating the existing import restrictions. Others felt that the waiver should either be discontinued or limited to a definite time period. Finally, one member suggested that the Contracting Parties ask the United States to present at the next annual review of its waiver, proposals for a progressive relaxation of restrictions on products subject to the waiver.

The Contracting Parties adopted the report of the working party, following an extensive discussion during which several GATT members reiterated much of the aforementioned criticism of U.S. import restrictions on agricultural products.

### U.S. Export Subsidy on Unmanufactured Tobacco

In November 1966, Malawi had requested consultations under article XXII of the General Agreement with the United States concerning an export subsidy on unmanufactured tobacco that the United States had introduced in July 1966. Later, Canada, India, and Turkey indicated that they wished to participate in the discussions. Representatives of the respective countries held two rounds of consultations--the first in February 1967 and the other in November 1967. The second round was held with the members of a working party, which the GATT Council had established earlier to examine the matter.

The substance of Malawi's complaint was as follows: (1) The Contracting Parties were not formally notified that the subsidy had been imposed until after it had been put in effect, so that GATT members, whose interests were adversely affected, were in no position to make representations; (2) the subsidy should be removed because the United States had neither adequately justified its use, as required by article XVI of the General Agreement, nor indicated the effects of the subsidy on the trade of less-developed contracting parties, as required by Part IV of the Agreement; (3) since more than 90 percent of the tobacco grown in Malawi was exported and such exports accounted for a third of its foreign exchange earnings, the subsidy constituted a threat to the country's economy; (4) the United States did not provide quantitative estimates of the effects of the subsidy on U.S. exports of tobacco; and (5) the subsidy adversely affected the well-being of thousands of small farmers in Malawi, who depended on this industry as their principal source of income.

The representative of Canada said that his country, which was a major producer of flue-cured tobacco--the type that accounted for 80 percent of U.S. tobacco exports--was particularly vulnerable to the export subsidy; that of Turkey expressed concern that a reduction in prices of tobacco types subsidized by the United States, might lead manufacturers to use less Oriental leaf tobacco, which was the type primarily produced in his country. The representative of India described the importance of tobacco in his country's economy, particularly as a source of foreign exchange earnings. He feared that increased U.S. exports of subsidized tobacco might reduce the market for the types of tobacco supplied by other countries. He said, moreover, that the subsidy would have unfortunate repercussions on his country's development efforts. Certain members of the working party added that they saw little economic necessity for the U.S. action in introducing the subsidy on unmanufactured tobacco.

The representative of the United States responded to the principal issues raised by the other GATT members by: (1) describing in detail the measures that had been introduced to subsidize U.S. exports of unmanufactured tobacco; (2) indicating that the U.S. Government considered the subsidy to be consistent with its obligations under article XVI and Part IV of the General Agreement; (3) explaining that his Government's aim in introducing the subsidy was, not to obtain a disproportionate share of the market, but to arrest a persistent decline in the U.S. share of world tobacco exports; (4) indicating that 1966 data on U.S. exports of the major types of tobacco demonstrate that the subsidy had not

adversely affected the trade of other tobacco-exporting countries; (5) explaining that the purpose of the U.S. price-support program for tobacco was to provide growers with a reasonable income and, at the same time, achieve a modicum of equilibrium between supplies and requirements, including exports.

The working party concluded that on the basis of the available evidence, it was not possible to demonstrate conclusively that the application of the U.S. export subsidy on unmanufactured tobacco had adversely affected the trade interests of Malawi and the other participating countries. It indicated that the United States should hold consultations with interested contracting parties before it decided to increase the amount of the subsidy, in the event such action were considered in the future. At their 24th Session, the Contracting Parties adopted the report of the working party without further action.

#### Preferential Tariff Treatment

At their 24th Session, the Contracting Parties considered three requests for extensions of waivers of most-favored-nation obligations they had assumed under article I. These waivers, which had been granted under the authority of article XXV: 5, permitted the recipient countries to accord preferential tariff treatment to imports from designated countries. The Contracting Parties also examined reports by France and the Federal Republic of Germany regarding their trade relations with the Saar, and one by the United States on the implementation of its agreement with Canada involving trade in automotive products.

Australian Tariff Preferences for  
Less Developed Countries

In August 1967, Australia submitted its first report on a system of preferential rates of duty, which it accorded imports of manufactured and semimanufactured commodities produced in less developed countries. The report was made pursuant to a waiver that had been granted by the Contracting Parties in March 1966 permitting Australia to accord such preferential rates. 1/

The report indicated that, during the year, the number of products under quota subject to preferential treatment had been increased, and that the variety of handicraft products of LDC origin accorded duty-free treatment had also been expanded. During the short period that the system of preferences had been in effect (since mid-1966), imports from less developed countries had increased considerably. The Australian Government, moreover, intended to continue its efforts to bring more products of LDC origin under the cover of the waiver.

At the discussion that followed, several GATT members expressed support for the Australian preferential system, but favored a more generalized system of tariff preferences for less developed countries. None of the Contracting Parties, except Cuba, objected to having the name of the Republic of China added to the list of countries and territories benefiting from the system of tariff preferences established by Australia. The Contracting Parties took note of the report without any further action.

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1/ Operation of the Trade Agreements Program, 18th report (processed), pp. 111-112.

Italian Special Customs Treatment for Certain  
Products of Libya

In November 1967, both Italy and Libya submitted to the Contracting Parties their 14th annual reports under a waiver that permitted Italy to accord special customs treatment to certain products imported from Libya--a country with which Italy had had special relations before World War II. The waiver, which had been extended for the fourth time in January 1965, was due to expire at the end of 1967. 1/

In the statement submitted to the Contracting Parties, Italy described the development of its trade with Libya during 1964-66, particularly of imported products accorded preferential customs treatment. Between 1965 and 1966, Italy's imports of Libyan products accorded preferential treatment had declined by more than 60 percent, whereas imports from all other countries had increased by about 40 percent. Imports of Libyan products accorded such preference accounted for only about a fourth of one percent of Italy's imports of these products from all sources and for less than a fifth of one percent of Italy's total imports from Libya. Duty-free imports into Italy from Libya, other than the products subject to duty-free treatment under the preferential system had increased substantially between 1965 and 1966, but the increase was accounted for almost entirely by increased imports of crude petroleum oils. Conversely, dutiable imports from Libya declined greatly during the same period. Accordingly, the report concluded that the preferential treatment that Italy accorded the products of Libya had

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1/ Operation of the Trade Agreements Program, 17th report, pp. 46-47.

not adversely affected exports of similar products from other countries to Italy.

The Italian Government emphasized that Libya's large exports of crude petroleum oils to all countries were likely to stimulate its economic development. It expressed the belief that maintenance of the preferential customs treatment for other products might also contribute effectively toward that goal. It, therefore, agreed with the Government of Libya that a further extension of the special customs treatment for 3 years to December 31, 1970, would assist that country to develop its industry and agriculture and to diversify its exports.

At the 24th Session, the Contracting Parties established a working party to examine Italy's request. It recommended that the waiver be extended to December 31, 1969, and that certain items--oilseeds, vegetable oils, fish other than tunny, and casings--be deleted from the list of products enjoying preferential treatment. The working party further recommended that the arrangement be again reviewed before the end of 1968. The report was adopted by the Contracting Parties without any further action.

#### Italian Preferences for Products of Somalia

In November 1967, Italy also submitted a request for extension of a waiver that had authorized it to grant preferential customs and fiscal treatment to certain products of Somalia--another country with which Italy had special relations before World War II. The original waiver had been granted to Italy in 1960 and its latest 2-year

extension was due to expire at the end of 1967. The new request was for an additional extension of 6 months to mid-1968.

In submitting its request, the Italian Government stated that, by the middle of 1967, Somalia had improved substantially the techniques for producing and marketing its principal export product--bananas--and had improved its competitive position in the world markets. As a result, the Italian Government had initially believed that the special customs and fiscal support for Somali products would not be required beyond the end of 1967. The crisis that had occurred in the Middle East in mid-1967, however, followed by the closing of the Suez Canal and the ensuing transportation difficulties, had serious repercussions on exports of bananas from Somalia. In the light of this new situation, therefore, the Italian Government felt that a 2-year extension to December 31, 1969, of the special customs treatment would mitigate some of the difficulties that Somalia had encountered in selling abroad its principal export products. The request stipulated that the preferential treatment accorded by Italy to imports of Somali bananas be limited to imports amounting to 1 million quintals a year.

The working party established to examine Italy's request for extension of the waiver recommended that the Government of Italy be permitted to: (1) grant until June 30, 1968, duty-free treatment to imports of prepared or preserved meat and fish originating in Somalia; and (2) impose, until December 31, 1969, a lower consumption tax on a limited quantity of Somali bananas (not more than 1 million quintals annually) than on bananas from other sources. The report of the

Working Party was adopted by the Contracting Parties without further action.

#### Franco-German Treaty on the Saar

At the 24th Session of the Contracting Parties, both France and the Federal Republic of Germany submitted their tenth annual reports on actions under a 1957 waiver involving their trade relations with the Saar. <sup>1/</sup> In 1959, pursuant to a treaty, signed in 1956, between France and the Federal Republic of Germany, the Saar had become part of the West German customs and currency area; thereupon, duty-free trade between France and the Saar became subject to annual quotas. In their reports, the two GATT members indicated that in 1966 French exports to the Saar approximated 61 percent of the value of the quota provided for in the Treaty, while French imports from the Saar were valued at about 59 percent of the quota. The Contracting Parties took note of the exports without discussion.

#### Agreement on Automotive Products Between Canada and the United States

On December 20, 1965, the Contracting Parties had granted the United States a waiver, from its obligations under article I:1 of the General Agreement, that permitted it to accord duty-free treatment to certain automotive products imported from Canada under the U.S.-Canadian Agreement on Automotive Products. In accordance with the provisions of the waiver, in June 1967, the United States submitted

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<sup>1/</sup> Operation of the Trade Agreements Program, 17th report, p. 47; also 16th report, p. 24; 15th report, p. 40; and 14th report, p. 35.

to the Contracting Parties its first report on the operation of the Agreement during the period January 18, 1965 to December 31, 1966.

The United States reported that during the period 1964-1966, motor vehicle production in both the United States and Canada, as well as automotive trade between the two countries, had expanded significantly. This expansion was attributed primarily to greater specialization of production in the automotive industries of the two countries. The Canadian industry, for example, had achieved larger production runs of fewer models of vehicles while it had discontinued production of models that could be imported more cheaply from the United States.

#### Implementation of the Automotive Products Trade Act of 1965

In giving account of its activities under the waiver, the United States explained that implementation of the Automotive Products Trade Act of 1965 had required it to take two important actions: (1) to modify the Tariff Schedules of the United States (TSUS), and (2) to establish an Adjustment Assistance Board. The U.S. tariff schedules had been modified by Presidential proclamation on October 21, 1965, to extend duty-free treatment to certain automotive products imported from Canada. This treatment applied retroactively to January 18, 1965--the date on which the Canadian Government's Order in Council establishing duty-free treatment on similar products imported from the United States became effective.

The President had also established an Adjustment Assistance Board. The Act provided that, under special procedures that were

to remain in force until June 30, 1968, firms or groups of workers might petition the President for certification of eligibility to apply for adjustment assistance. Thereafter, the procedures provided for in the Trade Expansion Act of 1962 were to become applicable. By the end of 1966, the Board had received (but not acted upon) five petitions from groups of workers for determinations of eligibility to apply for adjustment assistance. No petitions had been submitted by firms.

U.S.-Canadian trade in motor vehicles  
and motor vehicle parts

The United States reported to the Contracting Parties that U.S.-Canadian trade in automotive products had increased materially since the two countries had signed the automotive agreement. In 1964--the year before the agreement became effective--trade in automotive products (exports plus imports) between the two countries was valued at \$730 million, of which \$654 million were exports from the United States; in 1965, the corresponding figures were \$1.1 billion and \$860 million; and, in 1966, \$2.1 billion and \$1.3 billion. This marked increase in the flow of automotive products in both directions resulted largely from the agreement and also from the increased prosperity and business expansion in both countries.

The report concluded that (1) during the short period that the U.S.-Canadian Automotive Products Agreement had been in effect, U.S. imports of automotive products from countries other than Canada

continued to grow at a substantial rate; and (2) experience through 1966 appeared to bear out the expectation of the United States that the Agreement would induce a more rational development of the automotive industries in the two countries.

No requests for consultations were submitted by any members of the GATT as a result of the operation of the U.S.-Canadian Agreement.

The Contracting Parties took no action on this report.

#### Renegotiation of Tariff Schedules

During 1967, Chile and Malawi continued to renegotiate their GATT tariff concessions with interested contracting parties under the provisions of article XXVIII of the GATT. These countries had been granted waivers from their obligations under article II, that had permitted them to apply revised tariff schedules, which altered duties that had been bound in the GATT.

#### Chile

In a communication dated November 14, 1967, the Government of Chile requested that a waiver from its obligations under article II of the General Agreement, which it had been granted in December 1966, be extended until the 25th Session of the Contracting Parties. 1/ The waiver had permitted Chile to introduce on January 1, 1967, a new customs tariff, which incorporated increases in the rates of duty of a number of items. The Chilean Government stated in its

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1/ Operation of the Trade Agreements Program, 18th report (processed), pp. 118-119.

note that the extension of the waiver beyond the current expiration date of December 31, 1967, was required to permit Chile to complete renegotiation of its schedule VII with interested contracting parties to the GATT.

At their 24th Session, the Contracting Parties granted the requested extension of its waiver.

#### Malawi

On November 6, 1967, the GATT Council appointed a working party to examine a request by the Government of Malawi that it be authorized to maintain in effect certain increased rates of duty on items that had been bound in its schedule of concessions to the contracting parties, pending renegotiation of such increases and examination of its new customs tariff.

The report of the working party was submitted to the Contracting Parties on November 17, 1967. It stated that the customs tariff that Malawi, upon gaining its independence, had inherited in July 1964 from the Federation of Rhodesia and Nyasaland, had not been adapted to the needs of that country then in the early stage of its development. Accordingly Malawi had introduced a new schedule of import duties and adopted the Brussels Tariff Nomenclature. Hence, the Government desired to defer renegotiations of its schedule with interested contracting parties until the second half of 1968. Meanwhile, it expected to gain experience from the application of its new customs tariff and incorporate in it all necessary adjustments.

The working party recommended that the Contracting Parties grant Malawi the requested waiver from the provisions of articles I and II of the General Agreement. The Contracting Parties approved this recommendation at their 24th Session.

#### Other Developments Relating to the General Agreement

During 1967, the contracting parties continued other efforts to reduce obstacles to international trade. To this end, they initiated a variety of actions designed to: expand trade in primary products; facilitate the disposal of surplus commodities; implement the cotton textiles agreement; extend more fully the application of all provisions of the General Agreement among members; and simplify consular formalities.

#### Efforts to expand trade in primary products

The search for means, acceptable to both importing and exporting countries, to expand the trade in primary products, was given high priority by the Contracting Parties at their 23d Session. Moreover, because of its importance, they decided that the issue be reexamined at the following Session.

At the 24th Session, the Director-General of the GATT presented a report summarizing the major developments during the intersessional period, in the production, trade, consumption, and prices of a score of primary commodities. The Director-General classified

these commodities in three groups, as follows: (1) temperate agricultural products (grains, dairy products, and beef and veal); (2) tropical products (cocoa, coffee, sugar, oilseeds, and vegetable oils); and (3) products (fibres, cotton, jute, kenaf, rubber, non-ferrous ores, and metals). He deemed that developments during the intersessional period involving the trade in these important commodities required the attention of the contracting parties.

The report described extensively the problems of major importance within each product group. In the case of temperate agricultural products, the report evaluated the policies and price-support programs of both major industrial countries and regional organizations. For the tropical products, the report appraised current production and trade policies and, for the remaining products, analyzed the effect of recent price-fluctuations in international markets upon the respective producers. Accordingly, for each commodity examined, the impact of its "problem" on the volume of trade and prices was identified.

Representatives of less developed countries generally praised the Director-General's report. They emphasized that falling prices and declining exports of their primary products and, particularly, restrictive import policies administered by industrial countries had adversely affected the economies of their respective countries. The representative of Ceylon called on the GATT to engage in intensive studies of commodities causing special concern--tea, rubber, and

coconut products. Meanwhile, it developed that the Food and Agriculture Organization (FAO) had already been conducting such studies for all major agricultural commodities, with a view to assessing the desirability of initiating multilateral action for these products. The representative of Canada noted that both industrial and less developed countries were affected by the commodity problems described in the Director-General's report; moreover, since the economic development and living standards of the producing countries depend heavily on their export earnings from those commodities, there was urgent need to stabilize the trade involved. The Contracting Parties agreed to continue their discussion of these problems at their 25th Session.

#### Disposal of commodity surpluses

During 1967, four countries--Australia, Canada, the United Kingdom, and the United States--reported, as required, on their activities in disposing of commodity surpluses, liquidating stocks of strategic materials, or in disposing of stocks otherwise held by government agencies.

Australia reported that it did not maintain a regular program for the disposal of surplus commodities, although the Government had, occasionally, made gifts of commodities under its Colombo Plan. Gifts, consisting primarily of equipment for development projects, had been made by the Government of Australia in response to requests by various less-developed countries. Under certain circumstances, gifts of wheat, flour, and skimmed milk had also been made, and the

funds obtained from the sale of the products were used by the recipient countries to defray the costs of local development projects. During the period January 1, 1966 to June 30, 1967, Australia participated in an international emergency famine relief program to aid India, by making a contribution in the form of wheat. Smaller gifts, primarily in the form of flour, had been made to a few countries in Southeast Asia.

Canada reported that its Agricultural Stabilization Board had no formal plan for the disposal of commodities and that its holdings of surplus stocks consisted of commodities that had been acquired as a result of its price-support operations. During the year ending March 31, 1967, the Board disposed of its remaining stocks of canned pork it had acquired in 1959; 1.2 million pounds of these stocks had been sold domestically, while 300,000 pounds had been destroyed because of spoilage. In addition, the Board had sold abroad 96,000 pounds of butter oil.

The United Kingdom reported on its holdings of strategic materials. During the period January 1, 1966 to June 30, 1967, the Government disposed of, almost entirely through commercial sales, 9,833 tons of pyrites, 613 tons of tungsten ore, and 153 tons of mica. Although the United Kingdom continue to maintain strategic stockpiles of several essential foodstuffs, it reported that it had no intention of liquidating them.

The report submitted by the United States described the government's disposal operations of commodity surpluses of both

agricultural commodities and strategic materials. The report stated that, during the calendar years 1965 and 1966, commodities valued at \$3 billion had been disposed of under all titles of the Agricultural Trade Development and Assistance Act (Public Law 480). The 1966 value of commodities disposed of under each program (\$1.3 billion) was as follows:

Title I agreements (sales for local currencies)----\$820 million;  
 Title II agreements (donations and grants)----- 80 million;  
 Title III agreements (donations to private and  
 intergovernmental agencies assisting needy  
 persons abroad)----- 131 million;  
 Title IV agreements (sales for long-term credit)--- 226 million.

Agricultural commodities worth \$260 million had also been exchanged for strategic stockpile and other materials for use by U.S. Government agencies.

The U.S. report stated that during fiscal years ending June 30, 1966 and 1967, strategic materials having a value of \$1.5 billion had been disposed of. The U.S. Government had continued its policy of disposing of stockpile surpluses in accordance with long-term plans, prepared after careful investigation of market conditions and consultations with friendly countries having a substantial interest in the commodities involved. The report indicated that the U.S. programs for these materials were under continuous review. Thus, for example, the rate of disposal had increased substantially in 1965 and early 1966, but declined sharply thereafter. Some of the most important strategic materials, among some 30 involved in these disposal

programs, were aluminum, columbium ore, copper, cordage fibre (abaca and sisal), lead, manganese, molybdenum, nickel, platinum, rubber, tungsten, and zinc.

The U.S. report also gave a brief account of the revised Public Law 480 (Food for Peace Act), which became effective on January 1, 1967. Under it, the Government was authorized to: (1) sell farm products for local currencies or dollar credits (Title I); (2) make outright donations of food, especially for famine relief (Title II); (3) barter U.S. farm products for materials and services from abroad (Title III); and (4) use the program to help friendly countries cope with their own problems of food and population. The new law differed significantly from its predecessor in that it placed greater emphasis on: making sales in dollars and on credit; providing aid in the form of food from stocks of commodities that are "available" rather than "surplus"; making food available to children, especially by donation, to meet their requirements for proteins, minerals, and vitamins; providing technical assistance to the recipient countries to help them improve their production of food; and making foreign currencies from export sales available to support programs of family planning in the recipient countries.

At the 24th Session, the Contracting Parties devoted their attention largely to the U.S. report. One GATT member, with obvious reference to the EEC however, expressed hope that, in disposing of their surplus commodities, other countries would follow the rules and procedures of the GATT. Several contracting parties expressed their appreciation for the manner in which the United States had

consulted with producing countries before liquidating stockpiles. A few contracting parties, in commenting about specific products, said that U.S. disposal operations, having been conducted at a time when world prices of the respective products were declining, had aggravated the situation. The representative of Pakistan said that even a minimal reduction (less than 1 cent) in the support-price of cotton in the United States affected world prices generally and, thereby, had serious economic repercussions on the economies of those developing countries that depended heavily on cotton for their earnings from exports. Indonesia felt that no releases of rubber should be effected at prices less than 20 cents a pound. The representative of India said that "the whole problem of surplus disposal must be viewed in the light of the need to satisfy consumer requirements in developing countries, which could not otherwise be met because of the nonavailability of foreign exchange." 1/

The representative of the United States suggested that the existing procedures for consulting on the disposal of commodities be enlarged to include, not only disposal of surplus products, but also the disposal, via aid programs, of food in the form of aid and commodities acquired through domestic price-support operations. The Contracting Parties agreed with this suggestion.

#### Trade in cotton textiles

The Director General of the GATT, as chairman of the Cotton Textiles Committee (CTC), reported at the 24th Session of the

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1/ GATT SR. 24/11, p. 131.

Contracting Parties on developments respecting the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). The Committee had held the fourth annual review of the LTA in September 1966; at that time it had considered whether the LTA should be extended, modified, or discontinued. Negotiations between the participating countries were conducted to determine the conditions under which the LTA would operate, if it were extended. These negotiations, which continued into the Spring of 1967, culminated in a decision to extend the Arrangement for 3 more years (to September 30, 1970).<sup>1/</sup> The Director General added that it had been his hope that the renewal of the LTA would assure more liberal access to the markets of the importing countries and that substantial duty reductions on cotton textiles would be effected at the Kennedy Round, but that his expectation had not been fulfilled. A protocol providing for the extension of the LTA had been accepted by all former adherents to the LTA and had entered in effect on October 1, 1967. The Director General suggested that the next annual review of the LTA be held in the latter part of 1968.

Several cotton exporting countries commented on the operations and objectives of the LTA. The representative of Japan said that the LTA was inconsistent with objectives of the GATT and urged the importing countries to liberalize access to their markets for cotton textiles. He also urged that the restrictive measures maintained under the LTA be limited strictly to cotton textiles. The

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<sup>1/</sup> The negotiations are also discussed in chapter 4 of this report.

representative of Brazil said that his Government continued to oppose the LTA because it violated basic principles of the GATT and international commitments taken in UNCTAD. He added that a set of objective criteria should be developed to assess whether "market disruption" had occurred. The representative of the United Arab Republic said that the LTA should be looked upon as "a transitional measure designed to achieve liberalization through such structural adjustments as might be required." <sup>1/</sup> He appealed to importing countries to administer the LTA more liberally. The representative of Pakistan said that the trade policies pursued by the developed countries, as they related to cotton textiles, had seriously impaired his country's balance of payments and delayed the implementation of its development plan. He urged the developed countries to show greater understanding of the problems of developing countries and suggested that the Secretariat ascertain what adjustments the developed countries had initiated to ensure that the objectives of the LTA had been met. The representative of India felt that the contracting parties had become increasingly aware of the difficulties encountered by developed countries importing textiles, as well as of the urgent needs facing the exporting developing countries. He suggested that the preferential tariff treatment granted by developed countries to imports of cotton textiles from developing countries be extended.

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<sup>1/</sup> GATT SR.24/2, p. 21.

The Contracting Parties adopted the Committee's report on the fourth annual review of the LTA without any further discussion.

Nonapplication of the agreement between  
particular contracting parties

During 1967, several contracting parties continued to invoke the provisions of article XXXV against other members of the GATT, particularly Japan. Article XXXV provides that the Agreement or, alternatively, article II thereof, shall not apply between any two contracting parties if either, at the time that it accedes to the General Agreement, does not consent to such application. Article II incorporates into the General Agreement the tariff and other concessions that apply to GATT members.

During the intersessional period, Guyana, Barbados, and Trinidad and Tobago had ceased to invoke the provisions of article XXXV of the General Agreement against Japan. Moreover, on November 3, 1967, the Government of the United Kingdom notified the GATT Secretariat that, in behalf of ten Dependent Territories, 1/ it would no longer so invoke the article. Accordingly, the provisions of the GATT would apply between these Territories and Japan.

At a meeting of the Council on November 6, 1967 and at the 24th Session of the Contracting Parties, the representative of Japan complained that, despite these actions, a large number of contracting

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1/ British Virgin Islands; Brunei; Cayman Islands; Dominica; Fiji; Mauritius; Qatar; St. Kitts, Nevis, and Anquilla; St. Lucia; and the Trucial States (Abu Dhabi, Dubai, Sharjah, Ajman, Ras al Khaimah, Umm al Quaiwan, and Fujairah).

parties continued to invoke article XXXV, thereby preventing Japan from developing better trade relationships. Canada, Denmark, India, and the United States supported his appeal. The representative of Nigeria said that his country applied fully the provisions of the GATT to Japan on a de facto basis and that legislation had been introduced in the Nigerian legislature that would permit the Government to assume GATT obligations with respect to Japan. The Contracting Parties took no further action on this matter.

#### The Simplification of Consular Formalities

In September 1967, pursuant to a decision of the Contracting Parties at their 23d Session, the Secretariat requested a number of countries 1/ believed to be still maintaining consular formalities as a regular requirement (for the importation of products and for other purposes) to report on any progress they had made toward their elimination. By the time of the 25th Session in November-December 1967, the Secretariat had received reports from five of those countries. One country--Peru--responded orally. Spain submitted a report even though it was not one of the countries requested to do so.

Brazil and Portugal indicated that they had made significant strides toward the simplification of their foreign trade regulations. Under certain specified conditions, the payment of consular fees, the submission of consular invoices, and the procurement of consular clearance were no longer required. The reports of the Dominican Republic and of Uruguay stated that the matter of consular

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1/ Brazil, Dominican Republic, Haiti, Nicaragua, Peru, Portugal, Turkey, and Uruguay.

formalities was receiving serious consideration by their respective governments. Both countries indicated that since consular formalities constituted important sources of revenue, other sources would have to be found before the formalities could be eliminated. Turkey reported that the Government had a bill pending that would simplify the country's current consular formalities. Spain's report said that in March 1967, the Government had abolished all consular requirements involving foreign and domestic navigation.

At the 24th Session of the Contracting Parties, the representative of Peru reported that a special commission, appointed to study the matter of consular formalities, had not yet completed its work. Several contracting parties expressed their appreciation of the progress made toward eliminating consular formalities. The Contracting Parties agreed to have the Secretariat require reports in 1968 and that they would reexamine the status of such formalities at their 25th Session.



## Chapter 3

### Major Commercial Policy Developments in Countries with which the United States has Trade Agreements

The commercial policies pursued by U.S. trading partners during the year are discussed in this chapter largely in terms of developments in four major regional economic organizations: the European Economic Community (EEC), the European Free Trade Association (EFTA), the Latin American Free Trade Area (LAFTA), and the Central American Common Market (CACM). 1/ Most of the principal U.S. trading partners participate in these regional organizations. Such collaboration was in evidence at the sixth (Kennedy) round of trade negotiations 2/ conducted within the framework of the General Agreement on Tariffs and Trade (GATT). The commercial policies pursued by members of these regional groups, therefore, are of major interest to those concerned with the U.S. trade agreements program, because they affect materially the foreign trade, the balance of payments, and the commercial objectives of the United States.

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1/ Four other regional commercial arrangements--the Arab Common Market, the Central African Economic and Customs Union, the West African Economic Community, and the United Kingdom-Ireland Free Trade Area Agreement--are reviewed in chapter 2. The (British) Commonwealth of Nations, a far older trade arrangement of different character, also granted extensive preferential tariff treatment to trade among its members. Since no major commercial policy developments affecting U.S. foreign trade occurred during this period in these areas, they are not reviewed in this chapter.

2/ The conclusion of the Kennedy Round, the most important development in international commercial policy in 1967, is discussed in chapter 4 of this report.

In 1967, each of these regional groups succeeded in further advancing free trade among the countries in their respective areas. The EEC members further reduced their rates of duty on industrial commodities imported from one another. For a number of important agricultural products, moreover, they achieved free trade and applied a common policy respecting production and trade. During the year, the EFTA extended the free trade treatment of industrial goods that had already been accorded full members, to Finland, an associate member. Meanwhile, the CACM increased the number of commodities that were to be traded freely within the area. Some LAFTA members, moreover, granted additional bilateral duty concessions to partners. Most of these regional economic organizations went beyond the objective of trade liberalization, by instituting other measures to achieve economic integration. The EEC, for example, agreed upon a common value-added tax to substitute for the various disparate national taxes of a similar character. The EFTA moved to eliminate numerous technical barriers to intraregional trade and implement rules of "fair competition"; the LAFTA promoted subregional arrangements designed, not only to free trade within the subregion but also to promote industrial development therein.

Proposals were made during the year that would alter the membership of the four regional organizations. Four European countries--three of them EFTA members--requested membership in the European Economic Community. Although the EEC did not enter into negotiations respecting these applications, it appeared likely that eventually various EFTA countries, and others, might merge with the EEC.

In Latin America, changes in existing regional arrangements were taking even more definite shape than in Europe. During the year, the American Chiefs of State agreed to establish a Latin American Common Market that would include the LAFTA, the CACM, and other Latin American countries. Meanwhile, the accession of Panama to the CACM was being seriously considered.

#### EUROPEAN ECONOMIC COMMUNITY

In 1967, the European Economic Community (EEC) 1/ approached the end of its transitional period, during which it would fully implement its projected customs union. During the year, EEC members reduced their respective customs duties on industrial products in intermember trade to 15 percent of the (base) rates in force on January 1, 1957. They also completed the projected transition to a single market for grains and a number of other important agricultural products.

Meanwhile, EEC members progressed, beyond the immediate goal of establishing a customs union in 1968, toward the creation of a more comprehensive economic union. To this end, measures were adopted to coordinate various aspects of social and economic policy. During the year, the EEC Commission and the EEC Council merged with the executive branches and Councils of both the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (EURATOM). This action constituted an important step toward the eventual establishment of a comprehensive economic union of the six members of the Community. Such consolidation of

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1/ Henceforth the EEC will also be referred to as "the Community."

the respective governing bodies gave them sufficient authority to undertake the complex tasks required by this objective.

In 1967, the Community continued to implement arrangements with associate members and to negotiate commercial agreements with third countries. The reciprocal trade concessions negotiated at the Kennedy Round facilitated trade between the Community and the rest of Western Europe (including the European Free Trade Association). The trade concessions exchanged by the EEC with third countries in Western Europe were insufficient, however, either to eliminate completely the existing economic division within Western Europe or to provide the necessary conditions for economic integration of the area as a whole. Hence, in 1967, a number of countries outside the EEC took direct initiative toward such integration and requested that they be admitted as members or associates. Implicit in these requests was the abandonment by some applicants of their preference for a rival European group (i.e., the European Free Trade Association), and the judgment that Western European integration should be achieved primarily within the framework of the EEC. Although the EEC showed no interest during the year in undertaking negotiations on the entry of third countries, the aforementioned applications for membership made in 1967 promised to be of historic importance to the further development, not only of the Community itself, but also of Western Europe as a whole.

#### Reduction of Intra-Community Customs Duties

On July 1, 1967, the EEC members reduced their customs duties on imports of industrial commodities originating within the Community by

an additional 5 percent of the (base) rates in force on January 1, 1957. This constituted the ninth cut to have been made in intra-Community customs duties; individual rates of duty on such products had now been reduced to 15 percent of the base rates. The contemplated elimination of this remaining 15 percent, and of the remaining quotas in intra-Community trade, scheduled for mid-1968, would soon establish fully the customs union of the EEC for industrial products. Meanwhile, the dismantling of duties in intermember trade in agricultural products subject to the common agricultural policy (C.A.P.) continued at a pace stipulated when common marketing organizations were created for them. Duties on agricultural products other than those products already under common marketing organizations (listed in Annex II of the Rome Treaty) were reduced to 25 percent of their January 1957 levels. Completely free intra-area movement of these farm products was projected to be achieved by mid-1968.

In November 1967, the European Communities' Commission made proposals, which if adopted, would ensure that the Community would operate as a single customs area through the harmonization of customs procedures affecting the storage of goods, payment of charges, and inspections.

#### Common External Tariff

During 1967, the forty percent difference, which had existed in 1966, between the rates in the members' national tariff schedules of 1957 and those provided for in the common external tariff continued to prevail. The complete alinement of the national tariff schedules for industrial products with the common external tariff was to be completed

on July 1, 1968. With this last alinement, the rates of duty on imports of industrial products from third countries would be identical for all members of the Community. 1/

In the case of agricultural products subject to the Community's common agricultural policy, the common external tariff was to enter into force at various dates before July 1968; 2/ for other agricultural products, the final alinement of the national tariffs to the common external tariff was scheduled to be completed by July 1968.

#### Harmonization of the Indirect Tax System

In 1967, the Community continued to develop a single tax policy in the EEC area. In April, the Council of Ministers decided to substitute a common turnover tax system for the nonuniform national turnover taxes then being imposed; the latter were deemed to lay unequal burdens on intra-area competition. The Council agreed that the new turnover tax should be levied on the basis of "value added," 3/

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1/ According to the Treaty of Rome, the projected alinement of duties was to be effected in three steps as follows: A 30-percent adjustment of the basic rates on Jan. 1, 1962; another 30-percent adjustment on Jan. 1, 1966; and a 40-percent adjustment on Jan. 1, 1970.

2/ Imports from third countries of most agricultural products subject to a variable import levy were not to be subject to the common external tariff rates. The marketing regulations for some products, however, provided for the use of both a common external tariff rate and a variable levy on imports from third countries.

3/ At the end of 1967, only France among the members of the Community employed a "tax on the value added" (TVA); the other EEC members employed a cumulative turnover tax (frequently termed a "cascade" tax). Both the TVA and the cascade tax are ad valorem, multistage taxes which are collected on products whenever they are sold. The TVA, however, is levied on the "value added" by the seller of the product, while the cascade tax is levied on the full value of the product. The aggregate tax load imposed on a product by the cascade

and that it would become operative on January 1, 1970. The substitution of value added as the basis for assessing the turnover tax was to constitute but the first phase of a program to harmonize turnover taxes in the Community. In this phase, member countries were to maintain their own tax rates while using a common tax structure; the effective tax burden imposed on comparable commodities would therefore vary from member to member. During the projected second-phase of harmonization, the tax rates themselves would be made uniform to assure equitable competitive conditions between comparable products of members. By the end of 1967, however, no time limit had been specified for the completion of this stage. Meanwhile other plans for harmonizing EEC financial policy were under consideration.

#### Common Agricultural Policy

During the year, the Community made significant strides in implementing its common agricultural policy (CAP). It established a single intraregional market for a number of agricultural products such as grains, rice, pork, eggs, and poultry. Restrictions on intermember trade in these products were eliminated and a common price system applicable to certain of these products was established. During the year, moreover, common marketing rules were applied for other products (fats and oils), existing CAP provisions for some others were supplemented (fruits and vegetables), and transitional arrangements to

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tax depends, among other factors, on the number of changes in ownership before it reaches the consumer; such tax thereby favors the integrated firm. Unlike the cascade tax, the aggregate tax load imposed on a product by the TVA is not affected by the number of changes in ownership (since only the "value added" by the seller is taxed at each sale); such tax favors neither the integrated nor nonintegrated firm.

create a single market were put into operation for still others (sugar). By the close of 1967, about 90 percent of the Community's agricultural products had become subject to controls administered under the CAP. The Treaty of Rome stipulated that a single, Community-wide agricultural market should be fully established by 1970. Later decisions by the Council advanced the prospect of this objective by programming individual common markets for the most important agricultural products on or before July 1, 1968.

In aiming at a unified agricultural market, it was necessary for the Community to substitute a common policy for the multitude of price-support operations and protective controls that had existed in the member countries. A fundamental objective of this policy was to guarantee a "fair" income to its farmers, while maintaining regular supplies at "equitable prices" to consumers. The EEC planned to achieve these somewhat conflicting objectives by supporting farm prices throughout the area and by granting producers significant protection against imports. Farm income was to be guaranteed by stabilizing the prices of the strategic agricultural commodities within the Community and by subsidizing agricultural exports. In the framework of the CAP, Community-wide marketing organizations were to be set up for each important product category, and common prices were to be established for products of prime importance to farm income. The basic means of protection against imports from third countries was the use of a variable levy system designed to isolate EEC markets for key farm commodities from foreign competition. Nevertheless, imports of other

farm products were permitted to enter in response to demand and thereby influence prices in the Community.

July 1, 1967--when the common prices for grains became effective--marked a turning point in the development of the common agricultural market. Grains are widely produced in the Community and their prices influence the prices of many other farm products; hence, the harmonizing of such prices constituted the key to the agricultural trade program of the EEC. Accordingly, the development of a common price policy for pork and the establishment of a common market for eggs and poultry (also on July 1, 1967), was facilitated by the standardization of feed prices, which, in turn, resulted from the simultaneous application of common grain prices.

The price, market, and foreign trade policies described above were all components of a shortrun common agricultural policy. In the long run, the Community aimed to promote structural changes in its agriculture (such as a shift to large- and medium-sized farms; withdrawal of unsuitable land from farm uses; regional development of farming) and thereby to increase productivity. Earlier, the Community had established the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) to further its long-range agricultural policy projects aiming at a structural adjustment of farming qualified for assistance from this section of the Fund. By the close of 1967, however, structural reform had received much less study and financial support than had the manifold programs to implement the common agricultural market and price policies.

Regulations respecting selected agricultural products

The regulations that entered into force during 1967 respecting the establishment of single markets for agricultural products differed materially from one another in the principles and mechanisms employed. These regulations had the following common features: they (1) reduced or eliminated intermember trade restrictions; (2) provided either direct support to domestic production or price-support in domestic and export markets that were financed by the European Agricultural Guidance and Guarantee Fund (EAGGF); and (3) determined what protection should be afforded domestic producers against imports from third countries.

As indicated, the extent and the form of market support and protection varied substantially with the individual products involved. Producers of certain farm products (such as grains and rice) were accorded strong price support, via intervention prices, to assure minimum prices to farmers irrespective of supply conditions. Producers of products in this category were also protected from price competition by levies on imports from outside the Community. These levies were designed to offset any price advantage that imported products had over domestic products.

Regulations relating to other products (such as pork, fruits and vegetables), however, allowed the aggregate supply of such commodities to be at least partly responsive to market conditions. Less extensive price support (withdrawal of the product from the market at intervention prices) was provided for most of such products; such support, however, was not intended to assure a "fair" income to the respective

farmers; it was designed only to prevent a drastic deterioration of prices. For products in this category, the import policy was generally more liberal than that employed for the key agricultural products. Either a common external duty or import levy was applied; the incidence of the latter, however, was altered from time to time with changes in supply and demand. Protection was accorded only when import prices fell below a designated minimal level (sluiceway price). Price guarantees and export subsidies for another category of products (sugar) were tied to quantitative restrictions. No price supports (e.g., market intervention) were provided for some products (such as, eggs and poultry) though these products were afforded some protection from outside competition by a levy system.

#### The European Agricultural Guidance and Guarantee Fund

On July 1, 1967, the Guarantee Section of the European Agricultural Guidance and Guarantee Fund <sup>1/</sup> (EAGGF) assumed responsibility for financing the common marketing organizations concerned with CAP operations (including those still in the transition stage). The Guarantee Section of EAGGF was created to finance Community price-support operations for various products and the subsidies on exports to third countries. The Guidance Section was established to finance structural reforms in farming (consolidation of holdings, land drainage, reforestation, etc.) and projects to improve production and marketing (construction of silos, refrigeration plants, etc.).

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<sup>1/</sup> Henceforth, the European Agricultural Guidance and Guarantee Fund (established in 1962) will be referred to also as "the Fund."

After mid-1967, member states discontinued direct contributions to finance product- and price-support operations; all their contributions were directed through the Fund. The members agreed that, between mid-1967 and January 1970 (the end of the transition period for the agricultural common market), nearly half of the EAGGF revenues were to be derived from member contributions. The rest was to be obtained from the levies on the agricultural imports from nonmember states; 90 percent of such levies was to go to the EAGGF. After 1969, all levies on agricultural imports were to go to the Fund. The source of the additional revenues to cover expenditures of the Fund was to be decided upon at a later date.

In June 1967, the Commission proposed that the Council undertake ten Community-wide programs <sup>1/</sup> to be financed by the EAGGF (Guidance Section) at an estimated cost of \$672 million. The Fund would finance about 25 percent of the cost of each project; the remainder would be jointly covered by the respective member countries and concerns benefiting therefrom. The expenditures of the Guidance Section were restricted to a provisional annual ceiling of \$285 million. By the close of 1967, no decision had been reached on how expenditures by the Guidance Section would be funded after 1969.

When established, the Fund was not initially called upon to take over the full financing of the common agricultural policy; it was then expected to contribute increasing annual amounts to assist the CAP

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<sup>1/</sup> Such as projects to develop depressed and backward farming areas; structural improvements in milk, meat, vineyard, and wine industries; investments relating to land reform, irrigation, drainage, and forestry.

operations of member states. As soon as a common marketing organization could be completed for a given product, however, it was to be financed entirely by the Fund. After 1969, the end of the transition period, the full cost of the common agricultural policy was to be borne by the EAGGF.

#### Projected Merger of the Three European Communities

On July 1, 1967, both the Council and the Commission of the European Economic Community merged with their counterparts in the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (EURATOM). <sup>1/</sup> The newly created European Communities Council appointed the 14 members of the new European Communities Commission. This Commission was to serve for a maximum of three years and thereafter its size was to be reduced to nine members, who would serve four-year terms.

The establishment of a single Council and a single Commission constituted only a preliminary step to the contemplated merger of the three Communities themselves. Such merger would ultimately require the consolidation of the respective administrations and budgets, and most important, the unification of the three treaties that had established the ECSC, the EEC, and EURATOM. By the end of 1967, no deadline had been scheduled for meeting these requirements.

#### Possible Expansion of the European Economic Community

In 1967, the EEC was challenged by a number of countries to live

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<sup>1/</sup> A treaty signed by the six governments in April 1965 provided the basis of this institutional change.

up to the invitation incorporated in the preamble of the Treaty of Rome "calling upon the other peoples of Europe who share their ideal" to join in their efforts. In May, the United Kingdom, Ireland, and Denmark applied for membership in the European Economic Community 1/; in July, Norway did so. Sweden, however, sought a type of participation in the Community that would be compatible with its traditional policy of neutrality. All five of these countries were concerned over the prospect of remaining outside the mainstream of European integration. Some of the applicants were also motivated by special considerations. Denmark and Ireland, for example, were anxious to find outlets for their agricultural exports in the Community. The United Kingdom deemed that its participation in a coordinated research and development program within the Community and the increased competitiveness generated by a common Community market would stimulate its technological development. 2/

In September 1967, the Commission of the Communities expressed its views on these applications for membership. In a report to the Council of the Communities, the Commission emphasized that the applicants would have to accept unconditionally both the provisions of the Treaty of Rome, which had created the European Community, and subsequent decisions thereunder; it clarified the implications of such unconditional acceptance and enumerated further conditions that would have to be fulfilled, if these

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1/ Article 237 of the Treaty of Rome stipulates that any European state may apply to become a member of the European Economic Community. Countries interested in membership may apply to the Council of Ministers which, after obtaining the opinion of the Commission, makes its decision. Unanimous approval is required for the entry of a new member.

2/ See p. 139.

countries were to accede to the Community. For example, the reestablishment of economic and financial stability in the United Kingdom was deemed to be a prerequisite for that country's membership in the Community. The report indicated also that procedures should be developed to assure equitable relationships between the applicants that were members of the European Free Trade Association and EFTA members not wishing to join the Community.

The report analyzed the problems that accession might generate not only for the applicants, but also for the Community; it foresaw that the internal development of the Community would be complicated by the inevitable institutional revisions. The Commission concluded that, despite such difficulties, negotiations should be initiated with the four countries (Denmark, Ireland, Norway, and the United Kingdom) that had applied for membership, to examine these problems in detail and to seek their solutions. In the Council of the Communities, five members (France excepted) agreed with the Commission's view that an early opening of negotiations was desirable, and that such negotiations could proceed parallel with the reestablishment of economic stability in the United Kingdom. France, however, maintained that entry of the four countries would not only profoundly alter the character and administration of the Communities, but also create grave substantive and procedural problems. The French Government insisted, moreover, that stabilization of the British economy would have to be achieved before accession by the United Kingdom could be considered. Hence, in the absence of the required unanimous consent to begin negotiations, the Council of the

Communities informed the Governments concerned in December 1967 that, for the time being, no action would be taken on their requests.

#### Other External Relations

The aforementioned request by the five European states to join the Community, and the conclusion of the Kennedy Round <sup>1/</sup> constituted the two most significant developments during the year involving EEC relations with nonmember countries. The Community concluded no new agreements of association or preferential trade agreements with third countries in 1967. Nevertheless, it continued to implement agreements of association already operative and either negotiated new commercial agreements with some third countries or extended the duration of similar agreements with some others. These activities involved the following countries:

Greece.--In view of the unsettled political situation in Greece, the Community, in April 1967, limited its operations under the agreement of association with that country to implementing existing commitments. Greece implemented various scheduled tariff reductions on imports originating in the Community; the latter, in turn, removed customs duties on imports of Greek tobacco. The EEC took no further action, however, to harmonize Greece's farm policies with those of the Community; neither did it extend new financial aid to that country, nor make additional loans under the previously negotiated financial agreement.

Malta.--In September 1967, Malta, which became an independent state in 1967, asked for negotiations to establish some form of relationship with the Community. The time elapsed by the close of the year was too short for any action to be taken.

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<sup>1/</sup> The Kennedy Round is discussed in chapter 4 of this report.

Turkey.--In December 1967, when the fourth year of Turkey's association with the EEC began, the Community increased substantially its trade preferences extended to imports originating in that country.

Spain.--In July 1967, the Council of the European Communities gave the Commission a mandate to negotiate a preferential agreement with Spain. Toward this end, two negotiating sessions had been held by the end of the year.

African and Malagasy states.--During the year, the European Development Fund (EDF) <sup>1/</sup> undertook to finance 44 additional development projects designed to benefit the economies of the African and Malagasy states associated with the EEC. Between 1958 and the close of 1967, the EDF had made total commitments in excess of a billion dollars; most of which had been in the form of grants to finance more than 600 projects.

Maghreb countries.--In November 1967, the Community resumed negotiations with both Morocco and Tunisia to develop preferential arrangements with them that could be replaced later by overall association agreements. <sup>2/</sup>

Israel.--The Community extended for one year its commercial agreement with Israel, which was to expire on June 30, 1967. Meanwhile, the Community continued its discussions on an agreement of association that Israel had requested earlier.

Iran.--In December 1967, the EEC extended for one year its commercial agreement with Iran, signed in 1963.

Other.--During the year, the Commission submitted proposals to the Council not only to negotiate a commercial agreement with Yugoslavia, but also to continue negotiations with the three East African countries (Kenya, Uganda, and Tanzania) that had requested association with the Community.

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<sup>1/</sup> The European Economic Community established the first European Development Fund for 1959-64, the second one for 1964-69, to promote economic growth overseas. Countries benefiting from the EDF grants and loans were the 18 African and Malagasy states associated with the EEC under the Yaounde Convention, and the French and Dutch overseas territories.

<sup>2/</sup> Initial negotiations began in 1965.

## EUROPEAN FREE TRADE ASSOCIATION

In 1967, EFTA's 1/ position and commercial relations with its trading partners were materially affected by three events that occurred during that year--namely, (a) the application by some of the Association's 2/ members to join the European Economic Community; (b) the completion of the Kennedy Round of trade negotiations under the GATT; and (c) the devaluation of their currencies by some Association members. As regards the Association's internal development, however, the year 1967 was without major developments. On the last day of 1966, EFTA fully realized its basic objective--that of attaining virtually free trade among its members.

Gaining admittance into the European Economic Community constituted a major preoccupation of the EFTA members in 1967. Activities devoted to this objective overshadowed other events relating to the Association's work during that year. Applications to join the EEC were submitted by the United Kingdom and three other members of the Association, but the Community failed even to hold preliminary discussions of the matter. Nevertheless, it advised that the applications would remain under consideration. Accession of the EFTA countries to the EEC would have brought virtual dissolution of the Association; the reluctance of the Community, on the other hand, undoubtedly prolonged the life of the EFTA for an undetermined period of time.

Multilateral tariff concessions, negotiated at the Kennedy Round under the GATT, provided a significant measure of relief from the

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1/ EFTA included the following countries as members: Austria, Denmark, Norway, Portugal, Switzerland, Sweden, and the United Kingdom. Finland became an associate member in 1961.

2/ Henceforth EFTA may also be referred to as "the Association."

effects of trade restrictions between EFTA and its trading partners, particularly the EEC and the United States. These concessions, however, stopped short of complete elimination of trade restrictions; meanwhile, the EFTA regional commercial arrangement served to liberalize trade within the limited area of the respective member states. Hence, at the end of 1967, and despite the successful completion of the Kennedy Round of trade negotiations, EFTA had no more reason for liquidation; in fact, it could look forward to continued existence as an independent trading bloc in a divided European and world economy.

During the year under review, three EFTA members--Denmark, Finland, and the United Kingdom--devalued their currencies. These devaluations, especially that of the pound sterling, changed the terms of trade of these EFTA countries, thereby making their exports more competitive in third countries. Accordingly, the devaluations were expected to help reduce the traditional deficit in EFTA's balance of commodity trade.

#### Elimination of Intra-EFTA Customs Duties

On the last day of 1967, Finland abolished its duties on imports of industrial goods originating in EFTA countries, thereby making the entire EFTA area a free-trade area for such commodities. A year earlier the other members of EFTA had completely fulfilled their obligations in this regard. At that time, they had permitted Finland to retain, through 1967, 10 percent of the basic duties 1/ it had imposed on industrial

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1/ Basic rates of import duties were those in effect in the member countries of EFTA on Jan. 1, 1960.

products imported from EFTA members and 30 percent of the basic rates that had been applied to certain "sensitive" products, 1/ such as textiles, footwear, iron and steel products. The duties on the latter products, however, were to be eliminated by 1970. Similarly, the members permitted Portugal to retain, until sometime before 1980, 60 percent of its basic rates of duty imposed on a wide range of industrial imports from EFTA members. 2/ In addition, the EFTA members had agreed that all EFTA countries could retain their revenue duties on intra-regional imports. 3/

During the year under review, however, both Portugal and Finland exceeded their contractual obligations. In March 1967, at a meeting of EFTA ministers, the Portuguese Government announced that, as a contribution to EFTA solidarity, it would accelerate duty reductions applicable to intraregional trade on about 70 products. Concurrently, the Finnish representative reported that his Government would reduce its duties on passenger cars imported from EFTA countries, a promise that was fulfilled shortly thereafter.

At the October 1967 meeting of the EFTA ministers, Finland announced that it would renounce its privilege of continuing to charge

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1/ Listed in Annex I of the Finland-EFTA Agreement (see: Convention Establishing the European Free Trade Association, Geneva, 1967, p. 87).

2/ Annex G of the Stockholm Convention described the specific conditions under which certain products imported to Portugal were exempt from the EFTA timetable of tariff reductions. The Appendix contained also special arrangements for the elimination of duties on imports of such products.

3/ The revenue duties of each EFTA country, except Denmark that had none, were published in Nos. 2, 3, and 7 of the EFTA Bulletin, Vol. VIII.

duties, until 1970, on the aforementioned "sensitive" products 1/in intermember trade. Accordingly, on December 31, 1967, Finland virtually eliminated all of the remaining customs duties affecting trade within the area. Thus, by the end of 1967, the free-trade relationship attained by the other EFTA members a year earlier was broadened to include the territory of Finland.

#### Nontariff Barriers

In 1967 EFTA concentrated its attention on the removal of nontariff and nonquota trade barriers, to further promote freedom of trade and competition within the area. EFTA members had employed a variety of laws, regulations, and practices that interfered with the free movement of commodities; these included provisions for drawback, various fiscal charges on foreign products, marking regulations, and import licensing systems. Some of these measures and practices had been adopted by the respective member governments principally to protect domestic industries. Various administrative and technical requirements governing industrial imports, although designed to safeguard public health and safety, also served to protect domestic industries.

Because of their diversity from one member country to another, other laws, regulations, and practices, while not used designedly to protect domestic industries, nonetheless, impeded intermember trade. Such "technical barriers" resulted, for example, from the diversity of

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1/ Listed in Annex I of the Finland-EFTA agreement.

patent laws and industrial standards within EFTA. Such diversity was found to constitute significant obstacles to intermember trade--the first, because of the time-consuming process involved in obtaining separate patents from individual member countries before the products could be afforded patent protection there and the second, because of the added production costs involved in satisfying divergent industrial standards within the EFTA market.

In 1967, EFTA committees and working parties continued to study the incidence of nontariff and nonquota trade barriers on EFTA trade and seek means for their early removal. They gave high priority to implementation of certain "rules of competition," and to removal of the so-called technical barriers to trade to be achieved through standardization of national legislation and procedures.

Among the "rules of competition," the one dealing with restrictive business practices received the greatest attention. This rule 1/ considers agreements between enterprises that prevent or restrict competition in the EFTA area, and actions by enterprises that take unfair advantage of their dominant position, to be incompatible with the objectives of EFTA; such agreements and actions operate to negate the benefits to be gained from the removal of customs duties and quotas in intermember trade. In April 1967, Switzerland and Portugal complained to the EFTA authorities that in one of the member countries an association of producers, in violation of this rule, had offered

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1/ EFTA Convention, Article XV. (See Convention, op. cit. p. 22.)

clients a "loyalty" premium of 3 percent if they refrained from importing certain commodities. The complaint was referred to the authorities of the importing country, which promptly settled the matter with the producers' association. The case was thus resolved in accordance with the provisions of the EFTA Convention through bilateral governmental contacts. Meanwhile, an EFTA working party had been active in exploring how member states could implement the rule dealing with restrictive business practices. 1/

Meanwhile an EFTA Committee of Trade Experts reviewed the actions undertaken by member states to implement the rule on "public undertakings." 2/ This rule requires that, in their procurement and trading practices in the EFTA area, governmental bodies and public enterprises accord non-discriminatory treatment to non-national EFTA suppliers (or purchasers). The Committee also agreed that lists of pending public purchases by members be circulated in the other EFTA countries in order to expand competitive bidding to the whole EFTA region.

The EFTA Committee of Trade Experts also continued in 1967 to investigate the restrictive effect on intra-EFTA trade of compulsory technical regulations applied by member countries on certain products. 3/ The Committee studied procedures employed by the EEC in this regard and concluded that the need for coordinating such regulations was the

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1/ This was the second working party established by EFTA with a mandate to deal with restrictive business practices. The earlier one reviewed pertinent legislation and practices in member countries.

2/ EFTA Convention, Article XIV. (See Convention, op. cit. p. 21).

3/ In 1965 this Committee had been given the mandate to deal with the problem of the compulsory technical regulations that restricted intra-EFTA trade.

greatest in such commodity groups as electrical equipment, motor vehicles, and agricultural machinery. A special working party that had been established in 1966 to explore the trade-hampering effects of compulsory regulations on pharmaceutical products continued its work in 1967; in doing so, it prepared a catalogue of differences between EFTA and EEC regulations pertaining to pharmaceuticals.

#### Relationship with the European Economic Community

In 1967, half of the EFTA countries made a second attempt to join the European Economic Community. 1/ One of the major objectives of the EFTA, when it was originally established, was that it should serve as a transitional arrangement that would assist its members in attaining some form of economic cooperation with the EEC. In May 1967, the United Kingdom and Denmark applied for membership in the Community and requested that negotiations to that end be undertaken; in July, Norway and Sweden followed with their applications. 2/ For a number of years, Austria had been actively engaged in talks aimed at concluding a special treaty with the EEC. Thus, by the end of 1967, five EFTA countries had initiated or requested negotiations for some form of participation in the EEC activities.

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1/ The first such attempt was made in 1961-63, when all EFTA countries, except Finland, applied to join the EEC. In January, 1963 France vetoed the United Kingdom's application, thereby suspending negotiations between the EFTA countries (except Austria) and the EEC.

2/ In contrast to the United Kingdom, Denmark, and Norway, Sweden did not ask for negotiations with a view to gaining membership but "with a view to enabling Sweden to participate in the extension of the EEC in a form which is compatible with a continued Swedish policy of neutrality."

The United Kingdom and the other EFTA applicants wished to participate in and reap the benefits of economic, and possibly political, integration of Europe. 1/ Three EFTA countries--Finland, Portugal, and Switzerland--took no action in 1967 2/ in pursuit of closer relations with the European Community. Spokesmen of these countries expressed concern that EFTA's achievements might be endangered by the overtures of some of its members toward the EEC; they pointed out also that the EEC's attitude toward potential membership by EFTA countries continued to be as unreceptive as in 1963. Finland and Switzerland further were concerned about their status of neutrality and the conflict it would create were affiliation with the EEC realized.

Although EFTA did not enter into direct negotiations with the Community during 1967, it supported the efforts of individual members to "open up new prospects for a solution of the question of European economic integration." 3/ At the April and October meetings, the EFTA ministers reaffirmed their intention 4/ of keeping each other informed of any contacts made with the European Community and of remaining in close consultation at all stages; the Governments concerned adhered to this pledge during 1967. The ministers also reaffirmed that, in any new relationships that might evolve from their negotiations with the EEC,

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1/ See also section on the EEC, in this chapter.

2/ In 1961-62, Portugal and Switzerland had requested negotiations with the EEC with a view to obtaining associate memberships in the Community. Their applications, however, had not been acted upon, following France's veto of the United Kingdom's application for entry in 1963.

3/ Communiqué, European Free Trade Association, EFTA Bulletin, Vol. VIII, No. 4, June 1967, p. 13.

4/ Agreed to at the EFTA ministerial meeting of December 1966.

their respective governments would undertake to preserve the free market that had been established by EFTA. 1/

In December 1967, the Council of Ministers of the Community informed the EFTA Governments concerned that the EEC had been unable, for the time being, to act on their applications for membership. Five members of the Community had supported the applications strongly, but France had insisted that no negotiations be started on the application of the United Kingdom. 2/

#### Currency Devaluation

During the year under review, three EFTA members sought through currency devaluation to narrow the deficit in the trade accounts of their balance of payments. In October 1967, Finland devalued its currency from Fmk 3.20 to Fmk 4.20 to the dollar. The Finnish action was followed in November by the devaluation of the pound sterling from \$2.80 to a par value of \$2.40, and, shortly thereafter, by the devaluation of the Danish Kroner from a par value of DKr 6.91 to DKr 7.50 to the dollar. The devaluation of the Danish Kroner was effected because the devaluation of the pound sterling had adversely affected Denmark's ability to export agricultural products to the United Kingdom. 3/ The other EFTA countries reassured their partners that they would keep their currencies firm in order to prevent a chain reaction of devaluation that would

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1/ The free market established in EFTA would be safeguarded only if the EFTA countries that joined the EEC were prepared not to re-erect customs duties against the EFTA partners not doing so.

2/ See also the section on the EEC, in this chapter.

3/ In 1966, nearly half of Denmark's exports of agricultural products had been sold on the British market.

nullify the effect of the British action. The EFTA Council approved these devaluations at a specially convened meeting following the announcement of the devaluation of the pound sterling.

#### LATIN AMERICAN FREE TRADE ASSOCIATION

In 1967 the members of the Latin American Free Trade Association (LAFTA) 1/ expanded materially the number of products that they had been listing to achieve their projected free-trade relationship. A substantial number of items were added to their respective "national lists," which identified the tariff concessions that they had negotiated bilaterally with one another. Although negotiated bilaterally, the concessions were generalized to all other members. No further expansion was achieved, however, in the LAFTA "common list," identifying the commodities traded within the LAFTA area that would ultimately be accorded duty-free treatment. Meanwhile, the LAFTA members continued their program for promoting industrial specialization, by encouraging the expansion of industrial facilities in designated countries and assuring an area-wide market for the products of the industries concerned.

Other important developments in the LAFTA during the year were:

(1) an agreement by the American Chiefs of State to establish, during 1970-85, a Latin American Common Market that would encompass all countries of Latin America; and (2) three preliminary agreements to

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1/ By the end of 1967, the membership of LAFTA comprised Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Bolivia had joined in February 1967.

achieve subregional economic integration--the Andean Development Corporation to assist six member countries, the River Plate Basin economic arrangement to assist five others, and a special arrangement between Argentina and Brazil. Early in the year, Bolivia became the eleventh member of the LAFTA.

#### Exchange of Trade Concessions

At their Seventh Annual Conference, held during October-December 1967, the LAFTA members exchanged concessions bilaterally with one another involving nearly a thousand tariff items. These concessions were embodied in their respective "national lists." <sup>1/</sup> Some of these concessions expanded the list of commodities involved--i.e., they applied to products for which no intraregional duty reductions had

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<sup>1/</sup> The LAFTA seeks, over a twelve-year transitional period (1962-73) to eliminate tariff and other barriers to intraregional trade. Three principal approaches to this objective were provided for by the Treaty of Montevideo:

(1) National lists: Each member of the LAFTA agreed to negotiate a "national list" of import-duty concessions to be accorded to other member countries. Such concessions were to be negotiated at the Annual Conferences of the Association. Each member of the LAFTA agreed to adjust its duties annually to assure that the ratio of the weighted average of duties and charges on intraregional imports to the duties imposed on imports from third countries would decline by at least 8 percent annually. It was anticipated that all intraregional duties and charges were to be completely eliminated by the end of the twelve-year transitional period. The concessions on the national lists could be withdrawn on 90-days notice, but adequate compensation in the form of other concessions had to be granted.

(2) The Common List: The Common List, which was to be drawn up at four triennial meetings between 1962 and 1973, was designed to identify the products on which all intraregional import duties and charges were to be eliminated by 1973. At each meeting, commodities accounting for at least 25 percent of the total value of all products traded intraregionally were to be added to the Common List. Once a product had been placed on the List it could not be withdrawn. By the close of 1967, however, no timetable had been established under which the LAFTA members had agreed to reduce duties on the enumerated products except, of course, that by 1973 all intraregional trade would be freed.

(3) "Complementation" agreements: Under the arrangement, two or

previously been granted; the remainder accorded deeper reductions in duty on products that had appeared earlier on some national lists. By the end of 1967, more than ten thousand concessions had been granted by members. More than half of these concessions had been granted by three LAFTA members--Argentina, Brazil, and Ecuador.

No progress was made during 1967, on the other hand, respecting the "permanent" trade concessions incorporated in LAFTA's "Common List." The second triennial meeting at which the members were to complete the second stage of negotiations, which would assure that, in terms of value, half of the items traded within the area would ultimately be accorded duty-free treatment, was held in July 1967. 1/ At that meeting, items that accounted for a second fourth of the total value of intraregional trade (i.e., bringing the total to one-half) were to be placed on the Common List, but the negotiators failed to reach agreement. The members agreed, however, to hold further negotiations toward this end in July 1968. The failure of the members to achieve agreement at the second triennial meeting reflected primarily a conflict of interest among LAFTA countries regarding the addition to the Common List of such important products as wheat and petroleum. 2/

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more LAFTA members may conclude "complementation" agreements establishing a free trade (or a common market with harmonized external duties on imports from nonmembers) for a designated product or group of products. Such agreements, which were designed to facilitate area-wide development of designated sectors of industry, may also involve commitments respecting plant locations. Complementation agreements may be initiated either by the industrialists concerned or by the respective member governments.

1/ The first triennial meeting occurred in 1964; see Operation of the Trade Agreements Program, 17th report, p. 83.

2/ Wheat and petroleum are largely state-traded items in the LAFTA area. Their importance to intraregional trade, about 30 percent of the total annual value, makes their eventual inclusion in the Common List almost inevitable.

### Complementation agreements

In 1967, the LAFTA members made further efforts to conclude "complementation agreements," whereby they sought to encourage regional specialization in designated industries. 1/ Such agreements, ordinarily negotiated between two or more members, provided for the free movement of trade in specified products, between the respective member countries. In some instances the signatories also agreed on where the newly projected plant facilities were to be located. During the year, eight LAFTA members signed an important new complementation agreement that provided for free intraregional trade in approximately 300 chemical products. 2/

### Industrial sector meetings

During 1967, LAFTA convened representatives of its industrial community to develop additional approaches to free trade and other aspects of economic integration. Separate meetings were convened for each of twenty industrial sectors. 3/ As in the past, the primary purpose of these meetings was to recommend products on which tariff concessions could be granted at LAFTA's Annual Conferences, as well as those that

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1/ For additional information, see Operation of the Trade Agreements Program, 18th report (processed), p. 164 and 17th report, p. 83.

2/ Argentina, Brazil, Colombia, Chile, Mexico, Peru, Uruguay, and Venezuela. The other 3 LAFTA members--Bolivia, Ecuador, and Paraguay--that had not signed the agreement by the end of 1967, were to benefit from it, by virtue of their status in the LAFTA as countries of lesser development.

3/ The industrial sectors involved at these meetings were as follows: chemicals, drugs (pharmaceuticals), abrasives, refractories, plastics, glass, office machines, household electrical appliances, the generation and transmission of electricity, electronic and communication equipment, automobile parts, motorcycles and motor scooters, iron and steel, toys, textiles, canned meat, poultry, fish and shellfish, citrus products, and canned fruits and vegetables.

would be appropriate subjects of complementation-agreements negotiations.

The 1967 industrial sector meetings yielded a large number of recommendations. Those proposing tariff concessions related primarily to the products of four industries--chemicals, electric appliances, drugs, and office machines; about a third of the proposed concessions were actually implemented by the members at their Seventh Annual Conference in October-December, 1967. Recommendations were offered proposing the inclusion of more than a thousand items in future complementation agreements; nearly 300 of these items were later included in the agreement on chemicals signed late in 1967. Other recommendations proposed that the members negotiate seven new complementation agreements.

#### Projected Participation in a Latin American Common Market

A project for economic integration of all countries in Latin America gained substantial support during the year under review. At Punta del Este in Uruguay, in April 1967, the American Chiefs of State agreed on a program designed to establish a common market that would incorporate the countries of the LAFTA and those of the Central American Common Market (CACM), and other Latin American countries. They also agreed that this new arrangement would become active in 1970 and be fully operative by 1985. The United States offered its support for and pledged financial assistance to the projected arrangement.

The American Chiefs of State further recommended that the LAFTA Council of Foreign Ministers adopt measures, not only to implement LAFTA's economic integration, but also to assure the establishment of the projected Latin American Common Market. In August-September 1967, however,

when the foreign ministers met in Asuncion, Paraguay, to discuss these measures, they failed to agree on a proposal for a programmed reduction of import duties on commodities listed on the Common List and on the preparation of a common external tariff. They agreed, nevertheless, to establish a LAFTA-CACM Joint Coordinating Commission and to develop standards for the formation of subregional arrangements within the LAFTA.

#### Subregional Agreements

During 1967, the South American members of the LAFTA 1/ agreed to create three "subregional arrangements" within the framework of the parent organization. The principal goal of the proposed subregional arrangements was to accelerate the economic development and integration of their members. The most noteworthy of the three arrangements was the Andean Development Corporation, which was created in the interest of Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. The second arrangement, created by the countries of the River Plate Basin--Argentina, Bolivia, Brazil, Paraguay, and Uruguay, served a similar purpose. A third agreement was designed to foster integrated development of designated industries in Argentina and Brazil.

The Andean subregional arrangement began to take shape during the year under review. Representatives of the member countries formed a Mixed Commission to draft an agreement determining the organization and functions of its projected Development Corporation. The Commission considered such matters as the liberalization of trade among the

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1/ I.e., all LAFTA members except Mexico.

members of the subgroup, the establishment of a common external tariff, and the promotion of complementation agreements <sup>1/</sup> as prerequisites for the projected economic integration. Moreover, the Commission defined the functions of the Corporation and its relationship with the IAFIA and the proposed Latin American Common Market. The Corporation would function primarily as a coordinator of economic integration and industrial development within the subregion; it would promote industrial projects and provide the necessary financial and technical assistance. In December 1967 a group of financial and legal experts drew up the final draft of the agreement (scheduled to be signed in February 1968) establishing the Andean Development Corporation.

In November 1967, the five countries of the River Plate Basin initiated another subregional arrangement to promote economic development in their area. During the same month, representatives of Argentina and Brazil drafted a subregional arrangement laying the basis for complementation agreements between the two countries to foster regionally integrated industries to produce iron and steel products, automotive products, chemicals, and office equipment.

#### Currency Problems

In 1967, most of the IAFIA countries continued to experience a serious deterioration in the purchasing power of their respective currencies. Between 1962 and 1967, many of the member nations had devalued

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<sup>1/</sup> During the year, the Andean group signed a protocol effecting a complementation agreement in petrochemicals--the first such agreement concluded on a subregional basis.

their currencies to improve their competitive positions in export markets. In spite of this action, the currencies of Peru, Brazil, and to a lesser extent, those of Uruguay, Argentina, and Colombia, were still deemed to be overvalued 1/; only the currency of Chile had been devalued by an amount more than that indicated by increase in the cost-of-living.

#### New Member

Bolivia formally acceded to the LAFTA on February 8, 1967, thereby becoming the eleventh contracting party to the Association. The new member was accorded the status of a "relatively less developed" country; as such, it was to be eligible for special concessions and privileges in the LAFTA enjoyed theretofore by only Ecuador and Paraguay. Such privileges consisted of being accorded: (1) duty concessions over and above those in the national lists to encourage productive activities in these countries; (2) the right to effect the required reductions of trade restrictions at a less rapid rate than that required of other members; (3) wider latitude than generally required in taking steps to correct an unfavorable balance of payments; and (4) permission to suspend temporarily obligations to accord duty concessions to other LAFTA members, if necessary to their economic development.

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1/ Based on the ratio of the exchange-rate index to the cost-of-living index for each country.

## CENTRAL AMERICAN COMMON MARKET

By 1967 the members of the Central American Common Market (CACM) <sup>1/</sup> had achieved substantial freedom in their intraregional trade through the gradual abolition of trade restrictions among one another. As a result, intraregional trade had expanded rapidly between 1961, when the CACM was established, and 1967. In 1967, the growth of such trade continued, although at a lesser rate than in the preceding years. On the other hand, trade between the United States and the CACM countries, which also had expanded annually from 1961 through 1966, did not increase further in 1967; in fact, U.S. exports to and imports from the CACM were slightly lower in that year than in 1966.

The CACM moved into a new phase of its development during the year under review. The member countries decided to intensify their cooperation with other countries in Latin America and to work toward eventual integration in a Latin American Common Market; meanwhile, they pursued their efforts toward economic integration within the CACM. At a conference of the American Chiefs of State in April 1967, the five CACM members adopted an action program incorporating both internal and external measures to be implemented by them preparatory to their merger into a larger Latin American Common Market. During 1967, the members also continued to consider the possible accession of Panama to the Common Market.

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<sup>1/</sup> The Central American Common Market, composed of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, became operative in 1961.

## Elimination of Intraregional Trade Restrictions

By the end of 1967, the members of the CACM had eliminated intraregional trade restrictions on about 95 percent of the items listed in the Central American Customs Nomenclature (NAUCA). This trade liberalization applied only to commodities originating in the member countries. The CACM members expected to remove the existing trade restrictions on the remaining 5 percent of the items in the NAUCA by 1970, when all intraregional trade was scheduled to be freed. These latter items, which included important products such as wheat, corn, petroleum products, textiles, cigars, alcoholic beverages, and cosmetics, had been the subject of special negotiations or international commodity agreements. They accounted for approximately a fourth of the value of the CACM intraregional trade as well as an equal share of the customs revenues collected in that region.

Common External Tariff 1/

During 1967 the members of the CACM further implemented their common external tariff. By the close of the year, they had agreed on common tariff rates for about 87 percent of the items listed in the NAUCA; they expected, moreover, to raise the total

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1/ The external duties and charges of the CACM are governed by the Central American Agreement on Equalization of Import Tariffs and Charges of 1959. The agreement was ratified by all five member countries in 1960.

to at least 95 percent by April 1969. The members made no decision about including in the common external tariff the remaining 5 percent of the import classifications, which comprised 79 items.

During the year, the member countries continued to study proposals to permit commodities of extraregional origin to move freely within the CACM, after payment of import duties had been made on them upon their entry in any one of the five countries. The members made no further progress on this subject by the end of the year.

#### Total Foreign Trade and Intraregional Trade

Both the total foreign trade and the intraregional trade of the CACM member countries continued to grow during the year under review. The value of aggregate imports into the five member countries (including intraregional trade) exceeded one billion dollars, which was about 12 percent greater than in 1966. Total exports by the five countries (including intraregional trade), on the other hand, were valued at approximately \$850 million, which was only 2 percent more than in 1966. As a result, the trade deficit of the CACM countries with the rest of the world increased to nearly \$200 million in 1967 from \$100 million in 1966.

During the year, intraregional trade of the CACM continued to grow more rapidly than did its total foreign trade, although in 1967 the divergence between the two growth rates was smaller than in earlier years. Intraregional trade was estimated at \$200 million,

which was about 14 percent greater than in 1966 and 400 percent greater than in 1961. Whereas intraregional trade accounted for about 7 percent of total CACM trade in 1961, 1/ it comprised 18 percent in 1966 and 19 percent in 1967.

The expansion of intraregional trade is attributable, in large part, to the substantial reduction of restrictions on such trade, and to the CACM's policy of industrial development to facilitate the substitution, where practicable, of products of regional origin for imports from nonmember countries. This policy, together with the protection afforded by the common external tariff, led to a rapid growth of light industry in the area. Growth in some lines of production--especially the newly established ones--was so significant that imports of comparable products from outside the region were somewhat curtailed. The net effect of this process of import substitution on the total imports into the area was not very significant, however, since the new industries increased the region's requirements for raw materials, capital equipment, and parts. Imports of such products increased both in value and as a share of the region's total imports.

#### Trade With the United States

Between 1961 and 1966, U.S. exports to the CACM countries had increased annually from about \$210 million to \$360 million, respectively. In 1967, they declined to \$357 million. Throughout these

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1/ Total imports of the five CACM countries.

years, U.S. exports supplied nearly half of the aggregate imports by the five members from outside their area, despite growing competition from Germany and Japan. Such commodities as machinery, agricultural and transportation equipment, paper and paperboard, plastics, insecticides, fungicides, fertilizers supplied an increased share of U.S. total exports to the CACM region, whereas textile yarns and thread, pharmaceutical products, and petroleum products accounted for a smaller share. The change in the commodity pattern of this trade with the United States reflected the gradual industrialization of the region.

U.S. annual imports from the CACM countries increased in value from about \$200 million in 1961 to about \$300 million in 1967. Throughout these years, coffee, bananas, and beef collectively accounted for about three-fourths of the value of U.S. imports from the Central American countries. Imports of coffee, alone, accounted for more than half of U.S. imports from the five countries in 1961 compared with only about a third in 1967. In contrast, during the same period, imports of bananas, shrimp, beef, and sugar accounted for an increasing share.

#### Projected Participation in a Latin American Common Market

In April 1967, at Punta del Este in Uruguay, the American Chiefs of State agreed to establish a Latin American Common Market that would include the countries of the CACM. 1/ The new regional

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1/ See also section on LAFTA.

arrangement was to be established, progressively beginning in 1970. This agreement gave the five Central American countries the long-range prospect that, after they had accomplished their own economic integration, they would collectively participate in an integration movement of a much broader scale. The agreement was welcomed by leading representatives of the CACM who recognized that the economic development and prosperity of their respective countries would be enhanced by greater economic cooperation and eventual integration with other countries in Latin America. These leaders felt that the smallness of the area covered by the CACM and the similarity of the economies of the five members (i.e., the lack of sufficient complementarity among them) placed serious limits on the advantages that could be gained from the integration of their respective economies. Hence, they agreed that the best potential for economic growth of the CACM countries lay in their forming a broader cooperative arrangement with third countries. Before that could be undertaken, however, they also agreed that the economic integration within the CACM should be completed. Accordingly, the chiefs of the five member states adopted an action program directed to the following objectives:

Improvement of the customs union and establishment of a Central American monetary union;

Promotion of a common foreign-trade policy;

Development of a uniform policy for marketing agricultural products and implementation of a joint, coordinated industrial policy;

Development of an infra-structure on a regional basis;

Acceleration of the process of free movement of manpower and capital within the area;

Harmonization of the basic legislation required for economic integration.

At the meeting at Punta del Este, the American Chiefs of State further agreed that CACM countries and countries in the proximity of the CACM, whether members of LAFTA (such as Mexico, Colombia, and Venezuela) or not (such as Panama, and the insular countries of the Caribbean) could enter into "subregional" agreements involving preferential trade and some other aspects of economic integration. The Chiefs of State also established a committee, composed of the executive organs of the LAFTA and the CACM, to promote cooperation between the two organizations and to initiate the drafting of a treaty creating a Latin American Common Market.

#### Cooperation With Panama

In September 1967 the CACM declared that the most desirable form of cooperation between its members and Panama could be achieved if that country gradually assumed all rights and obligations of the CACM members, and eventually acquired full membership in the regional arrangement. Earlier the Panamanian Government had informed the CACM that it was prepared to resume negotiations regarding Panama's accession to the CACM. 1/

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1/ See Operation of the Trade Agreements Program, 18th report (processed), pp. 175-6.



## Chapter 4

### The Kennedy Round

Earlier reports on the Operation of the Trade Agreements Program have provided an account of the Kennedy Round, 1964-67, but by annual installments only. In this 19th report, covering developments for the year January-December 1967, the year in which the Kennedy Round was completed, the Tariff Commission takes this opportunity to present an overall view of this sixth round of tariff negotiations under the General Agreement on Tariffs and Trade (GATT).

This chapter outlines the circumstances leading to the sixth round, sketches the format of the Geneva negotiations, and describes the outcome of the bargaining sessions. Such bargaining was concerned principally with four major areas: industrial products, agricultural products, special problems attaching to the trade of LDC's, and nontariff barriers. Provided also is a brief account of the International Grains Arrangement, the Antidumping Code, and the Agreement Relating Principally to Chemicals Supplemental to the Geneva (1967) Protocol (the American Selling Price "package"). The fourth and final section of this chapter assesses the results of the Kennedy Round. The scale of the tariff reductions negotiated at this round are shown for the Big Four--the United States, the European Economic Community, the United Kingdom, and Japan.

## CIRCUMSTANCES LEADING TO THE SIXTH ROUND

Prior to expiration in June 1962 of the authority of the President to enter into tariff negotiations under the trade agreements program, President Kennedy requested the Congress to extend that authority. The trade agreements program had been the core of U.S. foreign trade policy since 1934 and the Kennedy Administration wished to see the program continued. Under the program, changes in tariff rates had, in large measure, been negotiated rather than legislated. The emergence of the European Economic Community and Britain's application to join therein provided added inducement to the President to request an extension of authority to negotiate tariff agreements. Moreover, Britain's anticipated admission to the EEC was construed as the first step in the admission of all EFTA members. 1/ President Kennedy expected that the Common Market would be expanded to the point where it would constitute an outlet for 30 percent of U.S. exports 2/-- i.e., to the close to 18 percent accounted for by the original six would be added approximately 12 percent by the "outer seven." 3/

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1/ For background, cf. Operation of the Trade Agreements Program, 18th report (processed), p. 187.

2/ The President used the 30 percent figure in his message to the Congress accompanying submission of the trade expansion bill, c.f. U.S. Congress, House of Representatives, Committee on Ways and Means, Hearings on the Trade Expansion Act of 1962, p. 3.

3/ U.S. exports to the EEC and to the EFTA countries in 1960 and 1961, as a percentage of U.S. total exports, were as follows:

|           | <u>1960</u><br>(Percent) | <u>1961</u><br>(Percent) |
|-----------|--------------------------|--------------------------|
| EEC-----  | 17                       | 17                       |
| EFTA----- | 11                       | 10                       |

Cf. recurring table in Statistical Abstract entitled "Exports and General Imports of Merchandise by Country of Destination and Origin."

While the United States had strongly supported the Common Market in its original form and fully endorsed its anticipated expansion, it was apparent that a customs union of such size would pose special trade problems for outsiders. The elimination of internal tariffs and the creation of a common external tariff (CET), irrespective of whether the Community was of original size or of expanded dimensions would have a differential impact on U.S. exports. In the case of products for which the United States enjoys a sizeable trade advantage, its exports might be able to surmount the CET in competition with intra-Community goods, which "enter" duty-free. For products where the U.S. competitive advantage is smaller, U.S. trade probably would be adversely affected. 1/

Economists frequently discuss the effects of a customs union in terms of its "trade creating" and "trade diverting" effects. 2/ If in consequence of a union, supply is shifted to a lower-cost source, the effect is "trade-creating"; by contrast, if supply is shifted to a higher-cost source, the effect is "trade diverting." If, as a result of lowering internal EEC tariffs and the erection of the common

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1/ On the basis of 75 percent coverage of 1955 exports, Howard S. Piquet concluded that with the complete establishment of the common external tariff for the Community, in its original form, 41 percent of U.S. exports to those countries would be unaffected, 27 percent might be affected, and 32 percent would be substantially affected. Cf. Howard S. Piquet, "The Impact of Changing Tariffs on U.S. Exports," in American Management Association, The European Common Market, p. 132.

2/ Cf. Jacob Viner, The Customs Union Issue, New York, 1950, especially ch. IV, "The Economics of Customs Unions"; Charles P. Kindleberger, International Economics, Homewood, Illinois, 1968, pp. 183-201; and Jaroslav Vanek, International Trade: Theory and Economic Policy, Homewood, Illinois, 1962, pp. 345-386.

external tariff, a German producer, for example, formerly using domestic sources now buys from a lower cost French source, the effect is "trade creating." Where, however, a German producer, who formerly bought from a U.S. source, now turns to a higher cost French supplier, because of the more favorable tariff treatment afforded that country, the effect is "trade diverting." While being favorably disposed to the EEC on the one hand, U.S. officials were, on the other hand, concerned with the "trade diverting" effects that full implementation of the CXT might induce, particularly with the anticipated admission of Britain and other EFTA members.

Customs unions need to be analyzed, however, in both dynamic and static terms. To the extent that a customs union, through expansion of the market, facilitates economies of scale, increased specialization, and increased competitiveness, it is likely to result in higher GNP and increased foreign trade. <sup>1/</sup> Whereas 13 percent of U.S. exports went to the EEC countries in 1958 and 1959, 17 percent did so during the 1960's. It is accordingly apparent that trade is the product of more than tariff treatment. Among the "micro" factors affecting trade are relative costs, product differentiation, marketing, servicing, technological superiority, and innovation. On the "macro" side, increases or decreases in the GNP growth rates affect not only domestic demand but demand for foreign products as well.

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<sup>1/</sup> This same point of view will be found in GATT, Trends in International Trade. Report by a Panel of Experts (informally referred to as the "Habeler Report"), Geneva, 1958, p. 11.

Even while the Dillon Round of tariff negotiations was still in progress, 1/ U.S. officials began to plan for another round that would further lower the common external tariff and other tariffs and thus minimize the disadvantage to those outside the customs union.

#### ENACTMENT OF THE TRADE EXPANSION ACT OF 1962

Rather than continue, as his predecessors had done, to ask the Congress for renewal of the Trade Agreements Act of 1934, President Kennedy proposed a new act, the Trade Expansion Act of 1962. 2/ The proposed act was not only a reflection of the President's strong belief in the advantage of freer international trade, but also a response to the challenge of an expanded EEC. The Congress granted the Administration authority to negotiate a 50-percent reduction in existing rates of duty phased over 5 years. In addition, the Act provided authority to eliminate rates of duty (1) on products where existing rates were equivalent to 5 percent ad valorem or less; (2) on industrial products for which the EEC and the United States together accounted for 80 percent of world trade [this figure was predicated on Britain's entry], if such seemed beneficial to U.S. trade interests; (3) on agricultural

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1/ The Dillon Round, 1960-62, had been organized to provide, in phase one, renegotiation of the GATT schedules of the EEC member states into a consolidated GATT schedule for the Community, and in phase two a reduction of tariff barriers before the common external tariff came into being so as to minimize handicap to third countries.

2/ For a discussion of this legislation in earlier reports, cf. Operation of the Trade Agreements Program, 15th report, pp. 1-19.

products, if such concessions, made in negotiation with the EEC, would assure the maintenance and expansion of trade in such commodities; and (4) on tropical agricultural and forestry products, if (a) the EEC would provide access to its market comparable to that in the United States and substantially without discrimination as to country of origin and (b) U.S. production was insignificant.

Much has been made of the "linear" or "across-the-board" tariff-cutting authority of the Trade Expansion Act, though neither the term "linearity" nor "across-the-board" was used in the language of the act. Under full linear cutting all rates in the tariff schedules would be reduced a specified proportion. In his message accompanying submission of the bill, the President stated that it was his intention that the 50-percent negotiating authority be used in a variety of ways including concessions on "broad categories or subcategories of products." Clearly, more than the traditional item-by-item approach was implied by this phraseology, though not what most would describe in the first instance as "linear." <sup>1/</sup>

In securing previous trade agreements acts the Administration had made clear that bargaining would be done on an item-by-item basis, <sup>2/</sup>

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<sup>1/</sup> U.S. Congress, Committee on Ways and Means, Hearings on the Trade Expansion Act, p. 6. For a discussion of this authority cf. John B. Rehm, general counsel of the Special Representative for Trade Negotiations, "The Kennedy Round of Trade Negotiations," American Journal of International Law, April 1968, p. 410.

<sup>2/</sup> Representative Thomas B. Curtis observed that although the EEC sought linear bargaining in the Dillon Round: "The United States could not then accept this plan because its legislative authority would not allow it." Congressional Record, May 1, 1967, p. 11321. Cf. "How a Trade Agreement is Made," House Report on the 1955 extension of the Trade Agreements Act (H. Rept. 50, 84th Cong. 1st Sess., Appendix D, pp. 81-86) and House Report on the 1958 extension of the Trade Agreements Act (H. Rept. 1761, 85th Cong. 2d Sess., Appendix C, pp. 129-135).

even though the language of the Trade Agreements Act of 1934 together with its various extensions had not specifically so limited the authority to enter into trade agreements.

"Linear" tariff cutting, if fully implemented, is a "bolder" approach to tariff reduction than the traditional item-by-item method, for it takes agreed-upon percentage reductions "for granted" as it were, reserving item-by-item negotiation for exceptions. U.S. preparatory procedures for the Kennedy Round reflected the difference in the character of anticipated bargaining. For a linear session, virtually all items in the country's tariff schedule, with a minimum of specified exceptions, are offered for negotiation and hence, examined. Under the traditional item-by-item approach, concessions are generally offered on items for which the respective trading partner is a principal supplier; accordingly, only such items are studied preparatory to the negotiations.

#### THE NEGOTIATIONS AT GENEVA

Preparations for an undertaking as ambitious as a multilateral tariff negotiating session require substantial time. A formal resolution calling for a sixth round was adopted by the GATT Council of Ministers in May 1963. <sup>1/</sup> Reaffirming the basic GATT principles of MFN and reciprocity, the resolution stated that all classes of products would be subject to negotiation--industrial products, agricultural commodities, and primary materials. The Ministers pledged that the

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<sup>1/</sup> The text of this resolution may be found in GATT, Basic Instruments and Selected Documents, 12th Supp., 1964, pp. 47-48.

round would address itself, not only to the reduction of tariff barriers, but also to the reduction or elimination of non-tariff barriers. The Ministers further resolved that "in view of the limited results obtained in recent years from item-by-item negotiations, the tariff negotiations . . . shall be based upon a plan of substantial linear tariff reductions with a bare minimum of exceptions. . . ." In addition, the Ministers pledged that "every effort shall be made to reduce barriers to exports of less-developed countries" and agreed that "developed countries cannot expect to receive reciprocity from the less developed countries." 1/

To prepare for the negotiation as well as to supervise it after the start, the Ministers in May 1963 established a Trade Negotiations Committee, composed of representatives of virtually all participating countries, 2/ to develop guidelines for: 3/ Determining the depth of tariff reductions and rules for exceptions; establishing criteria for determining tariff disparities and special rules for tariff reductions in such situations; achieving reciprocity under linear

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1/ It will be observed that a freeing of capital movements is not included in this enumeration. Unlike the charter of the stillborn International Trade Organization and the OECD with its Code of Capital Liberalization (June 1965), the General Agreement does not contain provisions on capital movements.

2/ While some 50 countries participated in the sixth round of negotiations, virtually all of which held membership on the Trade Negotiations Committee, the outcome of the negotiations largely reflected the actions of the so-called Big Four--the United States, the EEC, the United Kingdom and Japan--and Canada.

3/ The text of these guidelines may be found in GATT, Basic Instruments and Selected Documents, 12th Supp., 1964, pp. 48-49.

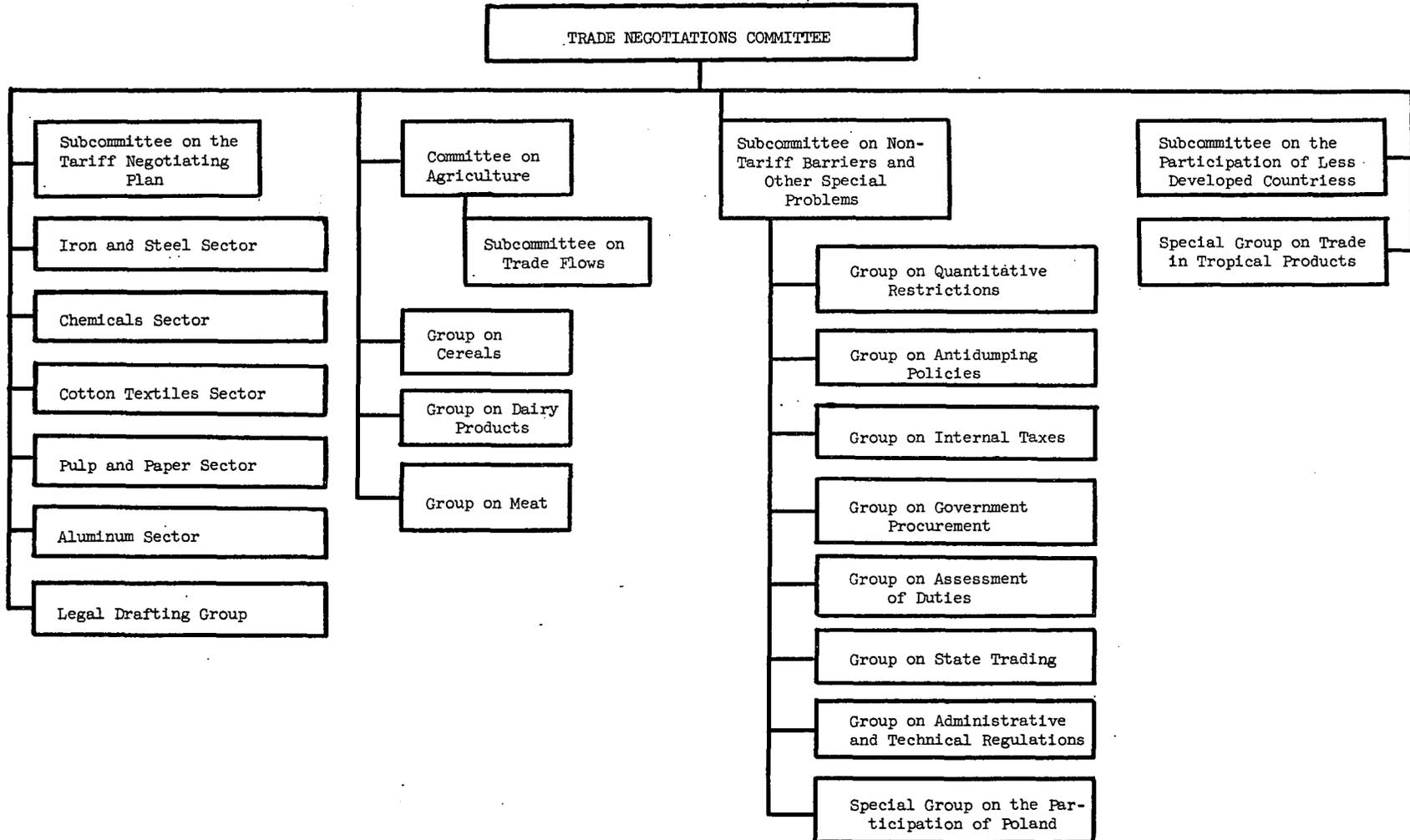
bargaining for countries having low tariff levels or special-structure economies; liberalizing world trade in agricultural products; establishing procedures for reducing nontariff barriers. The Trade Negotiations Committee, in turn, established subcommittees and relied as well on certain standing committees. The Committee structure for the sixth round is shown in figure 1.

At the opening of the negotiations in May 1964, most of the issues assigned to the Trade Negotiations Committee were unresolved. The Committee, meeting "at ministerial level" in May 1964, indicated that negotiations to obtain 50 percent linear cuts would be used as its "working hypothesis," but it observed: <sup>1/</sup> That the application of this hypothesis was linked with the solution of other problems arising in the negotiations, for example, tariff disparities, agricultural problems, exceptions and nontariff problems, and the achievement of reciprocity; that it had not yet been possible to formulate rules to govern the agricultural negotiations; that the trade negotiations must relate not only to tariffs but also to nontariff barriers; that in this connection, the Committee would, at an early date, draw up the necessary procedures; that in the trade negotiations every effort should be made to reduce the barriers to exports of less developed countries; that it was appropriate for countries having a very low average level of duties to reserve the right to submit proposals at a later date; that Canada, Australia, New Zealand, and South Africa

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<sup>1/</sup> The text of these observations may be found in GATT, Basic Instruments and Selected Documents, 13th Supp., 1965, pp. 109-112.

Figure 1. Kennedy Round Format



fell in the category of countries having a special economic structure and, accordingly, that equal linear tariff reductions would not provide an adequate balance of advantages.

#### Problems Attaching to Linear Bargaining

At the Kennedy Round the Contracting Parties were pledged to effect a major reduction in tariff barriers as well as reduction or elimination of nontariff barriers. They hoped that linear bargaining would greatly facilitate achievement of the first objective. However, the new (to the GATT) technique of linear bargaining, which had been so earnestly sought and so widely espoused, raised a host of problems. There is a great difference between employing linear reductions when the duties are moving toward a zero position, as was the case with EEC or EFTA internal tariffs, and employing them when the intention is to effect partial reduction only, as in the case of a GATT round.

Transitional distortions are acceptable in a Customs Union or Free Trade Area as they will disappear once all parties reach the zero stage, but must be safeguarded against when it is intended to limit the linear method to a 50-percent reduction. <sup>1/</sup>

Having agreed to rely on linear reductions, negotiators at once became concerned with differences in national tariff levels, and "disparities" between national rates of duty on key commodities. Accordingly, they sought criteria for applying linear bargaining to individual contracting parties having significantly different tariff

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<sup>1/</sup> Gerard Curzon, Multilateral Commercial Diplomacy, New York, 1965, p. 77.

levels. Notwithstanding such difficulties, countries accounting for a major portion of GATT trade (though numbering only 15 out of 46 negotiating countries) bargained from a linear position on most industrial products.

With respect to the depth of linear cuts, the EEC asserted that its common external tariff (CXT) had a lower general incidence than the Tariff Schedules of the United States (TSUS) <sup>1/</sup> and that, accordingly, reciprocity would not be achieved by equal percentage reductions. In certain product categories the CXT had lower rates than those found in the TSUS. Determining the size of linear cuts to be made by the respective trading partners from such differences, however, would require an ability to measure the height of broad sectors of national tariffs and the ability to develop a formula to adjust for the differences thus measured. Neither of these steps is easy.

The statistical problems inherent in measuring national tariffs are discussed in the last section of this chapter. Accordingly, only brief mention is made here of the type of problems that arise. In comparing national tariffs, regardless of whether one seeks a single percentage figure to represent the "height" of the whole tariff, or a percentage figure to represent the height of duties in broad commodity categories, an averaging process is involved. If one treats all rates of duty in a tariff schedule as of equal importance, (the

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<sup>1/</sup> Charts on pre- and post-Kennedy Round tariff rates for the Big Four will be found at the end of this chapter.

arithmetic average), one equates duty rates on minor imports--mustard, for example, with those on major imports, automobiles. If, to avoid this problem, one weights the respective rates by the value of imports entering thereunder, one succumbs to "own-trade-weight" bias. Such procedure overweights low-duty items, underweights high-duty items and ignores the impact of duty rates so high as to be prohibitive. 1/ Measuring the height of national tariffs is an extremely difficult statistical process. Its becoming the subject of "adversary proceedings" among the contracting parties was but one of many impediments to progress in the negotiations. Inasmuch as the negotiators at the sixth round were unable to agree on an overall formula for comparing the heights of tariffs, they turned their attention from aggregative differences to differences in specific rates--i.e., to tariff "disparities."

It likewise proved impossible to achieve consensus on how to deal with disparities. After 4 years of argument, the issue was detoured in the closing period of the round. Among the formulations put forward was the proposal that if tariff rates (e.g., the rates in the TSUS and the CXT) differed by a ratio of at least 2 to 1, with a 10-percentage-point spread between, a lower cut by the country having the lower rate would be indicated. Thus, if the rates in question were

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1/ Among the numerous discussions of this problem, cf. Staff Papers presented to the Commission on Foreign Economic Policy (the "Randall Commission"), Washington, D.C., 1954, ch. VI, Tariffs and Trade Policy, sec. 6, "How Far Have United States Tariffs Been Reduced Under the Trade Agreements Program?" and sec. 9, "How Restrictive are United States Tariffs?" pp. 277 and 293-297.

30 percent and 15 percent, there would be a 2-to-1 ratio with more than 10 percentage points difference. If, on the other hand, the rates were 10 and 5 percent, the second condition would not be met. However, the qualification that the amount of trade involved should be "significant" was added and this, of course, led to efforts to define "significant." To repeat, after 4 years of effort to reconcile the issue, in the closing weeks it was detoured. 1/

#### Negotiating Status of GATT Members

Countries participating in the sixth round were grouped in three categories--"linear" countries, "special structure" countries, and LDC's, as shown in table 1. Those identified as "linear" countries were expected to negotiate on the basis of 50-percent "linear" or "across the board" reductions in duty; "special structure" countries--i.e., those whose exports consisted heavily of agricultural and primary commodities--were authorized to negotiate on the basis of

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1/ Implicit in the Kennedy Round discussion of general level of national tariffs and in the discussion of disparities, as well as in all of the item-by-item bargaining, was the assumption that "nominal" rates measure the protection afforded. Increasingly, experts have sought some better measure. Proponents of "effective rate of tariff protection" analysis point out that protectiveness relates to the difference in duty rates applicable to raw materials and semimanufactured components on the one hand and the duty rates applicable to the finished products on the other, and thus is measured by "value added." See, for example,

Giorgio Basevi, "The United States Tariff Structure: Estimates of Effective Rates of Protection of United States Industries and Industrial Labor," Review of Economics and Statistics, May 1966, pp. 147-160.

W. M. Corden, "The Structure of a Tariff System and the Effective Protective Rate," Journal of Political Economy, June 1966, pp. 221-37.

Table 1.--Participation of GATT countries <sup>1/</sup> in the Kennedy Round

| "Linear" <sup>2/</sup><br>countries | "Special<br>arrangement"<br>countries <sup>3/</sup> | "Less developed"<br>countries <sup>4/</sup> | Non-negotiating<br>countries       |
|-------------------------------------|---|---|------------------------------------|
| EEC:                                | Australia   | Argentina                                   | Algeria                            |
| Belgium                             | Canada  | Brazil                                      | Barbados                           |
| Netherlands                         | Czechoslovakia                                      | Ceylon                                      | Botswana                           |
| Luxembourg                          | Greece  | Chile                                       | Burma                              |
| France                              | Iceland   | Dominican Republic                          | Burundi                            |
| Germany                             | Ireland   | India                                       | Cambodia                           |
| Italy                               | Israel <sup>7/</sup>                                | Indonesia                                   | Cameroon                           |
| EFTA: <sup>5/</sup>                 | New Zealand   | Jamaica                                     | Central Africa Republic            |
| Austria                             | Poland  | Korea                                       | Chad                               |
| Denmark                             | Portugal <sup>8/</sup>                              | Malawi                                      | Congo (Brazzaville)                |
| Finland                             | South Africa  | Nicaragua                                   | Congo, Democratic Republic of      |
| Norway                              | Spain <sup>7/</sup>                                 | Nigeria                                     | Cuba                               |
| Sweden                              | Turkey  | Pakistan                                    | Cyprus                             |
| Switzerland                         | Yugoslavia <sup>7/</sup>                            | Peru  | Dahomey                            |
| United Kingdom <sup>6/</sup>        | Total-----14  | Sierra Leone                                | Gabon                              |
| Japan                               |   | Trinidad and Tobago                         | Gambia                             |
| United States                       |   | Uruguay                                     | Ghana                              |
|                                     |   |   | Guyana                             |
| Total-----15                        |   | Total-----17                                | Haiti                              |
|                                     |   |   | Ivory Coast                        |
|                                     |   |   | Kenya                              |
|                                     |   |   | Kuwait                             |
|                                     |   |   | Lesotho                            |
|                                     |   |   | Malagasy                           |
|                                     |   |   | Malaysia                           |
|                                     |   |   | Maldiv Islands                     |
|                                     |   |   | Mali                               |
|                                     |   |   | Malta                              |
|                                     |   |   | Mauritania                         |
|                                     |   |   | Niger                              |
|                                     |   |   | Rwanda                             |
|                                     |   |   | Rhodesia                           |
|                                     |   |   | Senegal                            |
|                                     |   |   | Singapore                          |
|                                     |   |   | Tanzania                           |
|                                     |   |   | Togo                               |
|                                     |   |   | Tunisia                            |
|                                     |   |   | Uganda                             |
|                                     |   |   | United Arab Republic <sup>9/</sup> |
|                                     |   |   | Upper Volta                        |
|                                     |   |   | Zambia                             |
|                                     |   |   | Total-----41                       |

<sup>1/</sup> Countries which are contracting parties to the GATT, countries which have acceded provisionally to the GATT, and countries which apply the GATT on a de facto basis.

<sup>2/</sup> Countries negotiating on the basis of linear offers in the industrial sector.

<sup>3/</sup> Countries negotiating on an item-by-item basis in view of their special economic or trade structure or other economic consideration.

<sup>4/</sup> Countries negotiating under the arrangements for less developed countries.

<sup>5/</sup> Portugal was the only EFTA country not negotiating on a linear basis.

<sup>6/</sup> The United Kingdom also participated on behalf of those dependent territories in respect of whom it had provisionally accepted the General Agreement.

<sup>7/</sup> Israel, Spain, and Yugoslavia elected also to regard themselves as participating under the arrangements for less developed countries.

<sup>8/</sup> Portugal likewise negotiated on behalf of its overseas territories.

<sup>9/</sup> During the Kennedy Round, the United Arab Republic negotiated for full accession to the GATT, but these negotiations were not completed.

item-by-item offers. It was argued that if they bargained from a linear position, they would be offering reductions in duty on many high duty items and gaining concessions on reductions of already low rates. This approach was not deemed to meet the reciprocity standard. The LDC's were similarly expected to bargain on the basis of item-by-item offers, but reciprocity would not be expected. The action program, adopted in behalf of the LDC's, by the Council of Ministers in May 1963, had formally recognized that reciprocity was not to be expected in the case of the LDC's.

The Trade Negotiations Committee did not establish criteria for determining which countries would be accepted as "special structure" countries; it merely voted when the issue arose. The listing in table 1 makes it difficult to determine what criteria guided the Committee. Neither differences in per capita income nor in the ratio of agricultural and other primary materials to total exports provides an answer. Canada, which has a somewhat higher per capita income than Denmark, and whose exports of agricultural goods and raw materials supply a somewhat lower proportion of total exports, qualified as a "special structure" country whereas Denmark was a "linear country."

As to which countries were to negotiate as LDC's, the Trade Negotiations Committee did not even vote. While in the large majority of cases, LDC status was self-evident, in the case of certain marginal countries it was not. An LDC is, of course, a country having low per capita income, but when administrative determinations are made,

no clear-cut line separates LDC's from "middle range" countries. Although the Trade Negotiations Committee had voted "special structure" status to Yugoslavia, Israel, and Spain, these countries took membership in the LDC group as well. Because the Trade Negotiations Committee did not wish to make the determination, it was left to linear and special structure countries individually to determine how they would treat certain countries claiming LDC status.

Notwithstanding the exception to reciprocity granted the LDC's, and despite the action program developed on their behalf at the May 1963 ministerial meeting, it was evident that the LDC members of GATT, taken as a group, had mixed feelings respecting the benefits to be derived from participating in the sixth round. Of the 58 LDC members, only 17 signed the final protocol. Thirty-two LDC's chose not to participate at all and nine, while expressing an intention to negotiate, did not carry their negotiations through to completion. Non-negotiating countries were solely LDC's. Further it is evident that a substantial number of LDC's apparently have seen little advantage in acceding to the General Agreement. Among LDC's in the Western Hemisphere which are not GATT members are Mexico, Guatemala, Honduras, Panama, Venezuela, Colombia, Ecuador, Bolivia, and Paraguay.

A word of explanation is indicated on the participation of the European communities in the Kennedy Round. Two of the three European communities directly participated at the Kennedy Round--the European Economic Community (EEC), and the European Coal and Steel Community (ECSC). 1/ In fact the EEC was itself a signatory to the Final

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1/ The EEC negotiated on behalf of the European Atomic Energy Commission (Euratom) on items in the CXT for which Euratom has jurisdiction.

Act. Depending upon the subject of negotiations, the EEC members spoke with a single voice or with six (individual country) voices. On tariff matters, in consequence of the Treaty of Rome, they spoke with one voice. On nontariff barriers, a matter of individual governmental procedures, they spoke with six voices (though negotiations were handled by an EEC negotiator). At the end of the round the European Coal and Steel Community, made up of the same six countries, agreed to concessions which would result in a common tariff for the steel products under its jurisdiction (cf. steel section which follows). Therefore, even in tariff negotiations it spoke with four voices representing its four customs areas--France, Germany, Italy, and the Benelux (though again a single negotiator was used).

#### Format of the Negotiations

The negotiating procedure at the Kennedy Round varied, not only with the status of the participants, but also with the subject of negotiation--i.e., whether industrial or agricultural products were involved. Industrial products were subject to both linear negotiation by linear countries and item-by-item negotiations by others. Agricultural products were subject to item-by-item negotiation by all countries. On industrial products, linear countries negotiated largely on the basis of exceptions to linearity, that is those items being reserved from linear duty reductions (exceptions lists), which, in accordance with the May 1963 ministerial meeting, were to be kept to a "bare minimum." By contrast, special structure countries negotiated on the basis of item-by-item offers. For both linear and special structure

countries, offers and exceptions respecting industrial commodities were subject to multilateral review, as were the item-by-item offers by both groups on agricultural trade.

Offers and exceptions on industrial products were, in the language of the GATT, to be "tabled" (i.e., submitted) by November 1964, with reviews--multilateral and bilateral--occurring in early 1965. This schedule was adhered to. The timetable for agricultural offers and offers by the LDC's was different. Originally, it was expected that agricultural offers (item-by-item offers by both linear and special structure countries) would be "tabled" August 1965, and that LDC offers would be "tabled" by September 1965, or within 30 days of the agricultural tabling if the timetable was changed. Owing primarily to delays within the EEC in achieving consensus on their common agricultural policy (CAP), agricultural offers were not fully made until August 1966--a year later than scheduled. Inasmuch as the LDC's trade was primarily agricultural, the LDC's were caught in this major delay over agricultural products.

Negotiations necessarily proceed in terms of specific offers. But while offers must be identified, national tariffs frequently employ unlike tariff "nomenclatures." The nomenclature is the means by which articles are identified and defined in a tariff. 1/ Inasmuch as the tariff schedules of most nations today employ the Brussels Tariff Nomenclature (BTN), it became the working vehicle of the round.

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1/ A discussion of tariff nomenclature will be found in U.S. Tariff Commission, The Development of a Uniform International Tariff Nomenclature, April 1968.

### Reciprocity, the Hallmark of GATT Negotiations

The hallmark of a GATT negotiation is reciprocity. As noted, however, the GATT formally excepted the LDC's from the requirement of equal offers. 1/ Negotiations--regardless of topic--proceeded in terms of offers and counteroffers designed in the end "to match." Central to all negotiations was the question: "Is my country obtaining concessions equal to what it is offering?"

In GATT reports, reciprocity is typically summarized in terms of "concessions" extended and received. A concession is a commitment not to impose a rate of duty on a given product higher than that agreed upon in the negotiations. An individual concession may effect a reduction of an existing rate of duty, a binding of an existing rate of duty,

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1/ Throughout the negotiations, the U.S. representatives held that the U.S. Trade Expansion Act precluded the granting of such exception by the United States. Although taking special note of the LDC problem, the Trade Expansion Act was the first reciprocal trade act--as interpreted by U.S. negotiators--to deny authority to forego reciprocity. American negotiators took their position from the wording of the preamble of the Act: "The purposes of this Act are, through trade agreements affording mutual trade benefits. . ." [underlining added]

However, inasmuch as trade is generally correlated with size of a country's GNP and, inasmuch as trade facilitates growth, it might with equal logic have been assumed that the "mutual" stipulation could have been met by promoting LDC exports, hence LDC growth, and hence enlarged trade and mutual benefits.

The remarks of the general counsel of the Office of the Special Trade Representative indicate that negotiators took a narrow interpretation:

It is probably fair to say that the broad statutory standard [of mutual trade benefits] was applied . . . more rigorously than was legally--though perhaps not politically--necessary. For a number of reasons, including practice in prior negotiations, public and Congressional expectations, and the normal competitiveness of a negotiation, a notion of equivalency of tariff reductions was applied.

Cf. Rehm, "The Kennedy Round of Trade Negotiations," American Journal of International Law, April, 1968, p. 412.

or a binding of duty-free treatment. 1/ A summary of the statistics on concessions extended and received at the sixth round, as well as at earlier rounds, suggests, notwithstanding the equivalency of different types of concessions, 2/ that duty reductions tend to be matched against duty reductions, bindings against bindings.

Reciprocity is calculated in different ways. In a wholly linear negotiation, the measure of reciprocity is the depth of the tariff cut. It might be thought that equal percentage reductions would be regarded as full reciprocity, but this issue, of course, was the crux of the disagreement over national tariff levels and disparities. Even under the most optimistic assumptions, it was not assumed that the Kennedy Round negotiation would be wholly linear. Provision was made for exceptions from linearity in cases of "over-riding national interest." Here, reciprocity called for comparability of exceptions, measured by the volume of excepted trade. Further, of course, not all participating countries bargained on a linear basis. Thus, the more traditional concepts of reciprocity were also part of the Kennedy Round.

Customarily, negotiators in striving for reciprocity have given attention to: (1) the volume of trade, with particular attention to the role of "principal-supplier" trade; (2) such volume of trade adjusted by the depth of the duty reductions; (3) the volume of trade that a given duty reduction is likely to generate; and (4) occasionally, timing. No consensus has been achieved on the means of weighing the

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1/ On rare occasions concessions negotiated by GATT members have effected increases in rates of duty.

2/ Article 28 bis paragraph 2(a) states: ". . . The binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties."

aggregate worth of the offers to assure that the respective negotiators have struck a "balance."

The reciprocity calculation of duty reductions comes in different-sized "packages." Reciprocity may be calculated in a single exchange, on a "bundle" of exchanges, on all trade in industrial products or all trade in agricultural products, or on all trade, industrial and agricultural combined. At the Kennedy Round the United States insisted that, although agriculture and industry were negotiated separately, the final reciprocity calculation should be in terms of the trade of all products combined. In fact, the U.S. negotiators said they would not sign an agreement that liberalized industrial trade only.

It is noteworthy that negotiators do not give attention in these reciprocity calculations to changes in exchange rates except as they occur shortly before or during a negotiation. Under the GATT rules (article XXIII), the failure to honor a concession calls for compensation. Although changes in rates of exchange have clear trading consequences, typically no compensation is asked when rates are changed following a negotiation. Thus, after the devaluation of the pound sterling and the currencies of a number of the other EFTA countries in the fall of 1967 no compensatory action was asked.

## AREAS OF NEGOTIATION

The Kennedy Round negotiations were directed primarily to four objectives. The Contracting Parties sought: (1) to achieve a substantial liberalization of world trade in industrial products; (2) to provide for acceptable conditions of access to world markets for agricultural products; (3) to make an effective contribution to the economic growth of the LDC's; and (4) to reduce nontariff barriers.

## Industrial Products

The first stage of the Kennedy Round negotiations involving industrial products began with a multilateral review of the initial offers of tariff concessions submitted by the participating countries. These offers, it will be recalled, consisted largely of two types: 1/ (1) across-the-board (linear) offers by countries agreeing to negotiate on a linear basis, (2) and item-by-item offers tendered by the special-structure countries. Multilateral review of the offers "tabled" by the "linear" countries related to exceptions: those on which duty reductions of less than 50 percent had been offered (partial exceptions); and those being withheld from negotiation altogether (full exceptions). Multilateral review of the initial offers by the special-structure countries likewise related to exceptions-- items omitted from their positive offers or items included but on which cuts were not deemed sufficient. The purpose of the initial multilateral review was to make a broad assessment of the total "industrial packages" being offered, with a view to the achievement ultimately

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1/ See the section on Negotiating Status of GATT Members.

of reciprocity among the negotiating partners. The review was completed quickly in the beginning months of 1965.

Stage two of the negotiations on industrial items consisted of detailed bilateral bargaining among major trading partners, exploring areas of particular interest to one another, both in terms of items on which no offers and those on which partial offers had been made. Such reviews focused largely on products of principal-supplier interest to the two parties. Inasmuch as the negotiations were conducted by sophisticated negotiators, pressures for improvements in the respective offer lists had their origins in considerable knowledge. A round provides the stimulation of outside judgments on domestic commercial policy in a framework of reciprocity. These bilateral negotiations, which began in the spring of 1965, continued over the next two years. On a sizeable range of products, progress was substantial, though the discussions on certain particular commodities stalemated. In an effort to encourage forward movement, the Director-General of the GATT, in late 1965 and early 1966, suggested isolating particularly difficult areas in "sectors." Accordingly, five "sector" groups were established--to deal with products of the steel, chemical, textile, pulp and paper, and aluminum industries.

The achievements at these sector negotiations, where the bargaining was difficult and at times intense, were outweighed by the substantial scale of accomplishment through the general linear and item-by-item bargaining. Without the latter achievements, which involved the large range of products being "generally" negotiated, the

sector negotiations, which tended to be more newsworthy, would never have brought the Kennedy Round to the achievement that it attained.

Because the major trading nations were negotiating on a linear basis and because 50 percent reductions had been set as the goal of linear reductions, the linear nations were the pace setters at the Kennedy Round. Although the Trade Negotiations Committee had agreed to permit certain nations to participate as special-structure countries, bargaining item-by-item, it did not follow that less would be expected of them, only that their concessions would be negotiated in a different fashion. While linear countries offered to reduce, by a sizeable percentage, rates of duty on the large proportion of their semimanufactured and manufactured trade (duties on raw materials were, for the most part, already low or free), "reciprocity" demanded that the special-structure countries, negotiating bilaterally, make comparable offers. Among themselves, the linear countries bargained on exceptions--full and partial. Initially, exceptions lists varied greatly in size, but in the end, all were shortened and agreement was achieved.

### Steel

Products of the steel industry were reserved for sector negotiation largely in consequence of dissatisfaction on the part of the United Kingdom and the United States with the offers on steel products made by the European Coal and Steel Community (ECSC). The ECSC proposed to negotiate from the rates that were in effect in 1951, when it

obtained its GATT waiver, its "legal" rates, except as these had been negotiated or bound in previous GATT rounds. The United Kingdom, the United States, and others argued, however, that the ECSC should use the rates that were actually in effect, the "effective" (actual) rates 1/ rather than its "legal" rates. 2/

The ECSC, the first of the European Communities, was established in 1951 under the Treaty of Paris and was the fruition of the Schuman Plan. The steel products coming under its jurisdiction were identified in Annex I of the Treaty. Not all steel products were so covered, but broadly speaking, only the less highly manufactured steel items--hot-formed products by contrast to cold-formed products. When the European Economic Community was established in 1957, its jurisdiction on steel products covered those not specified in the ECSC Treaty, which were the more highly manufactured steel items. In the steel negotiations at the Kennedy Round the six nations of the two communities were represented by a single spokesman.

The ECSC, although established considerably ahead of the EEC, had developed, not a common tariff for the products under its jurisdiction, but only "harmonized" rates.3/ Hence, for products under

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1/ As used in this context, "effective" is not to be confused with its usage in the analysis of "effective rate" of tariff protection, cf. footnote 1, p. 170.

2/ While this position was taken by certain members, it did not fully accord with positions in past rounds, when such countries proposed at times to bargain from legal rather than "effective" rates.

3/ Art. 72 of the Treaty of Paris provided machinery for establishing minimum and maximum rates, within which national rates were to be confined.

ECSC jurisdiction, four rates of duty prevailed--those of the Benelux customs union, France, Germany, and Italy. The EEC, of course, bar-gained from its common external tariff, which had been established for products within its jurisdiction.

The issue over the "legal" and "effective" rates of the ECSC arose as a result of a bilateral negotiation between the ECSC and the United Kingdom in 1958, whereby both sides had cut rates of duty on various steel products by 50 percent. <sup>1/</sup> In consequence of this action, United Kingdom duties had been lowered from their 15-33 percent range to roughly 10 percent <sup>2/</sup>and the average of the Community's rates (an average of the duties imposed by four customs areas) had been reduced from 14 to 7 percent. <sup>3/4/</sup> Although this negotiation had occurred outside the GATT, in consequence of MFN commitments, benefits were extended to others--except as other types of restrictions negated them. In January 1964, the ECSC raised many of its effective rates resulting in an overall average of 9 percent.

As indicated, the ECSC proposed at the Kennedy Round to negotiate from its higher "legal" rates which, in view of the 1958

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<sup>1/</sup> In accordance with the Council of Association established between the United Kingdom and the States of the European Coal and Steel Community (signed Dec. 21, 1954; ratified Sept. 23, 1955), a tariff agreement was negotiated (signed Nov. 25, 1957; ratified Oct. 22, 1958). For the text of the Council of Association, cf., United Nations, Treaty Series, vol. 258, 1957, pp. 324-340; for the text of the tariff agreement, cf., *ibid.*, vol. 403, 1961, pp. 170-176.

<sup>2/</sup> European Coal and Steel Community, The High Authority, Sixth General Report on the Activities of the Community, vol. 1, Apr. 13, 1958, p. 84.

<sup>3/</sup> The ECSC described its own reduction from a "12-28%" range to "approximately 6%," *ibid.*, p. 82.

<sup>4/</sup> For the specific tariff rates negotiated under the agreement, cf. United Nations Treaty Series, vol. 403, 1961, pp. 178-203.

reductions, were approximately double the rates in effect prior to the January 1964 increase. The ECSC claimed that inasmuch as it had already cut its rates 50 percent it had, in effect, already accomplished the objectives of the Kennedy Round. 1/ The United Kingdom, however, opposed this position; it contended that it had already paid once for the 50-percent reduction and, hence, it was manifestly unfair to ask it to pay a second time. Apparently, the situation was more complicated, for while the United Kingdom had "paid" for the ECSC duty reductions, United Kingdom duties on certain steel items had been suspended, with the result that on some items the duty reductions accorded in 1958 did not constitute reductions in rates actually being used. 2/

Steel sector discussions were undertaken in mid-1965 by the following participants: the two communities (the EEC and ECSC), the United States, the United Kingdom, Japan, Sweden, and Austria. It was not until May 1966, however, that the first negotiating sessions started. In addition to the issue of the base rates of duty from which the ECSC would negotiate, a second matter was in question; the other major powers desired that the ECSC develop a common external tariff on steel during the Kennedy Round, not after.

As the sector meetings went on, it became increasingly apparent that the goal of the negotiation was to be "harmonization" rather

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1/ European Coal and Steel Community, High Authority, General Report on the Activities of the Community (Feb. 1, 1964-Jan. 31, 1965) Luxembourg, 1965, p. 53.

2/ Economist, Oct. 26, 1957, p. 299.

than 50 percent cuts. If measured on an absolute basis, the rates as shown below moved toward harmonization. <sup>1/</sup> If comparison is relative, however, the spread between lowest and highest rates is the same after the round as it was before the round. With the exception of Japan, whose reductions were considerably greater, the major participants in the steel sector negotiations reduced the duties on steel products by varying amounts under 30 percent of the rates previously in effect. Further, the ECSC did develop a common external tariff on steel.

|                               | <u>Pre-Kennedy<br/>Round rates</u> | <u>Post-Kennedy<br/>Round rates</u> | <u>Percent<br/>reduction</u> |
|-------------------------------|------------------------------------|-------------------------------------|------------------------------|
| Composite <sup>a/</sup> ----- | 8.9                                | 6.4                                 | 27                           |
| EEC-----                      | 8.8                                | 6.3                                 | 28                           |
| USA (est. c.i.f.)--           | 7.0                                | 5.2                                 | 25                           |
| UK-----                       | 13.5                               | 10.8                                | 20                           |
| Japan-----                    | 14.5                               | 8.1                                 | 44                           |

<sup>a/</sup> "Composite" refers to a weighted average of the rates used by the Big Four.

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<sup>1/</sup> The figures are taken from UNCTAD, "The Kennedy Round: Preliminary Evaluation of Results, with Special Reference to Developing Countries," T.D./6/Supp. 4, tables 1, 2, 4, 5, and 8, pp. 33-40, passim. That the figures released by the U.S. Tariff Commission on reductions in steel from the Kennedy Round negotiations are different from those given above illustrates primarily the manner in which weights influence one's findings. The Tariff Commission has reported that pre-Kennedy Round U.S. rates on products handled by the steel sector at the Kennedy Round averaged 7.4 percent, and that when reductions will have come fully into effect, such rates will average 6.5 percent, a reduction of about 12 percent. The Tariff Commission's statistics were developed on 1966 trade using U.S. imports as weights--"own trade weights." Further, the Commission used actual f.o.b. values. The UNCTAD figures are based on 1964 trade using imports into all OECD countries as weights. The UNCTAD data have been developed from sampling and, in the figures here cited, U.S. trade has been calculated on a c.i.f. basis. For a discussion of the methodology employed in the UNCTAD findings, cf. pp. 90-97.

Chemicals 1/

No aspect of the Kennedy Round negotiations proved to be as complex as did that relating to chemicals. The crux of the difficulty was (and is) the use by the United States of the American Selling Price (ASP) basis of valuation for assessing ad valorem duties on certain benzenoid chemicals. Spokesmen for the EEC and the United Kingdom were adamant that the United States give up this system of valuation. Article VII of the GATT provides that customs valuation be on the basis of "actual value of the imported merchandise . . . and should not be based on the value of merchandise of national origin . . ."; under the Protocol of Provisional Application by which the GATT was brought into being, however, members pledged to observe Part II of the General Agreement--articles III to XXIII--"to the fullest extent not inconsistent with existing legislation." Under this proviso, the United States has continued to use the ASP basis of valuation for some of its imports, quite as other countries have continued certain practices not in keeping with the General Agreement.

ASP method of valuation.--ASP is applied to a few other products than chemicals, but its major use is with benzenoid chemicals. The application of ASP to imports of chemicals dates from the Tariff Act of 1922. As a means of protecting the then infant dyestuff

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1/ The chemical sector in the Kennedy Round covered products described in chs. 28-39 of the Brussels Tariff Nomenclature, which is the classification system used by all of the major participants in the negotiations except the United States and Canada. For the United States, TSUS items principally concorded to these BTN chapters were used.

industry, the special provisions of the Dye and Chemical Control Act of 1921 were replaced by ASP in the 1922 act. At the time that the Tariff Act of 1930 was adopted the ASP provisions in the 1922 act were incorporated. 1/

In assessing duty under the ASP provisions, the ad valorem rates (or in the case of compound duties, the ad valorem portion of the rates) are applied not to the export, or foreign, value of the imports being assessed, but to the value of competitive, or like or similar, merchandise produced in the United States. Thus, for example, an import subject to ASP may have cost the importer \$100, which under normal valuation practice would be the value used to calculate the duty. If, however, the item is competitive with a U.S. product, duty will be collected on the price of the U.S. product, which may be either higher or lower than the price actually paid by the importer.

Criticism of ASP by foreign spokesmen has centered principally on three points. First, our trading partners have charged that the ASP system usually results in collection of a significantly greater amount of duty than would result from the same nominal rates applied

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1/ The application of ASP to rubber-soled footwear, clams, and wool-knit gloves has a different origin. Sec. 336 of the Tariff Act of 1930, which provides for the equalization of foreign and domestic costs of production, permits the use of ASP under certain circumstances. Pursuant to the sec. 336 procedure the President brought rubber-soled footwear in 1933 under ASP, clams in 1934, and wool-knit gloves in 1936.

The pertinent provisions in the TSUS providing ASP methods of valuation for these articles are: Benzenoid chemicals, sched. 4, pt. 1, headnotes 4 and 5; rubber-soled footwear, sched. 7, pt. 1A, headnote 3(b); canned clams, sched. 1, pt. 3E, headnote (1); and wool-knit gloves, sched. 7, pt. 1C, headnote 4.

in accordance with normal valuation procedures. Secondly, they contend that, unlike the situation under normal valuation practices, a foreign exporter (or U.S. importer) frequently cannot determine within the necessary degree of predictability the amount of duty which will be assessed on his merchandise until it actually arrives in the United States and duty has been levied; that therefore an essential element of information required for pricing his merchandise under usual commercial procedures is not known; and at the time the amount of duty does become known, it can be so high as effectively to price the import (already shipped to the United States) out of the market. In addition, it has been contended that the foreign exporter's (or U.S. importer's) competitor (i.e., the U.S. producer) can ultimately determine through the pricing of his own product the amount of duty which is collected on the import.

In addition to the foregoing, it has been charged that the complex customs administration procedures required for the ASP system result in abnormal delays in clearing goods through customs, and that, particularly when the domestic product is not sold in an open competitive market, the operation of the system unavoidably provides opportunities for manipulation in domestic prices, as reported to customs officials for use in determining the amount of duty, for the specific purpose of disadvantaging or preventing competition from imports. Finally, foreign critics have contended that duties determined in this manner, coupled with other aspects of the system, have much the same

effects as absolute quotas in that they greatly circumscribe or foreclose a foreign industry's ability to improve its competitive position in the U.S. market through efforts to achieve lower production costs and lower prices or improved quality. 1/

Inasmuch as it had been decided that the U.S. negotiators did not have legislative authority to change the ASP method of valuation at the Kennedy Round, and EEC offers on chemicals were conditioned upon removal of ASP by the United States, a deadlock was reached which threatened the entire negotiations. This was resolved when the negotiators ultimately agreed upon a two-package arrangement. Part of the chemical concessions were incorporated in the "Kennedy Round package" which would take effect upon conclusion of the round, and part in a separate supplemental agreement, where concessions were contingent upon the legislative action by the U.S. Congress removing ASP.

The chemical package.--In the "Kennedy Round package," the United States, the European Economic Community, and the United Kingdom granted duty reductions on most chemical items in their respective tariff schedules. The United States granted 50 percent reductions in duty on most of its chemicals that had previously been subject to rates of duty higher than 8 percent, and 20 percent reductions on most chemicals having rates of 8 percent or less, with the ASP valuation methods remaining in effect.

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1/ For a discussion of both sides of the ASP issue, cf. Earl V. Anderson, "ASP: The Little Giant," Chemical and Engineering News, Jan. 6, 1969; pp. 66-81.

In return for these concessions, the EEC granted concessions on items accounting for 97 percent of its dutiable chemical imports from the United States. Most duties were reduced by 20 percent. Certain chemicals subject to duties of 25 percent ad valorem or more, which had been supplied principally by the United States, were reduced by 30 percent, and certain chemicals which had been supplied principally by Switzerland were reduced by 35 percent. The United Kingdom reduced duties on items accounting for almost all of its chemical imports from the United States, although it did not grant duty concessions on most of the plastics in its tariff schedule. Chemicals subject to rates of 25 percent ad valorem and above were reduced by 30 percent and most of those dutiable at less than 25 percent, by 20 percent. Japan and Switzerland granted their entire chemical concessions in the "Kennedy Round package."

In the Supplemental Agreement (the "ASP package"), the United States agreed promptly to seek legislation which would enable the President (1) to eliminate the ASP system of valuation, (2) to replace the concessions on benzenoid chemicals contained in the Kennedy Round package 1/ with a new schedule of significantly different concessions on these products; (3) to make additional reductions beyond the 50 percent cut contained in the Kennedy Round package on nine chemicals which would bring the rates on these items down to an approximate equivalent of 20 percent ad valorem. The new schedule

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1/ The Kennedy Round package concessions consisted of 50 percent reductions in all rates for benzenoids, except TNT, with the retention of the ASP system.

of concessions on benzenoids was derived from the rates which were calculated by the Tariff Commission to provide an approximately equivalent amount of duty under normal valuation procedures, based on the values and product-mix of imports of 1964. These "converted" rates would generally be reduced in the ASP package by 50 percent or to an equivalent of 20 percent ad valorem, whichever would be lower. Major exceptions to this formula were the rates on dyes, which would be reduced to 30 percent ad valorem, and those on sulfa drugs, which would go to 25 percent ad valorem. In addition to the above, upon implementation of the EEC and United Kingdom concessions in the separate package, the United States would reduce the 8-percent-and-below rates which were cut only 20 percent in the Kennedy Round package by a further 30 percent.

In return for these United States concessions, the EEC and the United Kingdom offered, in the ASP package, additional chemical concessions in their respective tariff schedules. With these additional reductions, the EEC rates of duty on almost all of its chemicals would be  $12\frac{1}{2}$  percent ad valorem or less. The United Kingdom agreed to reduce its duties on plastics (most of which were excluded from the Kennedy Round package) which had duties higher than the EEC rate on the same item and, in general, to adopt the lower EEC rates. The United Kingdom also agreed further to reduce, by various percentages, the rates on other chemicals, so that after these additional cuts virtually all of its rates would be  $12\frac{1}{2}$  percent ad valorem or less.

As a further inducement for the United States to eliminate ASP, France, Belgium, and Italy pledged to adjust their road taxes, which are applied on a "fiscal horsepower" basis, so as to eliminate discrimination against U.S.-made automobiles. The United Kingdom agreed to a 25 percent reduction in the Commonwealth margin of preference on imports of unmanufactured tobacco, and Switzerland agreed to remove its limitations on imports of fruit canned in corn sirup. The application of the ASP system to other products was separately negotiated. <sup>1/</sup> In this way the negotiators finally arrived at an agreed-upon solution to the chemical issue.

#### Cotton Textiles

At the Kennedy Round, cotton textiles were also handled in a sector negotiation, largely in consequence of earlier American leadership in treating textiles separately from other industrial goods. As has been done for agricultural commodities, separate commercial policies have been developed for cotton textiles.

In 1956 the United States requested Japan to enter into a "voluntary" 5-year "restraint" to reduce exports of cotton textiles to the

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<sup>1/</sup> As earlier observed, ASP, through Presidential proclamation, has been applied to low-valued wool-knit gloves, clams, and rubber-soled footwear. In a note exchanged between the United States and Japan, an agreement, also subject to congressional approval, was reached to eliminate the use of ASP valuations on clams and gloves. Elimination of ASP on low-valued gloves is not meaningful because only wool-knit gloves valued not over \$1.75 per dozen pairs are subject to ASP and such priced gloves are no longer traded. With regard to rubber-soled footwear, no agreement was reached with Japan, the principal supplier of this footwear.

United States. 1/ Beginning in 1961, restraint of cotton textile exports was handled multilaterally first under the Short-Term Cotton Textile Agreement and then during 1962-67 under the Long-Term Arrangement, both of which provided systems of quantitative controls. 2/3/ Although constituting a considerable departure from the General Agreement, both the Short-Term and the Long-Term Arrangements were negotiated under GATT auspices. The General Agreement does not in principle permit the use of quotas for industrial products but the LTA authorizes them for cotton textile products. The Arrangement represents a particularly restrictive use of the quota device since it divides textile imports into 64 categories with separate quotas for each category.

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1/ Because this action was formally treated by the U.S. Government as a unilateral action on the part of Japan and not an agreement between Japan and the United States, no U.S. negotiating authority for this step was deemed to be required.

2/ Sec. 204 of the Agricultural Adjustment Act of 1956 provides the pertinent authority. Although seemingly written as a special case to apply to agriculture, the section provides authority not only to restrict imports of agricultural products but also to restrict products manufactured from agricultural products. Sec. 204 provides that: "The President may . . . negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export of any agricultural commodity or product manufactured therefrom or textiles or textile products . . . ." A 1962 amendment to sec. 204 (Public Law 87-488) provides that ". . . if a multilateral agreement has been or shall be concluded under the authority of this section among countries accounting for a significant part of world trade in the articles with respect to which the agreement was concluded, the President may also issue . . . regulations governing the entry or withdrawal from warehouse of the same articles which are the products of countries not party to the agreement." Much as in the case of a nonsigners' clause of a cartel agreement, the terms of the agreement can be extended to those who have refused to join the agreement.

3/ The text of the Short-Term Agreement may be found in U.S. Department of State, Treaties and Other International Act Series, No. 4884, pp. 1675-81; for text of the Long-Term Agreement, cf. Contracting Parties to the General Agreement on Tariffs and Trade, Long-Term Arrangement Regarding International Trade in Cotton Textiles, Geneva 1963.

At the Kennedy Round, the United States, the EEC, and certain other major importing nations, sought and obtained renewal of the Long-Term Arrangement. In opposing renewal, a number of exporting nations (among which LDC's were conspicuous) insisted that 5 years was sufficient to take care of a "temporary" 1/ problem and argued that it was time to treat textiles the same way as other industrial imports.

Inasmuch as the cotton-textile problem involves industries in both developed and underdeveloped economies, the negotiations in this sector were particularly sensitive; the credibility of the GATT commitment to assist the LDC's seemed at stake. Although exports of cotton textiles are not a major source of foreign exchange to the developed countries, they are for some of the LDC's. In 1963, measured by value, 44 percent of Hong Kong's exports were textile products; 34 percent of India's; and 21 percent of Pakistan's. 2/ For some countries the implication of restriction of textile exports to foreign exchange earnings is accordingly evident.

The Long-Term Arrangement, concerning which there were such differences of view at the Kennedy Round, attempts to liberalize trading opportunities for LDC's and at the same time avoid disrupting markets

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1/ Article 1 of the Long-Term Arrangement states, "In order to assist in the solution of the problems referred to in the preamble to this Arrangement, the participating countries are of the opinion that it may be desirable to apply during the next few years special practical measures . . . ." (underlining added).

2/ Organization for Economic Cooperation and Development, Modern Cotton Industry, Paris, 1965, pp. 62-63.

among importing nations--objectives not easy to reconcile. For purposes of the Arrangement, cotton textile products are divided into 64 categories. 1/ Under article 3 of the LTA a participant whose market is experiencing, or is threatened with, disruption by imports of cotton textiles in any category may request another participant to restrict its exports of such products to a designated level; if the exporting country does not comply with the request within 60 days, the importing country may then restrict entry of the products concerned to the level requested. Such controls, either by the exporting country or by the importing country are a "restraint." The "level requested" may not be lower than actual imports in the first 12 of the prior 15 months. Article 6C of the Arrangement provides that nonparticipants should not be permitted to take advantage of the "restraints" of participants.

Under terms of the LTA, a country may find its market "disrupted" if (a) imports of cotton textiles from a particular source have increased sharply and substantially, (b) the imported textiles are sold at prices substantially below those of similar domestic goods, and (c) domestic producers are seriously damaged or threatened therewith. 2/ Each importing nation determines for itself what it considers disruption.

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1/ Categories 1 to 4 cover cotton yarns ("cotton yarn, carded, singles, not ornamented, etc.," "cotton yarn, piled, combed, not ornamented, etc."); categories 5 to 27, cotton fabrics ("ginghams, carded yarn," "ginghams, combed yarn," "lawns," "voiles"); categories 28 to 38, cotton made-up goods ("pillowcases, plain, combed yarn," "dishtowels," "fishing nets"); and categories 39-63 cotton apparel ("men's and boys' all white T shirts, knit or crocheted"; "other T shirts," "raincoats 3/4th length or over").

2/ These terms spelled out in Annex C of the Agreement.

Under article 4 of the LTA members and nonmembers are authorized to enter into "mutually acceptable arrangements on other terms not inconsistent with the basic objectives of this Arrangement." Today the United States overwhelmingly relies on bilateral agreements concluded under article 4 to restrict imports of cotton textiles. As of December 1, 1967, the United States restrained imports from three countries under article 3 and from 22 countries under article 4.

An exporting country that "voluntarily" accepts limitations on its exports to a particular market doubtless considers this the more desirable choice of alternatives. Faced with the potential application of article 3 restraints, most exporting nations have found the certainty of article 4 preferable to the uncertainty of article 3.

In the United States, the LTA is administered by the Inter-agency Textile Advisory Committee under the President's Cabinet Textile Advisory Committee (consisting of the Secretaries of Commerce, Labor, Agriculture, State, Treasury and the Special Representative from the Office of the Special Representative for Trade Negotiations). Both committees are advised by a 35-member Management-Labor Advisory Committee appointed by the Secretary of Commerce (on the recommendation of the four textile trade associations and the seven labor unions in the field).

Under the proviso of "market disruption," and pursuant to the negotiation of "mutually acceptable arrangements on other terms not inconsistent with" the objectives of the Arrangement, numerous actions have been taken under which exports from certain textile-producing

countries have been restricted. <sup>1/</sup> Such limitations have been taken primarily on products of the LDC's and various "intermediate" countries such as, Spain, Israel, and Yugoslavia.

The LDC's have criticized these restrictions of imports, category by category, holding that they unduly rigidify their production. The United States requires restrictions on all 64 categories; other developed countries use broader groupings of their own making. Hence, LDC's exporting to developed economies have to operate under a different category-system for virtually each market.

In view of the foregoing, it is scarcely surprising that a difference of view developed at the Kennedy Round respecting the desirability of renewing the LTA. Representatives of a number of LDC's recalled that the wording of article I of the LTA virtually limited the time during which the "special measures" could be used; accordingly, they held that the 5 years that had elapsed had afforded sufficient time for the textile industries in developed economies to adjust to the textile capacity of the world. On the other hand, representatives of developed countries were adamant that the LTA be renewed. The Director General, attempting to steer a middle course between conflicting views, urged that, in return for renewal, substantial duty reductions on commodities in this sector be made, that quotas be liberalized, and that they be administered more flexibly. So adamant was the EEC on renewal of the LTA that it made

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<sup>1/</sup> A record of U.S. actions under the LTA may be found in Textiles and Apparel, Tariff Commission Publication No. 226, January 1968, table 8, p. C-10.

certain of its duty reductions conditional on renewal. This action by the EEC, in turn, led the United States and Japan to make certain of their concessions conditional on EEC actions.

The textile sector negotiation resulted in a 3-year renewal of the LTA (expiring September 30, 1970) and in duty reductions on textiles by the contracting parties averaging considerably less than the 50-percent goal of the round. 1/

#### Agricultural Products

While the negotiations involving industrial products may have at times been difficult, even more serious problems were encountered in negotiations respecting agricultural products. As will be recalled, the ministerial objective in agriculture was "acceptable conditions of access toward world markets" in furtherance of a significant development and expansion of trade in such products.

The problems in agricultural negotiations differed greatly from those in the industrial negotiations, principally because nation after nation operates agricultural support programs. Governments of free-enterprise economies around the world maintain such programs largely for the same reasons. 2/ The farm sector of the economy typically affords lower and more unstable incomes to workers than do

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1/ Inasmuch as the other two sector negotiations, pulp and paper and aluminum, were not of key interest to the United States, they are not detailed here.

2/ For one of many discussions of the farm "problem," cf. Clair Wilcox, Public Policies Toward Business, Homewood, Illinois, 1966 edition, ch. 31, "Controlling Agriculture," pp. 769-798.

other parts of the economy. Apart from the hazards of weather, the unfavorable position of the farm population stems largely from the fact that the demand for a wide range of farm products is inelastic, whereas supply is elastic in expansion but inelastic in contraction. The inelasticity of supply in contraction arises out of the unusual cost structure in agriculture where fixed costs (which, in this case, include labor, i.e., family labor), constitute an unusually high proportion of total costs. Because of these and other problems, governments around the world maintain price-support operations for basic, storable crops and income-support systems.

Government price-support programs complicate international trade in agricultural products in two ways. They result in subsidized exports and exceptional restraints on imports. Governmental support programs, frequently cause surpluses to be produced, because prices regarded as high enough to assure farmers a "fair living" encourage a sizeable expansion of output. Such expansion often occurs even when attempts are made to limit production, and not all programs include such attempts. Frequently programs result in output over and beyond demand at the support price levels, thus creating a "surplus."

Since domestic-support prices typically exceed world prices, the only feasible way that surpluses can be disposed of abroad is through subsidization of exports. The size of the subsidies generally varies with the difference between the level of domestic support prices and the level of world prices. Although the expression, "variable export subsidy" has not customarily been employed to describe these payments,

this is what they are. Accordingly, world prices for commodities that are under price-support by numerous governments may have little relation to average costs of production. Rather, prices may reflect primarily the effect of competitive subsidization.

Inasmuch as the operation of government price-support or income-maintenance programs may be impeded by imports of such commodities, governments typically erect exceptional trade barriers against such imports. Since ordinary tariffs can be surmounted, governments usually resort to more effective restraints--e.g., quotas and variable import levies. Thus, out of efforts to bring a desired return to their agricultural sectors, governments have often sacrificed the advantages of trade--the gains occurring to each nation from specializing in that which it can most economically produce.

As observed earlier, quantitative restrictions on trade are disapproved in principle under the General Agreement. But because of the widespread use of quantitative restrictions on agricultural products when the Agreement was drafted, it was so written to permit the use of import quotas when governments were restricting domestic supplies and in situations of temporary surpluses. The fact that the General Agreement did not deal specifically with the use of the variable levy probably reflects the minor use of this device when the General Agreement was

written. 1/ The variable import levy can be quite as restrictive, if not more restrictive, than quotas.

As used by the EEC the variable levy is an arrangement for taxing imports by an amount that will bring their EEC selling price up to the "target price" for such commodities--the target price being set above the "intervention" or support price. In the lexicon of American agriculture, one speaks of "parity" and of "support prices" at a given percentage of "parity"; similarly, in the EEC lexicon, "target prices" set the goal and "intervention prices" represent the prices at which the government will support the commodity. 2/ The variable levy represents the difference between the aggregate of "cost, insurance, and freight" of imports and the "threshold price." The threshold price is the target price less internal transportation costs. The levy is variable because the c.i.f. costs of the imported goods constantly change. The target price is calculated on the greatest deficit area. Frequently, this is an extreme interior point so that transportation costs are at maximum. Inasmuch as target prices exceed support prices, imports

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1/ D. Gale Johnson in "Agriculture and Foreign Economic Policy," Journal of Farm Economics, December 1964, p. 915, points out that the variable import levy is an ancient institution, that it was introduced into the English Corn Laws in 1670.

Although attention at the Kennedy Round focused on EEC reliance on the variable levy, the EEC is not the only customs area using it. Sweden uses a variable levy on agricultural imports. Cf. "Preliminary Inventory of Non-Tariff Barriers Affecting United States Trade in Agricultural Products" prepared by the Office of the Special Trade Representative and published in U.S. Congress, Committee on Ways and Means, Hearings on Foreign Trade and Tariff Proposals, 90th Congress, 2d Sess., pt. 1, June 1968, pp. 201-9.

2/ While the two systems are parallel in this respect, European support prices typically are a higher proportion of target prices than is the case in the U.S. support system.

subject to the variable levy are obliged to compete over a price handicap when market price is below the target price.

In agricultural trade, quotas and variable levies are often applied by a country to protect its important agricultural commodities; imports of other commodities when restricted, are restricted by duties. It is accordingly evident that tariff reductions offer only one part--the lesser part--of liberalizing agricultural trade.

In the format of the Kennedy Round, most nonbasic commodities were negotiated in the Agriculture Committee; for the most part, major commodities were dealt with in separately established "groups"--a "cereals group," a "meat group," a "dairy products group." Even before the start of the round the negotiators realized that the linear negotiating technique would not provide a workable approach to trade liberalization in the agricultural sectors. It was agreed that negotiations would be handled on the basis of specific offers. No consensus had been reached, however, on the type of offers that would be made. The EEC proposed to negotiate on the structure of agricultural supports; the United States on "access guarantees."

The EEC proposal on agricultural supports became identified as the "margin of support" ("montant de soutien") plan. <sup>1/</sup> It was not a new proposal; it had been before the standing committee on agriculture in the GATT (Committee II) for some years. The EEC proposed that, in the case of support systems that were restrictive of agricultural trade,

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<sup>1/</sup> A discussion of the evolution of this concept will be found in J. H. Richter, Agricultural Protection and Trade, New York, 1964, pp. 73-83, 90-98, 138-145.

"bindings" or pledges not to increase "margins" of support should be the first step toward improvement. Under the proposal, a system of world "reference" prices would be established for each basic commodity. Existing levels of support would be determined, and governments would pledge no increases thereof, except in circumstances of inflation or "political necessity." That the proposal did not carry was attributable at least in part to the difficulty in measuring support levels, although the wide latitude inherent in the two stated reservations doubtless would also have resulted in serious administrative problems.

Agricultural supports are both particular and general. In the United States, for example, there is a price support for wheat and this is clear and specific. Wheat growers, however, receive support beyond the price-support program for their commodity. Additional benefits are often accorded agriculturalists in many countries by diverse legislation. Inasmuch as these should properly be part of a calculation of agricultural support, they create difficult problems of measurement and allocation. In the United States, agricultural labor is not guaranteed the legal protection of self-organization and collective bargaining. In part it is outside minimum wage legislation as it is outside most other protective labor legislation. What is the scale of the advantage accruing from these exceptions? Other countries afford a variety of comparable benefits to producers of designated agricultural products--benefits difficult to identify and more difficult to measure. Government funds are also allocated in numerous countries for export promotion. The United States, for example, allocates 30 percent of the customs revenues each year to the Secretary of Agriculture for use,

among other purposes, for encouraging agricultural exports. How much do such measures add to the "margin of support" for wheat? The answer is not easy. Yet, unless supports can be identified and measured, "bindings" of support are not likely to be meaningful. In the end, efforts to negotiate the "montant de soutien" were abandoned.

A foreshortened negotiating period was a further complication in the agricultural negotiations. Under the original timetable, grain offers were to be tabled by May 17, 1965, and all other offers by September 17, 1965. The grains date was met and offers thereon accordingly tabled. Shortly thereafter, however, a crisis developed within the EEC over its internal agricultural policy; the dispute required about a year to resolve. While some agricultural offers were tabled in September 1965, the U.S. did not table items which were of major interest to the EEC. Since the EEC, a major market for agricultural products, made no offers other than on wheat, only a partial tabling had been achieved. Hence, most substantive work in the agricultural field was suspended while the EEC sought consensus on its internal agricultural policy. It was not until August 1966 that the EEC tabled its offers and full negotiations were resumed in the agricultural sector.

### Cereals

Grains--food and feed grains--constitute the most important group of agricultural commodities in international trade. In recent years they have accounted for some 40 percent of U.S. agricultural exports

(commercial and subsidized exports combined). 1/ The EEC has usually been the major market for U.S. grains, having taken close to one-fifth of U.S. grain exports, though of dollar sales, a far higher percentage. 2/ In the EEC the production of grains, after dairy products and cattle, is the most important agricultural activity measured by value. The importance of grains is emphasized by the fact that the EEC countries have been through two world wars when domestic supplies of food became of vital significance. For a number of countries, grains are literally a national security issue. The key participants, therefore, had exceptional interest in negotiations affecting "cereals" and, hence, the negotiations in grains took on key importance to the success of the round.

As part of its common agricultural policy (CAP), the EEC had increased its price support for wheat. To protect the program, it made imports subject to a variable levy. Thereafter, imports competed with domestic grains only with the payment of very substantial variable levies. Earlier in this chapter, the "trade creating" and "trade diverting" aspects of customs unions were discussed. To the United States, the EEC policy with respect to wheat constituted a definite case of "trade diversion." Through the variable levy, low-cost commodities from the outside were to be displaced by more expensive commodities from within. The CAP for grains was thus "inward looking" and

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1/ U.S. Department of Agriculture, Foreign Agricultural Trade of the United States, January 1969, table 19, p. 46. The calculation is in value terms.

2/ Ibid., together with supplement, U.S. Foreign Agricultural Trade by Commodities, January 1969, table 3, p. 4. The calculation is in value terms.

trade restrictive. To the great concern of the United States and other exporting countries, moreover, it seemed inescapable that the higher support prices would result in greater output of wheat within the EEC than the EEC could use. Unless the surpluses could be kept out of commercial channels, they would be likely to heighten competition among governments in subsidizing exports.

In the negotiations, U.S. representatives reminded the EEC spokesmen of the assurance at the Dillon Round that the variable levy would not be operated in a manner that would damage U.S. exports. <sup>1/</sup> Notwithstanding such assurance, it is clear from the very character of the variable levy that its purpose was in conflict with the pledge. The variable levy is designed to restrict imports--to the amounts needed at the target price level to supplement domestic output. The United States, therefore, was obliged to seek "access guarantees" at the Kennedy Round. The details of the grains agreement negotiated at the round are presented at the close of this section.

#### Dairy products

Dairy products constitute a major agricultural commodity in international trade. For such countries as Denmark, Holland, New Zealand, and Australia they are a prime source of foreign exchange. While the foregoing countries are the principal exporting countries, the dairy industry is an important agricultural activity in most temperate zone

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<sup>1/</sup> Referred to by Representative Curtis, Congressional Record, Apr. 10, 1967, p. 8803.

countries. The large number of farmers involved in dairying in many countries enables them to exert strong political pressures, and dairying has been declared a major agricultural activity deserving price support. As previously observed, the seemingly inevitable concomitants of price support are expanded output, surplus disposal problems, subsidized exports, and severe restraints on imports. In such circumstances, establishment of "acceptable conditions of access" in furtherance of expanded trade is a goal extraordinarily difficult of achievement.

Members of the dairy products negotiating group were: Argentina, Australia, Austria, Canada, Denmark, EEC, Finland, Ireland, Japan, New Zealand, Norway, Poland, Sweden, Switzerland, the United Kingdom, and the United States. For New Zealand in particular the dairy products talks were of exceptional significance. However, differences were not able to be reconciled and no agreement was achieved as a result of the dairy products negotiation.

#### Meat products

Meat products proved to be as difficult of negotiation at the Kennedy Round as were dairy products. Members of the meat negotiating group were: Argentina, Australia, Austria, Canada, Denmark, EEC, Ireland, Japan, New Zealand, Norway, Poland, Sweden, Switzerland, United Kingdom, and the United States. Argentina, the world's largest exporter of beef, is followed in that position by Australia, the Netherlands, New Zealand, Uruguay, and Yugoslavia. Members

importing the largest amount of beef annually are the EEC, United Kingdom, and the United States.

A number of countries provide price supports for meat, which they protect against imports with non-tariff devices. Although the EEC does not expect to achieve self-sufficiency in meats in the foreseeable future, it has developed substantial price supports for meat, which are reinforced with a modified variable import levy.

While the discussions started broadly they narrowed largely to efforts to negotiate "more acceptable conditions of access with a view toward expanding trade" in frozen beef. The EEC proposed the "montant de soutien" approach to the negotiations, but this was not accepted by the majority; hence, no progress was made in cutting through the extra-tariff barriers.

In view of the problems that confronted the negotiators in the agricultural sector, it is scarcely surprising that the accomplishments were modest at best for some items and virtually nil for others. While a "round" offers a negotiating forum for reducing barriers, which most agreed should be reduced, it does not afford a good setting for exploring and developing new commercial policy. In a "round" the atmosphere is essentially "adversary," where the representative of each contracting party is on the alert to strike the best bargain possible. While this facilitates commercial negotiations within established lines, it is not conducive to the exploration of new approaches. Agricultural trade is not satisfactorily handled by the rules governing industrial trade, as continuing recourse to numerous waivers and exceptions shows.

In the case of agriculture apparently a new approach will be required if a major reduction of barriers is to be achieved.

#### International Grains Arrangement

At the Kennedy Round the Contracting Parties outlined an International Grains Arrangement to provide, among other things, both maximum and minimum prices for the major varieties of wheat traded in international markets. The new Arrangement 1/ was achieved in two stages--its principal provisions were negotiated at the Kennedy Round and its final text was developed at the International Wheat Conference in Rome.

The negotiations at the Kennedy Round leading to the International Grains Arrangement were conducted in the cereals group and culminated June 30, 1967, with 16 principal wheat importing and exporting countries 2/ signing a "Memorandum of World Grains Arrangement." 3/ By signing this memorandum, each of these sixteen countries, including those comprising the EEC as well as the Community itself, agreed to:

negotiate a world grains arrangement, on as wide a basis as possible, . . . to work diligently for the early conclusion of the negotiation, and . . . to seek acceptance of the arrangement in accordance with its constitutional procedures as rapidly as possible. 4/

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1/ The text of the International Grains Arrangement may be found in U.S. Congress, House, Committee on Ways and Means, Foreign Trade and Tariff Proposals, Hearings, 1968, pt. 1, pp. 394-437.

2/ The 16 countries were: Argentina, Australia, Canada, Denmark, Finland, Japan, Norway, Sweden, Switzerland, United Kingdom, United States and the European Economic Community and its members: Belgium-Luxembourg, Germany, Italy, Netherlands and France.

3/ The text of the Memorandum of Agreement on Basic Elements for the Negotiation of a World Grains Arrangement may be found in GATT, Legal Instruments Embodying the Results of the 1964-1967 Trade Conference, vol. V, pp. 3677-91.

4/ Ibid., p. 3678.

The memorandum delineated the principal items upon which the major wheat trading countries later agreed in the Arrangement. These related to: the establishment of minimum and maximum prices for various types of wheat; regulations to govern commercial purchases and supply commitments, and provisions for extending aid in the form of food. The content of the International Grains Arrangement for the most part was agreed upon at the Kennedy Round.

From July 12 to August 18, 1967, representatives of 52 countries, including countries comprising the EEC and the Community itself, met in Rome at the International Wheat Conference primarily to implement the Memorandum. <sup>1/</sup> The International Grains Arrangement combined the provisions of the Kennedy Round Memorandum with the administrative and institutional structure of the International Wheat Agreement, the substantive provisions of which expired on July 31, 1967.

The Grains Arrangement establishes higher minimum and maximum prices for wheat than in the preceding International Wheat Agreement. The new Arrangement does this for various types and grades of wheat and sets up procedures to be followed when world market prices approach these levels. Wheat exporting nations are generally confronted with supplies that are greater than the quantity that

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<sup>1/</sup> For a fuller discussion of The International Grains Arrangement, cf. Fred H. Sanderson, "The International Grains Arrangement," U.S. Department of State Bulletin, May 6, 1968, pp. 590-594.

commercial channels can absorb at prices regarded as sufficient to provide acceptable levels of income for the existing number of farmers. 1/ The participating countries, therefore, deemed it important to develop means to remove part of the supply from the commercial channels. The Arrangement, accordingly, consists of two parts--one dealing with price, the Wheat Trade Convention, and the other dealing with surplus disposal, the Food Aid Convention. Both of these Conventions are to run for an initial period of 3 years; provision is made for their renewal or replacement.

In the Wheat Trade Convention, the projected price goals--minimum and maximum--are defined in terms of 14 major internationally traded types and grades of wheat. The new minimum levels for the various types and grades of wheat are roughly 20 cents per bushel (12 percent) higher than the prices used in the International Wheat Agreement which calculated prices from one type and grade of wheat. In fact, the new minimum prices do not differ significantly from the average export prices for the various types of wheat during the 5-year period 1962/67. 2/ The maximum prices are set at 40 cents above the various minima. Although this higher price range is wider than the

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1/ For a discussion of this point cf. Statement by D. Gale Johnson submitted to the U.S. Congress, Senate, Subcommittee of the Committee on Foreign Relations, International Grains Arrangement of 1967, Hearings, 1968, p. 143.

2/ Testimony of Helen C. Farnsworth before U.S. Congress, Senate, Subcommittee of the Committee on Foreign Relations, International Grains Arrangement of 1967, Hearings, 1968, pp. 74, 145, and 147.

usual market-price fluctuations, it was deemed to be sufficiently narrow to prevent the wide price fluctuations that the negotiators sought to avoid.

The Convention obligates the signatory importing countries to purchase specified minimum percentages of their commercial import requirements from signatory exporting countries. These exporting countries must sell to the signatory importing nations their "normal commercial requirements" at prices consistent with the Arrangement. Signatory exporting countries may sell at prices above the maxima to nonsignatory countries at any time as well as to signatory countries once their "normal commercial requirements" have been met. Minimum prices must be met on sales to, and purchases from, nonsignatory countries. 1/

When world market prices approach the agreed-upon minima, procedures may be invoked under the Arrangement to adjust the minimum prices and the differentials between the prices for the various types and grades of wheat. If the various countries cannot negotiate appropriate adjustments of the minimum prices, however, an exporting country may sell wheat at competitive prices, even if these prices are lower than the published minima. 2/ One eminent agricultural economist observed that even if prices are subject to continued

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1/ Fred H. Sanderson, "International Grains Arrangement," U.S. Department of State Bulletin, May 6, 1968, p. 591.

2/ "Summary of Statements on Adjustments in Minimum Prices" prepared by GATT in Hearings before the U.S. Congress, Senate, Subcommittee of the Committee on Foreign Relations, International Grains Arrangement of 1967, Hearings, 1968, p. 114.

negotiations, the higher minimum levels are likely to create "an unwarranted optimism with respect to the prospective prices of wheat and induce inappropriate actions on the part of governments and farmers." 1/ When the Grains Arrangement was ratified by the U.S. Senate, the U.S. Department of Agriculture issued the following statement concerning the minimum prices:

. . . heavy current U.S. supplies have been reducing U.S. domestic market prices, and the levels of export prices for several wheat classes are below the IGA minimums. The action taken today to implement the price provisions will bring U.S. export prices up to the IGA minimums. Over the long run, the effect of this will be felt in U.S. domestic prices, as the Arrangement's minimum prices provides a definite goal for U.S. prices to move toward. 2/

In the Food Aid Convention, as in the Memorandum signed at the Kennedy Round, the developed countries agree to supply the developing countries annually with 4.5 million metric tons of either wheat, coarse grains suitable for human consumption, or the cash equivalent thereof. Four point two million metric tons were subscribed in the Memorandum. The food aid provided for in this Memorandum is to be supplied either as grants or for payment in local currency, which will not as a rule be available for use by the contributing country. 3/ To the extent that the member countries direct their excess domestic production to the food aid program, the pressure

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1/ D. Gale Johnson in U.S. Congress, Senate, Subcommittee of the Committee on Foreign Relations, International Grains Arrangement of 1967 Hearings, 1968, p. 141.

2/ "Foreign Agriculture," July 1, 1968, p. 5.

3/ GATT, Legal Instruments Embodying the Results of the 1964-1967 Trade Conference, vol. V, pp. 3682-83.

on commercial markets will be lessened. The following minimum annual contributions by each party were stipulated in the Memorandum:

|                     | <u>1,000 metric tons</u> | <u>Percent of total donation</u> |
|---------------------|--------------------------|----------------------------------|
| United States-----  | 1,890                    | 42.0                             |
| Canada-----         | 495                      | 11.0                             |
| Australia-----      | 225                      | 5.0                              |
| Argentina-----      | 23                       | 0.5                              |
| EEC-----            | 1,035                    | 23.0                             |
| United Kingdom----- | 225                      | 5.0                              |
| Switzerland-----    | 32                       | 0.7                              |
| Sweden-----         | 54                       | 1.2                              |
| Denmark-----        | 27                       | 0.6                              |
| Norway-----         | 14                       | 0.3                              |
| Finland-----        | 14                       | 0.3                              |
| Japan-----          | 225                      | 5.0                              |

Disposal of surplus food grains can benefit the less developed countries by: (1) providing additional food resources for their domestic consumption, (2) reducing the pressure on their domestic (food) price levels; and (3) freeing scarce foreign exchange for the importation of other needed items. If such surplus disposal impedes technological improvement in agricultural production in the less developed countries, however, it could damage their long-run economic development. 1/

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1/ Boris Swerling, Current Issues in Commodity Policy, Princeton University Economics Department, International Finance Section, Essays in International Finance, No. 38, 1962, pp. 5-6.

### The Less Developed Countries

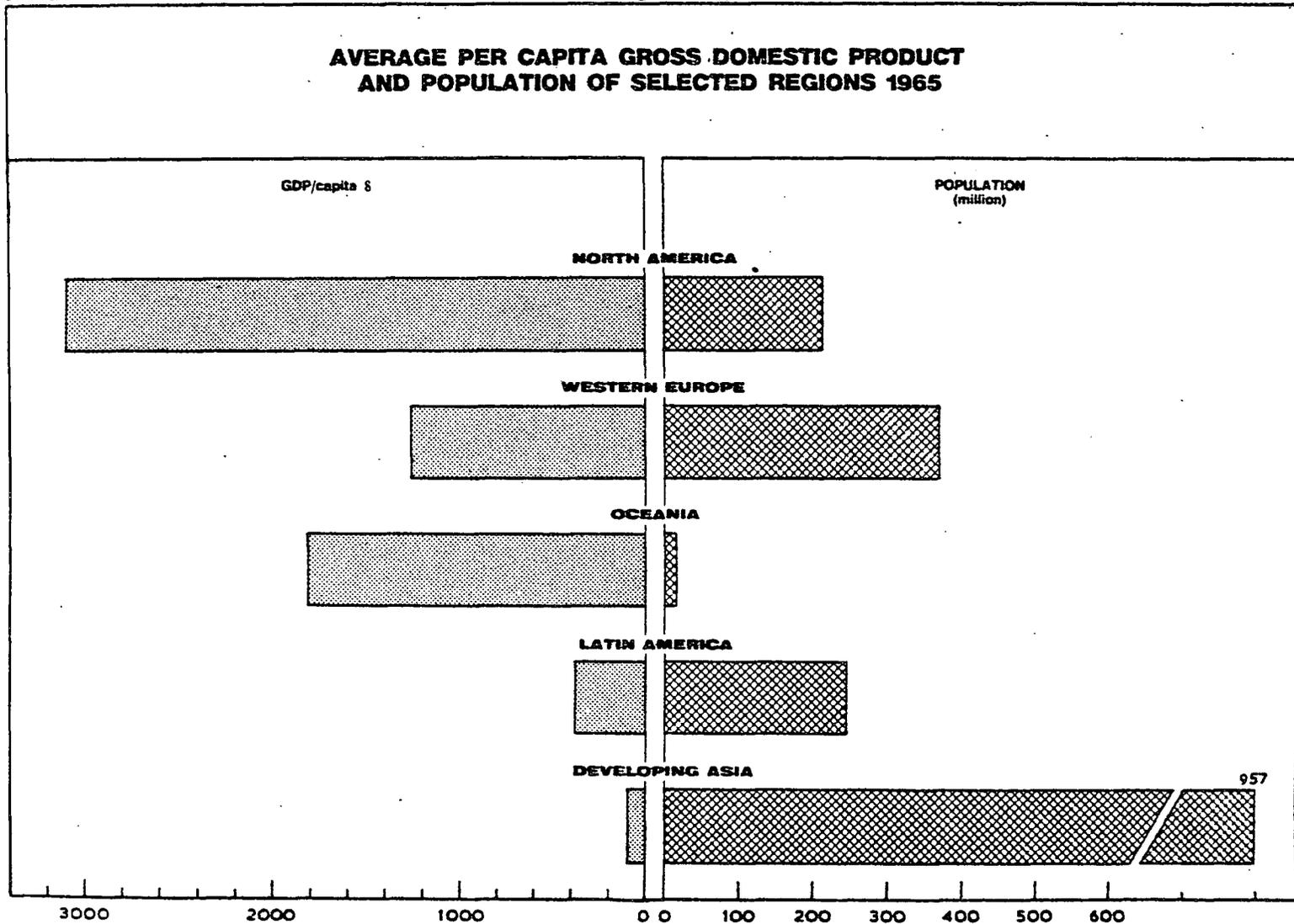
Although at previous GATT rounds the problems of the less developed countries (LDC's) had been the subject of discussion and some action, at the sixth round these problems were placed center on the GATT stage. Midway during the round, Director General E. Wyndham White, addressing the 23d Session of the GATT, observed that the Kennedy Round had two broad objectives: to secure a degree of trade liberalization both deeper and more comprehensive than had been achieved in the past, and to undertake a series of actions "to meet the urgent trade and economic development problems of the less developed countries." 1/

Although the poverty of the world is an ancient phenomenon, it awaited the post-World War II period to be "discovered." The accompanying chart (figure 2) portrays graphically the stark differences in levels of living that characterize the peoples of the world. The "discovery" of this poverty has added new nomenclature to the language--e.g., "less developed countries," "underdeveloped countries," "emerging countries," and "developing countries." The goal of those attempting to overcome poverty in Asia, Africa, and Latin America is not only to raise the levels of living in those areas, but also to narrow the gap separating developed from underdeveloped countries. One is an absolute objective; the other relative. Any improvement in the output of the LDC's contributes to the first objective; only

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1/ GATT Press Release 957, Apr. 22, 1966, p. 4.

Figure 2



Source: UNCTAD, *Handbook of International Trade and Development Statistics*, 1967, graph 8, unnumbered page at the end.

Note.--It will be observed that Africa is omitted from the chart, presumably because of lack of data.

more rapid economic growth in the less developed countries than in the developed countries contributes to the second. In recent years the gross domestic product of the developed economies has grown at a rate of nearly 5 percent a year, and their per capita income has increased at nearly 4 percent a year. If the disparity between the developed and the underdeveloped countries is to be lessened, therefore, the LDC's must sustain higher rates of growth than those achieved by the more advanced countries. Such, however, has not been the case, as seen in the tabulation below. Inasmuch as population increases may negate the growth of national output, it is pertinent to make comparison in terms of per capita income as well. 1/

|                          | Annual rates of growth,<br>percent compounded |         |      |                       |
|--------------------------|---|---------|------|-----------------------|
|                          | 1955-60                                       | 1960-65 | 1965 | 1966<br>(Preliminary) |
|                          | Real gross domestic product                   |         |      |                       |
| LDC's-----               | 4.6   | 4.5     | 3.8  | 4.5                   |
| Developed countries----- | 3.2   | 5.1     | 5.2  | 5.0                   |
|                          | Per capita real gross domestic product        |         |      |                       |
| LDC's-----               | 2.2   | 2.0     | 0.9  | 2.0                   |
| Developed countries----- | 2.0   | 3.6     | 4.0  | 3.8                   |

The concern at the Kennedy Round with the importance of trade to development reflects a shift of emphasis on how best to meet the

1/ Calculations by the UNCTAD Secretariat based on data obtained from the United Nations, Organization for European Cooperation and Development (OECD), and the U.S. Agency for International Development (AID). UNCTAD, Review of International Trade and Development, 1967, TD/5 Rev. 1, 1968, p. 1.

growth problems of the LDC's. <sup>1/</sup> In the fifties attention initially focused on problems of capital formation as a means of breaking the "vicious circle of poverty"--the view being that low capital investment makes for low output, which in turn makes for low savings, thereby perpetuating the cycle of low investment. Later in the decade, attention turned to the importance of literacy, entrepreneurship, and the other human skills required for sophisticated economies. In the sixties, however, trade came to be emphasized as the "engine of growth," or more modestly as "fuel for growth." <sup>2/</sup>

A series of actions underscored the growing awareness by the GATT membership of the role of trade in development. In 1958 the "Haberler Report" directed attention to the importance of trade for the growth process. <sup>3/</sup> In 1961 the Contracting Parties adopted a

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<sup>1/</sup> It would be inappropriate to convey the impression that attention of GATT was first turned to the problem of the LDC's in the sixties. Article 18 of the original agreement dealt with developmental trade and, by subsequent amendment, it became increasingly focused to LDC issues. Some of the actions permitted under this article, however, require annual review by the Contracting Parties, others biennial review, and over the years only limited use has been made of it.

<sup>2/</sup> Isaiah Frank, "The Role of Trade in Economic Development," International Organization, Winter, 1968, pp. 44-71. Professor Frank observes: "The concept of foreign trade as an engine of growth rests not only on specific technical linkages of the Hirschman type but also on the more general multiplier effects of expanding exports on income, employment, and investment . . . But, by and large, developing countries would be satisfied if exports performed efficiently the lesser and more passive role of providing the fuel for continuing growth in the form of steadily increasing supplies of foreign exchange." p. 56.

<sup>3/</sup> GATT, Trends in International Trade, A Report by a Panel of Experts, Geneva, Oct. 1958.

"Declaration on Promotion of the Trade of the Less-Developed Countries"; <sup>1/</sup> in 1963, they agreed upon a "Programme of Action," on "Measures for the Expansion of Trade of Developing Countries as a Means of Furthering Their Economic Development." <sup>2/</sup> In 1964, they proposed the addition of--and in 1966 they adopted--Part IV to the General Agreement itself (articles XXXVI-XXXVIII), dealing specifically with trade problems of the LDC's. <sup>3/</sup> Thus, recognition of the "urgent trade and economic development problems" of the LDC's at the Kennedy Round was the product of these earlier measures.

The U.S. Congress took special cognizance of the LDC's when enacting the Trade Expansion Act, the enabling legislation for U.S. participation in the round. Under section 213 the President was given special authority to remove duties on tropical agricultural and forestry products. Congress authorized duty reductions in excess of 50 percent for products in these categories if U.S. production was not "significant," provided that the EEC would assure comparable access to their markets substantially without differential treatment as among free world countries of origin. Further, the Congress authorized such reductions to be made all at one time, not phased as other reductions were required to be.

Even though the Kennedy Round was pledged to give particular attention to the trade problems of the LDC's, anticipation that

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<sup>1/</sup> The text may be found in GATT, Programme for Expansion of International Trade. Trade of Less-Developed Countries, Development Plan: Study of the Third Five-Year Plan of India, Geneva, 1962, pp. 21-24.

<sup>2/</sup> The text may be found in GATT, Basic Instruments and Selected Documents, 12th Supp., pp. 36-47.

<sup>3/</sup> Ibid., 13th Supp., pp. 2-7.

benefits from the round would be slight induced the LDC's to establish a separate trade organization, the United Nations Conference on Trade and Development (UNCTAD), to deal with their trade problems. 1/ UNCTAD held its first meeting from March to June 1964--a period that overlapped the early months of the Kennedy Round. A dilemma facing the LDC's was that while the UNCTAD could easily adopt resolutions supporting the commercial policies they sought, it is the developed economies which have the capacity to implement such resolutions. In the GATT, where representation of the developed economies is centered, and where machinery exists for such implementation, the LDC's are not strong.

Close to three-quarters of the LDC members of the GATT chose not to participate in the sixth round. This decision was made even though the round was committed to an action program for the LDC's and notwithstanding that the requirement of reciprocity on the part of the LDC's had been waived.

Reference has already been made to the special section (sec. 213) in the Trade Expansion Act providing exceptional Presidential authority in the case of tropical agricultural and forestry products, but this provision was not translated into significant results. Very few products of interest to the LDC's turned out to meet the test of no "significant" U.S. domestic production, and when the EEC chose to join with the United States in offering nonpreferential reductions on only certain of these tropical products, even fewer items qualified.

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1/ A report of the first conference may be found in UNCTAD Proceedings, 8 vols., United Nations, New York, 1964.

The background to the preferential arrangement by the EEC grew out of the Treaty of Rome establishing the Community. The treaty provided for the association of the non-European territories of France, Belgium, the Netherlands, and Italy. In 1963 the former African colonies thus involved, now 18 independent countries, asked for an arrangement taking note of their new status. In the Yaounde Convention of July 20, 1963, the EEC accorded duty-free entry to the exports of these nations. While such an arrangement accorded distinct advantages to the new governments concerned, it discriminated against the products of the LDC's not included. Thus, whereas bananas from "associated overseas states" (AOC) enter the EEC duty-free, those from Central and South America are subject to duty as provided for in the CXT.

By making the cooperation of the EEC a prerequisite to the exercise of the U.S. authority to grant special reductions in duty on tropical products, the American Government had hoped that pressure by the LDC's excluded from preferential EEC treatment would induce the EEC to adopt a nonpreferential approach. <sup>1/</sup> However, since the U.S. Tariff Commission found that few tropical products met the test of no "significant" domestic production, and since the EEC was willing to join the United States on only certain products, little

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<sup>1/</sup> John B. Rehm, "The Kennedy Round of Trade Negotiations," American Journal of International Law, April 1968, p. 407. The EEC, however, faced the reluctance of the AOC's to forego their preferential treatment in the EEC.

happened under section 213. 1/

To enable the contracting parties at the Kennedy Round to appraise the trade needs of the LDC's, the latter were asked to indicate products of special interest to them. 2/

Other than agricultural products, the major primary export of the LDC's is petroleum. Petroleum was on the U.S. exceptions list because, under the provisions in the Trade Expansion Act, the United States could not grant concessions on products the import of which was deemed to impair the national security. 3/ Accordingly, the United States, a major importer of petroleum, was unable to negotiate on this product. Other countries did negotiate, however. The EEC reduced its CXT rates from 3.7 percent to 1.9 percent; the United Kingdom its MFN rates from 0.2 percent to 0.1 percent; and Japan

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1/ Under its tropical-products authority, sec. 213, the United States granted concessions on 24 tariff items. (There are some 5,200 tariff items in the TSUS.) The value of imports under these 24 items in 1964 amounted to \$75 million, out of total imports of \$18.6 billion. Two of the items, shredded dried coconut and shelled cashews, constituted two-thirds of the value of such imports. In 1964 imports of coconut amounted to \$16.6 million and imports of shelled cashews, \$33.4 million.

2/ A 1966 form of this list may be found in GATT Com. TD/23, June 29, 1966.

3/ At this round, the United States sought to make a distinction of exceptions which were not of "principal-supplier" interest to GATT members calling these "exclusions." Thus, the United States proposed that its own exceptions list should not be debited with petroleum, which it was obliged to withhold because earlier it had been made a product of national-security interest. The United States argued that the omission from exceptions lists of "exclusions" would be an inducement to accession. Other participants did not accept this view and treated petroleum like any other commodity on the U.S. exceptions list. Of greater effect on petroleum imports into the United States than duty rates are, of course, the quantitative controls which govern the amount which shall enter.

reduced its rates from 12.8 percent to 12.6 percent. <sup>1/</sup> Among these three countries, low rates were made lower, a substantial rate was little cut. Thus one would not expect a substantial liberalizing of petroleum trade from the action of these governments.

Among the 20 percent of the LDC trade that is not in agricultural and primary products, are various manufactures, one of the most important of which is cotton textiles. But, as already noted, exports of cotton textiles were subject to control under the Long-Term Textile Arrangement, which was extended until 1970. <sup>2/</sup>

The preponderance of agricultural and primary products in the LDC export trade (table 2) largely explains why so little was accomplished on their behalf at the Kennedy Round. The national agricultural programs, which nations have devised for their agricultural sectors, obstruct efforts toward trade liberalization. Quotas, variable levies, and variations of the variable levy effectively restrict imports, regardless of source. Often a corollary of domestic support is export subsidization. On occasion, therefore, subsidized exports from developed countries compete in third markets with the exports of LDC's.

The prices of primary products are often subject to sharp fluctuations on the world market. Such price fluctuations arise out of the fact that the demand for such commodities is frequently inelastic; these commodities, moreover, are sold in competitively organized markets, wherein market adjustments occur through price, rather than

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<sup>1/</sup> UNCTAD, "The Kennedy Round: Preliminary Evaluation of Results," TD/6/Supp. 4, tables A-II, A-V, and A-VIII.

<sup>2/</sup> Cf. discussion above under textiles.

Table 2.--Exports from developing countries, 1/ by major commodity groups, 1960-65

| Commodity group  | Share of total exports 1960-1965<br>Percent | Share of workforce in commodity group, 1965 2/<br>Percent |
|--|---|---|
| <u>Competing foodstuffs</u> -----                            | 21.7  | 20.4  |
| Rice and sugar-----  | 4.2   | 3.0   |
| Oil seeds and vegetable oils-----                            | 2.5   | 4.7   |
| Other tropical/temperate zone products-----                  | 3.8   | 4.4   |
| Diversified competing food stuff-----                        | 11.2  | 8.3   |
| <u>Non-competing tropical food stuff</u> -----               | 13.6  | 13.4  |
| Coffee-----  | 9.6   | 11.0  |
| Other tropical food stuff-----                               | 4.0   | 2.4   |
| <u>Agricultural raw materials</u> -----                      | 9.2   | 13.2  |
| Rubber and textile fibres, etc-----                          | 8.9   | 13.2  |
| Hides, skins, wood, lumber and other-----                    | 0.3   | 0.0   |
| <u>Fuels</u> -----   | 26.9  | 4.1   |
| Coal, crude petroleum, petroleum products, gas-----          | 26.9  | 4.1   |
| <u>Fertilizers and crude minerals, precious stones</u> ----- | 0.3   | 0.2   |
| <u>Metalliferous ores and metals</u> -----                   | 7.5   | 3.3   |
| Iron ore and bauxite-----                                    | 1.2   | 0.5   |
| Copper, tin and other non-ferrous metals-----                | 6.3   | 2.8   |
| <u>Manufactured goods</u> -----                              | 10.2  | 34.5  |
| <u>Diversified exports</u> -----                             | 10.6  | 10.9  |
|  | 100.0                                       | 100.0   |

1/ "Developing countries" is taken to include Greece, Spain, Turkey, and Yugoslavia.

2/ The original table uses the expression "'share of population' in commodity group."

Source: UNCTAD, Handbook of International Trade and Development Statistics, (mimeographed) 1967. Table 5.1, p. 128.

through price and quantity. The agricultural support programs employed by developed economies serve to temper domestic price fluctuations, but for the LDC's which frequently put a large part of their output on the world market there is no such tempering influence. At times, however, commodity agreements have been used in attempts to achieve international price stability. <sup>1/</sup> Notwithstanding the concern at the Kennedy Round for the LDC's, the only commodity agreement to emerge from the sixth round was the International Grains Arrangement. As has been noted, with but one exception, major wheat exporting countries have developed economies. The 1968 coffee agreement was negotiated outside the GATT, and earlier efforts to negotiate the cocoa and sugar agreements occurred outside the GATT.

#### Nontariff Barriers

Nontariff barriers were the subject of the fourth major area of negotiation at the Kennedy Round. The 1963 ministerial resolution had specifically stated that the round would "deal not only with tariffs but also with nontariff barriers." Nontariff barriers refer to restrictive trade practices that do not rest on duties and that are employed both by governments and private businesses. The negotiators regarded governmentally imposed barriers as including import quotas, "voluntary restraints," variable levies, administration of antidumping regulations, exceptional procedures in customs valuation, border

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<sup>1/</sup> Cf. Gerda Blau, International Commodity Arrangements and Policies, Food and Agricultural Organization, Rome 1964.

taxes, 1/ road-use taxes, state trading, mixing regulations, governmental procurement practices, and health and sanitary regulations. 2/ Frequently, private business arrangements also impede trade. For example, an international cartel may restrict trade in a number of ways such as control over prices, allocation of markets, restriction of supply, and control over technology. At times patent-licensing arrangements are highly restrictive of trade. Further, multinational companies occupying dominant market positions in two or more countries have the ability to restrict as well as to promote trade.

The foregoing enumeration indicates the wide range of nontariff barriers that can restrict commerce. At the Kennedy Round, the principal restrictions that were singled out for action were the administration of antidumping procedures and use by the United States of the American Selling Price (ASP) system of customs valuation. 3/

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1/ While not conspicuous during the round, the subject of border taxes has drawn increasing attention since the negotiations were concluded. For a discussion of border taxes and the effect of tax systems on international trade cf., OECD, Border Tax Adjustments and Tax Structures in OECD Members, Paris, 1968. (Two titles have been used on this publication. The foregoing one is on the cover; the title given on the title page is Report on Tax Adjustments Applied to Exports and Imports in OECD Member Countries.)

2/ A general discussion of nontariff barriers will be found in William B. Kelly, Jr., "Nontariff Barriers" in Bela Balassa, et al., Studies in Trade Liberalization, Baltimore, 1967, pp. 265-314. See also: Robert Baldwin, "Toward the Seventh Round of GATT Trade Negotiations," in U.S. Congress, Joint Economic Committee, Issues and Objectives of U.S. Foreign Trade Policy, 1967, pp. 21-30; Mark Massel, Nontariff Barriers as an Obstacle to World Trade, Washington, 1965.

3/ Action was also taken on road-use taxes and limitations on imports of canned fruit preserved with corn sirup in a supplemental agreement which would become effective upon implementation by the United States of certain commitments on ASP requiring legislation.

Antidumping practices

The term "dumping" is not ordinarily applied to domestic goods sold at less than normal value; in such a situation, one speaks of price discrimination. Dumping, as a legal concept under U.S. law, refers to imports at less than fair value which cause injury to a domestic industry.

Under article VI of the GATT, basic standards are set forth which should be met by contracting members to the agreement before dumping actions shall be taken against imports from another member country. 1/ Although the article was designed to promote uniformity of antidumping practices between member countries in substantive matters, its success was limited for two major reasons: (1) some of the major trading countries (including the United States) had undertaken to abide by its provisions only to the extent that they were consistent with the antidumping laws of such countries at the time of their accession to the agreement, and (2) the various member countries were not harmonious in their interpretation of the rather general terms of article VI.

The differences of views regarding antidumping practices were highlighted by criticisms of the various governments of other member practices. Article VI stipulates that two criteria must be met before a dumping duty is appropriate: the product must be introduced into the

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1/ The inclusion of the antidumping provisions in the GATT was based upon a U.S. proposal. Cf. GATT, Antidumping and Countervailing Duties, Geneva, July 1958, p. 7. The GATT article is derived in part from concepts embodied in the U.S. statute.

commerce of an importing country at less than its "normal value," and imports of such product must cause or threaten "material injury" to a domestic industry. The United Kingdom, the EEC, and a number of other governments were critical of the United States for not making such determinations simultaneously. Under U.S. law these determinations are sequential. Criticism was also made of the extent to which special dumping duties might be assessed retroactively in the United States.

U.S. negotiators expressed the view that the problems in anti-dumping practices were far broader than the issues being raised with respect to U.S. practices. They pointed to the lack of specificity in many antidumping laws regarding the criteria for assessing dumping duties and the procedural rights of interested parties. Particular concern was expressed over the Canadian practice of assessing dumping duties without regard to whether the imported article causes injury to a domestic industry.

To deal with these complaints and differences of view, a group on antidumping policies was set up under the subcommittee on nontariff barriers. Members included the United States, the United Kingdom, the EEC, Canada, Japan, the Scandinavian countries, and Switzerland. The group undertook to establish more specific meanings for certain of the key terms in article VI--such as "material injury" and "industry" and the degree of causation between sales at less than "normal value" and injury.

U.S. procedures about which complaint was made at the Kennedy

Round. --U.S. dumping procedures call for the Secretary of the Treasury, who determines whether there are "sales at less than fair value" under the U.S. antidumping statute (the U.S. Tariff Commission determines whether there is injury), to withhold appraisement when he has reason to believe or to suspect that export sales to U.S. purchasers are occurring at a price less than the foreign market value. 1/ In such circumstances, he is authorized to withhold the appraisement of "such merchandise entered, or withdrawn from warehouse, for consumption on any date after the 120th day before the question of dumping was raised by or presented to the Secretary of the Treasury or his delegate." 2/ Withholding of appraisement is a temporary action. The Secretary must determine whether sales are occurring at less than fair value. If his determination is negative, he directs customs officers to resume appraisement. If, however, there are found to be sales at less than fair value, the case goes to the Tariff Commission which must determine whether an industry is being or is likely to be injured by such imports. If the Tariff Commission determines that an industry is being, or is likely to be, injured, the Treasury Department issues a finding of dumping under which dumping duties are imposed.

In the calendar years 1957 to 1964, inclusive, the U.S. Treasury acted upon 248 complaints of alleged dumping. Thirty-seven cases

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1/ The administrative procedures in use at the time of the Kennedy Round were detailed in Title 19 of the Code of Federal Regulation, sections 14.6-14.13, inclusive. For the present regulations, cf. footnote 1, p. 231.

2/ As a rule, most imports made prior to the Secretary's issuance of an order to withhold appraisement have already been appraised and are not subject to dumping duties.

were referred to the Tariff Commission of which eight resulted in a finding of injury or likelihood of injury by the Tariff Commission and the resultant imposition of dumping duties. Of the remaining 211 cases, 62 investigations were terminated as a result of the foreign suppliers adjusting the price of the product and 149 cases were found not to involve sales at less than fair value. Of the 248 cases, appraisement was withheld in 101 cases. <sup>1/</sup> Appraisement was withheld in very few of the cases that were found not to involve sales at less than fair value.

U.S. criticism of foreign dumping procedures.--The United States criticized the lack of published regulations governing the conduct of dumping cases by a number of foreign governments. Specifically, the United States criticized the lack of publication of notices of pending formal dumping investigations, the exporters' lack of access to the information upon which the dumping complaint was based, the absence of confrontation between U.S. exporters and the domestic complainants-- in short, the lack of open procedures. Further, the United States expressed concern that its largest trading partner, Canada, did not use the dual criteria of sales at less than normal value and material injury in determining dumping cases. Although Canada is a contracting party to the GATT its antidumping legislation has not required that imported products sold at less than normal value cause or threaten to cause injury to a domestic industry as a condition for

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<sup>1/</sup> Congressional Record, June 1, 1965, p. 12076.

imposing dumping duties. This practice is inconsistent with article VI of the GATT, but is permitted under the Protocol of Provisional Application. Canada's adoption of the code would necessitate a determination of material injury.

### The Antidumping Code

In response to these differences and complaints, the negotiators developed an antidumping code amplifying article VI of the General Agreement. The negotiation of more definitive rules to govern the implementation of existing antidumping provisions offered a means of achieving greater international uniformity. The new code is intended to standardize the manner in which article VI is interpreted under national legislation by supplying more specific meanings to the terminology of article VI. By the close of 1968, i.e., a year after the close of the period covered by this report, some 20 countries, including the United States and Canada, had acceded to the code and thereby agreed to conduct their antidumping procedures in accordance with its provisions. 1/

Divided into five parts, the substantive portion of the code consists of 12 articles (article 1 affirms that antidumping duties will be imposed only in accordance with article VI of the General Agreement):

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1/ The U.S. Treasury Department amended Title 19 by deleting paragraphs 14.6 through 14.13, 16.21, 16.22 and 17.9 and adding a new "Part 53 Antidumping." The text of these regulations may be found in 33 Federal Register (June 1, 1968) 8244. The U.S. Tariff Commission is continuing to administer the injury provisions in accordance with the Antidumping Act, 1921, as amended, taking into account the provisions of the Code, as prescribed by statute. Cf. "Renegotiation Amendments Act of 1968" (Public Law 90-634) and the reports thereon.

- A. Determination of Dumping
  - Article 2: Articulates relevant prices and likeness of products
- B. Determination of Material Injury, Threat of Material Injury and Material Retardation
  - Article 3: Determination of injury
  - Article 4: Identification of the industry
- C. Investigation and Administration Procedures
  - Article 5: Initiation and subsequent investigation
  - Article 6: Evidence
  - Article 7: Price undertakings
- D. Antidumping Duties and Provisional Measures
  - Article 8: Imposition and collection of antidumping duties
  - Article 9: Duration of antidumping duties
  - Article 10: Provisional measures
  - Article 11: Retroactivity
- E. Antidumping Action on Behalf of a Third Country
  - Article 12: Specified procedures on behalf of a third country.

In response to complaints that the United States failed to provide for simultaneous consideration of whether sales had been made "at less than normal value" and whether "material injury" had occurred, the code (article 5) provides that the two are to be considered together. Further, with respect to the complained-of retroactivity in U.S. procedures, the code (articles 11, 10, and 8) stipulates that, with minor exception, action taken under antidumping statutes shall not apply retroactively.

The United States had been concerned with the lack of open procedures by foreign countries in the initiation and conduct of

antidumping proceedings; as a result, various guidelines governing procedures were included in article 6 of the code. The first requires that affected exporters and importers shall be notified that there is sufficient evidence to justify initiating an antidumping investigation. Secondly, such exporters and importers are to be accorded the right to review all nonconfidential information that is relevant to the presentation of their cases, as well as the opportunity to submit in writing all evidence that they consider relevant. Thirdly, the exporter and importer are to be accorded full opportunity to defend their interests, including confrontation with those parties having adverse interests. Fourthly, the exporters and importers shall be notified of the governments' decisions concerning the imposition or nonimposition of antidumping duties, and shall be informed what criteria the authorities employed in reaching their decisions. Such decisions, moreover, are to be made public. With reference to the U.S. complaint of the absence of dual criteria for making dumping determinations elsewhere, the code reaffirms the dual criteria of article VI of the General Agreement.

The code deals with numerous other issues. Such troublesome terms as "like products," sales at "less than normal value," "material injury," and a domestic "industry" are elaborated or redefined. The code stipulates that there must be an important causal link between imports sold at less than normal value and the material injury; if found, imports are to be demonstrably the principal causal factor.

The code provides guidance for determining what shall be deemed to constitute the "industry" that could be materially injured in consequence of dumped imports; article 4 of the code states that the term "industry" shall refer:

to the domestic producers as a whole of the like products [ "like products" is defined in article 2, par. b/ ] or to those of them whose collective output of the products constitutes a major proportion of the total domestic production of those products.

Two exceptions to this guideline are permitted, however. The more important of the two permits, in exceptional circumstances, a country to take cognizance of the fact that different groups of domestic producers of the affected products supply two or more distinct markets. The producers supplying each market may be regarded as a separate industry if: (1) transportation costs are such as to force the producers to sell all or almost all of their product in that market; or (2) special regional marketing conditions cause the producers in such a market to be similarly isolated from the rest of the industry. In either of the two cases, however, injury determinations are permissible only if there is injury to all or almost all of the production as defined.

Thus, the code provides additional guidelines for the determination of dumping. The negotiators hoped that the code would eliminate "unjustifiable" barriers to international trade arising out of the administration of antidumping statutes. 1/

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1/ For the text of the U.S. Tariff Commission report on the code, cf. U.S. Senate, Committee on Finance, International Antidumping Code, pp. 321-380.

### American Selling Price

The importance attached by the various contracting parties to the use by the United States of the American Selling Price (ASP) method of appraising some imports has already been discussed in an earlier section. 1/ Moreover, the manner in which the overall issue was resolved was explained in detail. Brief mention of these proceedings will be made here because at the Kennedy Round ASP was treated as a nontariff barrier.

At the Kennedy Round, ASP was cast into the role of a "cause celebre." The EEC was adamant that it be given up. The United Kingdom and Switzerland likewise believed that the time had come for the United States to abandon this practice. But inasmuch as the United States had determined that the TEA did not provide authority to eliminate the ASP method of valuation, the U.S. negotiators were not in a position to effectuate its abandonment. As explained earlier, the most that they could pledge was that the Administration would use its best efforts to persuade the Congress to repeal this provision. The issue at the Kennedy Round was deemed to be so important by the EEC and the United Kingdom that they made a large portion of their chemical concessions dependent upon U.S. repeal. 2/

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1/ See the sections on the American Selling Price and the Chemical Package.

2/ As will be seen in the following section, EEC duty reductions in chemicals with ASP repealed average 46 percent, without repeal 20 percent.

## ACCOMPLISHMENTS OF THE KENNEDY ROUND

In the foregoing pages the setbacks and achievements of the Kennedy Round have been viewed topically. Now the round needs to be considered as a whole. Whether the basis for comparison is world trade today or the past five GATT negotiations, the Kennedy Round represents a notable achievement. A significant volume of world trade was under negotiation; a major reduction in rates of duty on such trade was attained.

In terms of 1964 imports of the Contracting Parties, concessions at the Kennedy Round were granted on trade valued at close to \$40 billion. 1/ OECD imports--dutiable and free--in 1964 were valued at \$113 billion; world imports, at some \$180 billion. 2/ The salient achievement of the round was in duty reductions on trade in semimanufactured and manufactured items (cf. charts and tables, which follow). Not nearly as much was accomplished in agriculture, where nontariff trade restrictions are rigid and effective. Neither was much accomplished in liberalizing trade in raw materials, but, here, there was less to accomplish, since rates of duty on raw materials are typically low. Notwithstanding the achievements at the Kennedy Round, some peak duties, as will be seen in the subsequent charts, remain. Despite a round that endeavored to facilitate the trade of LDC's, certain of these peak duties are applicable to products of

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1/ Office of the Special Representative for Trade Negotiations, 1964-1967 Trade Conference, vol. 1, pt. 1, p. i.

2/ OECD imports, OECD, Commodity Trade: Imports, 1964, table 1, p. 22; world imports, United Nations, Yearbook of International Trade Statistics, 1964, table A, p. 12.

major export interest to the LDC's--e.g., tobacco, textiles, and clothing--and some of these products are, in addition, subject to quantitative controls.

Table 3, which presents the results of the Kennedy Round in perspective, summarizes the trade covered by U.S. concessions at each of the six rounds of GATT negotiations. In comparing one round with another, one needs to keep a number of factors in mind: (1) the volume of total imports at the time of the various rounds, (2) the division of such imports between duty-free and dutiable, (3) the relationship between concessions extended and total imports, and (4) the relationship between duty-reduction concessions and total dutiable imports.

From the perspective of U.S. concessions, it is clear that the first and the sixth rounds were the most outstanding. At the first round, the United States granted concessions on 77 percent of its imports; at the sixth round on 46 percent. 1/ At the first round, 65 percent of U.S. concessions consisted of duty-free bindings; 2/ at the sixth round, 93 percent were duty reductions. 3/ At the first round, duty reductions were granted on 56 percent of U.S. dutiable imports, but dutiable imports comprised only 40 percent of U.S. imports. 4/ At the sixth round, duty reductions were granted on 64 percent of U.S.

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1/ Cf table 3.

2/ Calculated from U.S. Dept. of State, Analysis of General Agreement on Tariffs and Trade, 1947, p. 134, on the basis of the value of concession items from all sources. The calculations which follow are on this same basis.

3/ Calculated from Office of Special Representative for Trade Negotiations, 1964-67 Trade Conference, p. iii.

4/ Calculated from footnote 2 source, p. 134.

Table 3.--Value of U.S. trade benefiting from concessions granted and received at each of the six rounds of negotiations under the GATT <sup>1/</sup>

| (Value in millions of dollars) |         |         |                            |                            |         |          |         |        |                            |   |                    |   |  |
|--------------------------------|---------|---------|----------------------------|----------------------------|---------|----------|---------|--------|----------------------------|---|--------------------|---|--|
| Round                          |         |         | "Trade year" <sup>2/</sup> | U.S. imports <sup>3/</sup> |         |          |         |        | U.S. exports <sup>4/</sup> | U.S. concessions <sup>5/</sup>                    |                    |   |  |
| Number                         | Place   | Year    |                            | Free                       |         | Dutiable |         | Total  |                            | Granted on imports from all sources <sup>6/</sup> | Percent of imports | Percent of exports to negotiating countries <sup>7/</sup> | Received on exports to negotiating countries <sup>8/</sup> |
|                                |         |         |                            | Value                      | Percent | Value    | Percent |        |                            |   |                    |   |  |
| First                          | Geneva  | 1947    | 1939                       | 1,397                      | 61.4    | 878      | 38.6    | 2,276  | 3,177                      | 1,766   | 77.5               | 1,192   |  |
| Second                         | Annecy  | 1949    | 1948                       | 4,174                      | 58.9    | 2,917    | 41.1    | 7,092  | 12,653                     | 250   | .3                 | 489   |  |
| Third                          | Torquay | 1951    | 1949                       | 3,883                      | 58.9    | 2,708    | 41.1    | 6,591  | 12,051                     | 477   | .7                 | 1,100   |  |
| Fourth                         | Geneva  | 1956    | 1954                       | 5,667                      | 55.4    | 4,571    | 44.6    | 10,239 | 15,110                     | 7/ 753  | .7                 | 395   |  |
| Fifth                          | Geneva  | 1960-62 | 1960                       | 6,142                      | 40.9    | 8,871    | 59.1    | 15,013 | 20,578                     | 1,755   | 11.6               | 1,564   |  |
| Sixth                          | Geneva  | 1964-67 | 1964                       | 7,045                      | 37.8    | 11,568   | 62.2    | 18,613 | 26,090                     | 8,500   | 45.6               | 8,100   |  |

<sup>1/</sup> The data presented in this table are from the indicated sources. No attempt has been made to reconcile differences.

<sup>2/</sup> "Trade year" represents the year of the trade statistics used for the reciprocity calculus.

<sup>3/</sup> U.S. Tariff Commission, "Value of U.S. Imports for Consumption . . . , 1930-67," February 1968.

<sup>4/</sup> With the exception of the entries for 1939 and 1964, the figures are taken from U.S. Department of Commerce, Foreign Commerce and Navigation of the United States, 1946-1963, table 1. The 1939 figure is taken from the annual publication of the same source for 1939. The 1964 figure is taken from the U.S. Statistical Abstract, 1965, table 1238.

<sup>5/</sup> There is a lack of parallelism in the presentation of concessions granted and received. The former are cited in terms of the value of trade in the product from all sources; the latter in trade with negotiating countries only.

<sup>6/</sup> Sources are listed by round.

First: U.S. Department of State, Analysis of General Agreement on Tariffs and Trade, 1947, concessions granted, p. 134; concessions received, p. 4.

Second: U.S. Tariff Commission, Operation of the Trade Agreements Program, 3d report, concessions granted, p. 7; concessions received, p. 9.

Third: U.S. Tariff Commission, Operation of the Trade Agreements Program, 4th report, concessions granted, p. 8; concessions received, p. 8.

Fourth: U.S. Tariff Commission, Operation of the Trade Agreements Program, 9th report, concessions granted, p. 61 (by contrast, U.S. Department of State, General Agreement on Tariffs and Trade, Analysis of United States Negotiations, 1956, refers to \$811 concessions granted, pp. 1-2, the difference from the USITC figure being explained by the difference in the size of concessions directly negotiated, State using \$677 and the Tariff Commission \$519). For concessions received, the previous sources, U.S. Tariff Commission, p. 63 and Department of State, p. 5.

Fifth: U.S. Department of State, General Agreement on Tariffs and Trade, Analysis of United States Negotiations, 1960-1961 Tariff Conference, concessions granted, vol. 1, p. 198. U.S. Tariff Commission, Operation of the Trade Agreements Program, 14th report, concessions received, p. 22. (By contrast, the above cited Department of State publication uses the figure \$1,496 for concessions received, p. 106.)

Sixth: Office of the Special Representative for Trade Negotiations, General Agreement on Tariffs and Trade, 1964-67 Trade Conference, Report on United States Negotiations, vol. 1, pt. 1, concessions granted, p. iii; concessions obtained, p. iv.

<sup>7/</sup> The concession on copper has been excluded from these figures. If copper is included the figure becomes \$911. Cf. U.S. Tariff Commission, Operation of the Trade Agreements Program, 9th report, p. 60.

dutiable imports 1/ at a time when dutiable imports accounted for 62 percent of total imports. 2/ The depth of U.S. duty reductions in the two rounds was equally large, averaging 35 percent. 3/ At the time of the sixth round dutiable trade had a much greater role than at the time of the first round (which is testimony both to the "liberating" consequences of earlier trade negotiations and the effect of price increases on specific duties).

When observing the rise of dutiable trade over the past 20 years, it is important to bear in mind the effect of price changes on duties expressed in specific terms. Nominally, of course, a specific rate of duty, in the absence of legislation or negotiation, remains constant, but in fact it decreases in the face of the secular tendency of prices--in all economies--to rise. An example will serve to illustrate the point. A rate of duty of 10 cents on an article which at the time it was imposed customarily sold for \$1.00 is not in fact the same as a rate of duty of 10 cents on such an article when the price for which it customarily sells has risen to \$1.50. Expressed in ad valorem terms, the original duty was 10 percent; subsequently, it has become

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1/ Calculated from Office of Special Representative for Trade Negotiations, 1964-67 Trade Conference, p. iii.

2/ U.S. Tariff Commission, "Value and Imports for Consumption, Duties Collected . . .," 1968.

3/ At the first round, U.S. duty reductions on trade from all sources in millions of dollars was as follows:

|                    |         |      |
|--------------------|---------|------|
| reductions - total | \$507.5 | 100% |
| less than 25%      | 60.3    | 12   |
| 25 to 35%          | 174.5   | 34   |
| 36 to 50%          | 272.7   | 54   |

U.S. Dept. of State, Analysis of General Agreement, 1947, p. 134.

At the sixth round, duty reductions on nonagricultural products more precisely, SITC 5-8/ averaged 35%. Cf. Office of the Special Representative for Trade Negotiations, 1964-67 Trade Conference, p. v.

6.6 percent. Thus, the rise in dutiable U.S. trade as seen in table 3 is attributable, among other factors, both to duty reductions which have resulted from prior trade negotiations and price increases which have resulted in lowering the significance of specific duties.

It has been observed that the depth of duty reductions in the first and sixth rounds was equally large, both averaging 35 percent. Some observers may question whether equal duty reductions in the first and sixth rounds may be regarded as comparable achievement, for the 35 percent duty reduction in the sixth round obviously followed duty reductions in the five preceding rounds as well as occurring at a time when the meaning of specific duties had been changed in consequence of price increases. In the absence of detailed, specific studies, however, it is not possible to make a comparison of the effect of 35-percent duty reductions on trade in 1947 and 35-percent duty reductions on trade in 1967. A 35-percent reduction in a duty which still might well exceed the prohibitive level may have no effect on trade; a 35-percent reduction in a duty which already is so low as not to inhibit trade will have insignificant trade consequences and represent only very limited liberalization. On the other hand, a 35-percent reduction in a duty which is moderately restrictive will have a liberating effect on trade.

It has been observed that the two most outstanding rounds were the first and the sixth. Although not necessarily an index of potential accomplishment, the bargaining authority of any of the

major trading partners serves as a ceiling on accomplishment since the negotiating session rests on reciprocity. Inasmuch as the major trading partners, other than the United States, operate under parliamentary governments, such authorization actually relates to the U.S. negotiators. In effect, therefore, the U.S. Congress sets the potential ceiling for the rounds. For the first round the Congress authorized duty reductions up to 50 percent of existing rates. Not until the sixth round did the Congress repeat such a bold authorization, though this time it required that the negotiated reductions in duty be staged over a 5-year period, with the exception of section 213, tropical products, where cuts could be made in their entirety at once.

In appraising the accomplishments of a round one needs both detailed and general information for measurement. The many concessions negotiated at the Kennedy Round are listed on a tariff-item by tariff-item basis in the five-volume GATT document, Legal Instrument Embodying the Results of the Trade Conference, 1964-67. Material on U.S. concessions is set forth, with additional information, in a document published by the Office of the Special Representative for Trade Negotiations, General Agreement on Tariffs and Trade, 1964-67 Trade Conference, Report on United States Negotiations. The duty-rate information in this report is likewise on a tariff-item by tariff-item basis.

To supplement the information available in these documents, students of commercial policy seek means of summarizing the many duty reductions in order to appraise them in the aggregate. To do this,

individual rates of duty must be averaged; yet, the very process of averaging poses a host of statistical problems. These problems arise regardless of whether a single average is computed for an entire tariff schedule or whether separate averages are computed for broad categories of trade. These inherent difficulties are compounded if one seeks to make intercountry comparisons. If, in averaging, one treats all the items of the tariff schedule equally--the arithmetic average--one incongruously treats trivial imports and major imports as of equal importance. If, on the other hand, one weights individual rates of duty by the value of the country's import trade involved, one is immediately confronted with the problem of "own-trade weight" bias. In such computations, low duties that are nonrestrictive of trade are overemphasized in the average and high duties that effectively restrict imports are not adequately reflected.

Ideally, it would be desirable to weight imports by what their importance would have been under free-trade conditions, but this is not known. World-trade weights would be the next most desirable system of weights, but world trade statistics are incomplete and therefore not reliable. OECD trade data are deemed to afford the best basis for the purpose at hand. The OECD group comprises 21 countries, which currently account for two-thirds of world trade. The trade statistics of these governments are among the most reliable trade figures available.

The manner in which the weights employed bias averages is revealed in a study prepared by the Committee on Economic Development (CED), in which comparison is made between the U.S. and EEC pre-Dillon rates of duty. Depending on the weights used, the results varied by close to 200 percent for the United States and 235 percent for the EEC. The figures follow: 1/

|   | <u>Pre-Dillon Round rates,</u> |                  |
|---|--------------------------------|------------------|
|   | <u>BTN 25-99</u>               |                  |
|   | <u>U.S.</u>                    | <u>EEC</u>       |
|   | <u>(Percent)</u>               | <u>(Percent)</u> |
| (1) Weighted by own imports-----                      | 7.8                            | 5.6              |
| (2) Weighted by combined U.S. and<br>EEC imports----- | 8.5                            | 6.5              |
| (3) Weighted by other country's<br>imports-----       | 8.8                            | 7.7              |
| (4) Unweighted-----                                   | 15.2                           | 13.2             |
| (5) (4) + (1)-----                                    | 194.0                          | 235.0            |

When domestic imports are used as weights, the computed average (U.S. or EEC) is lowest. The average is higher with partial outside weights, and still higher with full outside weights. Presumably, it would be higher still if appropriate "neutral" weights were employed. This illustration underscores how crucial weighting is in the computation of tariff "levels" and demonstrates why the issue of tariff levels and disparities at the Kennedy Round was so difficult to resolve. Notwithstanding the statistical difficulties inherent, weighting is nevertheless essential if a summary view of a round is to be obtained.

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1/ Quoted from CED, Trade Negotiations for a Better Free World Economy, Appendix B, May 1964, in UNCTAD, Research Memorandum No. 13/4, pt. III, "Methodological and Technical Notes on Unctad Tariff Profiles," p. 19 of the Technical Appendix thereto.

Because of the magnitude of the statistical task involved in summarizing the accomplishments at the Kennedy Round, it was not possible in this study to undertake independent appraisalment. We utilize instead the findings by the Secretariat of the UNCTAD, which prepared "before and after" tariff profiles for the United States, the European Economic Community, the United Kingdom, and Japan, individually and compositely, as well as "before and after" rates of duty on products of interest to the LDC's. The profiles provide a picture of the rates of duty across the entire gamut of imports and indicate the changes in levels of tariffs that were effected at the Kennedy Round.

The UNCTAD study made use of a sampling process to develop the respective tariff profiles. Because of their high variance, rates of duty are not particularly suited to sampling, but given the scale of the task involved in handling changes in thousands of rates of duty and the difficulties arising from lack of uniformity in nomenclatures, sampling was the only feasible way of making the comparisons. For a description of the detailed statistical procedures used in preparing figures 3 to 8, which follow, the reader will wish to consult the several Research Memoranda published by the UNCTAD Secretariat. <sup>1/</sup>

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<sup>1/</sup> The research memoranda in the original series from the UNCTAD, Research Division are:

Illustrative Tariff Profiles of Selected Developed Countries - the Kennedy Round, No. 13/1/Rev. 1, July 13, 1967;

Part II: Tariff Averages for Products of Interest to Developing Countries as Compared With Other Products, No. 13/2/Rev. 1;

Part III: Methodological and Technical Notes on UNCTAD Tariff Profiles, No. 13/4, Dec. 18, 1967;

Part IV: Tariff Profiles Facing Selected Individual Developing Regions and Countries, No. 13/5, Jan. 19, 1968;

Part V: Listing of Tariff Sample Items, No. 13/6, Mar. 4, 1968.

A sizable portion of these findings are reproduced in a "Trade and

Briefly expressed, the method employed was as follows:

Because of the number of years spent in developing the sample, two systems of trade weights are employed-- OECD 1961 imports and OECD 1965 imports. The items in the sample were drawn on the basis of 1961 trade weights; the significance of the Kennedy Round reductions are shown in terms of 1965 trade weights.

The sample was drawn in two stages. In the first stage, a random sample of 420 out of a total of 625 4-digit items was drawn with probability proportional to 1961 OECD trade weights and with replacement. Because of the much greater detail of the U.S. tariff schedules, the second stage was begun by matching a 4-digit SITC drawing with an item from the U.S. tariff schedules. When this study was begun the TSUS was not yet in force. Accordingly, an item was selected from the U.S. "Schedule A." The item was selected from Schedule A on the basis of random selection but with probability proportional to the square root of U.S. imports. The square root was employed to damp "own trade weight" bias. The item selected from Schedule A was then matched with an item from the tariff schedules of the other three countries. It was matched in such a way that the item selected, and only the item, could serve as the corresponding entry. With the coming into force of the Tariff Schedules of the United States, the TSUS, in 1963, it was necessary to match the previously selected Schedule A items with TSUS items. Because typically there were two or more TSUS items from

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Development" ("T.D.") document series for the second UNCTAD Conference.

In this form the citations are as follows:

UNCTAD, "The Kennedy Round: Preliminary Evaluation of Results, with Special Reference to Developing Countries," "Summary," TD/6, Sept. 4, 1967;

Part One, "Background," TD/6/Supp. 1, Sept. 4, 1967;

Part Two, "Effects on Tariff Profiles of Selected Developed Countries," TD/6/Supp. 2, Sept. 4, 1967;

Part Three, "Effects on Access for Selected Products of Export Interest to Developing Countries," TD/6/Supp. 3, Sept. 4, 1967;

Annex 1, "Tariff Averages," TD/6/Supp. 4, Dec. 27, 1967;

Annex 2, "Statistical Tables and Appendices," TD/6/Supp. 5, Oct. 4, 1967.

Where the same data is found in both series, reference will be made to the "TD" series only.

which to choose, selection was generally done on a random basis ("although in cases where there was very considerable disparity in the U.S. imports applicable to the relative tariff items, very rough, damped, trade-weighted probabilities were assigned." 1/)

Employing the foregoing procedures, the United States, United Kingdom, and EEC entries were experimentally arrayed by 1- and 2-digit headings of the SITC. A study of these listings revealed some U.S. trade-weight bias to the U.S. averages, and further that some 2-digit items were too thin. Accordingly, some 80 4-digit items were added on the basis of 1965 OECD trade weights. For these 80 items the original procedure was reversed. These were selected from the CXT and matched with numbers by random selection.

The tariff profiles developed by the UNCTAD for the Big Four, individually and compositely, appear in figures 3-7. The charts depict "before and after" rates of duty in terms of the broad categories of trade. The categories thus employed are the 1- and 2-digit categories of the Standard International Trade Classification (SITC). Accordingly, the profile portrays the changes made in rates of duty on "food and live animals," "beverages and tobacco," "crude materials," "inedible oils," "chemicals," etc. The breadth of each bar is proportional to the value of OECD imports; the height of each bar represents a weighted average of the ad valorem rates of duty.

The charts have been drawn to a common horizontal scale--the value of 1965 aggregate imports into OECD countries. In this way, "own trade weight bias" is minimized. 2/ On the horizontal scale, each dollar of import is given equal representation. Thus, the

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1/ UNCTAD, Research Memorandum, pt. III, p. 17, note 1.

2/ To the extent that national tariffs have similar rates, "own trade weight bias" is not eliminated by using a number of countries.

width of the bar representing petroleum is approximately twice that of the bar representing iron and steel, indicating that the value of petroleum imports into OECD countries in 1965 was approximately twice that of iron and steel imports.

Rates of duty are shown on the vertical scale. Since most governments employ a "c.i.f." base to their rates of duty, this base is used in the charts. National tariff schedules are frequently composed of rates cited in different forms--ad valorem, specific, and "mixed." In these charts all reference is in terms of ad valorem rates. Where duties are prescribed in other forms, they have been converted to an ad valorem basis. The height of the bar represents the height of the duty. The full bar shows the height of the duty before the Kennedy Round; the unshaded portion, the height of the duty after the round. 1/

The composite chart (figure 3) representing the pattern of rates of duty among the Big Four serves as a summary of the achievements at the Kennedy Round. In this profile, the rates of duty prevailing in the tariff schedules of the Big Four have not been given equal weight nor have they been weighted in accordance with total imports into the four areas. Instead, the respective duties are weighted on the

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1/ It will be recalled that phased reductions were the characteristic pattern of Kennedy Round reductions. The "after" rates of duty shown in these charts represent the rates of duty that will prevail when the full Kennedy Round reductions have taken effect. When full reductions were conditional on other actions, as in textiles and chemicals, the conditional rates are shown as well. Inasmuch as the Long-Term Cotton Textile Arrangement was extended, the conditional rates on these items are of only historical interest. On chemicals, however, since the U.S. Congress has not acted on repeal of the ASP, the conditional rates have great pertinency.



basis of MFN imports of semimanufactured and manufactured goods by each of the Big Four from non-Communist countries. Under this weighting, preferential imports were disregarded, as were imports from Communist countries and imports of agricultural commodities and raw materials. Under the foregoing criteria, the U.S. rates of duty turn out to have a weight of 45 percent, those of the EEC 37 percent, the United Kingdom 12 percent, and Japan 6 percent.

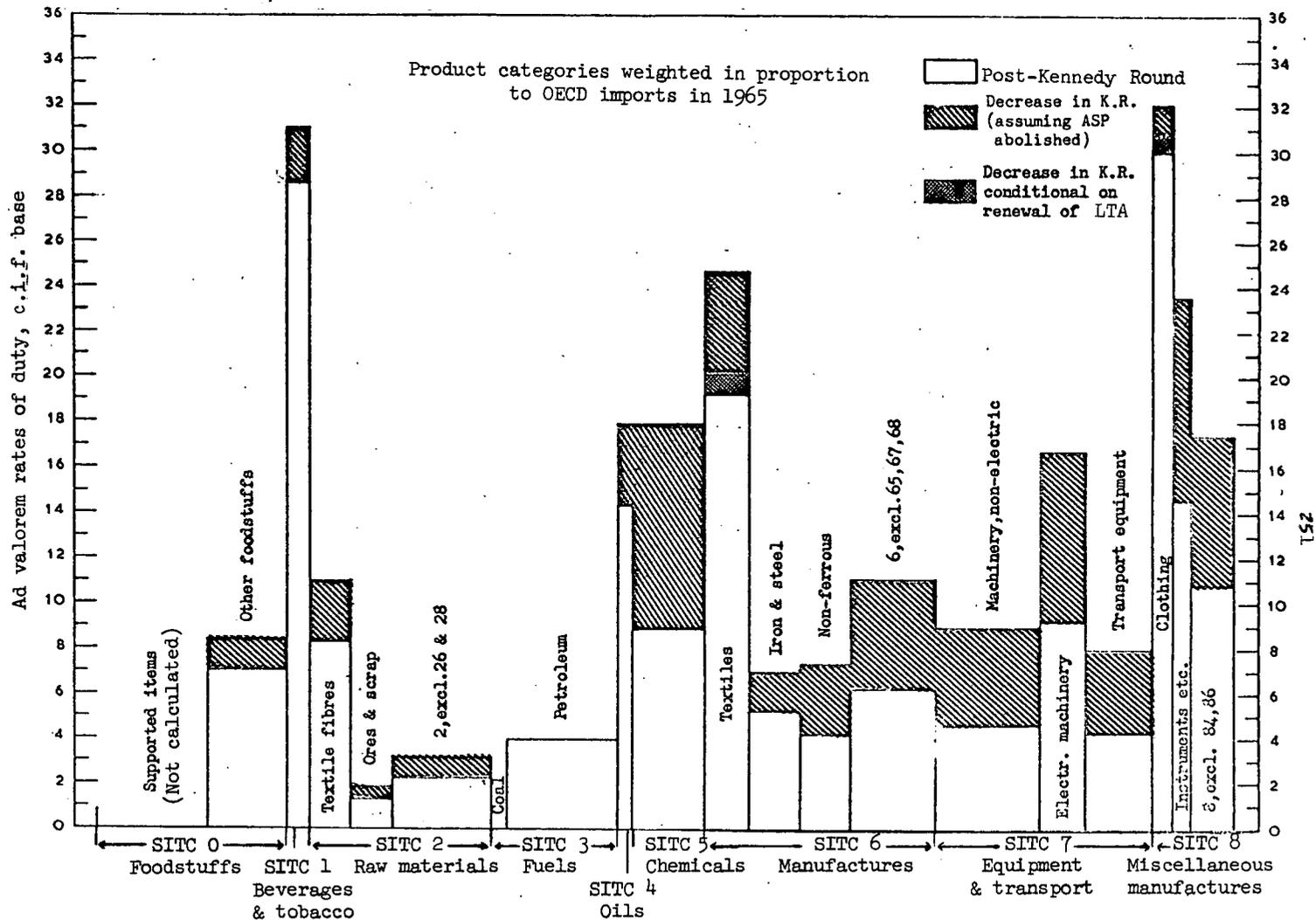
Figure 3, the summarizing profile, makes it evident that accomplishment at the Kennedy Round centered in semimanufactured and manufactured trade--SITC numbers 5 through 8. The reductions in duty on chemicals, if ASP is repealed, will approximate the 50 percent linear goal of the Kennedy Round. Without the repeal of ASP, reductions average 38 percent. The broad category, "manufactures classified chiefly by material," which accounts for a fifth of total OECD imports, was subject to reductions averaging more than 30 percent. Within this category, textiles show the lowest reduction, 21 percent; iron and steel, 27 percent, nonferrous metals, 34 percent, and the remaining articles, nearly 40 percent. In the next category, "machinery and transport equipment," almost as important in value of trade, reductions averaged nearly 45 percent. Within this category duties on non-electrical machinery were reduced by 44 percent; those on electrical machinery, 42 percent; and on transport equipment, 44 percent. In the remaining category, "miscellaneous manufactured items," reductions amounted to somewhat more than 30 percent. The reduction on clothing was small, about 15 percent, but reductions on the remaining items

were large, 40 percent. If the foregoing categories, SITC 5 through 8, are combined they show a 38 percent reduction if ASP is repealed and a 36 percent reduction without such repeal.

In the product range SITC 0 through 4, cuts were typically smaller. Duty reductions on foodstuffs not subject to price supports approximated nearly 20 percent; those on beverages and tobacco, where rates of duty were extremely high, were less than 15 percent; on raw materials, where rates were low, they were nearly 30 percent; the reductions in duty on fuels averaged roughly 20 percent; and those on animal oils and fats were small, between 10 and 15 percent.

Figure 4, the U.S. Tariff Profile, reveals that the major accomplishment lay in SITC categories 5 through 8. Duties on "chemicals" were reduced by an average of 49 percent; those on "manufactured goods classified chiefly by material," were reduced by 33 percent. Among the broad subcategories of this grouping, duties on textiles were reduced least, by 23 percent; those on iron and steel, 25 percent; on nonferrous metals, 44 percent; and the remaining products in this entry, by 44 percent. Reductions in duty on "machinery and transport equipment" approximated the 50 percent Kennedy Round goal, 47 percent. Within this grouping, duties on nonelectrical machinery were reduced by the full 50 percent; those on electrical machinery, by 45 percent; and on transport equipment, by 46 percent. Duty reductions on "miscellaneous manufactures" approximated 27 percent; only small reductions were granted on clothing (7 percent). Duties on instruments were reduced by 38 percent and those on other items, by 39 percent.

Figure 4.--U.S. tariff profile, (c.i.f.) pre- and post-Kennedy Round



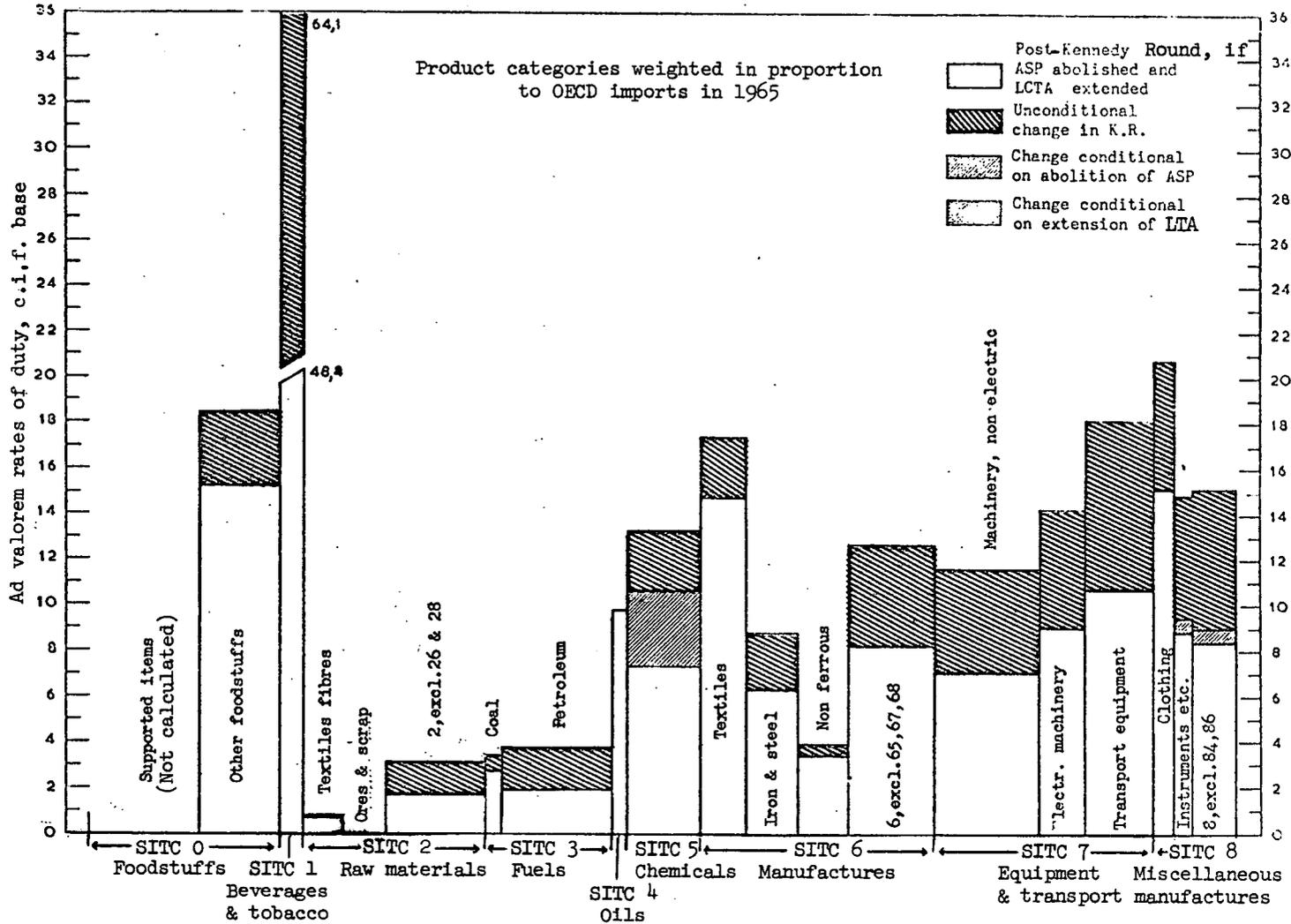
Source: UNCTAD, Source cited p.248, TD/6/Supp. 4, pp. 13-14.

U.S. reductions in the categories 0 through 4 were much smaller. Duties on "nonsupported" foodstuffs were reduced by 17 percent; those on beverages and tobacco, by only 8 percent; and those on crude materials, by 28 percent. Duties on ores and scrap were reduced by 32 percent. No reductions were made in the case of mineral fuels. Even before the Kennedy Round, no duty was imposed on coal and gas and under the national security provisions of the TEA, negotiators were precluded from offering reductions on petroleum. The restrictive feature of imports of petroleum into the United States is not the rate of duty but the quotas that are imposed.

The tariff profile of the United States indicates that rates of duty on agricultural products, raw materials, and fuels were not high before the start of the Kennedy Round. Quotas constitute the principal restrictive feature on a number of key products of these categories.

Even though the three textile entries--textile fibers, textile cloth, and clothing--are subject to the highest rates of duty in their respective categories ("raw materials," "manufactures classified chiefly by material," and "miscellaneous manufactures"), those textile imports which are of cotton are even more effectively controlled by quotas--on cotton fiber by quotas established under section 22 of the Agricultural Adjustment Act of 1933, as amended, and on cotton cloth and cotton clothing by quotas established under terms of the Long-Term Arrangement on Cotton Textiles.

Figure 5.--EEC tariff profile, pre- and post-Kennedy Round



Source: UNCTAD, Source cited p.248, TD/6/Supp. 4, pp. 9-10.

EEC pressed its view that reciprocity called for reducing the common external tariff (CXT) by a lesser percentage than the Tariff Schedules of the United States (TSUS). It will be observed in the CXT at the start of the round that duties on "unsupported" foodstuffs were much above the rates in the TSUS, and that duties on beverages and tobacco were much above those of the TSUS. On the other hand, rates on textile fibers were much lower in the CXT than the TSUS. In both tariffs, rates on other raw materials were either low or nonexistent. Rates on fuels were much the same, as were those on animal and vegetable oils. On the other hand, CXT rates on chemicals were much lower than those in the TSUS as were the rates on textiles. On iron and steel products, however, the CXT duties were above those of the TSUS, on nonferrous metals, by contrast, below. Rates on the remaining products in the category "manufactured goods classified chiefly by material" were roughly the same. In the category of "machinery and transport equipment" the CXT duties were well above those in the TSUS. On the other hand, in the clothing subdivision of the final category, "miscellaneous manufactures" the CXT duties were far below the TSUS rates.

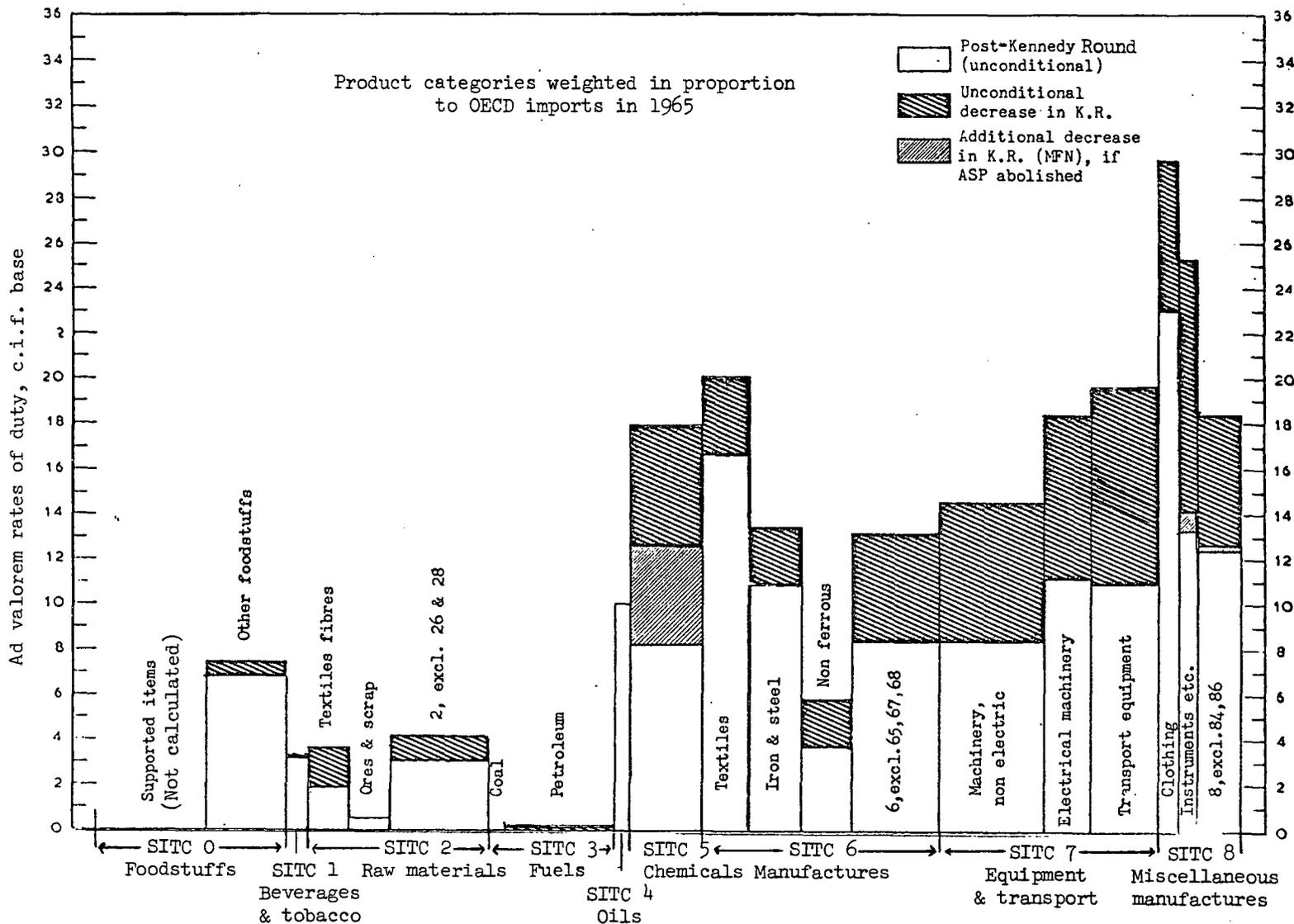
When percentage reductions in the CXT are observed, it will be seen in table 4 that the EEC reduced duties on "unsupported" foodstuffs by 17 percent; those on beverages and tobacco were reduced by 25 percent; crude materials by 42 percent; mineral fuels, by the full 50-percent goal of the round; and oils and fats, not at all. If ASP is repealed, the EEC will reduce the duties on chemicals by close to the

full 50-percent goal, by 46 percent; if ASP is not repealed, the rates of duty will be reduced by only 20 percent. In the broad category, "manufactures classified chiefly by material," CXT rates were reduced by 26 percent; those on machinery and equipment, by 40 percent. Rates in the "miscellaneous manufactures" were reduced by 38 percent.

Figures 6 and 7 present the tariff profiles of the United Kingdom and Japan. These profiles reveal distinct national differences, but it was in the range of articles covered by SITC categories 5 through 8, on which rates of duty were initially substantial, where principal accomplishment lay. In these categories, U.K. rates of duty were reduced by 38 percent (34 percent if ASP is not repealed) and Japanese rates by 40 percent.

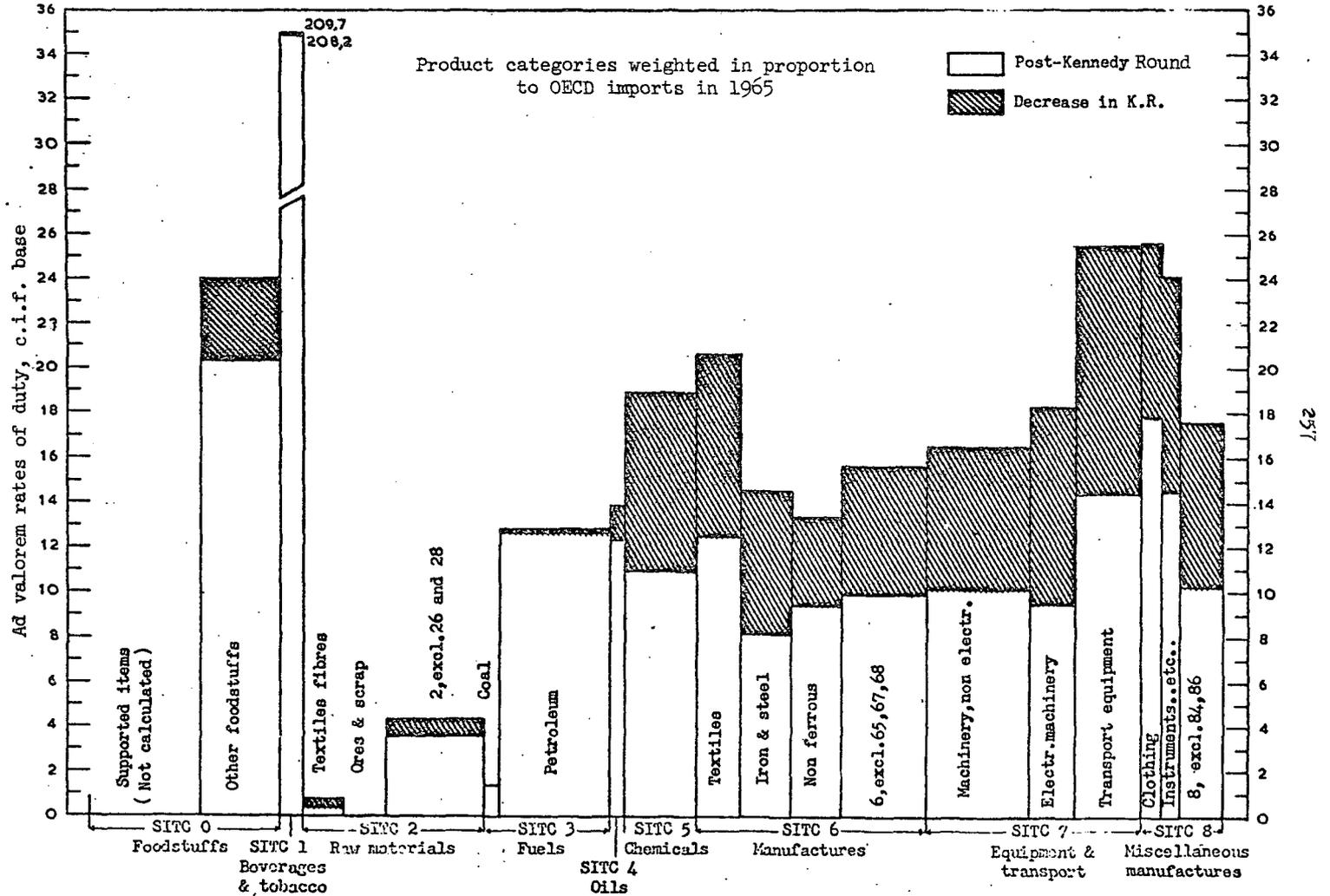
Since it is difficult to keep diverse rates of duty in mind when the different charts are compared, two tables have been prepared which bring these together. Table 4 shows the actual percentage reductions made in rates of duty on each category by the Big Four, individually and compositely. Table 5 puts such reductions on a common basis; inasmuch as there is a distinct difference between reducing a 25 percent duty by 50 percent and reducing a 5 percent duty by 50 percent, table 5 presents these reductions on a common basis through the device of

Figure 6.--U.K. tariff profile (MFN), pre- and post-Kennedy Round



Source: UNCTAD, Source cited p.248, TD/6/Supp. 4, pp. 17-18.

Figure 7.--Japanese tariff profile, pre- and post-Kennedy Round



Source: UNCTAD, Source cited p.248, TD/6/Supp. 4, pp. 21-22.

"implicit price relatives." 1/

The statistical work of the UNCTAD is not as revealing in assessing the effect of the Kennedy Round on exports of LDC's as in the case of developed economies. Basic to the problem of presenting summary statistics is the diversity of economies going under the LDC label--ranging from the simple economies in central Africa to the sophisticated in certain South American and Mediterranean countries. Given the range of export interests which result from the disparity of economic development as well as the geographic location and endowment, it is difficult indeed to make generalizations.

Not only is great diversity covered by the LDC label, but diversity also stems from the fact that no definition of LDC's was agreed upon at the Kennedy Round or by the parties to the UNCTAD. Accordingly, countries choosing to describe themselves as LDC's, together with those readily identifiable as LDC's, made known their export interests to the GATT and UNCTAD for compilation into a listing of LDC "products of interest." The

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1/ As in the construction of a price index, all values are expressed in terms of a base of 100, only in this case 100 is taken to represent the c.i.f. price of the commodity. A rate of duty of 25 percent thus becomes 125 percent; a rate of duty of 5 percent, 105. The reduction in rates of duty is calculated by dividing the percentage points of the reduction by the original rate of duty plus 100. Thus, in the previous examples of a 50-percent reduction of a 25-percent rate and a 5-percent rate, the calculation is as follows:

$$\frac{125 - 112.5}{125} = 10 \text{ percent}$$

$$\frac{105 - 102.5}{105} = 2.3 \text{ percent}$$

By this means, equal percentage cuts in duties of quite different height are put on a common basis. Under this arrangement, a reduction of 4 percent may be regarded as a sizeable duty reduction.

Table 4.--Actual percent reductions in rates of duty effected at the Kennedy Round

| SITC categories                             | Composite<br>of<br>Big Four | United<br>States | European<br>Economic<br>Community | United<br>Kingdom | Japan | Percent of<br>OECD 1965<br>imports <sup>1/</sup> |
|---|-----------------------------|------------------|-----------------------------------|-------------------|-------|--|
| Unsupported foodstuffs-----                 | 17                          | 17               | 17                                | 9                 | 16    | -  |
| Beverages and tobacco-----                  | 14                          | 8                | 25                                | <u>2/</u> 3       | 1     | 1.8  |
| Crude materials-----                        | 31                          | 28               | 42                                | <u>2/</u> 37      | 22    | 16.1   |
| Mineral fuels-----                          | 20                          | -                | 50                                | <u>2/</u> 50      | 2     | 11.1   |
| Oils and fats-----                          | 13                          | 20               | -                                 | -                 | 11    | .9   |
| Chemicals <sup>3/</sup> -----               | <u>4/</u> 49(38)            | 51(50)           | 46(20)                            | 55(29)            | 42    | 6.1  |
| Semimanufactured and manu-<br>factured----- | 31                          | 33               | 26                                | 27                | 38    | 21.0   |
| Machinery and equipment-----                | 44                          | 47               | 40                                | 43                | 43    | 19.4   |
| Miscellaneous manufactures-----             | 32                          | 27               | 38                                | 33                | 38    | 6.9  |
| SITC, 5-8 <sup>3/</sup> -----               | 38(36)                      | 38               | 36(32)                            | 38(34)            | 40    | 53.3   |

<sup>1/</sup> Calculated from source tables.

<sup>2/</sup> Excluding revenue duties.

<sup>3/</sup> The bracketed figure is the reduction if ASP is not removed.

<sup>4/</sup> Calculated from source table, table A-1.

Source: UNCTAD, Source cited p. 248, TD/6/Supp. 4, Tables A-1, A-2, A-4, A-5, and A-8, pp. 33-40 passim.

Table 5.--Percent reduction in rates of duty effected at the Kennedy Round on the basis of "implicit price relatives"

| SITC categories                                | Composite<br>of<br>Big Four | United<br>States | European<br>Economic<br>Community | United<br>Kingdom | Japan | Percent of<br>OECD 1965<br>imports <sup>1/</sup> |
|--|-----------------------------|------------------|-----------------------------------|-------------------|-------|--|
| Unsupported foodstuffs-----                    | 2.0                         | 1.3              | 2.7                               | 0.6               | 3.0   | -  |
| Beverages and tobacco-----                     | 4.6                         | 1.8              | 9.6                               | <sup>2/</sup> .1  | .5    | 1.8  |
| Crude materials-----                           | 1.0                         | 1.2              | .7                                | 1.1               | .5    | 16.1   |
| Mineral fuels-----                             | .7                          | -                | 1.9                               | <sup>2/</sup> .2  | .2    | 11.1   |
| Oils and fats-----                             | 1.5                         | 3.1              | -                                 | -                 | 1.4   | .9   |
| Chemicals <sup>3/</sup> -----                  | 6.9(5.3)                    | 7.7(7.6)         | 5.3(2.4)                          | 8.3(4.4)          | 6.8   | 6.1  |
| Semimanufactured and manufac-<br>factured----- | 3.3                         | 3.6              | 2.6                               | 3.1               | 5.2   | 21.0   |
| Machinery and equipment-----                   | 5.0                         | 4.4              | 5.0                               | 6.2               | 7.0   | 19.4   |
| Miscellaneous manufactures-----                | 5.4                         | 5.0              | 5.4                               | 6.1               | 6.6   | 6.9  |
| SITC, 5-8 <sup>3/</sup> -----                  | 4.6(4.3)                    | 4.6(4.5)         | 4.1(3.7)                          | 5.3(4.8)          | 6.2   | 53.3   |

<sup>1/</sup> Calculated from source tables.

<sup>2/</sup> Excluding revenue duties.

<sup>3/</sup> The bracketed figure is the reduction if ASP is not removed.

Source: UNCTAD Research Division, Research Memorandum No. 13/1/Rev. 1, July 13, 1967, "Illustrative Tariff Profiles of Selected Developed Countries - Kennedy Round" (Provisional Draft), tables 1, 2, 4, 5, and 8.

UNCTAD applied a trade criterion to its listing so that products not currently exported by the LDC's--"desired exports"--were excluded. Nevertheless, the criteria employed was sufficiently broad to afford a generous listing of products of export interest to LDC's.

The findings by the UNCTAD Secretariat of the effect of the Kennedy Round on the exports of LDC's are shown in figure 8, which is a composite of the Big Four. <sup>1/2/</sup> This chart reveals that the LDC's were significant gainers from reductions in rates of duty on coffee, tea, cocoa, and spices; that the gains were smaller in the case of crude materials and mineral fuels. Duties on textiles (No. 65) were significantly reduced, but by no means by the 50-percent linear cut; those on other semimanufactures and manufactures were substantially reduced; those on machinery and transport equipment were significantly reduced (but there are few LDC exports here) and those on miscellaneous manufactures (including clothing) were modestly reduced. The LDC gains from the duty reductions on cotton textiles and on cotton clothing have, of course, to be weighed

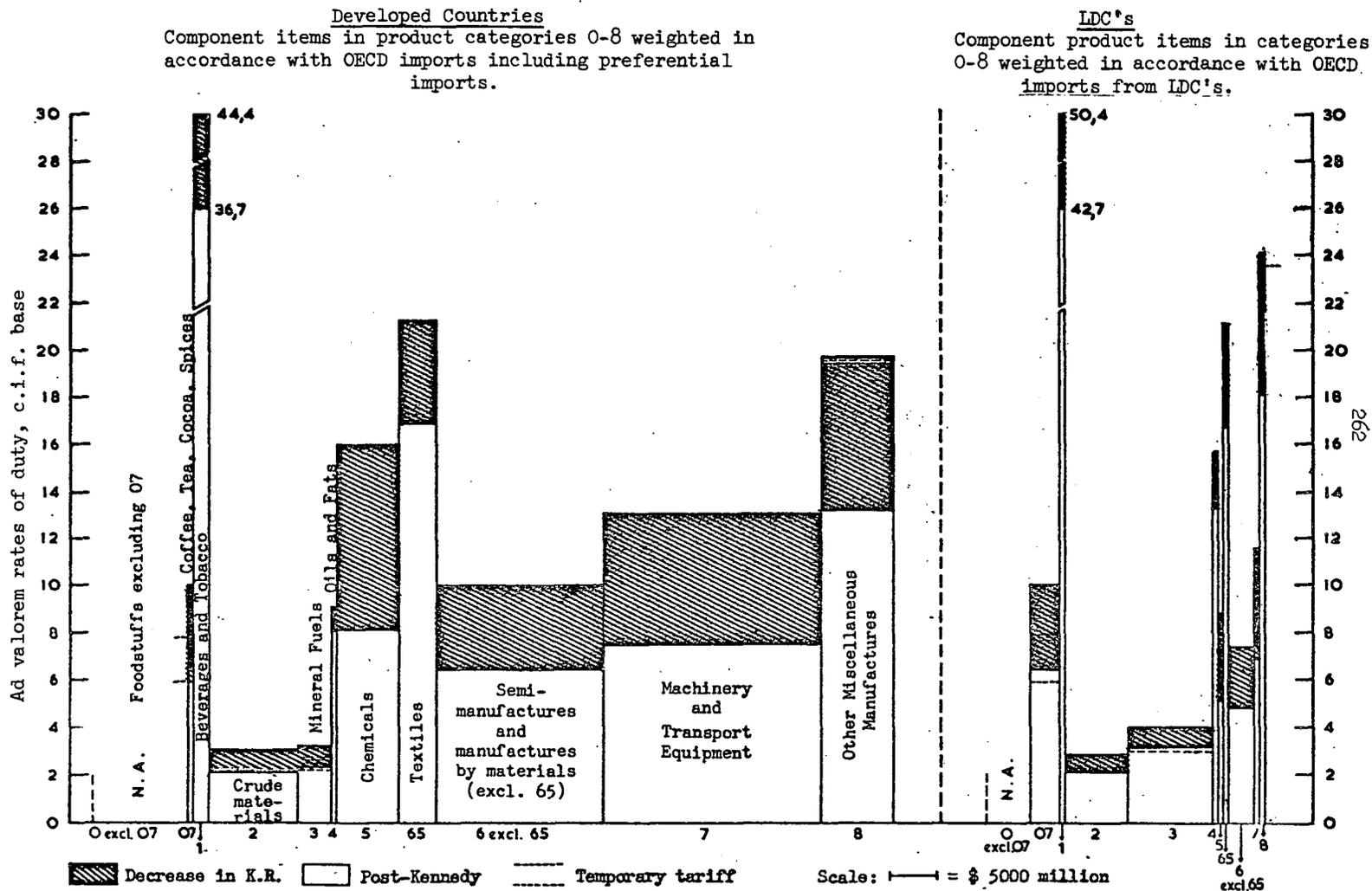
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<sup>1/</sup> The tariff sample on which the entire UNCTAD study rests was drawn from the trade data of developed economies. It, therefore, has inherent shortcomings as a measure of the benefits which the round accorded LDC exports. In addition, the difficulty that the UNCTAD Secretariat experienced in handling agriculture made for a greater omission of items of interest to the LDC's, whose economies devote a proportionately greater share of their resources in this area than do the economies of the developed countries.

<sup>2/</sup> The weighting pattern in figure 8 will be seen to be different from that employed in figures 3-7. In the first portion of figure 8 the component 2-digit items making up the 1-digit entries have been weighted in accordance with total OECD imports including preferential imports. In the second half of the chart the component 2-digit items making up the 1-digit entries have been weighted in accordance with OECD imports from developing countries. Country weights among the Big Four remain the same as in the previous charts. Country weights are in accordance with SITC 5-8 imports, MFN, from non-Communist countries.

Figure 8.--Big Four tariff profile facing OECD and developing countries

Countries weighted in proportion to estimated MFN imports of semimanufactures and manufactures from non-Communist countries in 1965.



Source: UNCTAD, Source cited p.248, TD/6/Supp. 2, pp. 22-23.

against quantitative limitations imposed under the terms of the LTA. Given the statistical problems outlined above, no attempt is made to present tables for the LDC's showing actual and relative percent reductions in duty rates on "products of interest," comparable to those for the Big Four.

In view of the foregoing observations, only general statements can be made on the comparative gains from the Kennedy Round for the under-developed economies. Inasmuch as the major benefits accruing from the Kennedy Round involved exports of manufactures and semimanufactures (product categories covered by SITC 5 through 8) and inasmuch as these categories account for only a small proportion of LDC exports, as is clear in figure 8, it is evident that developed economies benefited relatively more than LDC's from the sixth round of tariff negotiations under the GATT.

