

UNITED STATES INTERNATIONAL TRADE COMMISSION

OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

26th Report

1974

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USITC Publication 765

UNITED STATES INTERNATIONAL TRADE COMMISSION

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# C O N T E N T S

|   | <u>Page</u> |
|---|-------------|
| Introduction-----   | v           |
| CHAPTER 1   |             |
| U.S. ACTIVITIES RELATING TO THE<br>TRADE AGREEMENTS PROGRAM                     |             |
| The Trade Agreements Program-----   | 1           |
| Status of the Program in 1974-----  | 2           |
| U.S. actions under trade agreement safeguards and<br>adjustment assistance----- | 3           |
| The escape-clause-----  | 3           |
| Safeguarding national security-----   | 4           |
| Adjustment assistance-----  | 5           |
| Trade Agreements Outside the Trade Agreements Program-----                      | 6           |
| The Philippine Agreement-----   | 6           |
| United States-Canadian Automotive Agreement-----                                | 7           |
| International Textile Agreements-----   | 16          |
| Long-Term Cotton Textile Agreement-----   | 16          |
| Multifiber Textile Agreement-----   | 17          |
| International Commodity Agreements-----   | 20          |
| International Coffee Agreement-----   | 22          |
| International Wheat Agreement-----  | 24          |
| International Sugar Agreement-----  | 24          |
| Voluntary Export Restrictions-----  | 25          |
| Restraints on meat-----   | 26          |
| Voluntary steel restrictions-----   | 29          |
| Section 22 of the Agricultural Adjustment Act-----                              | 32          |
| Relief from Unfair Trade Practices-----   | 35          |
| Antidumping Act, 1921-----  | 36          |
| Countervailing duty statute-----  | 39          |
| Unfair practices in import trade-----   | 39          |
| U.S. Trade with Communist Countries-----  | 41          |
| APPENDIX TO CHAPTER 1: HIGHLIGHTS OF THE TRADE ACT OF 1974                      |             |
| Introduction-----   | A-1         |
| Negotiating authority-----  | A-2         |
| Reform of the GATT-----   | A-4         |
| The Special Representative for Trade Negotiations-----                          | A-5         |
| Import relief for domestic industries-----                                      | A-6         |
| Unfair trade practices-----   | A-8         |
| Foreign import restrictions and export subsidies-----                           | A-8         |
| Unfair import practices-----  | A-9         |
| Trade with nonmarket economies-----   | A-9         |

CONTENTS

Page

CHAPTER 2

OPERATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

|  |    |
|--|----|
| Introduction-----  | 43 |
| Participation in the Agreement-----  | 44 |
| Preparations for the MTN-----  | 46 |
| Membership of Trade Negotiations Committee-----  | 47 |
| Other Developments in 1974-----  | 49 |
| Trade in Textiles-----   | 49 |
| Antidumping Practices-----   | 50 |
| Balance of Payments Restrictions-----  | 50 |
| Italy-----   | 51 |
| Iceland-----   | 52 |
| Israel-----  | 52 |
| Yugoslavia-----  | 53 |
| Greece-----  | 54 |
| India-----   | 54 |
| Pakistan-----  | 54 |
| Uruguay-----   | 55 |
| National Actions on Imports for Particular Products-----                               | 56 |
| U.S. Action on Ball Bearings-----  | 56 |
| U.S. Countervailing Duties on Imports of Non-Rubber<br>Footwear from Brazil-----       | 56 |
| E.C. Action on Bovine Meat-----  | 57 |
| Japanese Restrictions on Imports of Beef and Veal-----                                 | 59 |
| Australian Action on Imports of Certain Footwear-----                                  | 60 |
| Customs Unions, Free Trade Areas and Other Regional<br>Agreements-----                 | 60 |
| Agreements of Association with Other Countries-----                                    | 60 |
| Accession of Denmark, Ireland, and the U.K. to the<br>European Communities-----        | 61 |
| Agreements Between the EC, Finland, and Norway-----                                    | 63 |
| Economic Integration in the Caribbean Area-----  | 64 |
| The Arab Common Market-----  | 65 |
| Agreements Concluded between Finland and Bulgaria,<br>Hungary, and Czechoslovakia----- | 65 |
| Waivers under Article XXV-----   | 66 |
| Brazil--Renegotiation of Schedule-----   | 66 |
| India--Renegotiation of Schedule XII-----  | 67 |
| Indonesia--Renegotiation of Schedule-----  | 67 |
| Reports under Waivers-----   | 67 |
| Turkey Stamp Duty-----   | 67 |
| United States Agricultural Import Restrictions-----                                    | 68 |
| United States Imports of Automotive Products-----                                      | 69 |

## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Consultations-----                                      | 69          |
| Consultative Group on Meat-----                         | 69          |
| Consultation on Trade with Poland-----                  | 70          |
| Application of Article XXXV against Japan-----          | 71          |
| Romanian Custom Tariff-----                             | 72          |
| Activities in the Interest of Developing Countries----- | 72          |
| Training Activities-----                                | 72          |
| The GATT/UNCTAD International Trade Center-----         | 73          |
| The Committee on Trade and Development-----             | 73          |
| Trade Negotiations among Developing Countries-----      | 74          |
| CHAPTER 3   |             |
| DEVELOPMENTS IN MAJOR TRADING AREAS                     |             |
| European Community-----                                 | 76          |
| U.K. Renegotiation-----                                 | 77          |
| Regional Policy-----                                    | 80          |
| Energy Policy-----                                      | 81          |
| Economic and Monetary Union-----                        | 82          |
| Common Agriculture Policy-----                          | 84          |
| Foreign Trade-----                                      | 87          |
| Trade Relations with Developing Countries-----          | 91          |
| Canada-----   | 94          |
| Developments in 1974-----                               | 94          |
| General Preferential Tariff-----                        | 94          |
| Temporary suspension of duties-----                     | 95          |
| Beef imports from the United States-----                | 96          |
| Packaging, labeling and marketing regulations-----      | 97          |
| Foreign investment in Canada-----                       | 97          |
| Energy policy-----                                      | 99          |
| Foreign trade statistics-----                           | 101         |
| Japan-----  | 106         |
| Developments in 1974-----                               | 106         |
| Change in industry structure-----                       | 107         |
| Stabilization of the yen-----                           | 109         |
| Import liberalization-----                              | 110         |
| Foreign trade developments-----                         | 112         |
| U.S. trade with Japan-----                              | 113         |
| Latin America and the Caribbean-----                    | 118         |
| U.S. trade with Latin America and the Caribbean-----    | 118         |
| Developments in regional commodity exports-----         | 119         |
| Coffee-----   | 119         |
| Sugar-----  | 120         |
| Bananas-----  | 120         |
| Bauxite-----  | 121         |
| Copper-----   | 122         |

## CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Petroleum-----                                     | 122         |
| The Latin American Free Trade Association-----     | 124         |
| Activities within LAFTA-----                       | 125         |
| The Andean Subregional Group-----                  | 127         |
| Andean sectoral development programs-----          | 127         |
| The Andean Foreign Investment Code (AFIC)-----     | 128         |
| Subregional trade developments-----                | 129         |
| Other Andean Group activities-----                 | 131         |
| The Central American Common Market and Panama----- | 132         |
| CACM activities-----                               | 133         |
| CACM tariff and trade developments-----            | 134         |
| The Caribbean Community and region-----            | 135         |
| The Caribbean Community-----                       | 136         |
| CARICOM activities-----                            | 136         |

## INTRODUCTION

This report is made pursuant to section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 stat. 1978, approved January 3, 1975) and is the 26th issued by the United States International Trade Commission (formerly the United States Tariff Commission) on the Operation of the Trade Agreements Program. The report concentrates on developments during calendar year 1974. However, early in 1975, passage of the Trade Act of 1974 established major new guidelines for U.S. international trade policy for 1975 and later years. Included in this report as an appendix to Chapter I is a non-technical summary and discussion of the Trade Act of 1974.

Nineteen seventy-four was a year of unusual and not altogether satisfactory economic developments. The year witnessed the disruptive economic effects, worldwide, of a major escalation of crude oil prices initiated by OPEC (the Organization of Petroleum Exporting Countries) and also, in the first few months of the year, an embargo by Arab nations on outbound shipments of crude oil to the United States. For nearly all of the world's major economies, 1974 was a year of deepening recession -- the worst since World War II -- and serious inflation which saw consumer prices rising at double-digit rates. Meanwhile, many of the principal agricultural and industrial commodities markets were characterized by unusual shortages and volatile price development.

Section 163(b) of the Trade Act requires the Commission to submit to the Congress at least once a year a factual report on the operation of the Trade Agreements Program. It was prepared by Robert Eninger,

Michael Youssef, Cecilia Klein, Barbara Guth, and Patricia Marx  
under the supervision of George N. Ecklund, Director of the Office  
of Economic Research of the United States International Trade  
Commission.

CHAPTER 1  
U.S. ACTIVITIES RELATING TO THE  
TRADE AGREEMENTS PROGRAM

The Trade Agreements Program

Trade Agreements concluded under the Trade Agreements Act of June 12, 1934, as extended and amended, and under the Trade Expansion Act of 1962 (TEA), made up the trade agreements program in 1974. Activities relating to the trade agreements program include, in addition to the agreements and their implementation, actions taken by the United States to buffer or modify effects of trade agreements on various elements of the U.S. economy and to intervene when imports threaten to impair national security.

From 1934 until the General Agreement on Tariffs and Trade (GATT) was concluded in 1947, the United States developed a network of bilateral agreements designed to facilitate the reduction of trade barriers and strengthen diplomatic ties with other countries; multilateral agreements under GATT auspices have replaced all but five of the 32 separate agreements negotiated with 29 different countries during the years 1934-47. The GATT represented the first U.S. multilateral trade agreement; countries participating in the GATT now account for more than 80 percent of total world trade.

The President's authority under section 201 of the TEA to enter into trade agreements expired July 1, 1967. Thus, no new agreements under the trade agreements program could be entered into without further legislation. 1/

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1/ Under sections 101 and 102 of the Trade Act of 1974, the President is given new authority for a period of 5 years to enter into trade agreements with foreign countries.

The trade agreements program has been an important contributing factor to the decline by two-thirds of the average ad valorem equivalent of duties collected that existed in 1933, just before the trade agreements program began.

#### Status of the Program in 1974

Portions of five bilateral agreements entered into under the Trade Agreements Act of 1934, as amended and extended, continued in force in 1974. For agreements with El Salvador, Honduras, and Paraguay, the schedules of tariff concessions were terminated in the early 1960's, and only general provisions such as most-favored-nation treatment remain. The schedules of tariff concessions have not been terminated for a 1941 bilateral agreement with Argentina, but rates of duty specified in the schedules have, for the most part, been superseded by subsequent actions, such as more favorable concessions in the GATT for all but one of the items in the U.S. schedule. By an exchange of notes in 1972, the trade agreement with Venezuela entered into in 1939 and supplemented in 1952, has been revised considerably and many of its provisions terminated; the U.S. schedule of concessions was confined to a continuation of the tariff concessions on petroleum and shale oil. In addition to these five, a bilateral preferential agreement with Cuba exists, but has been in suspense since 1962; and Cuba has also been denied the benefits of MFN treatment.

Through the GATT, which is now the primary international body for carrying out trade agreements consultations under negotiations, the United States and other GATT members participate in a trade relationship that accounts for more than four-fifths of total world trade.

U.S. actions under trade agreement safeguards and  
adjustment assistance

The trade agreements to which the United States is a contracting party and implementing legislation provide safeguarding arrangements which permit trade concessions to be modified or withdrawn under certain circumstances and for imports to be adjusted. United States action under these arrangements involves use of procedures and criteria for implementing so-called "escape-clauses" and use of the national security provision of the Trade Expansion Act of 1962 (TEA). In addition, domestic adjustment assistance may be provided to injured firms or unemployed groups of workers.

The escape-clause.--The Trade Expansion Act sets the domestic statutory procedures and criteria for modification or withdrawal of trade agreement concessions. Under the TEA, escape-clause investigations were conducted by the Tariff Commission to determine whether, as a result in major part of trade agreement concessions, an article was being imported in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry (section 301(b)). An affirmative Commission determination was required before the President could provide relief by adjusting rates of duty or negotiating orderly marketing agreements (sections 351 and 352). 1/

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1/ 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, July 1964-December 1965.

Although no new escape-clause actions were initiated in 1974, the President did take action concerning a 1973 escape-clause case involving the ball-bearing industry. The Commission found that ball bearings were being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing like or directly competitive products. On March 29, 1974 (Presidential Proclamation 4279), the President announced modifications in the rates of duty on certain ball bearings.

In January 1974, the U.S. Tariff Commission submitted its fourth annual review of a 1970 escape-clause action on pianos. This review was undertaken under section 351(d)(3) of the Trade Expansion Act. The Commission found that termination of the current escape action rate of duty would not significantly affect the competitive position of the domestic industry. On February 20, 1974, the escape-clause action was permitted to expire.

Safeguarding national security.--Under section 232 of the Trade Expansion Act, the Director of the Office of Emergency Preparedness (OEP), upon the request of the head of any department or agency, the application of an interested party, or his own motion, is required to conduct an investigation to determine the effects of imports of an article on 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 may be necessary to control the entry of such an imported article.

The OEP initiated no new investigations under section 232 of the TEA during 1974.

Adjustment assistance.--The same section of the Trade Expansion Act that established a procedure for providing industry relief from injury due to trade agreement concessions also provided, under similar criteria, for adjustment assistance to be made available to firms injured (section 301(c)(1)) or groups of workers unemployed (section 301(c)(1)) as a result of trade agreement concession-induced imports. Adjustment assistance provides technical, financial, or tax assistance to injured firms and allowances and training to dislocated workers. Unlike escape-clause legislation, which allows modification of trade concessions when imports cause injury to domestic industries, the assistance program does not disturb trade agreement concessions.

During 1974, the Tariff Commission completed 11 investigations involving requests from individual companies for adjustment assistance. Three affirmative or tied determinations resulted. In tied adjustment assistance cases, the President has usually found the affirmative determination to be the determination of the Commission. In addition, the Commission completed 36 worker investigations; 14 resulted in affirmative or tied determinations.

Cases involving firms and workers in the footwear industry accounted for six firm investigations and 31 worker investigations. Two of the three affirmative or tied decisions involving firm investigations were footwear cases. Affirmative or tied determinations resulted in six of the footwear worker investigations.

### Trade Agreements Outside the Trade Agreements Program

In 1974, the United States continued to carry out two trade agreements providing for preferential tariff concessions, viz, the Philippine Trade Agreement and the U.S.-Canadian Automotive Agreement, which were made effective pursuant to specific statutory authority, separate from the basic authority for the conduct of the trade agreements program. Provisions were made under the GATT to allow existence of the arrangements without their being in violation of the obligations undertaken therein with the other contracting parties.

#### The Philippine Agreement

A bilateral agreement between the United States and the Republic of the Philippines, covering trade and related matters during the transitional period following institution of Philippine independence, expired on July 4, 1974. <sup>1/</sup> The agreement provided for a period of duty-free treatment ending in 1955, followed by a schedule of progressively increasing duties until 1974, when tariffs were to reach most-favored-nation levels.

As scheduled by the agreement, the most-favored-nation rate of duty became applicable on January 1, 1974, to all but a few Philippine products imported into the United States; on July 4, 1974, all remaining preferential rates were terminated, and the Philippines assumed most-favored-nation status.

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<sup>1/</sup> The original agreement, effective in 1947, was authorized by the Philippine Trade Act of 1946, and the revised agreement, effective in 1955, by the Philippine Trade Agreement Revision Act of 1955.

United States-Canadian Automotive Agreement 1/

The Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada was signed on January 16, 1965. Prior to the Agreement, automotive products imported into Canada were subject to most-favored-nation rates of duty of 17.5 percent ad valorem on motor vehicles, and 25 percent ad valorem on most parts. However, parts of a class or kind not made in Canada were entitled to duty-free entry if imported by a manufacturer maintaining a certain percentage of Canadian content in its production in Canada. In addition, under Canada's duty-remission plan, duties were remitted on imports of motor-vehicles and parts to the extent that the importing manufacturer increased the Canadian content in its exports of automotive products.

Automotive products imported into the United States, on the other hand, were subject to most-favored-nation rates of duty of 6.5 percent ad valorem on automobiles and 8.5 percent ad valorem on trucks valued at \$1,000 or more and on most parts, and the United States had no corresponding export or production incentive programs.

Under the Agreement, the United States is obligated to accord duty-free treatment to imports of motor vehicles and original-equipment parts therefor from Canada. The United States implemented the Agreement with

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1/ For a more detailed analysis of the Agreement see United States International Trade Commission, 94th Cong., 1st Sess., Report on the United States-Canadian Automotive Agreement: Its History, Terms, and Impact (Comm. Print 1976). For earlier operations under the Agreement, see Operation of the Trade Agreements Program, 17th through 25th Reports.

the Automotive Products Trade Act of 1965 (APTA), P.L. 89-283. The passage of APTA put the United States in violation of its most-favored-nation obligations under the GATT, since the duty-free treatment of motor-vehicles and original-equipment parts therefor provided by APTA applies only to products of Canada. The United States obtained a waiver for APTA of its most-favored-nation obligations under the GATT.

Canada, under the Agreement, is obligated to accord duty-free treatment to imports of motor vehicles and original equipment parts therefor only when imported by a Canadian manufacturer establishing and maintaining certain levels of motor vehicles production in Canada. Canada implemented the Agreement with the Motor Vehicles Tariff Orders of 1965, whereby imports of automotive products from any country are entitled to duty-free entry when imported by a qualifying manufacturer. In addition, Canadian motor-vehicle manufacturers who qualified for the right to import automotive products free of duty were required to make certain collateral commitments to the Government of Canada to increase the Canadian content in their automotive production in Canada, which are still binding. For imports of automotive products not imported by a qualifying manufacturer in Canada, the most-favored-nation rates of duty of 15 percent ad valorem on motor vehicles and 15 and 20 percent ad valorem on most parts are still applicable. The conditional duty-free treatment described in the Agreement as implemented by Canada applies to products of any country with which Canada has most-favored-nation or British Preferential commitments, and Canada was not required to request a waiver of its obligations under the GATT.

Based on data presented in table 1 U.S.-Canadian two-way trade in automotive products reached more than \$12 billion in 1974, a level more than 15 times that in 1964. U.S. automotive trade with the rest of the world was \$9.5 billion in 1974, only three times its level in 1964. U.S. automotive trade with Canada achieved an average annual growth rate of 34 percent during the years 1965-74; U.S. automotive trade with the rest of the world increased an average of 14 percent per year during the same period. However, growth in automotive trade between the United States and Canada has slowed in recent years, actually dropping below annual growth rates for the rest of the world in 1970, 1972, 1973, and 1974. Automotive trade with Canada grew an average of 54 percent annually from 1965-69, while such trade with the rest of the world averaged only 4 percent growth per year. In 1970-74, U.S. trade with other countries grew 23 percent per year, while U.S.-Canadian automotive trade grew at an average rate of only 14 percent annually. Canada's share of total U.S. trade in automotive products rose from 20 percent in 1964 to a high of 65 percent in 1969, but it has since declined to 56 percent in 1974.

Table 1.--U.S. automotive trade: Two-way trade and growth rates, total and with Canada, 1965-74

| Year  | : U.S. automotive trade<br>: with Canada |                  | : U.S. automotive trade<br>: with other countries |                  | : Total U.S. automotive<br>: trade |                  |
|---|--|------------------|---|------------------|------------------------------------|------------------|
|   | : Two-way                                | : Annual growth  | : Two-way   | : Annual growth  | : Two-way                          | : Annual growth  |
|   | : trade 1/:                              | : rate           | : trade 1/:                                       | : rate           | : trade 1/:                        | : rate           |
|   | : <u>Million</u>                         | : <u>Percent</u> | : <u>Million</u>                                  | : <u>Percent</u> | : <u>Million</u>                   | : <u>Percent</u> |
|   | : <u>dollars</u>                         | :                | : <u>dollars</u>                                  | :                | : <u>dollars</u>                   | :                |
| 1964 <u>2/</u> -----                        | 778                                      | -                | 3,095   | -                | 3,873                              | -                |
| 1965 <u>2/</u> -----                        | 1,171                                    | 51               | 2,077   | -33              | 3,248                              | -16              |
| 1966 <u>2/</u> -----                        | 2,253                                    | 92               | 2,368   | 14               | 4,621                              | 42               |
| 1967 <u>2/</u> -----                        | 3,417                                    | 52               | 2,314   | -2               | 5,731                              | 24               |
| 1968 <u>2/</u> -----                        | 5,058                                    | 48               | 3,089   | 25               | 8,147                              | 42               |
| 1969 <u>2/</u> -----                        | 6,311                                    | 25               | 3,357   | 9                | 9,668                              | 19               |
| 1970-----                                   | 6,122                                    | -3               | 3,951   | 18               | 10,073                             | 4                |
| 1971-----                                   | 7,925                                    | 29               | 5,004   | 27               | 12,929                             | 28               |
| 1972-----                                   | 9,280                                    | 17               | 5,894   | 18               | 15,174                             | 17               |
| 1973-----                                   | 10,756                                   | 16               | 7,341   | 25               | 18,097                             | 19               |
| 1974-----                                   | 12,190                                   | 13               | 9,503   | 29               | 21,693                             | 20               |
| Average annual growth<br>rate, 1965-74----- | -  | 34               | -   | 13               | -                                  | 20               |

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

2/ Partly estimated.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

As shown in table 2, the United States balance in automotive trade with Canada has moved from a substantial surplus in 1965, when the Agreement was signed, to a substantial deficit. However, in each of the last five years, Canada's share of the total United States automotive trade deficit with all countries has been smaller than the previous year's share. The trade deficit with Canada has decreased each year since 1971; in 1974 United States imports from Canada exceeded United States exports to Canada by only \$330 million, the smallest deficit since 1968, less than one-tenth the size of the total United States deficit with all countries in automotive trade for 1974.

Table 2.--U.S. automotive trade: U.S. imports for consumption and U.S. exports of domestic merchandise; total trade and trade with Canada, 1964-74 1/

|             | U.S. imports    |                 |                                 | U.S. exports    |                 |                               | U.S. two-way trade |                 |                                 | Net surplus (+) or deficit (-) in trade |                 | Size of U.S. surplus/deficit with Canada           |
|-------------|-----------------|-----------------|---------------------------------|-----------------|-----------------|-------------------------------|--------------------|-----------------|---------------------------------|---|-----------------|--|
|             | Total           | From Canada     | Percentage of total from Canada | Total           | To Canada       | Percentage of total to Canada | Total              | With Canada     | Percentage of total with Canada | Total                                   | With Canada     | (as a percent of total U.S. trade surplus/deficit) |
|             | Million dollars | Million dollars | Percent                         | Million dollars | Million dollars | Percent                       | Million dollars    | Million dollars | Percent                         | Million dollars                         | Million dollars | Percent  |
| 1964 2/---- | 823             | 111             | 13                              | 3,050           | 667             | 22                            | 3,873              | 778             | 20                              | +2,227                                  | + 556           | 25   |
| 1965 2/---- | 1,063           | 257             | 24                              | 2,185           | 914             | 42                            | 3,248              | 1,171           | 36                              | +1,122                                  | + 657           | 58   |
| 1966 2/---- | 1,980           | 929             | 47                              | 2,641           | 1,324           | 50                            | 4,621              | 2,253           | 49                              | + 661                                   | + 395           | 60   |
| 1967 2/---- | 2,720           | 1,619           | 59                              | 3,010           | 1,798           | 60                            | 5,731              | 3,417           | 60                              | + 290                                   | + 179           | 62   |
| 1968 2/---- | 4,440           | 2,633           | 59                              | 3,708           | 2,425           | 65                            | 8,147              | 5,058           | 62                              | - 732                                   | - 208           | 28   |
| 1969 2/---- | 5,502           | 3,509           | 64                              | 4,166           | 2,802           | 67                            | 9,668              | 6,311           | 65                              | -1,336                                  | - 707           | 53   |
| 1970-----   | 6,161           | 3,608           | 58                              | 3,912           | 2,514           | 64                            | 10,073             | 6,122           | 61                              | -2,249                                  | -1,094          | 49   |
| 1971-----   | 8,270           | 4,650           | 56                              | 4,659           | 3,275           | 70                            | 12,929             | 7,925           | 61                              | -3,611                                  | -1,375          | 38   |
| 1972-----   | 9,724           | 5,302           | 54                              | 5,451           | 3,980           | 73                            | 15,174             | 9,280           | 61                              | -4,273                                  | -1,322          | 31   |
| 1973-----   | 11,442          | 5,993           | 52                              | 6,655           | 4,763           | 72                            | 18,097             | 10,756          | 59                              | -4,787                                  | -1,230          | 26   |
| 1974-----   | 12,985          | 6,260           | 48                              | 8,709           | 5,930           | 68                            | 21,693             | 12,190          | 56                              | -4,276                                  | - 330           | 8  |

12

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

2/ Partly estimated.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

The United States-Canadian automotive trade statistics reflected in table 2 are complicated by the fact that the valuation of United States imports of vehicles and parts from Canada as reported by the United States Customs Service differs considerably from the valuation of United States exports, which is based upon actual transaction values. Moreover, United States export statistics are not as accurate as United States import statistics. When adjustments for these differences are attempted, such as in the President's annual report on the Operations of the Automotive Products Trade Act, the results are as shown below:

Table 3.--U.S.-Canada trade in automotive products, 1964-74  
U.S. imports - Canadian imports

| Year      | U.S. imports | U.S. exports<br>(adjusted Canadian<br>import data) 1/ | Net surplus (+)<br>or deficit (-)<br>in trade |
|-----------|--------------|---|---|
| 1964----- | 76           | 640   | +564  |
| 1965----- | 231          | 889   | +658  |
| 1966----- | 819          | 1,375   | +556  |
| 1967----- | 1,406        | 1,889   | +483  |
| 1968----- | 2,274        | 2,634   | +360  |
| 1969----- | 3,061        | 3,144   | + 83  |
| 1970----- | 3,132        | 2,936   | -196  |
| 1971----- | 4,000        | 3,803   | -197  |
| 1972----- | 4,595        | 4,496   | - 99  |
| 1973----- | 5,301        | 5,726   | +425  |
| 1974----- | 5,544        | 6,777   | +1,233  |

1/ Except as noted.

Source: Canadian Automobile Agreement; Seventh, Eighth, and Ninth Annual Reports of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, except as noted.

Table 4 shows components of 1974 United States-Canadian automotive trade using f.a.s. (free alongside ship) import data obtained from official statistics of the U.S. Department of Commerce. <sup>1/</sup> The table shows that the United States incurred a large deficit in new passenger cars and a deficit in trucks, buses, and special purpose automotive vehicles, off-set by a substantial surplus in automotive bodies, engines, parts, and chassis.

Table 4.--U.S. Automotive Trade with Canada, 1974

| (Millions of U.S. dollars)                                  |  |  |                            |
|---|--|--|----------------------------|
| Item  | U.S. imports<br>(f.a.s.) <sup>1/</sup> | U.S. exports<br>(f.a.s.) <sup>2/</sup> | Surplus (+)<br>Deficit (-) |
| Automotive vehicles, parts,<br>and engines, total-----      | 5,553.3                                | 5,741.7                                | +188.4                     |
| Passenger cars, new-----                                    | 2,625.5                                | 1,769.7                                | -855.8                     |
| Passenger cars, used-----                                   | <sup>3/</sup>                          | .4                                     | + .4                       |
| Trucks, buses, and special<br>purpose automotive vehicles.: | 910.5                                  | 813.7                                  | - 96.8                     |
| Automotive bodies, engines,<br>parts, chassis.              | 2,017.2                                | 3,157.9                                | +1,140.7                   |

<sup>1/</sup> Transaction value at foreign port of exportation.

<sup>2/</sup> Transaction value at U.S. port of exportation.

<sup>3/</sup> Less than \$0.5 million.

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

<sup>1/</sup> Effective January 1974, the Bureau of the Census began publication of U.S. import data based on f.a.s. foreign port exportation and c.i.f. U.S. port of unloading valuations, in addition to the Customs value which has traditionally been reported. The f.a.s. value represents the transaction value of imports at the foreign port of exportation. The c.i.f. value represents the value of imports at the first port of entry into the United States. The customs value, which will continue to be listed, is the value that is legally established under section 402 and 402(a) of the Tariff Act of 1930, as amended, for determining import duty; as it may, in any given case, reflect an export value, a constructed value, American selling price, etc., it often does not reflect the actual transaction value. (See U.S. Department of Commerce Publication FT990, December 1973.)

The value of United States imports of vehicles and parts from Canada as reported by the United States Customs Service (table 2) may be the most appropriate method of valuation for trade purposes. On the other hand, the transaction value of United States imports from Canada, as reported in U.S. Department of Commerce statistics on f.a.s. imports (table 3) may be a better expression of monetary flows in a balance of payments context, since United States exports are valued on a comparable basis, i.e., transactions values.

## International Textile Agreements

Section 204 of the Agricultural Act of 1956, as amended, gives the President authority to negotiate with representatives of foreign governments to develop agreements limiting exportation from such countries to the United States of any agricultural commodity or product manufactured therefrom, or textiles or textile products, and to issue regulations governing the entry of such articles to carry out such agreements. Under this authority, the United States negotiated long-term multilateral agreements regulating trade in textiles and textile products.

### Long-Term Cotton Textile Agreement

The Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA), provided the multilateral basis for regulating international trade in cotton textiles from 1962 until its expiration on December 13, 1973. Effective January 1, 1974, the LTA was replaced by the Arrangement Regarding International Trade in Textiles (The Multifiber Agreement).

The LTA provided two approaches to the regulation of imports of cotton textiles. Article 3 permitted unilateral imposition of restraints on imports by participating countries when such imports caused or threatened to cause market disruption; article 6(c) required, essentially, that disruptive imports from non-participants should not be treated more favorably than those from participants, allowing the provisions of article 3 to be applied against non-participants. Article 4, on the other hand, permitted the

negotiation of mutually acceptable bilateral agreements limiting textile trade. A trend away from unilateral imposition of restraints (articles 3 and 6 (c)) toward negotiation of bilateral agreements (article 4) was apparent in the final years of the LTA. Several of these bilateral agreements, negotiated toward the end of the life of the LTA, covered exports of noncotton textiles to the United States. The first such bilateral agreement, covering wool and manmade fiber textiles, was negotiated with Malaysia in 1970; by 1973 similar agreements were in effect with seven countries, representing the principal textile exporters in the Far East. Thus, by the time it expired in December 1973, the LTA had become a basis for negotiating bilateral agreements covering most types of textiles.

#### Multifiber Textile Agreement

The Arrangement Regarding International Trade in Textiles entered into force on January 1, 1974, with certain provisions becoming effective three months later. This new arrangement is to serve as the multilateral basis for regulating world trade in cotton, wool, and manmade-fiber textiles for a four-year period. The Arrangement was accepted by the United States on December 28, 1973, and became effective April 1, 1974.

The Arrangement, negotiated under GATT auspices, has as its stated objective "the expansion of trade, the reduction of barriers to such trade, and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable

development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries." A principal agreed aim of the Arrangement is "to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products." 1/

By the end of 1974 the United States had concluded bilateral agreements under the Arrangement Regarding International Trade in Textiles with 25 countries and similar agreements were being negotiated with several others. 2/ Restraints provided for in bilateral agreements instituted in 1974 covered approximately two billion square yards of textiles. The tabulation on the following page shows total 1974 restraint levels for textile imports into the United States. 3/

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1/ For details of the Arrangement Regarding International Trade in Textiles, see Operation of the Trade Agreements Program, 25th Report, p. 52.

2/ Bilateral agreements had been concluded with Brazil, Colombia, Czechoslovakia, Egypt, Greece, Haiti, Hong Kong, Hungary, India, Japan, Macao, Malta, Mexico, Nicaragua, Pakistan, Peru, Republic of the Philippines, Poland, Portugal, Romania, El Salvador, Singapore, Spain, Thailand, and Yugoslavia. Agreements were being negotiated with the Republic of China, Malaysia, and the Republic of Korea; in addition, agreements already in effect with Haiti, Macao, Pakistan, and Singapore were being renegotiated. A Memorandum of Understanding was initiated terminating the agreement with Nicaragua, but it remains in effect until diplomatic notes are exchanged; such notes were not issued before the end of 1974.

3/ It includes the remaining unilateral restraints as well as bilateral agreements.

Table 5.--Restraint levels for textile imports into the United States,  
by country of origin, 1974

(In million equivalent square yards)

| Country                 | Cotton textile<br>restraint | Wool textile<br>restraint | Manmade fiber<br>textile restraint |
|-------------------------|-----------------------------|---------------------------|------------------------------------|
| Barbados-----           | 0.49                        |                           |                                    |
| Brazil-----             | 86.92                       |                           |                                    |
| British Honduras-----   | 2.91                        |                           |                                    |
| China, Republic of----- | 104.19                      | 4.84                      | 557.98                             |
| Colombia-----           | 44.67                       |                           |                                    |
| Costa Rica-----         | 1.73                        |                           |                                    |
| Czechoslovakia-----     | 3.13                        |                           |                                    |
| Egypt-----              | 65.00                       |                           |                                    |
| El Salvador-----        | 6.36                        |                           |                                    |
| Ghana-----              | .45                         |                           |                                    |
| Greece-----             | 12.17                       |                           |                                    |
| Haiti-----              | 4.96                        |                           |                                    |
| Hong Kong-----          | 516.93                      | 41.65                     | 240.89                             |
| Hungary-----            | 4.94                        |                           |                                    |
| India-----              | 132.75                      |                           |                                    |
| Italy-----              | 2.49                        |                           |                                    |
| Jamaica-----            | 30.13                       |                           |                                    |
| Japan-----              | 510.94                      | 43.69                     | 1,073.03                           |
| Korea-----              | 53.40                       | 12.99                     | 405.30                             |
| Macao-----              | 3.25                        | 1.41                      | 25.68                              |
| Malaysia-----           | 23.15                       |                           | 6.21                               |
| Malta-----              | 17.87                       |                           |                                    |
| Mauritius-----          | .11                         |                           |                                    |
| Mexico-----             | 111.18                      |                           |                                    |
| Nicaragua-----          | 5.27                        |                           |                                    |
| Pakistan-----           | 110.00                      |                           |                                    |
| Peru-----               | 5.51                        |                           |                                    |
| Philippines-----        | 66.33                       |                           |                                    |
| Poland-----             | 9.56                        |                           |                                    |
| Portugal-----           | 131.45                      |                           |                                    |
| Romania-----            | 10.42                       |                           |                                    |
| Singapore-----          | 64.54                       | 3.30                      | 124.00                             |
| Spain-----              | 56.72                       |                           |                                    |
| Sri Lanka-----          | 1.10                        |                           |                                    |
| Thailand-----           | 16.29                       |                           |                                    |
| Turkey-----             | 2.03                        |                           |                                    |
| Yugoslavia-----         | 27.04                       |                           |                                    |
| Total-----              | 2,246.29                    | 107.88                    | 2,433.09                           |
| 1974 total imports*---  | 1,462.5                     | 86.1                      | 2,861.6                            |

Source: "Textile Restraint Summaries" and "U.S. Bilateral Textile Agreements", Office of Textiles, U.S. Department of Commerce, 1974.

\* - Textile imports from all countries, including those against which the United States does not maintain restraints.

Many new textile agreements involve aggregate ceilings, often referred to as "three-fiber agreements", which combine imports of cotton, wool, and manmade fiber. The recent bilateral agreement entered into with Japan is typical of this more flexible method of dealing with import restrictions. Under the terms of the new agreement, Japan will limit its exports of all textiles to the United States in the first agreement year to about 1.7 billion square yards; although specific limitations for various categories of textiles are listed, the agreement emphasizes the aggregate limit, allowing increased inter- and intra- fiber flexibility. The new agreement also provides for a higher rate of annual growth than previous agreements. Three-fiber agreements are in effect for Japan and Hong Kong, and are being negotiated with the Republic of China, Haiti, Macao, Malaysia, Pakistan, and Singapore.

#### International Commodity Agreements

The United States participated in two international commodity agreements during 1974, those involving wheat and coffee. Both agreements lacked the regulatory authority present in past commodity agreements; neither contained provisions for export quotas, indicator prices, certificates of origin, or other control mechanisms.

Previous international commodity agreements participated in by the United States used export quotas and buffer stocks to regulate markets and stabilize prices. The new trend away from agreements that constrain participating countries to abide by procedures

designed to influence prices and rates of supply, and to guide prices toward levels agreed upon in advance, was mainly caused by the large increases in commodity prices experienced in recent years. Supplying countries hesitated to limit prices to levels consuming countries would agree to; consuming countries wanted to slow or reverse price increases.

The following table illustrates the price increases or decreases that occurred in several commodities subject to international commodity agreements; the United States participated in agreements on coffee and wheat. As shown in the table, except for the unusual increase in the price of sugar, growth in the prices of the commodities listed slowed considerably in 1974.

Table 6.--Prices of selected commodities, January and December 1974; price changes in 1973 and 1974

| Commodity                        | 1974                |                     | 1974                 | 1973           |
|----------------------------------|---------------------|---------------------|----------------------|----------------|
|                                  | January price       | December price      | Increase or Decrease | Increase       |
|                                  | <u>U.S. dollars</u> | <u>U.S. dollars</u> | <u>Percent</u>       | <u>Percent</u> |
| Coffee-----lb---                 | .69                 | .70                 | 1                    | 22             |
| Cocoa-----lb---                  | .65                 | .86                 | 32                   | 62             |
| Sugar, raw and refined-----lb--- | .14                 | .53                 | 279                  | 22             |
| Wheat-----bu---                  | 5.68                | 4.74                | -17                  | 100            |
| Tin-----lb---                    | 2.97                | 3.52                | 19                   | 60             |

### International Coffee Agreement

The 1962 and 1968 International Coffee Agreements have been multi-lateral treaty arrangements between the major coffee importing and exporting countries, including the United States. The agreements, administered by the International Coffee Council (ICC) have had the primary objective of achieving a reasonable balance between supply and demand at equitable prices. The agreements achieved a degree of success in stabilizing the wild price fluctuations associated with the coffee "boom or bust" cycle, and, in general, prices held within the price ranges specified in the agreements. Disagreements about quota levels arose following the dollar devaluation in 1971, when coffee growers demanded larger price increases than the Agreement had previously scheduled and the United States and Canada refused to comply. As a result, the economic provisions of the 1968 Agreement collapsed in 1972. In April 1973, the ICC approved a 2-year extension of the International Coffee Agreement for the period September 30, 1973 to September 30, 1975. The extended agreement contained no provisions for import-export controls, quota arrangements, or price stabilization mechanisms. The infrastructure that remained was essentially a shell which served as a forum for the collection and dissemination of coffee statistics and as a basis for the renegotiation of a new agreement.

Late in 1973, countries supplying 80 percent of the world's coffee formed cartels in hopes of restricting coffee supply and driving coffee prices up. The four biggest coffee producers (Colombia, Brazil, Angola, and the Ivory Coast), supplying about

sixty percent of the world's coffee, formed Cafe Mundial, a company set up to purchase and stockpile coffee. Central American growers controlling 20 percent of world coffee supplies set up a similar company, Other Mills. For a short time, the cartels had some success at driving up prices; in the second quarter of 1974, Brazilian coffee peaked at 80 cents a pound, Colombian at 82 cents a pound, and Central American at 75 cents a pound. During the previous year, aided by a frost that halved Brazil's coffee harvest, the average price of a pound of green coffee had climbed from 58 to 71 cents.

High prices proved too tempting to the Central American coffee growers, and they began selling their stockpiles soon after prices peaked in mid-1974. Then, coffee growers in Angola, Colombia, and finally Brazil, started selling stockpiled coffee. Coffee prices, which had peaked at an average price per pound of 75 cents, fell to an average of 70 cents per pound by December.

In November 1974, nine Latin American coffee-producing countries formed a corporation, "Cafés Suaves Centrales, S.A.," as a stockpiling body, and coffee producing nations began discussing formulation of a long-term international coffee agreement with adequate provisions for maintenance of price and supply stability.

The major coffee importing and exporting countries held meetings throughout 1973-75 for the purpose of negotiating a new coffee agreement. In September of 1974 the ICC extended the existing International Coffee Agreement for one year to September 30, 1976, to provide the time necessary to negotiate a new agreement.

### International Wheat Agreement

On July 1, 1971, the International Wheat Agreement of 1971 replaced the International Grains Arrangement of 1967. The new agreement contained no price or other economic provisions because members could not agree on a desirable price level for internationally traded wheat and on the price of a reference wheat. Currency exchange rate revisions, crop failures, and the 1973 commodities boom created price uncertainties that made member countries unwilling to risk binding their interests to fixed price levels. The International Wheat Agreement of 1971, which was to expire on June 30, 1974, continues in effect, having been twice extended (to June 30, 1976). It serves as a forum for the collection and exchange of wheat trade data and provides for a food aid program to developing countries.

Wheat prices declined 17 percent during 1974, after rising more than 100 percent in the preceding year. The average price per bushel of wheat was \$5.68 in January 1974; it dipped to \$4.21 in mid-year, and recovered slightly to \$4.74 in December. World wheat trade for the crop year ending in June 1974 increased to 72.9 million metric tons from 72.3 million metric tons in the preceding year, an increase of less than one percent. World trade had increased almost 30 percent in the 1972-73 crop year. World production of wheat increased 10 percent in the 1973-74 crop year; world wheat consumption declined by one percent in that year, adding to an increase in wheat stocks.

### International Sugar Agreement

The quota provisions of the International Sugar Agreement expired on December 31, 1973, and there are no quota provisions in the new agreement worked out at the end of 1973. The United States has not

participated in the International Sugar Agreement other than to attend meetings as an observer. Prior to 1975, U.S. import quotas for sugar were set, in accordance with the Sugar Act of 1948, at levels that attempted to influence prices toward a desired level computed by the U.S. Department of Agriculture. By authority of headnote 2, Part 9(A), Schedule 1, of the TSUSA, the President established by Proclamation a global import quota of 7 million short tons, raw value, for raw and refined sugar in each calendar year.

Only 5,787,202 short tons of raw and refined sugar were imported in 1974, falling short of quota limits by almost 20 percent. In 1974, imports of sugar accounted for 51 percent of domestic sugar consumption; in past years, quotas have held the volume of imports to a little less than half of U.S. consumption. World sugar prices exceeded domestic sugar prices during most of 1974.

#### Voluntary Export Restrictions

The United States has periodically negotiated restrictions with foreign governments or foreign interested parties to voluntarily limit the kinds or amounts of certain exports destined for the United States. Such voluntary controls are usually deemed preferable to controls imposed as a result of U.S. escape-clause actions or to

quantitative action taken under other U.S. legislation, because greater flexibility is provided. In recent years, such voluntary restrictions on exports to the United States of meats and steel products have been the most important.

#### Restraints on meat

Under the Meat Import Act of 1964 (P.L. 88-482), the aggregate quantity of imports of fresh, chilled, or frozen cattle, goat, and sheep (except lamb) meats provided for in TSUS items 106.10 and 106.20, are allowed to fluctuate from a base of 725.4 million pounds (which represents the average annual quantity of imports during 1959-63), at the same rate that the estimated average annual domestic commercial production of these meats for the current calendar year and the preceding two calendar years fluctuates from the base level. Quotas may be imposed by Presidential proclamation when the import level estimated by the Secretary of Agriculture for any calendar year equals or exceeds 110 percent of the adjusted base level. The Act also provided that the President may suspend the import quantity limit, if, after having considered the importance to the nation of the economic well-being of the domestic livestock industry, he determines that such action is required by overriding economic or national security interests of the United States.

In the early 1970's, voluntary restraints were negotiated with the countries that export meats subject to the Act to the United States in order to avoid invoking quotas under the Meat Import Act.

Imports were extremely large in 1970 and 1971, however, and the President invoked quotas as required by law, simultaneously suspended them, and authorized higher restraint levels. In 1972, a restraint program was agreed to by supplying countries. In mid-year, however, when retail meat prices were high in the United States and a number of major meat importing countries were competing for the limited world supplies of meat, the President suspended the restraint program in order to encourage greater shipments of beef to the United States.

In 1973, quotas were invoked by the President, but simultaneously suspended because of overriding economic interests.

In recent years, estimated potential imports have exceeded the level of imports permissible under the Meat Import Act of 1964 by more than 10 percent, and the President has fulfilled the requirements of the law by issuing proclamations limiting imports to the extent required. However, for the past several years, the President has suspended meat import limitations upon issuing them, determining that such action was required by overriding economic or national security interests.

In 1974, in accordance with the Act, the Secretary of Agriculture estimated the import limitation (so-called trigger point) at 1,027.9 million pounds, and 1974 potential imports at about 1,575.0 million pounds, 153 percent of the estimated import limitation. By Presidential Proclamation 4272 on February 26, 1974, the President imposed a quota of 1,027.9 million pounds on meat imports, but he simultaneously suspended the limitation, stating that "the suspension of the limitation is

required by overriding economic interests of the United States, giving special weight to the importance to the Nation of the economic well-being of the domestic livestock industry."

Actual U.S. imports of meat in 1974 were only 1,079 million pounds, well below estimated potential imports for 1974. For most of 1974, demand for meat was rising more rapidly in some foreign countries than in the United States and domestic meat prices were below world meat prices. As of December 31, 1974, potential imports of meat for 1975 were estimated at 1,150 million pounds, 30 million pounds below the level which would require the President to proclaim a limitation on meat imports.

Effective in August 1974, Canada imposed restrictions on cattle and meat imported from the United States, requiring that specified meat could not be imported into Canada unless accompanied by a veterinary certificate stating that certain growth stimulating chemicals had not been used in raising the animals concerned. In Presidential Proclamation 4335 (November 16, 1974), the President stated that "Canada has imposed unjustifiable restrictions on cattle and meat imports from the United States . . . [that] . . . violate the commitments of Canada made to the United States, including the provisions of Article XI of the General Agreement on Tariffs and Trade, and impair the value of tariff commitments made to the United States, oppress the commerce of the United States and prevent the expansion of trade on a mutually advantageous basis." The President deemed it necessary and appropriate to impose temporary restrictions on imports of Canadian cattle, beef, veal, swine, and pork "in order to obtain the

removal of such unjustifiable restrictions and to provide access for United States cattle and meat to the markets of Canada on an equitable basis." U.S. imports from Canada were limited to 67,000 head of cattle and swine and 53 million pounds of meat, retroactive to August 12, 1974, for each succeeding year.

#### Voluntary steel restrictions

In the years 1969-71, steel producers of Japan and the European Community participated in a voluntary arrangement limiting exports of steel mill products to the United States. Imports accounted for 17 percent of the total U.S. market supply of steel mill products in the year immediately preceding the arrangement, 13 percent in 1969, and 14 percent in 1970. Imports rose to 18 percent of U.S. steel market supply in 1971 when disagreements among participants over a U.S. import surcharge caused a partial breakdown of the voluntary system; threats of a dock strike and anticipation of strikes in the steel industry also contributed to increased import purchases in that year.

A similar voluntary arrangement was initiated for the 1972-74 period, and steel producers of the United Kingdom joined as participants. Provisions were added establishing specialty steel quotas, reducing the annual growth rate of shipments from 5.0 percent to 2.5 percent, requiring that firm assurances be given that the product mix and geographic distribution of steel imports into the United States would be maintained, requiring that restraints on shipments of cold finished structural steel be strictly adhered to, and stating that the United States or any foreign producer would consult with any country party to the voluntary steel arrangement to consider any problem or question that might arise, thus initiating periodic discussions.

Both the European Community (including the United Kingdom) and Japan remained within aggregate steel export restrictions for 1972 and 1973, but both exceeded ceilings for most of the specialty steel limitations within the overall restraints.

As shown in the table below, neither the European Community nor Japan exceeded its overall 1974 quota for steel mill products. Japan remained well within all of its specialty steel restrictions except the restriction on tool steel, exporting 182 percent of its tool steel quota. The European Community exported 135 percent of its quota for stainless steel but remained within its other specialty steel quotas.

Table 7.--Steel quotas and imports into the United States

| Country             | (Thousand net tons) |         |        |         |        |         |
|---------------------|---------------------|---------|--------|---------|--------|---------|
|                     | 1972                |         | 1973   |         | 1974   |         |
|                     | Quota               | Imports | Quota  | Imports | Quota  | Imports |
| European Community- | :                   | :       | :      | :       | :      | :       |
| United Kingdom----  | 8,014               | 7,779   | 8,094  | 6,510   | 8,296  | 6,424   |
| Japan-----          | 6,498               | 6,440   | 6,660  | 5,637   | 6,827  | 6,159   |
| Total-----          | 14,512              | 14,219  | 14,754 | 12,147  | 15,123 | 12,583  |

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

One objective of the voluntary steel restriction program was to attempt to maintain the previously existing percentage distribution of steel imports into specific geographic regions in the United States. The tabulation below shows the percentage distribution of imports of steel mill products by U.S. geographic region for 1969-71 and 1974, from Japan and the European Community. The distribution of steel imports from the European Community changed less than eight percentage points from 1969-71 to 1974 for each area shown. Steel imports from Japan changed more than ten percentage points for two of the regions; imports into the Pacific Coast increased 11.1 percentage points, and those into the Canadian Border-Great Lakes area decreased 11.6 percentage points.

Table 8.--Percentage distribution of steel imports into the United States according to geographic regions

| Regions                          | (Percent)            |       |                                    |       |
|----------------------------------|----------------------|-------|------------------------------------|-------|
|                                  | Japan                |       | European Community                 |       |
|                                  | Average :<br>1969-71 | 1974  | Average :<br>1969-71 <sup>1/</sup> | 1974  |
| Atlantic Coast-----              | 19.2                 | 14.8  | 30.2                               | 30.9  |
| Gulf Coast-Mexican Border-----   | 22.4                 | 29.6  | 20.2                               | 18.4  |
| Pacific Coast-----               | 33.8                 | 44.9  | 3.7                                | 11.4  |
| Canadian Border-Great Lakes----- | 20.4                 | 8.8   | 42.8                               | 36.8  |
| Off-shore-----                   | 4.2                  | 1.9   | 3.1                                | 2.5   |
| Total-----                       | 100.0                | 100.0 | 100.0                              | 100.0 |

<sup>1/</sup> Excludes the United Kingdom.

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

The Consumer's Union filed a court suit in 1972 charging that the voluntary steel arrangement constituted a regulation of commerce within the meaning of article 1, section 8, clause 3 of the U.S. Constitution, and of sections 301 and 352 of the Trade Expansion Act of 1962. Under that legislation, the consumer group sought to prove that formation of such a voluntary arrangement exceeded the authority of the foreign defendants and the 1972 U.S. Government defendants named (including the Secretary of State and the parties who sent the letter to the Secretary). The court ruled that the voluntary arrangement was not exempt from antitrust laws, could not be exempted by the Executive, but could be entered into outside the procedures provided in the TEA so long as the arrangement did not violate legislation regulating foreign commerce, such as the Sherman Act. Both parties appealed the decision, and the U.S. Court of Appeals for the District

of Columbia upheld the Government, allowing continuation of the voluntary arrangement in its present form. However, the Consumer's Union has petitioned the Supreme Court for a review of the Appeals Court decision.

The Trade Act of 1974 includes a provision which would immunize persons from prosecution under State and Federal antitrust laws by reason of their participation in the voluntary arrangement regarding steel imports to the United States which expired December 31, 1974.

#### Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act, as amended, directs the Secretary of Agriculture to advise the President when he believes any agricultural commodity or product thereof is being imported under such conditions and in such quantities as to interfere with price-support or other programs of the Department of Agriculture or to reduce substantially the amount of any product processed in the United States from such agricultural commodities. The President may then direct the Commission to conduct an investigation and report to him its findings and recommendations. On the basis of such information, the President may proclaim the imposition of duties or quantitative restrictions, or suspend, terminate, or modify any existing import restrictions so imposed. In emergency cases, the President may take immediate action pending the outcome of the Commission's investigation.

In 1974 the Tariff Commission instituted one new investigation and concluded two investigations begun in 1973. No investigations were pending at the end of the year. Two of the three investigations were directed at suspending or enlarging import quotas; one was directed at permitting additional imports for a limited period.

In Presidential Proclamation 4258, issued on January 2, 1974, the President stated that the Secretary of Agriculture had advised him that a condition existed requiring emergency treatment with respect to Cheddar cheese, and had recommended that the President take immediate action, under section 22(b) of the Agricultural Adjustment Act, to authorize the additional importation of 100 million pounds of the cheese during a temporary period ending March 31, 1974. Before recommending such action, the Secretary had determined that additional quantities of Cheddar cheese could be imported for a temporary period without rendering ineffective, or materially interfering with, the price-support program conducted by the Department of Agriculture for milk, or reducing substantially the amount of products processed in the United States from domestic milk. The President subsequently issued Proclamation 4258, under the emergency provisions of section 22 and without prior Tariff Commission investigation, providing for the importation of 100 million pounds of Cheddar cheese during the period from January 3, 1974, to March 31, 1974, in addition to the annual quota (10,037,500 pounds) previously proclaimed under section 22 authority. The President then directed the Tariff Commission to make an investigation,

as required under section 22, to determine whether the additional imports of cheese would be likely to interfere with price-support programs of the Department of Agriculture for milk. The Commission found that imports of cheese under the additional quota would not interfere with the price support programs and recommended that the provisions of Proclamation 4258 remain in effect.

The additional imports were allocated among supplying countries as follows:

| <u>Supplying Country</u> | <u>Quantity (in pounds)</u> |
|--------------------------|-----------------------------|
| New Zealand              | 55,000,000                  |
| Australia                | 12,000,000                  |
| Other                    | 33,000,000                  |

Cotton was also subject to section 22 action. On October 31, 1973, the President asked the Tariff Commission to investigate whether the import quotas on certain cotton, cotton waste, and cotton products could be temporarily suspended without interfering with the program for cotton of the Department of Agriculture. On April 3, 1974, the Commission submitted its report to the President. The Commission found that import quotas could be temporarily suspended without interfering with programs for cotton and recommended issuance of a Presidential proclamation suspending import quotas through the last day of the quota year ending in calendar year 1975. The President took no action on these findings in 1974.

Finally, wheat import quotas were re-evaluated. On October 31, 1973 the President asked the Tariff Commission for findings and recommendations as to whether import quotas on wheat and milled wheat

products could be suspended without adversely affecting Department of Agriculture programs for wheat or reducing substantially the amount of products processed in the United States from domestic wheat. In an interim report to the President, submitted January 15, 1974, the Commission unanimously recommended that the President suspend import quotas on wheat and milled wheat products until June 30, 1974. Presidential Proclamation 4260, effective January 26, 1974, suspended quantitative limitations on wheat and milled wheat products until June 30, 1974. On May 10, 1974, the Commission submitted its final report to the President. The Commission found that import quotas on wheat and milled wheat products could be suspended for a one-year period, July 1, 1974-June 30, 1975, without adversely affecting programs for wheat or reducing substantially the amount of products processed in the United States from domestic wheat. Presidential Proclamation 4298, issued June 25, 1974, suspended quantitative limitations on wheat and milled wheat products for an indefinite period of time.

#### Relief from Unfair Trade Practices

U.S. laws provide for relief from unfair trade practices. The Antidumping Act, 1921, as amended, attempts to prevent sales of imports at less than fair value; section 303 of the Tariff Act of 1930, as amended, provides for countervailing duties on imports receiving foreign export subsidies; and section 337 of the Tariff Act of 1930 authorizes the President to deal with unfair methods of competition and unfair acts in the importation of articles

Action under these statutes often affects trade of an item on which trade agreement concessions have been negotiated. The concession itself, however, is not impaired by these actions since their purpose is to eliminate the incentive to engage in "unfair" rather than "fair" trade practices. In fact, it can be argued that by offsetting the unfair actions of specific parties, the value of the concession to U.S. trade partners is further enhanced to those who abide by the "rules of the game."

Antidumping Act, 1921

The Antidumping Act, 1921, as amended, provides that whenever the Secretary of the Treasury advises the Tariff Commission that a class or kind of foreign merchandise is being, or is likely to be, sold at less than its fair value, the Commission shall determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise. If the Commission's determination is affirmative, the Secretary of the Treasury issues a finding of dumping, and the merchandise becomes liable to a special dumping duty equal to the amount at which the merchandise is sold below its fair value.

During 1974, the Treasury Department found that sales at less than fair value occurred in 11 of the antidumping complaints it investigated. The Tariff Commission made four injury decisions and six decisions of no injury in 1974. <sup>1/</sup> One decision was pending at the end of the year.

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<sup>1/</sup> Section 201 provides that an evenly divided Commission vote shall be considered an affirmative determination.

The Secretary of the Treasury issued formal findings of dumping for the four cases in which injury was found, and imports of the articles became liable to special dumping duties. A Treasury finding of dumping and a Commission finding of injury are prerequisites for the assessment of dumping duties. Dumping duties, however, may be avoided by a realignment of home market and export prices so as to eliminate the less than fair value differential. Table 9 on the following page summarizes the antidumping injury investigations concluded in 1974.

On April 5, 1974, the Treasury Department received a request from the American Paper Institute to revoke a finding of dumping issued on January 17, 1973, on northern bleached hardwood kraft pulp from Canada. <sup>1/</sup> After examining current sales information, Treasury advised the Tariff Commission that it affirmed its earlier determination that such hardwood kraft pulp from Canada is being, or is likely to be sold in the United States at less than fair value as defined in the Antidumping Act. Accordingly, the Commission instituted an investigation (AA1921-105A), held a public hearing, and ruled on September 20, 1974 that, if the finding of dumping were revoked, an industry in the United States would not be or would not likely be injured by reason of the importation of such merchandise from Canada sold, or likely to be sold, at less than fair

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<sup>1/</sup> Treasury's finding of dumping followed a 1972 investigation by the Tariff Commission (AA1921-105) in which the Commission determined, by a vote of three to three, that an industry in the United States was being injured by reason of the importation of northern bleached hardwood kraft pulp from Canada sold at less than fair value.

Table 9.--Antidumping injury investigations by the United States Tariff Commission, 1974

| Merchandise and Country of Origin  | Date of Finding          | Finding   |
|--|--------------------------|-----------|
| Acrylonitrile-butadiene-styrene type of plastic resin in pellet<br>and powder form from Japan----- | January 5                | No injury |
| Metal punching machines, single end type, manually operated, from<br>Japan-----                    | January 10               | No injury |
| Primary lead metal from Australia-----   | January 10               | Injury    |
| Primary lead metal from Canada-----  | January 10               | Injury    |
| Iron and sponge iron powders (excluding alloy powders) from Canada-----                            | January 18               | No injury |
| Racing plates (aluminum horseshoes) from Canada-----   | January 24               | Injury    |
| Hand-operated plastic pistol-grip liquid sprayers from Japan-----                                  | April 15                 | No injury |
| Picker sticks from Mexico-----   | May 6                    | Injury    |
| Regenerative blower/pumps from West Germany-----   | May 22                   | No injury |
| Wrenches, pliers, screwdrivers & metal-cutting snips & shears<br>from Japan-----                   | October 21               | No injury |
| Tapered roller bearings and certain components thereof from Japan-----                             | Not completed<br>in 1974 | --        |

Source: U.S. Tariff Commission.

value within the meaning of the Antidumping Act. As a result of the Commission's decision, the Department of the Treasury revoked its finding of dumping on September 30, 1974, and northern bleached hardwood kraft pulp from Canada was no longer subject to special dumping duties.

#### Countervailing duty statute

The countervailing duty statute (section 303 of the Tariff Act of 1930, as amended) provides that whenever the Secretary of the Treasury finds that a "bounty or grant" has been paid, directly or indirectly, on any dutiable imported merchandise, he shall exact a countervailing duty equal to the amount of such bounty or grant on each importation of the commodity in question. The countervailing duty is in addition to the normal customs duties which would be levied.

During 1974, the Treasury had 30 complaints of bounties or grants being paid. Three investigations resulted in the assessment of countervailing duties. Such duties were assessed on certain die-presses from Italy, certain nonrubber footwear from Brazil, and certain bottled green olives from Spain.

#### Unfair practices in import trade

Section 337 of the Tariff Act of 1930, as amended, authorizes the President to deal with unfair methods of competition and unfair acts in the importation of articles. The Commission makes a preliminary inquiry to determine whether a full investigation is needed and whether it should recommend that the President temporarily exclude entry of the articles concerned, subject to entry under bond. If, after a full investigation

by the Commission and a report to the President, a violation has been established to the President's satisfaction, he may direct that the articles concerned be excluded from entry into the United States. Twenty-eight section 337 complaints were in progress in 1974. Nine inquiries were begun and 13 investigations and inquiries ended during the year.

An investigation on disposable catheters and cuffs therefor was dismissed without a finding in May. One investigation on writing instruments and nibs therefor resulted in a determination, in July, that no violation of section 337 laws had occurred. Investigations were dismissed on cylinder boring machines and boring bars (January) and on hydraulic tappets (October) when the Commission concluded from the evidence presented that sufficient cause for further investigation did not exist.

A snips and scissors inquiry was dismissed in March. Inquiries were dismissed on garage door locks (April) and variable displacement flower holders (May). An inquiry on fluid logic controls was dismissed in June; inquiries on preset variable resistance controls and wheel-balancing weights were dismissed in September; and inquiries on analog-to-digital meters and antenna rotator systems were dismissed without a determination on merits in October. Six preliminary inquiries--polytetrafluoroethylene tape, golf gloves, electronic flash devices, doxycycline, hydraulic tappets and chain door locks--were completed in 1974, and full investigations were begun for each inquiry.

One investigation, on convertible game tables, resulted in a determination that section 337 laws had been violated. On December 20, the Commission found that unfair methods of competition and unfair acts in the unlicensed importation and sale of convertible game tables were sufficient to substantially injury an industry, efficiently and economically operated, in the United States. The Commission recommended that, in accordance with subsection (e) of section 337, the President issue an exclusion order to forbid entry into the United States of convertible game tables covered by U.S. Patent No. 3,711,099 (unless such tables are used for purposes not covered by the Patent or imported under the license of the Patent owner) until the expiration of the Patent. 1/

#### U.S. Trade with Communist Countries

Two-way trade between the United States and the Communist countries grew only five percent during 1974, after achieving an increase of 150 percent in the previous years. In 1974, U.S. imports from communist countries grew 70 percent, but exports to such countries declined by more than ten percent, causing the U.S. trade surplus with communist countries to fall to \$1.2 billion, a 35 percent decrease.

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1/ In March, the Commission had recommended to the President that he issue a temporary exclusion order. On May 2, 1974, the President issued the recommended exclusion order and directed the Secretary of the Treasury to enforce it pending further advice from the President's office.

Table 10.--U.S. trade with East Europe, the Soviet Union,  
and the People's Republic of China, 1970-74

(Millions of U.S. dollars)

| Year      | Imports | Exports | Trade balance |
|-----------|---------|---------|---------------|
| 1970----- | 226     | 352     | 126           |
| 1971----- | 229     | 384     | 155           |
| 1972----- | 354     | 883     | 529           |
| 1973----- | 593     | 2,491   | 1,898         |
| 1974----- | 1,007   | 2,239   | 1,232         |

Source: "Highlights of Export and Import Trade," Bureau of the Census, 1973 and 1974.

The trade agreement between the United States and the Soviet Union, which was announced in October 1972, still had not entered into force by the end of 1974. Actions of the United States necessary to bring the agreement into force--authority for which is partly provided in the Trade Act of 1974--had not been taken since the Trade Act did not enter into law until January 1975.

The United States concluded three protocols involving trade with the Soviet Union in June 1974. The first involved a general agreement on economic, industrial, and technical cooperation designed to promote continued expansion of trade between the United States and the USSR. The second dealt with energy, attempting to promote cooperation in the use of information and resources in mutually beneficial ways that would allow the Soviet Union to deal with the United States on a footing equal with other countries. The third protocol concerned an agreement on cooperation in housing and other construction, encouraging information exchanges on construction methods and building materials.

## Chapter 2

## OPERATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Introduction

The General Agreement on Tariffs and Trade (GATT) and the organization responsible for its implementation moved increasingly toward the center of attention in international trade matters during 1974. As the trading nations of the world edged closer to serious discussion in the Tokyo Round of Multilateral Trade Negotiations (MTN), GATT, as the forum within which the negotiations would take place, became heavily involved in preparatory work on a number of fronts. In a time of less unsettled conditions in the world economy, such preparations would have been the principal occupation of GATT during the year. However, GATT also has an ongoing role as a locus of discussion, negotiation, and adjudication of disputes and questions that arise among its signatories on matters of trade policy. Such problems usually are triggered when a Contracting Party invokes one or another article of the Agreement in order to take a trade-restrictive policy action which it considers necessary in its national interest. Because 1974 was a year of nearly worldwide recession, inflation, and fundamental changes in international trading relationships, there was an increased number of such invocations, and the GATT found its activity in this area expanding as well.

## Participation in the Agreement

GATT membership in 1974 reached 83, in addition to 17 countries to whose territories the GATT has been applied and two countries which have acceded provisionally.

Following is a list of GATT Contracting Parties:

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

Countries which have acceded provisionally:

Philippines

Tunisia

Countries to whose territories the GATT has been applied and which maintain a de facto application of the GATT pending final decisions as to their future commercial policy:

Algeria

Bahamas

Bahrein

Botswana

Equatorial Guinea

Fiji

Grenada

Khmer Republic

Lesotho

Maldives

Mali

Qatar

Swaziland

Tonga

United Arab Emirates

Yemen, People's Republic

Zambia

Preparations for the MTN

The MTN began in September 1973, when a Ministerial-level international meeting in Tokyo produced the Tokyo Declaration, which set forth the broad objectives of the talks and committed participating governments to them, subject to their receipt of the necessary ratifications and negotiating authorities from their own parliaments or other legislative bodies. The Tokyo Declaration also specified the establishment of a Trade Negotiations Committee (TNC), which would be responsible for overall direction and supervision of the negotiations. The tabulation on the following page lists the ninety members of the TNC. These ninety countries (including the European Communities, which negotiate as a group through the EC Commission) account for more than 90 percent of world trade. As indicated, 23 of them either are not full contracting parties or have acceded only provisionally to the GATT.

During 1974, few negotiations of substance took place, because serious talks had to await legislation or other mandates in several countries which would provide their governments with negotiation authorities and guidelines. <sup>1/</sup> The TNC, therefore, spent the year in an intensive work program of a preparatory nature, stressing data-gathering and analysis of questions that had been identified by the Tokyo Declaration as basic to the negotiations. The Tokyo Declaration had listed six main negotiating objectives, and in February 1974 the TNC established six specialized working groups corresponding to these objectives, as follows: (1) A group to make preparations for negotiations on tariffs, including the study of various alternative

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<sup>1/</sup> For the United States, the relevant law is the Trade Act of 1974, which became effective in January 1975. See Chapter 1 of this report for a summary of its provisions.

Membership of Trade Negotiations Committee

|                       |               |                          |
|-----------------------|---------------|--------------------------|
| * Algeria             | Haiti         | Poland                   |
| Argentina             | *Honduras     | Portugal                 |
| Australia             | Hungary       | Romania                  |
| Austria               | Iceland       | Senegal                  |
| Bangladesh            | India         | Singapore                |
| Belgium               | Indonesia     | South Africa             |
| *Bolivia              | *Iran         | Spain                    |
| *Botswana             | *Iraq         | Sri Lanka                |
| Brazil                | Ireland       | *Sudan                   |
| *Bulgaria             | Israel        | *Swaziland               |
| Burma                 | Italy         | Sweden                   |
| Canada                | Ivory Coast   | Switzerland              |
| Chile                 | Jamaica       | Tanzania                 |
| *Colombia             | Japan         | *Thailand                |
| Congo                 | Kenya         | Togo                     |
| *Costa Rica           | Korea         | Trinidad and Tobago      |
| Cuba                  | Luxembourg    | **Tunisia                |
| Czechoslovakia        | Madagascar    | Turkey                   |
| Dahomey               | Malawi        | Uganda                   |
| Denmark               | Malaysia      | United Kingdom of Great  |
| Dominican Republic    | Mauritius     | Britain and Northern     |
| *Ecuador              | *Mexico       | Ireland                  |
| Egypt                 | Netherlands,  | United States of America |
| *El Salvador          | Kingdom of    | Uruguay                  |
| *Ethiopia             | New Zealand   | *Venezuela               |
| European Communities  | Nicaragua     | *Viet-Nam                |
| Finland               | Nigeria       | Yugoslavia               |
| France                | Norway        | Zaire                    |
| Gabon                 | Pakistan      | *Zambia                  |
| Germany, Fed. Rep. of | *Panama       |                          |
| Ghana                 | Peru          |                          |
| Greece                | **Philippines |                          |
| *Guatemala            |               |                          |

\* Not Contracting Parties to GATT

\*\* Acceded provisionally to GATT

negotiating formulas; (2) a group to perform preliminary studies with respect to non-tariff trade barriers (NTB's); (3) a group to study possibilities for trade liberalization on a sectoral basis as a complementary technique; (4) a study group on the specific problems of trade liberalization for agricultural products; (5) a group which would focus on tropical products, identified as "a special and priority sector" in the Tokyo Declaration; and (6) a group to study the operation and adequacy of the GATT "safeguard" system embodied in Article XIX-- the basic "Escape Clause" mechanism of the General Agreement. In each case, the TNC group concerned confined its activities in 1974 to non-negotiating tasks, chiefly the preparation of extensive data banks and of analytical studies of either technical questions or especially important products. About twenty topics were studied in depth. In addition, the GATT secretariat in 1974 established a Special Assistance Unit whose purpose is to provide developing countries with technical and other staff support in their preparations for the negotiations.

Other Developments in 1974Trade in Textiles

An Arrangement Regarding International Trade in Textiles was successfully concluded in 1973. 1/ The purpose was to promote production as well as the gradual liberalization of trade in textile products in such manner that the international textiles trade could expand without disruption of markets. The Arrangement entered into force on January 1, 1974, and a Textile Committee was established within the framework of GATT in accordance with Article 10 of this Arrangement. The Committee held its first meeting in March 1974, discussed a number of issues, and established the Textiles Surveillance Body (TSB) which met regularly thereafter to deal with the different problems that might emerge in the trade and to supervise the operation of the Arrangement through a system of multi-lateral surveillance. 2/ The TSB was instrumental in resolving the one bilateral dispute brought before it under the Arrangement during 1974.

During the parent Textile Committee's first general review of the Arrangement, in December, most members expressed general satisfaction with it. Most of them called (also in very general terms) for continued liberalization of trade in these products. Japan declared that its trade

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1/ A discussion of the operation of the Arrangement from the perspective of U.S. participation during 1974 may be found in Chapter 1 of this report. For a detailed explanation of the Arrangement see Operation of the Trade Agreements Program, 1973, T.C. Pub. 708.

2/ The TSB, a permanent body, has a Chairman and eight members nominated by participants in the Arrangement. During 1974, the eight consisted of nominees of the EC, Japan, Korea, Pakistan, Sweden, the United States, and Yugoslavia, plus a member named jointly by Austria, Mexico, and Spain.

in textiles is undergoing radical changes and that it has no import restrictions of any kind on this trade. India and some other members stressed the importance of textile trade to developing countries, and called for observance of the provisions of the Arrangement by all member countries, to ensure an orderly and equitable growth in this trade and to avoid harmful developments in both importing and exporting countries.

#### Antidumping Practices

The Committee on Antidumping Practices adopted its Sixth Report in October 1974. The parties to the Agreement on the Implementation of Article VI of the General Agreement consist of 23 countries including the EC and the United States. Hungary became a signatory in November 1974. The Committee ended its examination of anti-dumping legislation of some countries and examined the reports submitted by members in accordance with Article 16 of the Agreement on the administration of antidumping laws and regulations.

#### Balance of Payments Restrictions

Article XII of the General Agreement gives the right to the contracting parties to resort to import restrictions in case of balance of payments difficulties; or in order to conserve or bolster inadequate reserves. Article XVIII permits the developing countries to impose import restrictions to help their economic development plans.

While these restrictions are allowed, Article XII:4(b) stipulates that the contracting parties resorting to import restraints should undergo annual consultations on their problems and the restrictions

imposed. During these consultations the Committee on Balance of Payments Restrictions examines the reasons for the imposition of restraints and whether they should be extended or abolished, depending on whether or not the reasons which justified imposing them still exist. In each case, the Committee is furnished with a basic study of the situation by the International Monetary Fund.

During 1974, consultations of this type were held with India, Greece, Yugoslavia, Israel, Pakistan, Tunisia, Peru, Bangladesh, Chile, and Ghana, in that order. Furthermore, although consultations were not held, very similar discussions also took place within the Gatt framework with respect to Italy, Iceland, Portugal, and Uruguay. The more significant of these consultations and other discussions are described below.

Italy.--Faced with very severe balance of payments deterioration, Italy became the only major industrial nation to invoke Article XII in 1974. This was by far the most important case of its type considered by GATT during the year. Early in May, Italy introduced an import deposit scheme equivalent to 50 percent of the value of goods imported. The scheme covered about 40 percent of Italian imports from all sources; shipments of energy products, raw materials, and most capital goods were exempted from deposit liability. The deposit with the Bank of Italy would be for a period of six months and would earn no interest. This measure was taken on a temporary basis to complement existing fiscal and monetary policies designed to reduce the balance of payments deficit; it was modified and its coverage was reduced in October. Some members, although understanding the economic

difficulties of Italy, expressed concern over the deposit scheme and called for its abolition as soon as possible. After some debate, the Council agreed to set up a Working Party open to all contracting parties for the examination of the Italian Import Scheme. The Working Party, after consulting with the International Monetary Fund, submitted its report on October 21, 1974. It concluded that the scheme was applied on a non-discriminatory basis and was within the provisions of Article XII. Moreover, it recommended priority elimination of restrictions on products of interest to developing countries. The entire Italian scheme was abolished in March 1975.

Iceland.--Due to economic and political events which led to the deterioration in the balance of payments, Iceland introduced an Import Deposit Scheme, as part of a package of temporary measures, in May 1974--although it had previously notified GATT in February that its 1973 invocation of similar Article XII measures was terminated. The validity of the scheme was to extend to September 30, 1974. The scheme covered about 60 percent of Iceland's commodity imports, and required importers to make a deposit of 25 percent of the value of imports for a period of 90 days, to be refunded with interest at three percent per annum. A Working Party was established to examine the scheme, but the representative of Iceland announced in October that the import deposit would be phased out and completely eliminated by the end of the year. Thus, there was no need for the Working Party to convene, but it was held available for consultation if necessary.

Israel.--Israel decided to introduce an import deposit scheme on May 24, 1974, as a result of the serious deterioration in its balance

of payments. This measure came on top of a previously imposed import surcharge, which in December 1973 had been increased from 20 percent to 25 percent of c.i.f. value. The import deposit scheme covered all imported goods bearing duties and charges of 35 percent and over, and applied without discrimination to all countries. Importers were required to deposit for a period of 12 months 20 percent of the c.i.f. value of the imported goods in order to release them from Customs. The Council agreed to refer the examination of the Israeli import deposit to the Committee on Balance of Payments Restrictions and to arrange for consultations with the International Monetary Fund in accordance with Article XV:2. The Committee considered both Israeli measures during 1974. By November, faced with continued, serious reserve losses, the Israeli Government took new steps, including (1) augmentation of the product list subject to the surcharge; (2) reduction of the surcharge to 15 percent; (3) a blanket prohibition (until April 30, 1975) of imports of 30 types of luxury goods; and (4) a ten percent increase (also through end-April 1975) in Customs duties on 40 other products defined as luxuries.

Yugoslavia.--In March 1974 the Committee carried out consultations with Yugoslavia and examined its temporary import surcharge as well as several other temporary import restrictions (including an import deposit scheme) imposed earlier as a result of the deterioration in its balance of trade and payments. The measures had been taken on a non-discriminatory basis and covered mainly consumers' goods, which represent five to six percent of Yugoslav imports. Yugoslavia advised the Committee that it would extend the surcharge and other measures

until the end of 1974, to deal with uncertainties of an economic and monetary nature which still prevailed, in its view, at the time of the consultations. All the restrictive measures were in fact abolished at year-end.

Greece.--Coincident with the most recent change of government, Greece had encountered severe balance of payments problems to which the new Government responded with a comprehensive package of highly restrictive import controls and other policies regarding trade. During the 1974 consultations on these measures, the Committee on Balance of Payments Restrictions noticed a considerable improvement in the level of reserves and urged the Greek government both to reduce the complexity of the present import control system and to decrease its reliance on bilateral trade and payments agreements.

India.--During 1973, the Indian Government opted to employ its Customs system, at least in part, as a means of raising revenues to be used for development purposes. In November of that year, the GATT granted India a waiver authorizing it to follow this objective, specifically by levying an auxiliary duty on some goods whose tariff rates had been bound in GATT. The program was due to expire at the end of March 1974. On March 28, 1974, India informed the Council that the reasons which led to the introduction of the auxiliary duty still persisted, and requested an extension of the waiver. The Council agreed to extend the waiver until March 31, 1975.

Pakistan: Flood Relief Surcharge.--On January 28, 1974, the Council agreed on a waiver for Pakistan to apply a temporary surcharge

on certain items bound in the Pakistani schedule until December 31, 1974. The surcharge was imposed by Pakistan along with other measures to enable it to meet the large expenditures and losses resulting from the devastating floods of August 1973. The surcharge, known as the "Flood Relief Surcharge", specified an additional customs duty at the rate of 25 percent above the applicable rate on the imports covered. At its meeting on October 11, 1974, the Council was informed by Pakistan that it had terminated the surcharge, effective June 8, 1974.

Uruguay.--Among the most long-standing waivers granted by GATT to a nation for balance of payments purposes is one originally extended to the Government of Uruguay in 1961, allowing it not to apply the provisions of Article II of the General Agreement and thus permitting it to maintain a system of import surcharges to help equilibrate the balance of payments and protect Uruguay's monetary reserve position. This waiver had since been extended on several occasions, the most recent having been the extension of October 1972, scheduled to expire at the end of June 1974.

At its meeting on June 21, 1974, the Council considered a Uruguayan request for a new extension. The representative of Uruguay identified his country's balance of payments problems as the result of a decline in the prices of its main exports (meat, wool, and leather goods), as well as the high prices of imports of oil and other raw materials. The Council referred the matter to the Committee on Balance of Payments Restrictions, and requested a report to the Council in October 1974. Uruguay declared during the October Council meeting that the surcharges

were applied without discrimination respecting country of origin, and that Uruguay had fulfilled its obligation not to use the surcharges in a discriminatory way to protect its own merchant marine. The Council then agreed to extend the waiver until June 30, 1976.

#### National Actions on Imports of Particular Products

U.S. Action on Ball Bearings.--The United States decided to increase the tariff rates on certain ball bearings beginning May 1, 1974. The decision was based on the Tariff Commission (International Trade Commission) findings that certain ball bearings entering under TSUS item 680.35 were being imported into the United States in such increased quantities as to cause serious injury to domestic industry producing like or directly competitive products, as a result in major part of concessions granted under trade agreements.

U.S. Countervailing Duties on Imports of Non-Rubber Footwear from Brazil.--On September 11, 1974, the U.S. Treasury Department imposed countervailing duties up to 12.3 percent on imports of non-rubber footwear from Brazil. The Brazilian Government protested that such a duty was legally and economically unjustified and would have a detrimental effect on Brazilian footwear exports, which amounted to \$80 million in 1973. The basic argument was that the Brazilian Government provides incentive measures to its exports like other developing countries, and had not accepted the 1960 Declaration giving effect to Article XVI:4, which prevents the contracting parties from subsidizing exports other than primary products; therefore, the government does not find it illegal to subsidize exports and no countervailing measures

ought to be taken against exports which are legitimately subsidized. The Brazilian representative cited Article XXXVII:3 in requesting developed countries to have special regard for trade interests of developing countries, and to refrain from imposing countervailing duties. He added that the Brazilian exports did not have a harmful effect on U.S. firms, whereas the countervailing duty imposed by the U.S. would have a detrimental effect on Brazilian industries and the economy as a whole. He claimed that the growth of Brazil's share in total U.S. non-rubber footwear imports from less than two percent in 1970 to about 13 percent in 1973 was the result of the expansion in U.S. demand and a decrease in the exports of other countries due to the comparative advantage of Brazilian producers; it did not occur at the expense of American firms. The U.S. representative commented that the measure taken was mandatory and that extensive consultations with the Brazilian authorities were underway. He further recommended that the whole problem of subsidies and countervailing duties be taken up within the framework of the MTN.

E.C. Action on Bovine Meat.--The E.C. notified the Council in March 1974 that it had decided to take emergency action with respect to certain bovine meat imports. This action was to be temporary, extending from mid-July through end-October, and it required that imports of live animals into the Community and of certain beef and veal be subject to the presentation of an import certificate issued by the member States to any requesting party. To avoid aggravating the difficult situation claimed to persist in the Community's meat market, certificates would not be issued for imports of meat of the domestic

bovine species. The Community declared its readiness to enter into consultations with any interested contracting parties. The effect of the action was to suspend imports of third-country cattle, beef, and veal into the EC (except for shipments under GATT levy-free quotas), and its temporary character was abrogated when the suspensions were made indefinite after October 31.

In a July meeting of the GATT Council, the EC action met with considerable opposition. The representative of Yugoslavia claimed that it caused serious balance of payments damage since Yugoslavia is a traditional meat exporter to the Community. He suggested that the Community reconsider its action in the light of such damage to exporting countries. The representative of Australia also expressed concern because the measure had led to hardships for countries engaged in meat trade, particularly in light of certain subsidized meat exports from the Communities to countries which were traditional importers of meat from Australia.

New Zealand, although not a major exporter of meat to the Communities, expressed concern about repercussions the measure could have on the international meat market and about possibly unfavorable multilateral responses to the EC's unilateral action. As an example of such undesirable responses, it cited the closing of the Japanese meat market. It called for concerted efforts to restore stability in the trade, urged that the issue be raised during the MTN if conditions deteriorated further. The Romanian representative expressed similar concern over the serious difficulties and losses of revenue his country's

producers were suffering due to this measure taken without prior consultations, and he reserved the right to revert to the question in the framework of the GATT. The representatives of the United States, Uruguay, Hungary, Argentina, and Poland generally expressed the same concerns and reservations. As a result of these many criticisms, formal consultations under Article XXII:1 began and continued into 1975; participants include the EC and Argentina, Australia, Brazil, Hungary, New Zealand, Poland, Romania, Uruguay, and Yugoslavia.

Japanese Restrictions on Imports of Beef and Veal.--Since 1970, Japan has imposed import restrictions on beef and veal in the form of a quota open to imports from all countries of the world. During GATT Council meetings in October and November 1974, the representative of Australia pointed out that the Japanese Government, contrary to the terms of that measure, had refused applications for import licenses for the second half of 1973-74, and had opened no quotas for the licensing year 1974, which ended in March 1975. This change in the import restrictions should have been notified to the Contracting Parties by Japan, since it invalidated the previous notification. New Zealand supported the Australian statement.

The Japanese delegate responded that the Japanese economy was undergoing severe difficulties which caused domestic consumption of beef to decline rapidly. He added that Japan was cooperating with other countries to improve market conditions by implementing a series of measures to promote domestic consumption and raise prices. At a later meeting of the GATT Council, several countries accepted a Japanese offer of consultations under Article XXII:1.

Australian Action on Imports of Certain Footwear.--The government of Australia advised the Contracting Parties in October 1974 that it had decided to introduce temporary quotas (under Article XIX provision) on certain footwear imports. The decision was based on an investigation by the Australian Temporary Assistance Authority, which recommended urgent action to restrict such imports; these had increased by 70 percent from 13 million pairs in 1972-73 to over 22 million pairs in 1973-74. The restrictions limited imports between October 1, 1974, and September 30, 1975, to a level only 20 percent over that of 1972-73. Quotas were allocated to suppliers without restrictions on sources of supply. The measure was claimed to be temporary, with its duration dependent on the types and amounts of assistance required by the domestic footwear industry.

Customs Unions, Free Trade Areas and Other Regional Agreements.

Agreements of Association with Other Countries.--Progress reports were submitted to the Contracting Parties during 1974 regarding agreements establishing association between the European Communities and certain other countries, namely Israel, Spain, Greece, Malta, Cyprus, Egypt, Lebanon, and Turkey. The objectives of the agreements would be to eliminate obstacles to bilateral trade between the Community and the associated countries. Working groups were formed to examine these agreements and their conformity with GATT. Some of the representatives criticized these agreements as incompatible with Article XXIV of the GATT. In their view, the agreements constituted preferential trading agreements and not firm commitments to move towards Customs Unions in

the context of planned schedules. Moreover, trade coverage was inadequate; no assurances were given on the degree of liberalization of imports or how it would be maintained; the rules of origin appeared overly complex and restrictive to third country suppliers. The United States and Canada associated themselves with these views.

The parties to the association agreements and several other members of the Working Party argued in rebuttal that the agreements conform fully with Article XXIV of the GATT. They held the view that the trade coverage was high and was likely to increase in both the agricultural and industrial sectors; and that the rules of origin were neither restrictive nor unduly complex.

In order to settle the dispute, the Chairman of the Council suggested postponing the matter until the biennial examination of reports on developments under regional agreements. The Council agreed that the parties to the agreements should be invited to submit the biennial report in April 1976.

Accession of Denmark, Ireland, and the U.K. to the European Communities.--In January 1973, Denmark, Ireland, and the United Kingdom acceded to the European Communities, and in January 1974 they adopted both the EC's Common External Tariff (CET) and its Common Agricultural Policy (CAP). These shifts to new schedules of tariff rates and other levies, of course, created a situation in which third countries could claim that the shifts amounted to the unilateral and uncompensated withdrawal of concessions (bound rates) made to them by the new EC members prior to enlargement of the Communities.

In such situations which arise incidentally to either the creation or the expansion of customs unions, Article XXIV:6 of the GATT applies as a means of resolving disputes. In this case, it obligated the EC to hold negotiations with any country claiming that its interests had suffered as a result of the adoption of the CXT and the CAP by the three new members. In these talks, the EC would offer packages of concessions relative to the entire Community's tariffs, in compensation for those effectively "withdrawn" by the three acceding nations. The concessions would be negotiated bilaterally with the complainant countries, but they would have wider effect because of the underlying GATT requirement that they be extended on a most-favored-nation (MFN) basis.

During 1974, the EC Commission found itself immersed in these kinds of negotiations with seventeen countries, including the United States. <sup>1/</sup> The talks were difficult, complex, and characterized by numerous points on which agreement could not be reached. As a result, a new question came to the fore, that of invoking Article XXVIII:3, which gives to affected third countries the right to counter what they consider to be unsatisfactory compensatory concessions by making withdrawals of their own, and specifies a six-month time limit within which such withdrawals can be made. Because the talks were producing either slow progress or, in some cases, no progress at all, this six month time limit presented a problem; the GATT Council's solution was a decision, in effect, to

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<sup>1/</sup> In addition to the United States, the group included Argentina, Australia, Brazil, Canada, Chile, India, Japan, Malaysia, New Zealand, Pakistan, Poland, Romania, South Africa, Sri Lanka, Uruguay, and Yugoslavia.

waive the limit for countries which continued to have reservations after the conclusion of the talks. In some instances, the waiver has extended to the point of putting over some fairly crucial disagreements for resolution within the wider context of the MTN. In this way, the GATT Council, the EC, and the third countries involved were able to forestall the escalating of withdrawals and counter-withdrawals among major world trading nations on the eve of the MTN.

A fairly large number of CXT concessions by the EC that had emerged as acceptable to third countries during the negotiations went into effect on January 1, 1975. Many countries remained dissatisfied, however, and reserved their rights to resume talks on compensation with the EC. Among them were the United States and Australia, both of which had major unresolved concerns in the cereals sector, respecting trade in barley, oats, wheat, corn (maize), rice, and sorghum. Here, disagreement is serious, with the EC claiming that its concessions now are fully compensatory and the United States and Australia claiming otherwise. This is one of the issues that has been postponed for treatment during the MTN. Canada also had strong reservations with respect to cereals, but it has since been able to reach an agreement with the EC.

Agreements Between the EC, Finland, and Norway.--The accession of the U.K., Denmark, and Ireland to the Communities of necessity rendered defunct the European Free Trade Association (EFTA) to which they had formerly belonged. Consequently, as part of the general rearrangement

of European trading relationships stimulated by the enlargement of the Communities, the EC undertook to make special agreements of association with the former members of EFTA which chose not to join the EC. Five such agreements (with Austria, Iceland, Portugal, Sweden, and Switzerland) were reached well prior to 1974 and were discussed, inconclusively, during 1973 by GATT working groups to assess their compatibility with Article XXIV of the General Agreement. Two later agreements--one with Finland, one with Norway-- were the subject of similar, and similarly inconclusive, examinations during 1974.

The issues raised in this context are similar to those which arise in any case of association between the EC and other countries. The Communities, supported by some other members of GATT, argue that such associations move in the direction of trade liberalization and thus are trade-creating. Other countries, addressing themselves in particular to the association agreements between the EC and other developed European nations, claim in rebuttal that these pacts are in reality preferential schemes for trade in industrial products. The agreements exclude agricultural products entirely. The alleged result, especially in light of the agreements' rules of origin which are viewed as excessively complex and restrictive, is a discrimination against third-country suppliers. The United States has expressed the latter view, with stress on the rules of origin question, and has requested special consultations on the matter under GATT Article XXII.

Economic Integration in the Caribbean Area.--Moves toward formalized economic cooperation among a number of Caribbean countries had

begun in 1971 with the formation of CARIFTA, the Caribbean Free Trade Area. In 1973, further steps were taken with the creation of the Caribbean Community and Common Market among Barbados, Guyana, Jamaica, and Trinidad and Tobago. Further enlargement came in 1974 as several other nations in the area joined the group. Because the original four members all are members of the GATT, it was incumbent upon them to provide the GATT with the text of their Caribbean Community Treaty for examination. This was done in October 1974, but institution of the GATT's regular procedures for such examinations had not been completed by the end of the year.

The Arab Common Market.--The council of Arab Economic Unity held its twenty-second session and reported to GATT concerning the activities that occurred during that session. The resolutions adopted stressed: (1) the necessity for achieving balanced development based on the potentialities of the participating countries; (2) exemption of Arab capital from nationalization, sequestration, and expropriation; (3) cooperation among members to avoid dual taxation and evasion of taxes; (4) coordination of Arab economic relations in the world at large; and (5) the necessity to adopt unified oil and economic policies. In the area of trade, the Council took several resolutions aiming at the creation of commercial centers and participation in fairs and expositions.

Agreements Concluded between Finland and Bulgaria, Hungary, and Czechoslovakia.--Special trade agreements were signed between Finland and Bulgaria, Hungary, and Czechoslovakia. The agreements' objectives were to remove obstacles to trade between these countries

within the framework of the GATT. They aroused particular interest among the contracting parties since they represented the first such pacts negotiated within the GATT context between state-trading and free economies. The texts of these agreements were circulated among the contracting parties and referred for examination by a working party.

#### Waivers under Article XXV

Brazil--Renegotiation of Schedule.--In 1967, Brazil asked the contracting parties to suspend the application of Article II so that Brazil could introduce new rates of duty that might exceed those specified by the old Brazilian tariff schedule. The waiver was granted and extended several times, in 1968, 1969, 1970, and 1971. The extension was necessary in order to allow Brazil time to complete its negotiations with other contracting parties whose interests were harmed by the change in the Brazilian Customs Tariff. In 1973, the Council was informed that Brazil would not be able to complete negotiations under Article XXVIII with the United Kingdom before the end of the year and the expiration of the most recent waiver extension. The Council agreed then to extend the waiver for three months to March 31, 1974. On this date the substantive part of the negotiations had been finished but extra time still was needed to formalize the results. Upon the request of Brazil, the Council agreed to extend the waiver until April 30, 1974, when the contracting parties were informed that the negotiations under the original decision of February 1967 had been terminated.

India--Renegotiation of Schedule XII.--On March 16, 1973,

India was authorized by the Council to modify certain bound rates of duty. The modifications would arise from a project to modernize and rationalize the Indian tariff by changing to the Brussels Tariff Nomenclature, and by redrafting the tariff schedules to reflect the economic and industrial development of the country and its new trade patterns. Renegotiations of the new schedules with the interested contracting parties were to be completed by June 30, 1974. On this date, India declared that the negotiations were not completed and sought a short extension of the waiver. The Council agreed to extend the time limit of the renegotiations until November 1975.

Indonesia--Renegotiation of Schedule.--On November 13, 1973,

the Council had authorized the Indonesian Government to apply a new customs tariff as part of its adoption of the Brussels Tariff Nomenclature. The authorization was given on condition that the Indonesian Government should enter into renegotiations with the contracting parties whose interests were harmed by such change, and that the negotiations be concluded before December 31, 1975. During the meeting of the Council on April 10, 1974, Indonesia invited the contracting parties who were willing to negotiate to declare their interest in the renegotiations.

Reports under Waivers

Turkey--Stamp Duty.--On July 3, 1973, the Contracting Parties waived the provisions of Article II until June 30, 1975, to enable

Turkey to maintain a stamp duty on certain imports in order to improve the nation's balance of payments. The decision required that a report be submitted once a year. The representative of Turkey introduced the report in mid-1974 and declared that his country is doing its utmost to improve the tax system and liberalize its imports.

United States Agricultural Import Restrictions.--On March 5, 1955, the Contracting Parties waived obligations of the U.S. under Articles II and XI of the GATT in order not to conflict with the U.S. Agricultural Adjustment Act, section 22. Under this Act, the President may impose, suspend, or terminate duties or quantitative restrictions in order to prevent imports of agricultural products in such quantities as to interfere with price support or other programs of the Department of Agriculture. The waiver decision requires the U.S. Government to submit an annual report showing any modifications or removal of restrictions; the restrictions currently in effect and the reasons why they continue to be applied; as well as steps taken during the period covered by the report to solve the problem of agricultural commodities surpluses.

The Seventeenth annual report covering the period from June 1972 to August 1973 was distributed in 1974. The U.S. representative pointed out that this period was characterized by significant changes in supply and demand conditions for agricultural commodities. During that period the United States used acreage set-aside programs and marketing quotas to balance production of various commodities; also great efforts were made to increase consumption by improving nutrition

among children and low income groups. Such developments show that further steps are being taken by the U.S. government to liberalize its agricultural policies. This statement was welcomed by most of the representatives, especially those of the E.C., Canada, and Australia.

United States Imports of Automotive Products.--Under the Automotive Products Trade Act of 1965 and a related treaty with Canada, the United States eliminated customs duties on imports of automotive products from Canada. The United States is required to submit an annual report to the GATT on the operation of this U.S.-Canadian agreement.

The Seventh Annual Report, covering the year 1972, was circulated during 1974. The report stated that: Integration of production in the U.S. and Canadian automotive industries has been accomplished, with trade in automotive products increasing by 17 percent in 1972 over 1971. The increase in automotive trade did not result in damage to the interests of U.S. trading partners. On the contrary, U.S. imports of automotive products from countries other than Canada increased by 20 percent in 1972 over 1971. No consultations were requested by other contracting parties.

#### Consultations

Consultative Group on Meat.--On November 8, 1974, Australia proposed establishment of a Consultative Group on Meat within the framework of GATT. The Group would serve as a forum for intergovernmental consultations and exchange of information on current and prospective developments in world meat markets. The Group would consider long-term problems and therefore would not interfere with the current

bilateral and multilateral negotiations on the meat trade. The proposal aroused interest among a number of representatives. Some members opposed the idea, however, on the basis that multilateral negotiations are capable of providing the machinery needed for the examination of problems in meat trade. The Council decided on further study of the proposal and to revert to the matter at a later meeting.

Consultation on Trade with Poland.--Poland's Protocol of Accession to the GATT requires consultations to be held annually. At its meeting on June 21, 1974, the Council established a Working Party to conduct the Seventh Annual Consultation and to set a date for the termination of the transitional period stipulated in the Protocol of Accession of this country. The representative of Poland pointed out that some West-European countries were applying quantitative restrictions against his country's exports. He called for the elimination of these measures in accordance with the terms of Poland's Protocol of Accession, and for the termination of the transitional period as of December 31.

The report of the Working Party was presented to the Council on November 8, 1974, and it revealed that Poland's imports from GATT members were far ahead of the goals to which Poland had committed itself 1/, having risen by 65.3 percent in 1973. The report did not

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1/ Poland has no customs tariff and hence no duties to reduce. On joining GATT, therefore, Poland substituted for trade concessions a commitment to raise its imports from GATT members by an average of 7 percent annually.

provide for the termination of the transitional period. The Polish and several representatives expressed regret at the failure of the Working Party to fix a date for the elimination of the transitional period and other discriminatory restrictions. The EC regretted that it could not set a date for the elimination of remaining discriminatory restrictions against Poland, since the economic circumstances which justified their imposition still existed. Sweden and Norway declared that they continued to maintain a small number of discriminatory restrictions since they could not be removed without damage.

#### Application of Article XXXV against Japan

Article XXXV of the GATT sets the rules of non-application of the Agreement between particular Contracting Parties. It stipulates that "the Agreement shall not apply between any contracting party and another if the two contracting parties have not entered in tariff negotiations with each other, or if either of the contracting parties, at the time of becoming a contracting party, does not consent to such application." The Contracting Parties are allowed to review the operation of this Article in particular cases at the request of any contracting party and to make appropriate recommendations.

At the meeting of the Council on October 21, 1974, the representative of Japan raised the question of the application of Article XXXV to his country. He pointed out that a number of countries had declined to enter into GATT relations with Japan by invoking Article XXXV. Others, such as Central African Republic, Togo, Tanzania, and Cameroon, already had disinvoked this Article and entered into mutually

advantageous relations with his country. Nine countries, however, had not entered into GATT relationships with Japan. These countries included Austria, Cyprus, Haiti, Ireland, Kenya, Mauritania, Nigeria, Senegal, and South Africa. He further declared that the existence of a trade imbalance should not justify the invocation of Article XXXV, and called on the nine countries to establish a mutual advantageous relationship with Japan.

#### Romanian Custom Tariff

Romania had introduced a customs tariff on an experimental basis as of January 1, 1974. The tariff was introduced in accordance with Romania's Protocol of Accession, under which it reserved this right for a period of 12 months, as a measure to improve the national economy and its foreign trade prospects. The E.C. proposed, and Romania accepted, the formation of a Working Party to examine this tariff and other customs regulations.

#### Activities in the Interest of Developing Countries

Training Activities.--Training activities of the GATT consist of two commercial policy courses in the English and French languages. In addition, the Secretariat conducted in 1974 an ad hoc four-week course for senior officials of thirty developing countries; the course was designed to prepare these officials for effective participation in the MTN. Late in 1974, GATT also repeated a 1973 Spanish-language course given at the request of the Organization of American States (OAS) for eighteen officials of OAS member States.

The GATT/UNCTAD International Trade Center.--Established by GATT in 1964, the International Trade Center has since 1968 been operated jointly by GATT and the United Nations Conference on Trade and Development (UNCTAD). The Center is funded in equal shares by the two organizations, with supplemental funds provided by individual governments and the United Nations Development Program (UNDP). The Center is basically a trade-promotion effort, providing developing countries with market studies, export promotion project studies, and technical assistance in export marketing. It also conducts training in these fields. During 1974, emphasis of the Center's work shifted heavily to the provision of services on the spot in the countries concerned. This shift followed recommendations to that effect submitted by a joint UNCTAD/GATT advisory group, which also recommended that actual project implementation be placed more firmly in the hands of the governments concerned.

The Committee on Trade and Development

During the year 1974, the Committee on Trade and Development held its 27th and 30th meetings. During these meetings the Committee reviewed the implementation of the provisions of Part IV of the GATT. The Committee undertook a study of the developments affecting trade and payments of developing countries, particularly in trade in major commodities. It was generally felt that there is an urgent need to avoid the imposition of restrictions on imports from developing countries and to work out measures to expand these imports. The Committee also reviewed GATT efforts to provide technical assistance to develop-

ing countries in order to assist these countries in preparing for, and effectively participating in, the multilateral trade negotiations.

The exchange of views on recent developments in international trade affecting developing countries revealed that recent changes in commodity prices had an adverse impact in the trade of these countries. The slowdown in economic activities in developed countries during most of 1974 resulted in an adverse movement in the developing countries' terms of trade. The trade and payments situation of developing countries, with the exception of oil producing countries, had experienced significant deterioration, and trade restrictions imposed by some developed countries aggravated this situation.

#### Trade Negotiations among Developing Countries

A decision was taken by the Contracting Parties on November 26, 1971, to waive the provisions of paragraph 1 of Article I of the GATT for those nations which are willing to participate in trade negotiations among developing countries. The negotiations are to be held for the purpose of according these countries preferential treatment among themselves in compliance with the provisions provided in the Protocol Relating to Trade Negotiations Among Developing Countries. The results of this decision are to be appraised by the contracting parties showing the operation of the decision.

The Chairman of the Committee of Participating Countries read the 1974 Report and pointed out that the number of the participating countries had increased from eight to thirteen of the Protocol's sixteen

signatories, that the participating countries had fully abided by the provisions of the Protocol, and that no Contracting Party had requested consultations with regard to the operation of the Protocol. The Committee had invited a new round of trade negotiations among interested developing countries to enlarge the scope of concessions and to encourage new accessions.

The U.S. representative expressed his hope that the negotiations should be held on a non-discriminatory basis. He also noted that the report did not show an assessment of the trade effects of the arrangement. The European Communities suggested that reports on the arrangement under the Protocol should be referred to the Committee on Trade and Development before being considered by the Council.

## Chapter 3

## DEVELOPMENTS IN MAJOR TRADING AREAS

European Community

By mid-1974 a crisis had developed in the European Community (EC). Economic and political difficulties had arisen in many areas, and the Community was not sufficiently prepared to cope with them properly. "The year opened with reticence or refusal as regards the implementation of the policy guidelines emerging from the Paris (October 1972) and Copenhagen (December 1973) Summit Conferences (of EC Heads of Government): it was impossible to set up the European Regional Development Fund, there was hesitation over the transition to the second stage of economic and monetary union, and there was total disagreement on the policy to be followed in dealing with the energy crisis besetting the world and the Community. In the Member States, difficult political conditions were rendered more delicate by changes of government, some of which involved far-reaching innovation, and this was a factor encouraging a mood of introversion. It took a long time for the Community to recover from this dangerous situation." 1/

A recap of economic trends in the European Community during 1974 is as follows: real gross national product increased by about 2 percent and industrial production by about 1 percent, both substantially below growth rates achieved in recent years; inflation was rising at an annual rate of more than 13 percent by the end of the year, with considerable differences from country to country; unemployment affected more than 3.5 million

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1/ Eighth General Report on the Activities of the European Communities, 1974, Brussels (1975), p. 3. The European Communities consist of the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community. Frequent reference is made here to two EC institutions--the Commission and the Council. The Commission is the administrative branch of the EC and is also the initiator of policy, while the Council's main role is to approve or reject the policy proposals made by the Commission.

persons in the Community, or about 3.5 percent of the labor force; and a serious balance of payments disequilibrium, distributed very unevenly among the member states, had developed.

U.K. renegotiation.--Perhaps the most serious threat to the stability of the European Community during 1974 arose from one of the "difficult political conditions" referred to earlier--the threat by the United Kingdom to withdraw from the Community. The United Kingdom announced in April that it would shortly submit detailed proposals for renegotiating the terms of its EC membership. The Labor Party, which returned to power following the February general election, opposed British membership on the terms that had been negotiated by the Conservative Government when the United Kingdom, along with Denmark and Ireland, acceded to the Community on January 1, 1973. The renegotiation proposals put forth by the Labor Government in statements to the EC Council in April and June dealt with five principal issues: financing the Community budget; Common Agricultural Policy (CAP); commercial policy and aid for Commonwealth and developing countries; regional and industrial policy; and economic and monetary union.

The United Kingdom felt that, from a cost/benefit standpoint, its contribution toward financing the EC budget was excessive and would become even more so in the future as the Community's "own resources" system became fully operational. <sup>1/</sup> The Labor Government stated that it could accept neither the taxes that form the "own resources" of the

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<sup>1/</sup> For a description of the EC's "own resources" system see USTC, Operation of the Trade Agreements Program, 23d report, p. 103. British estimates indicated that the United Kingdom's net contribution to the EC budget could be around \$400 million in 1975 and \$900 million by 1980.

Community nor their uses, chiefly for agricultural support, but that it would be ready to contribute to financing that did not constitute a net transfer of resources from the United Kingdom to other Community members. The United Kingdom did not advance any specific proposals to deal with the budget problem, but suggested that adjustments be made on the expenditure side with EC members having below average gross domestic product per capita receiving larger resource transfers.

British criticism of the CAP was particularly strong; the United Kingdom is more dependent upon imports of foodstuffs and agricultural raw materials than other EC members. Prior to its entry into the Community the United Kingdom had used a deficiency payment system to supplement farm income. The effect of adopting the CAP--essentially a price support system--was to increase the cost of imports to British consumers and to disrupt relations with traditional suppliers, particularly Commonwealth countries. The Labor Government proposed reducing the cost of the CAP in real terms, improving marketing plans for major commodities, and easing terms of access for many kinds of foodstuffs from non-EC sources.

Closely related to the CAP issue was the question of EC trade with Commonwealth and developing countries. The United Kingdom proposed reduced tariffs and less restrictive quotas on imports from such countries, especially for sugar and New Zealand's dairy products, and expansion in the coverage of the EC's system of generalized tariff preferences. The British also favored a more balanced distribution of EC aid to include developing countries not already associated with the Community.

In regional and industrial policy, the United Kingdom wanted to avoid "unduly restrictive" interpretations of the EC treaties by other Community members in response to British policies and regional aid designed to "stimulate industry in order to arrest and reverse our relative decline." Britain's objections to the proposed EC economic and monetary union were quite similar, resulting largely from her desire to avoid being hampered by permanently fixed intraunion exchange rates in combating regional and structural unemployment problems in the United Kingdom.

The Labor Party won a majority in Britain's general election in October and promised to hold a referendum on EC membership within one year. The referendum was subsequently set for June 1975. The Labor Government announced that its recommendation to the British electorate on whether or not the United Kingdom should remain in the Community would depend upon the progress achieved in renegotiation.

The United Kingdom's threat to leave the Community was muted somewhat when an agreement was reached to establish a regional development fund at the "summit" meeting in December. The British had exacted the promise of a regional fund in 1972, anticipating that the United Kingdom with its many depressed areas would be a major beneficiary of Community aid. The fund, although smaller than the British had hoped for, should partially offset the United Kingdom's heavy net contribution to the Community budget.

Regional policy.--In the "summit" meeting in December 1974, EC Heads of Government agreed to establish a regional development fund to dispense about \$1.56 billion over a three-year period beginning January 1, 1975. Approved annual expenditures are \$360 million in 1975 and \$600 million in 1976 and 1977. The fund, which is about half the amount originally proposed by the EC Commission, will be financed up to a level of \$180 million by unutilized credits from the European Agricultural Guidance and Guarantee Fund. The communique issued at the "summit" did not specify how the remainder was to be financed, but presumably it will come out of the Community's budget.

The regional fund is "designed to correct the principal regional imbalances in the Community resulting notably from agricultural predominance, industrial change, and structural unemployment." The fund will be allocated as follows, in percentages: Italy, 40.0; United Kingdom, 28.0; France, 15.0; West Germany, 6.4; Ireland, 6.0; Netherlands, 1.7; Belgium, 1.5; Denmark, 1.3; and Luxembourg, 0.1. Ireland will receive an additional \$7.2 million because the other members, except Italy, agreed to reductions in their allocations. The EC's poorest areas are southern Italy, most of Ireland, western and southwestern France, northern Netherlands, parts of West Germany along the eastern border, and large parts of the United Kingdom, especially Wales and Scotland.

The Community has been committed to balanced regional development as a means of achieving integration since its inception, but it was not until after the 1972 "summit" agreed to the need for a regional development fund

that the first comprehensive guidelines for regional policy were proposed by the Commission. The Commission foresaw the EC's regional policy as a supplement to, not a substitute for, national regional policies. In 1973 the Commission proposed the creation of a \$2.67 billion three-year fund designed to coordinate the Community's common policies and financial instruments, reduce the congestion in crowded areas, and aid underdeveloped regions. Although EC members had agreed on the need for such a fund, international monetary problems and the energy crisis delayed agreement on its size and operational details.

The Commission proposed that two institutions, the Regional Development Committee and the Regional Development Fund, should execute regional policy under its general supervision. The committee is to consist of two members from each of the EC member states and from the Commission, with a secretariat under the Commission. Its function will be to study member states' regional problems and policies, their aid and development programs, and disincentive measures in overly concentrated areas. The fund will disburse Community resources for development programs that conform to the EC's objectives. It will be managed by the Commission and assisted by a Regional Fund Committee, which will consider proposed fund expenditures.

Energy policy.--By and large, the energy crisis facing the Community in 1973 <sup>1/</sup> was still present a year later and only tentative first steps had been made by the close of the year toward formulating a common energy policy. At the "summit" conference in December the EC Heads of Government discussed the energy problem and its attendant financial repercussions in

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<sup>1/</sup> See UTSC, Operation of the Trade Agreements Program, 25th report, pp. 87-89.

the Community and called upon the Community's institutions to devise and implement a common energy policy as quickly as possible, but deferred action to a meeting of the Council of energy ministers later in the month. On December 17 the Council adopted two resolutions on the objectives of the Community's energy policy for 1985. In one, the Council approved the goal of reducing the EC's dependence on imported energy sources from 63 percent in 1973 to 50 percent, and if possible to 40 percent, by 1985. Concrete objectives regarding the supply of and the demand for specific forms of energy were also formulated. The Commission was requested to report to the Council in June 1975, and periodically thereafter, on the progress achieved in meeting the Community's objectives and to submit proposals for the implementation of the resolution. The second resolution concerned the rational use of energy, and had the objective of reducing the Community's average long-term rate of growth in energy consumption. Its aim was to achieve by 1985 a level of energy consumption 15 percent less than that projected by the Commission in early 1973.

Economic and monetary union.--In 1971 the European Community launched a staged drive toward full economic and monetary union, which was expected to be completed by the end of 1980. In the first stage (1971-73), the principal emphasis was upon narrowing the allowed margin of fluctuation in intraunion foreign exchange rates. <sup>1/</sup> A European Monetary Cooperation Fund (EMCF) was created to coordinate currency intervention operations by the members states, administer mutual financial assistance for members with

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<sup>1/</sup> For a more complete description of the EC's monetary activities in 1971-73, see USTC, Operation of the Trade Agreements Program, 23rd through 25th reports.

balance of payments difficulties, and act as the forerunner of a Community central banking system and common currency.

At the 1972 "summit" conference the EC Heads of Government decided that a second, more intensive, stage in achieving economic and monetary union should begin on January 1, 1974. In November 1973 the Commission sent to the Council a number of proposals that it deemed necessary in order to progress more rapidly toward the final goal. Such proposals included strengthening the EMCF, altering and expanding the system of short-term credits, and taking the first steps toward pooling Community monetary reserves. The Council was subsequently unable to reach agreement on certain points at issue (e.g., pooling of reserves and establishing a regional development fund) and resolution of the transition to the second stage was deferred until 1974. However, rather than achieving any further progress toward economic and monetary union in 1974, there was an erosion of the progress already made in prior years.

At the beginning of 1974 six member states (Belgium, Denmark, France, Luxembourg, Netherlands, and West Germany) still adhered to the Community's monetary system, the so-called "snake," under which intraunion exchange rates were permitted to fluctuate a maximum of 2 1/4 percent while the "snake" currencies floated as a bloc against outside currencies. The United Kingdom and Ireland left the "snake" in 1972 and Italy followed in 1973; their currencies were allowed to float independently outside the Community's system. In January 1974 the French Government announced that it was suspending its intervention on the foreign exchange markets for a period of six months; at the end of 1974 the French franc was still floating independently outside the "snake." The French action

stemmed, at least in part, from anticipation of balance of payments difficulties in 1974 induced by the energy crisis. In the words of the president of the EC Commission: 1/ "The transition to a second stage of economic and monetary union has been put on ice, with the withdrawal of the French franc from the Community's monetary agreement: a further relapse from the level of coordination we had reached in 1972." Despite the addition of France to the ranks of the defectors, representatives of the remaining adherents confirmed their resolve to maintain the margins of the "snake" and expressed their hope that the other member states would rejoin the Community's exchange rate system as soon as possible. By the end of the year none had yet done so.

Common agricultural policy.--The European Community's common agricultural policy (CAP) is geared toward supporting farm income via a common price policy; almost all major agricultural commodities are subject to a price support mechanism. Common agricultural prices are normally fixed annually by the Council after finding a workable compromise to reconcile the often divergent interests of the parties involved (producers, consumers, taxpayers, etc.). Although reforming the CAP has arisen as a major issue in farm policy in recent years, possibly by supplementing the price policy with a partial system of deficiency payments to farmers, no major action has yet been taken.

In its January proposals to the Council on setting agricultural prices for the coming year, the Commission emphasized that price policy was still

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1/ European Community Information Service, "European Community," April 1974, No. 175, p. 12.

to be the chief instrument used in supporting farm income in the Community. The Commission, which accompanied its price proposals with a series of recommendations for improving the organization of agricultural markets, proposed an average increase of 7.2 percent in the common agricultural prices for the 1974/75 marketing year. As in recent years, debate in 1974 over setting support levels was intense and often bitter. After difficult discussions during January and February the Council, under pressure from the European Parliament, fixed the common agricultural prices in March, raising them an average of 8.8 percent. However, continuing inflationary pressures led in 1974, for the first time, to a mid-year review of common prices. In October, after another month of heated debate, the Council applied an additional 5 percent across-the-board increase and adopted certain other proposals of the Commission. In addition, the Council requested the Commission to conduct by March 1, 1975, a complete stocktaking of the CAP with particular reference to the objectives of Article 39 of the Treaty creating the EEC. The stocktaking, together with any conclusions which the Commission may draw from it, will be debated by the Council and European Parliament.

The system of common agricultural prices has in practice been hampered by its own administrative complexities. Monetary compensatory amounts, which were originally intended to be of a provisional nature, have become an integral part of the administration of the CAP and have produced zones with different price levels. The continuation of monetary instability in 1974 had its inevitable repercussions on the administration of the CAP and introduced further complexities. The floating of the French franc in January necessitated the introduction of

monetary compensatory amounts for agricultural trade with France. In addition, changes in the representative rate of the Italian lira for purposes of the common agricultural policy brought about a "devaluation" of the agricultural lira; the British and Irish "green" pounds were similarly readjusted. As the Community itself noted, "even if improvements are possible floating currencies will continue to present problems until more stable relationships are created between the Community currencies, since the common prices expressed in the currencies of Member States cannot vary with the daily fluctuations of a currency." 1/

The Community did claim one area of triumph in its common agricultural policy during 1974, noting that the CAP had contributed to the struggle against inflation. During the year world market prices for several important products subject to a common market organization, such as cereals, sugar, rice and maize, considerably exceeded the Community's internal prices. Consequently, the Commission fixed import levies at zero for such products and introduced export levies in order to avoid, as much as possible, any rise in Community prices.

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1/ Eighth General Report, op. cit., p. 152.

Foreign trade.--Despite the uncertainties created by the economic, monetary, and political difficulties experienced by the European Community during 1974, its internal and external trade again increased sharply in value. Intraunion customs duties between the three new members (the United Kingdom, Ireland, and Denmark) and the six original members, which were reduced by 20 percent in 1973, underwent an additional 20 percent cut on January 1, 1974. At the same time, the three new members began the first phase (40 percent) in aligning their tariffs on imports from third countries with the Community's common external tariff (CXT). Both the elimination of intraunion duties and the alignment of the new members' tariffs with the CXT are scheduled for completion in mid-1977. The following table shows the Community's total exports and imports, as well as intraunion trade.

Table 11.--Foreign trade of the European Community, 1973 and 1974 <sup>1/</sup>

| Item   | Amount                           |                                  | Increase<br>over<br>1973 |
|--|----------------------------------|----------------------------------|--------------------------|
|  | 1973                             | 1974                             |                          |
|  | <u>Billion</u><br><u>dollars</u> | <u>Billion</u><br><u>dollars</u> | <u>Percent</u>           |
| All exports-----                                       | 210.7                            | 275.1                            | 30.6                     |
| Exports to third countries-----                        | 99.8                             | 136.0                            | 36.3                     |
| All imports-----                                       | 215.2                            | 293.5                            | 36.4                     |
| Imports from third countries-----                      | 104.3                            | 154.4                            | 48.0                     |
| Intraunion trade (exports)-----                        | 110.9                            | 139.1                            | 25.4                     |
| Merchandise trade balance<br>with third countries----- | -4.5                             | -18.4                            | -                        |

<sup>1/</sup> The EC values its exports on a f.o.b. basis, but its imports on a c.i.f. basis; the result is an overstatement in the above table of the value of imports relative to exports by the amount of freight and insurance.

Source: Organization for Economic Cooperation and Development, Statistics of Foreign Trade, May 1975.

Two aspects of the Community's foreign trade in 1974 merit special note--the growth rate of extraunion versus intraunion trade and the size of the trade balance with third countries. Unlike previous years, the value of the EC's trade with third countries increased more rapidly than intraunion trade; in 1974 the EC's exports to third countries comprised almost half of total Community exports. In 1957, before the Community was established, trade among the six original members amounted to only about 42 percent of their aggregate exports. In the following years, however, internal trade grew more rapidly than external trade and by 1973 intraunion exports accounted for about 53 percent of total EC exports.

The more rapid expansion of EC imports from third countries than of exports to such countries resulted in quadrupling the Community's merchandise trade deficit from \$4.5 billion in 1973 to \$18.4 billion in 1974, making it the largest on record. Among the EC countries, only West Germany had a trade surplus in 1974, while the United Kingdom, Italy, and France all had large deficits. Precipitated chiefly by its balance of payments difficulties and despite financial assistance from other Community members, Italy was forced to take emergency measures during 1974 to restrict its imports. In May the EC Commission, acting under Article 108(3) of the Treaty establishing the EEC, authorized Italy to require upon importation of certain goods (other than raw materials, certain agricultural products, and most capital goods) the deposit in the Banca d'Italia for six months without interest of a sum equal to 50 percent of the c.i.f. value of the goods imported. This measure affected about 40 percent of Italy's total foreign purchases. The authorization was withdrawn for most agricultural products later in the year.

The large rates of increase in EC trade in 1974 were predominately due to accelerated worldwide price inflation. Expressed in constant dollars, EC exports increased by only about 8 percent in 1974 while the EC's imports remained virtually unchanged. Further evidence of the effect of inflation on the value of foreign trade flows of the Community can be seen in the table on the following page that shows trade indices, in terms of volume and average value, for the EC countries during 1970-74.

The United States' merchandise trade surplus with the European Community reached \$3 billion in 1974, about two and one-half times that in 1973 and the largest in over a decade. <sup>1/</sup> The surplus with the Community compared favorably with a global U.S. deficit in merchandise trade of almost \$2 billion in 1974 (f.a.s. basis) and deficits with Canada and Japan, the United States' chief trade partners along with the EC.

U.S. merchandise exports to and imports from the Community in 1974 were valued at \$22 billion and \$19 billion, respectively (both measured f.a.s.), representing increases of 32 percent and 23 percent over the corresponding 1973 values. The increases in exports and imports chiefly reflected price increases, as the volume of trade slowed in response to less buoyant economic activity in both areas. The more rapid expansion in U.S. exports than in imports continued a trend noted in 1973 that probably resulted from the decline in the dollar's value relative to most EC currencies since 1970 and the slightly lower rate of increase in U.S. prices than in EC prices during recent years. <sup>2/</sup> The expansion in U.S. exports consisted of increases in both agricultural (22 percent) and

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<sup>1/</sup> U.S. Bureau of the Census, Highlights of U.S. Export and Import Trade, FT 990, December 1974.

<sup>2/</sup> USTC, Operation of the Trade Agreements Program, 25th report, pp. 96-97.

Table 12.--Indices of foreign trade flows of the EC, by country, 1970-74 1/

| Item and country               | 1970          | 1971 | 1972 | 1973 | 1974 |
|--------------------------------|---------------|------|------|------|------|
|                                | Volume        |      |      |      |      |
| <u>Imports:</u>                |               |      |      |      |      |
| Belgium <u>2/</u> -----        | 100           | 109  | 119  | 137  | 141  |
| Denmark-----                   | 104           | 100  | 104  | 124  | 117  |
| France-----                    | 100           | 108  | 123  | 140  | 144  |
| West Germany-----              | 100           | 111  | 122  | 129  | 127  |
| Ireland <u>3/</u> -----        | 100           | 105  | 112  | 135  | 4/   |
| Italy <u>5/</u> -----          | 100           | 100  | 111  | 124  | 117  |
| Netherlands <u>3/</u> -----    | 100           | 107  | 111  | 127  | 123  |
| United Kingdom <u>5/</u> ----- | 100           | 105  | 116  | 133  | 133  |
| <u>Exports:</u>                |               |      |      |      |      |
| Belgium <u>2/</u> -----        | 100           | 107  | 126  | 141  | 142  |
| Denmark-----                   | 95            | 100  | 108  | 115  | 123  |
| France-----                    | 100           | 108  | 124  | 136  | 150  |
| West Germany-----              | 100           | 106  | 115  | 133  | 150  |
| Ireland <u>3/</u> -----        | 100           | 107  | 113  | 124  | 4/   |
| Italy <u>5/</u> -----          | 100           | 108  | 121  | 123  | 132  |
| Netherlands <u>3/</u> -----    | 100           | 111  | 120  | 141  | 145  |
| United Kingdom <u>5/</u> ----- | 100           | 109  | 111  | 127  | 133  |
|                                | Average value |      |      |      |      |
| <u>Imports:</u>                |               |      |      |      |      |
| Belgium <u>6/</u> -----        | 100           | 102  | 101  | 109  | 142  |
| Denmark-----                   | 94            | 100  | 100  | 111  | 150  |
| France-----                    | 100           | 103  | 104  | 110  | 166  |
| West Germany-----              | 100           | 99   | 97   | 103  | 129  |
| Ireland <u>3/</u> -----        | 100           | 106  | 111  | 125  | 4/   |
| Italy <u>5/</u> -----          | 100           | 105  | 109  | 139  | 241  |
| Netherlands-----               | 100           | 105  | 104  | 111  | 155  |
| United Kingdom-----            | 100           | 105  | 109  | 138  | 210  |
| <u>Exports:</u>                |               |      |      |      |      |
| Belgium <u>6/</u> -----        | 100           | 97   | 99   | 108  | 136  |
| Denmark-----                   | 97            | 100  | 105  | 118  | 139  |
| France-----                    | 100           | 106  | 107  | 118  | 147  |
| West Germany-----              | 100           | 103  | 103  | 107  | 123  |
| Ireland-----                   | 100           | 108  | 122  | 150  | 4/   |
| Italy <u>5/</u> -----          | 100           | 105  | 109  | 127  | 180  |
| Netherlands-----               | 100           | 102  | 103  | 110  | 141  |
| United Kingdom-----            | 100           | 106  | 111  | 126  | 161  |

1/ Other than Denmark, 1970=100; for Denmark 1971=100.

2/ Laspeyres index.

3/ Fisher chain-type index.

4/ Not available.

5/ Fisher index.

6/ Paasche index.

Source: Organization for Economic Cooperation and Development, Statistics of Foreign Trade, May 1975.

non-agricultural (36 percent) goods, while the increase in U.S. imports consisted chiefly of non-agricultural merchandise. One-third of U.S. exports to the EC and some 36 percent of U.S. imports from the Community in 1974 consisted of machinery and transport equipment.

The significance of trade with the United States in the Community's overall foreign trade has declined substantially in the last few years. The U.S. share of all EC imports fell from 19 percent in 1968 (the Community of Six) to 8 percent in 1974. Likewise, the U.S. share of the Community's exports dropped from 16 percent to 7 percent during the same period. In 1974 the EC accounted for about 23 percent of total U.S. merchandise exports and 19 percent of total U.S. imports; West Germany and the United Kingdom, in that order, continued to be the principal trading partners of the United States in the EC, accounting for about half of aggregate U.S.-Community trade.

#### Trade relations with developing countries

Since its inception the Community has developed an extensive network of special trade arrangements with developing countries, particularly those in Africa. An implementing convention of the Treaty of Rome, which established the EEC in 1957, provided for the association with the Community of the non-European countries that had special relations with Belgium, France, Italy, and the Netherlands. The independence, between 1960 and 1962, of 18 mostly French-speaking African and Malagasy States (AASM) led to the first Yaounde Convention, which entered into force in 1964 for a five year period. It was followed by a second Yaounde

Convention, which became effective on January 1, 1971, and was to expire at the end of January 1975. After accession negotiations between the EC and the United Kingdom had begun, the former British colony of Mauritius acceded to the Yaounde Convention in 1973. The Yaounde Conventions preserved traditional economic and trade ties between Community members and their former dependencies. They provided developmental aid and extensive trade preferences from the EC, including duty-free entry for manufactured goods, while the AASM in turn extended trade preferences to the Community --the so-called "reverse preferences."

The original six EC members had adopted declarations in 1963 and 1969 affirming that the Community was open to requests from any third country having an economic structure comparable to that of the AASM and desiring to accede to the Yaounde Convention or to enter into other forms of association or trade agreements. Thus an association agreement between the EC and the East African Community (Kenya, Uganda, and Tanzania) was signed in Arusha, Tanzania, in 1969 to run concurrently with the second Yaounde Convention. The Arusha Convention was more limited in scope than the Yaounde Convention and dealt mainly with trade arrangements; it did not include provisions for financial and technical cooperation.

The United Kingdom terminated most of its preferential trading relationships with overseas Commonwealth countries when it acceded to the EC on January 1, 1973, but the Six agreed to work toward establishing similar relationships with many of these countries. Protocol 22 of the Acts of Accession offered developing ACP Commonwealth countries the chance to negotiate on their future relations with the expanded EC,

within the framework of association or trade agreements. The Protocol guaranteed that advantages already acquired by the Yaounde and Arusha associates would not be lost, but that any new associates would receive equal treatment. The Community also committed itself to safeguarding the interests of those countries whose economies were based to a large extent on exporting raw materials, particularly sugar.

Negotiations between the Community and the developing ACP countries began in July 1973. The major breakthrough toward agreement was achieved in a ministerial meeting in July 1974 when the EC agreed not to seek reverse preferences and to establish a compensation fund to guarantee the export prices of certain raw materials upon which some ACP countries were heavily dependent. The negotiations were completed in early 1975 and a new five-year trade and aid pact was signed in Lome, Togo. The Lome Convention must be ratified by all EC states and by at least two-thirds of the ACP states before it can enter into force. 1/

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1/ Since the Yaounde and Arusha Conventions were to expire on January 31, 1975, and the Lome Convention had not yet entered into force, transitional arrangements were made extending the main provisions of the two earlier agreements and maintaining the status quo between the United Kingdom and the ACP states of the Commonwealth until July 31, 1975.

CanadaDevelopments in 1974

Canada's economic performance in 1974 was the best among OECD countries: 4 percent real growth, resulting mainly from strong domestic demand, including a 21 percent increase in total capital investment. GNP in current prices rose to U.S. \$142.7 billion from U.S. \$118.7 billion in 1973; however, there was no real growth in GNP in the second half of 1974. Unemployment increased by 0.6 percent in 1974, to 6.1 percent; and the 12.4 percent rise in the consumer price index during the year was the highest in 26 years.

General Preferential Tariff

Canada implemented the General Preferential Tariff on July 1, 1974. Prior to introduction of the General Preferential Tariff system, developing countries not part of the British Commonwealth (and therefore not eligible for the British Preferential Tariff) were subject to higher Most-Favored-Nation tariff rates. The new tariff is designed to give encouragement and trade opportunities to all developing nations both in the Commonwealth and out. It is a first step leading to the final removal of the British Preferential Tariff system which Canada has no legal obligation to maintain since Britain joined the EEC on January 1, 1973. No country subject to the General Tariff (analogous to the U.S. statutory, "column 2" rate system) is eligible.

The Canadian Importers Association, Inc., feels that implementation of the General Preferential Tariff will change the source of many imports, thus causing some disruption in the Canadian manufacturing sector. In fact, however, its impact on Canadian industries will probably be small.

In 1973, less than 10 percent of Canada's total imports of U.S. \$23 billion entered from beneficiary countries and, of these imports, approximately 75 percent came in duty-free under existing tariff provisions. Some products, such as most textiles and footwear, are exempt from the new preferential tariff.

#### Temporary suspension of duties

On February 20, 1973, the Canadian Government announced a temporary reduction of tariffs on certain nonfood products worth about U.S. \$1.2 billion and food items worth about U.S. \$250 million. The principal beneficiary of these tariff cuts was the United States from which about 60 percent of the goods emanated. The purpose of the tariff reductions was to cut consumer prices and thereby ease inflation.

On January 11, 1974, the Canadian Government declared that higher rates of duty would be restored on some items, mostly food, effective February 20, and on all other items on which tariffs had been temporarily reduced the previous year, effective June 30. The reason cited for the restoration of duties was to give Canada additional bargaining leverage at the GATT trade negotiations. Nevertheless, in its May budget the Trudeau government proposed that the temporary tariff reductions be extended to December 31 on almost 200 consumer items to combat the upward pressure on prices. The budget was defeated, however, and tariffs were raised to their original levels on June 30.

Parliament passed legislation on November 7 authorizing retroactively the continuation from February 20, 1974, to June 30, 1974, of the temporary 1973 tariff reductions on certain consumer items and extending the tariff suspension on sugar until June 30, 1976, and on certain petroleum products

until October 23, 1975. Later in the month the government announced another temporary reduction in the rate of duty on approximately \$1 billion worth of consumer goods imported into Canada, effective November 19. The new measures are to remain in effect until June 30, 1976. A number of the items on the list of extensions in the May budget were not included, such as: plywood, furniture, white goods, house trailers, mobile homes, and a number of food products, including lamb, pork and other meat products, and raisins and currants. Goods covered are valued at U.S. \$860 million in the nonfood sector and U.S. \$145 million in the food sector, using 1973 figures on trade as a basis. Generally, the new rates lower most-favored-nation (MFN) rates to the British Preferential rates, thus benefitting the United States by eliminating the Commonwealth preference.

The Government is seeking authority to withdraw any of the tariff reductions by an Order-In-Council "if there are adverse effects on employment and production in Canada."

#### Beef imports from the United States

From April 9 through September the Canadian Government banned shipments of beef from the United States, asserting that certifications of U.S. exporters were in inadequate compliance with Canadian regulations regarding diethylstilbestrol (DES), a growth hormone linked to cancer. The ban applied to imports of live cattle and sheep, as well as beef, lamb, and mutton meat. On August 12 the Canadian Government instituted a one-year beef import quota system in an attempt to protect domestic production injured by the influx of U.S. beef during the period of U.S. wage and price controls. The action, which reduced U.S. market opportunities for slaughter cattle and dressed

beef and veal by 65 percent, is expected to have a negative impact on the total U.S. balance of trade of about U.S. \$100 million yearly. On November 16, President Ford retaliated with quotas on imports of Canadian cattle, beef, hogs, and pork. The U.S. restrictions were made retroactive to August 12. The Canadian Government placed export controls on livestock and meat shipments to the United States to ensure that traditional suppliers of these items would continue to have access to the U.S. market to the maximum extent possible under the announced U.S. import quotas.

#### Packaging, labeling & marking regulations

New labeling and packaging regulations require that imported products be labeled in both French and English and that they conform to specified metric container sizes. Canada does not permit use of five standard U.S. can sizes. The U.S. National Canners Association regards the Canadian requirement as an important NTB. Although some major U.S. food processors have related operations in Canada, it is often necessary for producers shipping to Canada to make separate runs when packing for that market. Canadians consider it untimely to effect changes in authorized can sizes because current plans contemplate a shift to the metric system. The law stipulates that all nonfood prepackaged consumer items comply with these regulations by September 1, 1975, and that prepackaged food items comply by March 1, 1976.

#### Foreign investment in Canada

Two-thirds of the manufacturing firms in Canada with C \$25 million or more in assets are foreign owned. Foreign ownership of firm assets in this category appears to be growing about twice as fast as Canadian ownership,

according to a Canadian government-commissioned report. Moreover, 95 percent of patents registered in Canada are foreign-owned, two-thirds of these by the United States.

In an attempt to become less dependent on foreign technology and gain control over foreign investment, the Canadian Government established the Foreign Investment Review Agency, as provided for by the Foreign Investment Review Act of 1973. The Agency's purpose is to screen proposed foreign takeovers of Canadian firms whose gross assets are in excess of C \$250,000 or whose gross annual sales exceed C \$3 million, to determine whether the takeover will result in "significant benefit" to Canada. The screening process will probably be expanded in 1975 to include all new foreign investment in Canada regardless of value. Designed to arrest and reverse the increasing degree of foreign control of Canada's economy, the screening process will ensure that future foreign takeovers and the establishment of new foreign-controlled businesses will be of significant benefit to Canada by encouraging such enterprises to exercise greater scope in: exporting and innovating; processing materials in Canada; procuring supplies in Canada; developing Canadian managerial and technical talent; and decision-making and risk-taking generally. Significant benefit will be assessed in terms of five factors: the level and nature of economic activity; the participation by Canadians; productivity, industrial efficiency, technological development, and product innovation; the effect on competition; and other national and provincial economic policy objectives.

Implementation of the screening process will occur in two phases. The first relates to the acquisition of existing Canadian business enterprises by a foreign individual, government, or corporation while the second phase,

dealing with the establishment of new businesses by foreigners, is expected to begin as soon as experience is gained in administering the takeover provisions.

By the end of 1974, nine takeovers had been rejected, 36 allowed, and nine deemed allowed, i.e., no action was taken within 60 days and therefore permission became automatic. No specific reasons were given for rejecting the nine proposals.

Other legislation affecting foreign investment was an amendment to the Export and Import Permits Act, passed in May, which gives the government "last resort" power to encourage additional processing of raw materials before their export.

On January 29, 1974, President Nixon suspended the 1963 interest equalization tax which had been instituted to control outflows of U.S. capital. In response, the Canadian Government, on January 30, withdrew all guidelines aimed at restricting the export of capital.

#### Energy policy

Canada is the only country in the world which is both a major importer and a major exporter of oil, balancing its crude oil imports to eastern Canada by exporting similar volumes of western Canadian crude to the central United States, thus maintaining a theoretical self-sufficiency. In November 1974, however, the National Energy Board (NEB) reported that not only were Canadian reserves of oil and gas not inexhaustible as earlier assumed, but that Canadian crude oil production has peaked and there is little prospect of dramatic new discoveries in conventional oil producing regions. Should Canada continue to pursue a policy of producing at maximum capacity and exporting all crude oil which is surplus to immediate Canadian needs, its

surpluses available for export could dry up by 1978 or 1979 and even to meet its own needs Canada would become increasingly dependent on imports.

An export licensing system for crude oil introduced in March 1973 operated throughout 1974 and was superseded in January 1975 by one which will reduce export levels in a series of phased steps to cushion the impact and to provide time for U.S. importers to identify alternative sources of supply. Under the new policy some exports to the United States will continue until about 1982 when Canada itself will be a net importer of crude oil.

In March 1974 Canadian federal and provincial heads of government agreed to freeze wellhead crude prices to levels below the world market price, with eastern Canadian refiners, who pay the high international prices for their crude oil, receiving compensation to assure national product price equalization. To keep domestic prices at this level, the Canadians imposed a sliding tax on oil exports to the United States making the export price of Canadian crude equivalent to that of alternative international crudes on the Chicago market.

The effect on exports of these policy adjustments has been twofold. It has decreased the volume of Canadian crude oil available, and it has made it more expensive. The value of Canadian oil exports to the United States in 1974 was about 22 percent more than that of the previous year, primarily because of the increased price of oil, including the export charge.

Only if substantial new crude reserves are discovered in the frontier regions of the Mackenzie Delta, Arctic Islands, and Atlantic offshore areas could Canadian oil exports rise. Whether sufficient volumes exist in these areas to justify the massive commitments of capital, material, and new technology necessary to construct the Mackenzie Valley pipeline, on which hinges

the future of all resource development in the frontier areas, has been a subject of much controversy. Increased demands for investment funds could push up interest rates in Canada, the inflow of foreign funds into Canada would push up the value of the Canadian dollar (making exports more expensive and less competitive in world markets), and labor markets would be distorted since the pipeline would require thousands of workers in the construction stage and relatively few in the operational phase. Until Canada has need of its Mackenzie delta reserves, the pipeline would carry only gas from Alaska's north slope south to U.S. markets.

Concern over the supply prospects of natural gas has also increased. Although major natural gas discoveries have taken place in the frontier areas of the Mackenzie Delta and the Arctic Islands, it is, at present, only a potential resource which will require considerable time and capital investment to prove and bring to market.

The low price of natural gas has created an artificially high demand for the fuel which does not accurately reflect its value in comparison to alternative energy supplies. On September 20, 1974, the NEB recommended an early price increase in all outstanding export contracts from 80 cents to one dollar per thousand cubic feet at the U.S. border, with three further annual increases of 20 cents each.

#### Foreign trade statistics

Canadian exports in 1974 increased by 26.3 percent over 1973 because of sharply higher price levels, which averaged 58 percent above 1973 levels on outbound shipments. Although the volume of exports declined, the large dollar gains arising from exports have fed into the income stream of both

individuals and corporations. In turn, the capital investment program induced strong flows of imported supplies and machinery. Imports rose by 35.3 percent in value and by 4 percent in volume.

Two-way trade between Canada and the United States was over \$40 billion in 1974. <sup>1/</sup> Imports from Canada were \$22,282 million, up 25.8 percent from \$17,715 million in 1973. Exports to Canada were \$19,932 million, up 32.6 percent from \$15,104 million in 1973. Canada's trade surplus with the United States was \$2,350 million in 1974, down from \$2,611 million in 1973. The United States accounted for 66.5 percent of total Canadian exports in 1974 and 67.5 percent of imports (see tables 13 and 14).

The increase in imports from Canada resulted from sharply increased price levels. Actual volumes of commodities shipped decreased. Crude oil, including the export tax, accounted for almost \$2 billion, or 46 percent of the increase. Pulp shipments to the United States were up \$443 million, increasing 72 percent from 1973, and exports of newsprint increased by \$285 million. Lumber shipments declined 30 percent or \$375 million, because of the decrease in housing starts in the United States. Imports of cars and trucks from Canada increased only 11 percent and 13 percent, respectively, while those of parts and engines decreased by 7.5 percent as a result of the weakness of the American automobile market.

Although the volume of export shipments from Canada was less than in 1973, the decrease is attributable more to Canada's supply capability than to a fall-off in demand. The Canadian economy was operating at close to

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<sup>1/</sup> All value figures in the remainder of this section are in U.S. dollars.

Table 13.--Canadian trade, 1973 and 1974

(Amounts in millions of Canadian dollars)

| Countries                  | Exports  |          | Imports  |          | Trade balance |        |
|----------------------------|----------|----------|----------|----------|---------------|--------|
|                            | 1973     | 1974     | 1973     | 1974     | 1973          | 1974   |
| United Kingdom-----        | 1,598.7  | 1,889.7  | 1,005.4  | 1,127.8  | 593.3         | 761.9  |
| United States-----         | 17,070.0 | 21,258.6 | 16,483.6 | 21,205.8 | 586.4         | 52.8   |
| Japan-----                 | 1,810.7  | 2,223.3  | 1,010.9  | 1,423.2  | 799.8         | 800.1  |
| EEC <u>1/</u> -----        | 1,535.4  | 2,059.2  | 1,392.8  | 1,811.2  | 142.6         | 248.0  |
| Latin America-----         | 681.4    | 1,217.7  | 880.7    | 1,828.2  | -199.3        | -610.5 |
| Commonwealth ex. U.K.----- | 792.8    | 965.9    | 803.4    | 1,021.4  | - 10.6        | - 55.5 |
| Other countries-----       | 1,812.0  | 2,331.1  | 1,717.8  | 3,109.7  | 94.2          | -778.6 |
| Total-----                 | 25,301.0 | 31,945.5 | 23,302.6 | 31,527.3 | 1,998.4       | 418.2  |

1/ Excluding U.K., Denmark and Ireland.

Source: Statistics Canada Daily.

Note: Export and Import values for 1974 are preliminary estimates and may not add because of rounding.

Table 14.--U.S.-Canadian trade, 1970-74: Comparison of U.S. and Canadian customs clearance figures

(Amounts in millions of U.S. dollars)

| Year      | Canadian figures |                            |               |                    |                 | U.S. figures                 |                   |               |                    |                 |
|-----------|------------------|----------------------------|---------------|--------------------|-----------------|------------------------------|-------------------|---------------|--------------------|-----------------|
|           | Exports to U.S.  | Imports from U.S. (c.i.f.) | Trade balance | Percentage exports | Changes imports | Imports from Canada (f.a.s.) | Exports to Canada | Trade balance | Percentage exports | Changes imports |
| 1970----- | 10,826.3         | 9,491.9                    | 1,334.4       | -                  | -               | 11,092.0                     | 9,079.3           | -2,012.7      | -                  | -               |
| 1971----- | 12,079.2         | 10,852.4                   | 1,226.6       | 11.6               | 14.3            | 12,691.5                     | 10,365.4          | -2,326.1      | 14.4               | 14.2            |
| 1972----- | 14,907.4         | 13,049.0                   | 1,858.4       | 23.4               | 20.2            | 14,908.9                     | 12,415.4          | -2,493.5      | 17.5               | 19.8            |
| 1973----- | 16,692.8         | 16,119.3                   | 573.5         | 12.0               | 23.5            | 17,715.3                     | 15,104.0          | -2,611.3      | 18.8               | 21.7            |
| 1974----- | 20,788.8         | 20,737.2                   | 51.6          | 24.5               | 28.6            | 22,281.6                     | 19,932.0          | -2,349.6      | 25.8               | 32.0            |

104

Sources: Canadian figures from OECD Statistics of Foreign Trade: Trade by Commodities, and Statistics Canada Daily. U.S. figures from Survey of Current Business, May 1975, January 1974, and April 1972.

capacity despite an unemployment rate exceeding 5 percent and the government was concerned that efforts to spur economic growth beyond the economy's ability to produce could intensify inflation. In addition, some industries, such as copper, experienced labor disputes and production set-backs, while others, such as wheat, faced transportation difficulties.

Much of the growth in U.S. exports to Canada can be attributed to higher prices although some volume increases have occurred. Industrialists in eastern Canada turned to the United States for new sources of supply because of increased cost and delivery times for western Canadian-produced goods. The major source of export growth was in finished goods, with some added strength coming from semi-finished goods. U.S. exports increased in machinery (up \$700 million); motor vehicles and equipment, and tools (each up more than \$450 million); organic chemicals and plastics (up \$200 million); and steel plate, and aircraft and parts (each up \$130 million).

JapanDevelopments in 1974

During 1974 Japan's GNP increased to \$457.6 billion, up from \$416 billion the year before. The nominal growth rate declined from 24.5 percent in 1973 to about 20 percent in 1974, however. In contrast to an average real growth of 10.4 percent in the past decade, moreover, real growth in 1974 was negative (at -3.7 percent) for the first time since the end of World War II. Total industrial production in Japan showed a 1.5 percent decrease from the level of the previous year. Indeed, Japan's economy was in the midst of the longest and most severe business slump in the nation's postwar history. This poor performance, accompanied by a real crisis of confidence, resulted from the high cost of energy, unabated inflation, tight money aimed at reducing inflation but leading to economic slowdown, and prospects of non-competitiveness in world markets as a consequence of the appreciation of the yen. To correct this situation, the Government wavered between policies to correct inflation on the one hand and policies to correct recession on the other. Since many Japanese industrialists felt that anti-inflation measures had been too strong, business confidence had not been restored by late 1974.

Although both wholesale and consumer prices remained relatively stable during autumn, the wholesale price index for the first 11 months of 1974 increased 30.4 percent above a year earlier. The consumer price index increased 23.6 percent. Although wage increases averaged 32.9 percent, consumer spending slumped 6.6 percent in real terms in response to the

uncertainty of the economic situation. More money was saved and purchases of consumer durables were postponed.

Business investment in machinery and equipment declined in real terms. Industries, faced with growing inventories, cut back production. Hardest hit by the decline were textiles, non-ferrous metals and miscellaneous manufacturing (plastics, rubber products, leather, metal furniture, etc.), while lesser reductions took place in iron and steel, electrical machinery, automobiles, chemicals, petroleum and coal products, and manufactured foodstuffs. Against the trend, however, production increased in agricultural machinery, office machinery, electronic computers, electric measuring instruments, chemical fertilizers and petrochemicals.

Idle plant capacity rose in 1974 from about 3 percent to nearly 10 percent. The ratio of inventories to actual shipments soared 60 percent. Because of the traditional unwillingness of Japanese employers to fire superfluous personnel when sales slump, they continued to let workers produce goods that were not needed, rather than cutting back output to balance inventories. In spite of this, intensified production cutbacks did force some easing of the labor market and the number of workers regularly employed decreased 1.7 percent during the year.

#### Change in industry structure

One of the major contributing factors to the high rate of inflation was the drastic price rise of crude oil. In 1973, Japan imported 290 million kiloliters of crude oil and paid \$6 billion, at an average price of \$3.29 c.i.f. per barrel, while in September 1974 the comparable price was \$11.51. Because of this, Japan's oil imports have been declining. Imports

for the January-September period were 2.2 percent below the same period in 1973, but imports in September dropped 14 percent compared with the same month the previous year. Since Japan's imports of crude oil had been increasing at an average annual rate of 17 percent for the decade until 1973, this represents an important shift in Japan's oil import trend.

Concurrently, 1974's worldwide escalation of primary commodities prices presented the Japanese with a similar dilemma with respect to industrial raw materials. Japan is a resource-poor country, and much of its phenomenal postwar industrial expansion was based on raw materials imports ranging from iron ore to timber. Thus, adverse price developments in the primary commodities sector can have serious repercussions on Japan's cost competitiveness as an exporter of manufactured products which embody these primary commodities as inputs.

The Japanese have concluded that they can no longer plan for growth based on unlimited supplies of cheap energy and raw materials; consequently, they are introducing into the economy a planned shift toward products which are service or quality-oriented and which need less energy and fewer raw materials to produce. As Japan moves to a higher-technology and more capital-intensive economy, increasing amounts of investment funds are being directed toward the tertiary industries and the public sector. This means that a lower proportion of the nation's gross national product will be channelled into exports in the future. Moreover, it implies that Japanese companies will tend increasingly to move production that is no longer competitive in Japan to offshore sites in developing or developed countries. Exports must continue to grow sufficiently to cover the rising import bill,

as well as net capital flows abroad, but they are expected to grow somewhat more slowly than in the past and to change steadily to higher-value-added products.

#### Stabilization of the yen

Since the yen was floated in February 1973, its exchange rate has fluctuated greatly. Remaining steady at around ¥265 = U.S. \$1.00 during most of 1973, the yen dropped below ¥280 = U.S. \$1.00 in December and hit ¥300 = U.S. \$1.00 in January 1974 at the height of the oil crisis. Exports were increased to stimulate the inflow of foreign exchange, and by March the yen had recovered to ¥276 = U.S. \$1.00. When settlements for imports of high-priced crude oil began to fall due in April, however, the yen began to sag again and continued downwards through July to ¥303.40 = U.S. \$1.00, when settlements for crude oil reached a peak. After August the yen remained in the ¥290 - ¥300 = U.S. \$1.00 range. The Government intends to maintain the rate at ¥300 = U.S. \$1.00 by conducting a "controlled float" where the central bank intervenes to keep the rate at a given level.

The yen was supported partly by the tight money policy adopted to suppress overall domestic demand, and partly by a declining rate of import growth. Net long-term capital outflows also were substantially reduced throughout 1974 as a result of a progressive relaxation of controls on capital inflows and selective restrictions on outflows.

Import liberalization

In 1967 the Government of Japan began systematically to ease restrictions on foreign capital investment under mounting pressures of trade imbalance and domestic inflation. This system of liberalization under which specified industries became open to an announced percentage of foreign ownership was dropped in May 1973, at which time all industries were opened theoretically to 100 percent foreign ownership. Two exceptions applied, however: (1) some sectors (agriculture, forestry and fishing, mining, petroleum and petroleum products, leather and leather products, and retailing) had their complete liberalization postponed indefinitely, and (2) seventeen sectors had liberalization postponed temporarily.

For the sectors in which liberalization was postponed indefinitely, the Government accepts applications for foreign investment on a case-by-case basis. Fifty percent foreign ownership is allowed in the mining and retailing sectors, and automatic approval is given to retail enterprises of eleven or fewer stores.

Of the seventeen industrial sectors placed under temporary restriction, one, manufacture of integrated circuits, was liberalized on December 1, 1974. Twelve additional industries were scheduled for full investment liberalization on May 1, 1975, leaving only four sectors still restricted to 50 percent foreign ownership. The liberalization of these four: manufacture, sale and rental of electronic computers; information processing; fruit juices and fruit beverages; and manufacture of photosensitive materials, was scheduled to be completed by May 1, 1976.

The liberalization of investment applies to the establishment of new firms. Foreign firms may participate in management and portfolio investment

in the temporarily restricted sectors to the same extent as in the establishment of new firms except that the investment may not constitute a "takeover" against the wishes of the company concerned.

The liberalization will benefit some U.S. exports more than others. In the computer industry the scheduled liberalization in capital investment and elimination of import quotas will increase U.S. exports 30 percent annually to an expected 1977 annual sales figure of \$1 billion. In the retailing sector, however, it does not seem apparent that any foreign retail operations in Japan will establish significant market positions in the foreseeable future. Only one foreign retailing operation, Sears' tie-up with the Seibu Distribution Group, is considered to be thriving. Because of the costs and difficulties of doing business in Japan, most foreign retailers have been forced to seek Japanese partners already established in the retail trade. But in view of sluggish consumer demand, even these firms affiliated with Japanese partners find that sales volume does not meet expectations and return on investment is less than anticipated. The limitation to eleven firms is not expected to affect American retailing operations adversely, as only one Japanese firm has more than eleven outlets.

Although the importation of integrated circuits into Japan was liberalized in 1974, twenty-nine 4-digit BTN items (out of a total of 1,097) still remain under import restrictions. Twenty-two of these are agricultural and seven industrial. Of the seven industrial items, two--digital computers and parts and accessories of digital computers--were scheduled for liberalization during 1975. The twenty-seven items for which liberalization had not yet been scheduled included beef, milk, cheese, certain fish, citrus fruits, wheat flour, coal, and leather.

Foreign trade developments

Total Japanese exports in 1974 amounted to \$55,578 million and imports to \$62,076 million, leaving the nation with a record trade deficit of \$6,498 million. The deficit was about five times as large as that in 1973, and far surpassed the previous record of \$1,500 million registered in 1961. Compared to 1973, exports grew by 50.5 percent and imports by 62.0 percent. Over half of the total increase in the value of Japan's imports was due to the threefold increase in oil prices. Imports of crude and partly refined oil totaled \$18.2 billion (up \$13 billion over 1973) although the volume decreased 3.9 percent. The share of crude oil in total imports jumped from 15.7 percent in 1973 to 30.4 percent in 1974. Imports of mineral fuels, including coal, accounted for 43.3 percent of Japan's overseas purchases. Other categories showing major increases in import value were chemicals (up 42.9 percent), machinery (up 36.1 percent), foodstuffs (up 35.4 percent), and mineral raw materials (up 32.3 percent).

Almost 30 percent of the increase in the value of exports is accounted for by the 103.0 percent rise in the value of iron and steel exports. Other products with major increases in export value were chemicals (up 89.4 percent) and motorcycles (up 63.2 percent). The value of exports of electrical consumer goods, traditionally a strong export commodity, increased only 6.9 percent in 1974. Japan's three leading export items--steel, ships, and motor vehicles--accounted for 38.9 percent of Japan's total exports in 1974 compared with 34.4 percent in 1973.

The index of export prices grew by 22.0 percent and that of import prices by 53.3 percent, the largest annual gains on record. Most of the gains were registered in the first quarter of the year. Marked increases in

export prices of metals and their products (up 47.6 percent), chemicals (up 36.6 percent), and transportation equipment (up 24.8 percent) accounted for 78 percent of the total rise in Japan's export prices in 1974. Import prices went up 159.4 percent for mineral fuels and 52.2 percent for food-stuffs.

In 1974 the geographic structure of Japan's trade shifted somewhat from the industrialized nations to the developing areas. The share of Japan's exports to industrialized countries declined from 53 percent to 48 percent, while the share to developing areas rose from 42 percent to 45 percent. Particularly high rates of growth occurred in exports to the Middle East (up 107.7 percent), Communist areas (up 101.2 percent) and Latin America (up 83.7 percent) while exports to the United States rose 35.5 percent. For imports, the share supplied by industrialized countries fell from 52 percent to 41 percent, while the developing areas' share rose from 42 percent to 54 percent. The value of imports from the Middle East increased 222.1 percent over 1973 levels and those from Indonesia increased 106.3 percent. Imports from the United States rose 36.8 percent, the highest rate of increase for any industrial nation. Overall, the U.S. share of Japan's exports fell from 26 percent to 23 percent, while the U.S. share of Japan's total imports declined from 25 percent to 20 percent.

#### U.S. trade with Japan

On a customs clearance basis, Japanese trade returns showed exports to the United States in 1974 totalling \$12,807 million and imports from the United States at \$12,680 million, netting the Japanese a trade surplus of \$127 million. The comparable U.S. figures indicate Japanese shipments of

\$12,455 million to the United States as against \$10,679 in outbound trade to Japan, for a Japanese surplus (U.S. deficit) of \$1,776 million (see table 15). Aside from minor differences in timing and valuation procedure at the two customs frontiers, the chief source of discrepancy between these two compilations lies in Japan's inclusion of freight and insurance charges in its import figures, whereas such charges are not part of the comparable U.S. export data.

The overall value of consumer goods purchased from Japan declined in 1974 as the continuing rise in Japanese export prices and the growing sluggishness of U.S. consumer spending dampened American demand for an expanding number of Japanese consumer good product lines. In addition, some of Japan's "star" consumer export items to the United States in the past, such as TV sets, radios and tape recorders, have lost competitiveness on the U.S. market as a result of a sharp increase in shipments of lower priced appliances from developing nations. Other consumer export items registering decreases included table flatware, metal housewares, textiles and clothing items, toys and sewing machines. In a number of consumer good product lines, such as bicycles and musical instruments, the value of imports rose although the quantity of deliveries fell. Only in a limited number of product lines did Japanese exports to the United States expand in both quantity and value. These included motorcycles, still cameras, clocks, watches, and pharmaceuticals.

U.S. imports of intermediate goods from Japan increased during 1974; however, almost all of this growth was due to price increases. The value of steel exported to the United States increased 11.1 percent but the quantity purchased declined because Japanese exporters found it more profitable

Table 15.--U.S.-Japanese trade, 1970-74: Comparison of U.S. and Japanese customs clearance figures

(Amounts in millions of U.S. dollars)

| Year      | Japanese figures |                            |               |                    |                 | U.S. figures                |                  |               |                    |                 |
|-----------|------------------|----------------------------|---------------|--------------------|-----------------|-----------------------------|------------------|---------------|--------------------|-----------------|
|           | Exports to U.S.  | Imports from U.S. (c.i.f.) | Trade balance | Percentage exports | Changes imports | Imports from Japan (f.a.s.) | Exports to Japan | Trade balance | Percentage exports | Changes imports |
| 1970----- | 5,940            | 5,560                      | 380           | -                  | -               | 5,875                       | 4,652            | -1,223        | -                  | -               |
| 1971----- | 7,495            | 4,978                      | 2,517         | 26.2               | -10.5           | 7,259                       | 4,055            | -3,204        | 23.6               | -12.8           |
| 1972----- | 8,848            | 5,852                      | 2,996         | 18.1               | 17.6            | 9,064                       | 4,963            | -4,101        | 24.9               | 22.4            |
| 1973----- | 9,460            | 9,257                      | 203           | 6.9                | 58.2            | 9,676                       | 8,313            | -1,363        | 6.8                | 67.5            |
| 1974----- | 12,807           | 12,680                     | 127           | 35.5               | 36.8            | 12,455                      | 10,679           | -1,776        | 28.7               | 28.5            |

Sources: Japanese figures from United States-Japan Trade Council, Council Report #18, March 25, 1975. U.S. figures from Statistical Abstract of the United States, 1974, and Survey of Current Business, May 1975.

during this period of tight world supplies and rising export prices to sell their steel to countries other than the United States, where price controls were in effect for steel. Other export products registering increases included: nonferrous metals, nails, wire products, chemical elements and compounds, and machinery such as business machines and electronic calculators. Exports to the United States of passenger cars increased substantially in both value and volume.

Most of the increase in the value of goods imported from the United States represented price rises. In many product lines, the quantity purchased declined in 1974. Japan's domestic tight money policy resulted in a shrinkage of imports, especially of raw materials; however, the country's high inflation rate made U.S. products more competitive. Chief Japanese import products from the United States included coal, non-electric machinery, corn, logs and lumber, and chemicals. The United States' single largest export to Japan, logs and lumber, registered a decreasing rate of growth in 1974 due to the spreading slump in the Japanese construction industry. In contrast, Japanese imports of other types of wood and paper products increased sharply. Imports of nonferrous base metals and alloys, such as aluminum, increased although imports of non-ferrous ores and scrap, like copper, contracted. U.S. sales to Japan of petroleum and petroleum products and chemical elements and compounds increased 38 percent and 22 percent, respectively, during the year. Textile exports to Japan continued to rise, increasing 32 percent. There was a significant slowdown in the growth of food and feed sales to Japan, partly due to a fall in soybean exports. Exports of meat and meat products decreased

in value while the sales value of grains continued to rise but at a much slower rate than in 1973. A large gain in sales of capital goods to Japan was registered, attributable to a 125 percent expansion in exports of transport equipment--commercial aircraft, engines and parts, and cars.

Latin America and the CaribbeanU.S. trade with Latin America and the Caribbean

Commerce with the Latin American and Caribbean area accounted for nearly 17 percent of total U.S. foreign trade in 1974; only the European Community and Canada accounted for larger shares of U.S. trade. The region is a major source of agricultural and raw materials imports for the United States, in addition to supplying a third of U.S. petroleum imports in 1974. The increased cost of these fuel imports led the United States to a \$3 billion trade deficit with the region in 1974, the largest in history. However, if petroleum is excluded, the U.S. trade balance with these countries was \$6 billion in surplus.

The value of U.S. exports to the countries of Latin America and the Caribbean increased nearly 60 percent over 1973, to a record high of \$15.8 billion in 1974. The value of U.S. exports to petroleum exporting countries of the region grew rapidly. Prices on the world market for the region's non-petroleum commodity exports also remained high through 1974, off-setting the impact on the region of higher prices for imported fuel and industrial goods and inputs. Thus the area's continuing high import demand and the beneficial effects of the dollar devaluations in previous years encouraged the marked increases in the value of U.S. exports to the area in 1974.

In general, total international reserves of the Latin American countries remained at high levels in 1974; total reserves grew about 25 percent over 1973. If the oil exporting countries are excluded, however, the remaining international reserves of the region dropped roughly 6 percent. The decline signifies a potential drop in regional

import demand, since nominal reserves should be increasing to keep pace with world inflation and the increased value of trade in the area.

#### Developments in regional commodity exports

Many of the agricultural commodities, minerals and ores that form the bulk of Latin American exports to the United States, have seen substantial export price increases since 1972. These commodities include sugar, bananas, coffee, cocoa, beef, wheat, wool, tin, copper, zinc, lead, iron and bauxite ores, and crude petroleum. Like the petroleum exporting countries elsewhere, Latin American exporters of many of these commodities would like to maintain prices at current levels, in order to support the terms of trade for their imports.

Coffee.--Coffee prices remained high for Latin America in 1974, averaging 40 percent above 1972 levels, and coffee exporting countries generally increased their export receipts for this product over 1973. However, coffee exporters continued apprehensive that future over-production might depress prices and eventually lead to reduced receipts for higher-volume sales. Throughout 1974, negotiations between exporting countries and consuming nations were held to develop a stockpiling system that would stabilize prices, for the benefit of both consumers and producers, but these negotiations were unsuccessful. In November, nine Latin American countries agreed to establish a marketing company that would accomplish this independently of consumer country participation. The corporation, "Cafés Suaves Centralés, S.A.," would be financed by

Venezuela and would handle substantial stockpiling of the annual crop. However, in mid-1975, frosts destroyed an estimated 75 percent of Brazil's coffee trees, possibly crippling coffee exports for 2 years. Since Brazil is the world's largest exporter of coffee, it is unlikely the stockpiling will be necessary to maintain prices through 1976.

Sugar.--The average wholesale price of sugar on the world market doubled from 1973 to 1974, principally due to increased world demand. By December, Brazil, the world's largest producer and exporter of sugar, was receiving four times the average 1973 export price for this commodity. In late November, 20 Latin American and Caribbean sugar exporting nations met in Mexico City to form a sugar exporters' union. The purpose of the union would be to exercise control over prices and to present a more united front against the sugar purchasing countries. These twenty countries span the political spectrum from Cuba to Brazil, and collectively produce 60 percent of the sugar sold on the world market.

Bananas.--Export prices for Latin American and Caribbean bananas were somewhat higher in 1974, and production generally lower than in 1973. Efforts are being made by the exporting countries to raise the export price of the fruit, since stable or declining prices have been the rule in recent years. Costa Rica imposed a flat tax on exported poundage, and stipulated that the exporting companies must pass it through to ultimate purchasers. Similar action has been considered by other exporting countries.

In September, nine countries from the region met in Panama City to form the Association of Banana Exporting Countries (UPEB). Colombia, Costa Rica, Guatemala, Honduras and Panama were participants; the

Dominican Republic, Ecuador, Jamaica, and Mexico attended as observers. The new organization, when in full operation, would set prices and marketing policy for banana exports. The meeting further proposed to study the possibility of taking control of foreign owned transportation and marketing facilities dealing with exports of bananas from the region.

Bauxite.--Bauxite, the ore from which aluminum is made, is an important export of several Caribbean countries, including Jamaica, Surinam, Guyana, Haiti, and the Dominican Republic. The mineral is mined, refined, and smelted by six companies based in the United States and Canada. Ninety percent of U.S. consumption of bauxite ore is imported and virtually all of it comes from the Caribbean. In addition, the United States also imports partially refined bauxite, called alumina, from these countries.

Since 1970, the export price of bauxite ore from this area has remained stable. In 1974, however, Jamaica increased seven-fold the taxes on the export price of the ore to the consuming nations, in effect doubling the price. This caused about a 10 percent increase in the price of aluminum metal. In March, seven bauxite producing countries, including Jamaica, Guyana, and Surinam, met to establish the International Bauxite Association (IBA). IBA accounts for approximately 80 percent of the world bauxite/alumina trade, and it is possible that the major producing countries will attempt to support high prices for the ore by restricting supply.

Both Jamaica and Guyana have desired greater control over the foreign-owned bauxite industries in their countries, as well as increased export revenues. Guyana nationalized the Alcan bauxite mining operations

there in 1971. In November 1974, Jamaica and Kaiser Aluminum agreed to the acquisition by the government of 51 percent equity in the Kaiser Bauxite Co. of Jamaica.

Copper.--Export prices for Latin American copper peaked in mid-1974 at levels twice as high as a year before, and the 1974 average export price was 10 to 25 percent higher than in 1973. Chile and Peru, the two major Latin American exporters, received 80 and 23 percent, respectively, of their total export receipts from copper in 1974. Both belong to the Intergovernmental Council of Copper Exporting Countries (CIPEC). In mid-1974 CIPEC members agreed to restrain production in order to support export prices, then falling from previously high levels, and the possibility of a floor price was discussed. World copper prices have continued to fall, however. The CIPEC countries presently account for half of world copper exports.

Peru and Chile supplied 49 percent of U.S. copper imports in 1973. These imports are a very small proportion of total U.S. copper consumption, since the United States is nearly self sufficient in the production of copper. Europe, however, is heavily dependent on imports, and receives over half its copper imports from CIPEC countries.

Petroleum.--Venezuela, Ecuador, Trinidad and Tobago, Bolivia, Mexico, and Colombia are producers and exporters of petroleum and petroleum products in the Latin American and Caribbean region. The petroleum refineries of The Netherlands Antilles, the Bahamas, and Panama, as well as Trinidad and Tobago, are also sources of refined petroleum products exported to the United States. In 1974, the region accounted for 15 percent of the value of U.S. imports of crude petroleum and over 70 percent of refined petroleum imports.

Due to the quadrupling of the international price of petroleum between 1972 and 1974, export receipts from petroleum in 1974 were between 2 and 3 times their 1973 totals in the producing and refining countries. However, in the producing countries, both production and exports were 10 to 20 percent below 1973 levels. Colombia ended petroleum exports in the first quarter of 1974, and only Mexico and Trinidad and Tobago increased production of crude petroleum in 1974. The remaining countries of the region import petroleum and petroleum products for domestic uses, and range from partial to nearly total dependence on imported petroleum for their energy needs. To the extent that the value of these imports restricts the capacity of these developing countries to import necessary industrial goods and inputs, the growth and development potential of the region will be stunted. In the short run, this constraint may dampen regional demand for U.S. exports, and may cause serious balance of payments difficulties for the petroleum importing countries.

In 1974, attempts were made to cushion the effects of the increased cost of imported petroleum. Venezuela agreed to finance Central American petroleum imports through foreign aid transfers, and by returning part of the Central American payments to a special development fund for the region. Within the context of other joint endeavors, Mexico has agreed to sell Brazil up to three million barrels of petroleum a year, in return for a Brazilian loan to Mexico for the construction of fishing vessels.

OLADE, the Latin American Energy Organization, was originally created in 1973 in order to foster regional integration, conservation, use, marketing, and defense of the area's energy resources. In 1974, it convened the fourth of a series of meetings of regional energy ministers to set up the organization's goals and structure. The meeting recommended direct negotiations between regional producing and consuming nations as a first step toward a more general coordination of regional energy policies. By December, twelve countries had ratified the organization and the agreement came officially into force. The countries that had ratified the OLADE agreement by the end of 1974 were Ecuador, Jamaica, Trinidad and Tobago, Guyana, Bolivia, Brazil, Peru, Chile, the Dominican Republic, Cuba, Uruguay, and Honduras.

#### The Latin American Free Trade Association

The Latin American Free Trade Association consists of Mexico and all of the countries of South America except the Guianas. This trading group accounted for nearly three-quarters of total U.S. trade with the Latin American and Caribbean region in 1974. U.S. exports to the LAFTA countries in 1974 increased in value 63 percent over 1973 to \$12.6 billion. The value of U.S. imports from LAFTA grew 82 percent in 1974, to reach \$12.2 billion. Thus, in spite of the four-fold increase in price of petroleum, and substantial price increases for other agricultural and raw materials imported from the area, the United States posted a trade surplus with LAFTA in 1974 of nearly \$400 million.

The United States is the chief supplier of heavy industrial goods to LAFTA members, and over 60 percent of the value of U.S. exports to LAFTA in 1974 consisted of manufactured goods. Less than a

quarter was accounted for by foodstuffs and raw materials; the remainder was made up of chemicals, fertilizers, and pharmaceuticals. The composition of U.S. imports from the region shifted sharply in 1974. The value of petroleum imports increased 213 percent, to nearly two-fifths of the U.S. import bill from LAFTA, and accounted for 19 percent of the value of total U.S. petroleum imports in 1974. U.S. imports of manufactured goods grew more rapidly than non-petroleum primary imports from the region, and the value of food and non-petroleum raw materials imports declined to 30 percent of the total.

Activities within LAFTA.--At the end of 1973, LAFTA completed the 12-year transition period called for in the organization's charter, the Treaty of Montevideo. At this time, intra-regional trade should have been substantially free of tariff barriers, but this goal was not achieved. In December 1973, the Protocol of Caracas was approved by the members, extending this transition period through 1980, and re-staging the tariff reduction schedules accordingly. The Treaty of Montevideo had intended that, after these first 12 years, general sessions of "collective negotiations" should be held to evaluate and adapt LAFTA to future tasks. These rounds of the collective negotiations were the focus of activity within LAFTA in 1974.

The first session was held in Buenos Aires, Argentina, in August, and discussions centered principally on methods to increase intra-regional trade. Measures to revitalize the Trade Liberalization Program that were proposed, and discussed, included: (1) the introduction of an automatic tariff reduction mechanism to replace the process of

negotiated reductions; (2) the establishment of a uniform margin of preference for goods traded within the region; and, (3) the reduction and eventual elimination of non-tariff barriers to intra-regional trade. Different views on these subjects were recorded by the member delegations, indicating that further study and negotiations would be required before the differences could be reconciled.

It was agreed that the Complementation Agreement mechanism was the most successful component of the Program. These agreements permit non-generalized, bilateral tariff concessions that encourage trade and regional specialization in industrial production. In order to expand their use, the meeting appointed a group of experts to study the application of complementation agreements to the widest possible range of products. In discussions concerning agricultural and livestock affairs, it was agreed that increased intra-regional trade in agricultural products would be fostered by non-generalized subregional agreements on items of prime importance within those areas. Trade based on the complementarity of agricultural surpluses and deficits was also recommended.

The second round of the Collective Negotiations was held in Quito, Ecuador in late September 1974. This session focused on the expansion of regional financial cooperation, especially in trade, and more efficient policy harmonization. The delegates agreed that the harmonization of policy goals within LAFTA would be encouraged by the adoption of a common regional tariff nomenclature, the regional standardization of trade documents and definitions, and the coordination of agricultural

development plans and marketing policies. At the third round, held in Montevideo, Uruguay in December, the position of the least developed members within LAFTA was taken up. It was confirmed that less developed members should be granted special status and concessions for an indefinite period, in order to help them share equally in the benefits of regional economic integration. These special concessions included wider access to the markets of the more developed members and the granting of non-generalized trade concessions without requiring the less developed members to reciprocate.

#### The Andean Subregional Group

The Andean Group is currently the most dynamic of the organizations of regional economic integration in the Western Hemisphere. It is a subregional group within LAFTA, and it hopes to eventually form an Andean Economic Union, a common market with coordinated trade and development policies. The actual integration of industrial programs, trade and development policies, and economic resource exploitation has not actually begun in the subregion, but substantial groundwork has been accomplished toward these goals since the organization's creation in 1969. The six members, Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela, have found mutually acceptable formulas for coordinated development, in spite of wide differences in domestic political systems and economic philosophies.

Andean sectoral development programs.--The heart of the Andean regional integration and development effort lies in the Sectoral Programs for Industrial Development (SPID's). Programs are drawn up for

various sectors and members are assigned certain industries to develop for regional and export markets. Through this process, it is hoped to more efficiently allocate available capital, to prevent duplication of effort, and to ensure an equitable distribution of development projects among the members.

Progress in implementing the SPID's was slow but tangible in 1974. Both Bolivia and Ecuador signed contracts for the creation of firms in industries assigned to them under the Metal-Mechanic SPID, first approved in August 1972. Chile, Colombia, and Peru completed some of the required feasibility studies for projects assigned to them under this program, but have requested a delay in order to complete the remainder.

Work was also completed on the list of specific industries to be programmed under the Chemical Fertilizer SPID, but no country assignments were made. Such lists for the Automotive and Petrochemical Programs were published in 1973. The investment schedule for the development of the petrochemical industry was also disclosed, and the sectoral program for this industry will be more thoroughly considered in 1975.

The Andean Foreign Investment Code (AFIC). --The Andean Foreign Investment Code is a program for common treatment of direct foreign investment in the Andean Group countries. Its provisions have been ratified by all the members, and must be embodied in their laws.

The Chilean foreign investment law, Decree Law 600, passed in mid-1974, was held incompatible with the AFIC by the remaining five members. The law required neither a ceiling on profits remitted abroad, nor eventual sale of majority ownership to local investors, two crucial

requirements of the AFIC. The Chilean law also allowed foreign investors greater access to local capital resources than the AFIC permitted. Chile defended the law, maintaining that its distressed economic circumstances were a "special condition" under the Code that permitted such deviations. However, Chile passed a second investment law, reaffirming its adhesion to the AFIC and declaring Decree Law 600 to pertain only to industries producing for export, and therefore exempted from AFIC provisions.

Colombia has also heavily qualified the application of the AFIC to direct foreign investment there, making use of exceptions in the Code granted for certain types of industries. It was recommended by Andean Group leaders that a study of the various applications of the Code in the member countries be made, in order to assess the progress of AFIC in fostering a subregional investment policy.

Subregional trade developments.--The value of total U.S. trade with the subregion more than doubled between 1973 and 1974, from \$5.2 billion to \$10.6 billion. Most of the increase was due to the price increase of petroleum exports to the United States, as well as the impact of higher world prices for non-petroleum commodity exports from the area. Andean Group countries are major suppliers to the United States of coffee, bananas, crude petroleum, nitrates, copper, iron ore, and lead. The value of U.S. exports to the area was also greatly increased in 1974, reflecting the subregion's enlarged capacity to import and expanded efforts in industrial development.

Intra-subregional exports dropped as a proportion of total Andean Group exports, principally due to the increased value of petroleum exported to countries outside the subregion. However, intra-Group exports

increased more rapidly than non-petroleum exports generally in 1974. An even sharper increase in the value of intra-Andean trade can be expected when the Sectoral Programs For Industrial Development come into operation.

Progress toward the creation of a Common External Tariff (CXT) for the Andean Group, based on the Brussels Tariff Nomenclature (BTN), continued during 1974. The member countries will adjust their separate tariff schedules to a Common Minimum External Tariff (CMXT). Then, an advance by stages to the full CXT will be made. The draft CMXT was modified, lists of products to be excepted from its provisions were approved, and expected rates of duty that will apply to some products "programmed" under the SPID's were also revealed during 1974.

Products scheduled to be manufactured by industries included in the SPID's will be exempted for a time from the provisions of the CXT. They will be assigned special protective rates to encourage the establishment of these industries in their assigned countries. It was announced that rates of duty on products assigned under the Petrochemical Sectoral Program will range from 25 to 40 percent ad valorem. The tariff levels assigned to products under the Fertilizer Program were much lower, around 5 to 10 percent ad valorem, in order to encourage increased regional food production at low cost. If products assigned under the Sectoral Programs are not in production within a given period, the protective rates will be revoked, and tariff levels will revert to those of the CXT.

Chile resumed participation in the Andean Trade Liberalization Program in 1974, enacting the scheduled tariff reductions vis-a-vis the other members for 1973 and 1974. Bolivia and Ecuador are not yet required to participate in these reductions, but will begin in 1976. Colombia and Peru were both behind in the implementation of their scheduled rate reductions in 1974, but are expected to correct this in 1975. Venezuela began participation both in the Trade Liberalization Program and in the tariff adjustments toward the CMXT in 1974.

Other Andean Group activities.--A high priority project of the Andean Group is the creation of a court for the organization. Early in 1974 a draft treaty for the creation of a Court of the Cartagena Agreement was issued for discussion among the members. It would have three judges and would issue final judgments on the legality of the official decisions of the other institutions of the Group. The court would also decide the issue whenever one member or official body of the Andean Group challenged the actions of another. The treaty, in its final form, must be ratified unconditionally and unanimously by the members.

The Andean Group is a net importer of basic foodstuffs, and the growth of regional agricultural output lags behind population growth. Therefore, the coordination and expansion of agriculture in the sub-region is of great importance to the successful economic development of the Group members. In April, an Agricultural Council of subregional experts was created to coordinate member agricultural policies. At its first meeting, in Lima, Peru (in November), the Council recommended the

creation of a permanent staff for the formulation of joint Andean agricultural development programs. A work schedule for 1975 was also approved that will define and recommend concrete action to be taken in the areas of cereal grains, edible oils, and livestock production. Finally, the Council requested approval of a general study of animal and agricultural hygiene in the region.

#### The Central American Common Market and Panama

The Central American countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama made record purchases from the United States in 1974. Consistently high prices for their exports of coffee, cotton, bananas, sugar, beef, shellfish, and refined petroleum (from Panama) have sustained the international reserves and capacity to import of the region, in spite of its near total dependence on imported petroleum for fuel. In 1974 the value of U.S. exports to the area increased 54 percent over 1973, to \$1.4 billion, and the U.S. share of the import market rose for the second straight year. Panama is the largest single country market for U.S. products in the region, accounting for more than \$360 million in U.S. exports in 1974. The remaining countries form the Central American Common Market (CACM), which, excluding Honduras, maintains a customs union that is actually one market. In 1974, these four countries accounted for \$874 million in U.S. sales.

U.S. imports from the region grew much more slowly in 1974, from \$752.9 million in 1973 to \$895.8 million in 1974. Neither Nicaragua nor Honduras, victims of major natural disasters in 1973 and 1974, was able

to expand exports to the United States in 1974. An abnormally high rate of inflation, associated with higher oil prices and generally higher import costs, reached 10 to 30 percent in the region in 1974. The restrictive fiscal and monetary measures applied in 1974 to correct this, combined with recessionary trends in the United States and Europe, may lead to a decline in the growth of trade and development in the region in 1975.

The composition of U.S. exports to Central America remains essentially the same, with machinery, manufactured goods, and transport equipment accounting for over half of the total value. The composition of U.S. imports from the region has been changing in recent years. Excluding petroleum products, 90 percent of the value of regional exports to the United States are in food, beverages, and raw materials. However, the value of U.S. imports of manufactures from the region has doubled since 1972, at the expense of traditional primary products.

CACM activities.--In 1974, the CACM continued the process of self-evaluation and reconstruction that will lead to the creation of a Central American Economic and Social Community. The vehicle of this process, the High Level Committee for Improving and Reconstructing the Central American Common Market (HLC), is composed of government representatives from the five member countries. Created in 1973, it is considering topics and problems of the regional integration process, and is negotiating common positions, called Consensuses, upon which to base the proposed Community. Six meetings were held in 1974. Consensuses were approved on the subjects of common tariff policies, tax code harmonization, foreign investment regulations and incentives, regional coordination of industrial development, balanced economic and social development,

intra-regional trade matters, and the customs union. In December, a draft of the new treaty of integration, embodying the approved Consensuses of two years of negotiations, was presented to the HLC for discussion and comment.

CACM tariff and trade developments.--In June of 1974, customs experts from the five CACM countries met to prepare intra-regional tariff policy proposals and to draw up a new Common External Tariff, due to become effective July 1, 1975. The customs representatives also discussed possible conversion of the present CACM tariff classification code to a BTN-based schedule.

Panama drew closer to CACM membership during 1974 through the institution of free trade treaties with Costa Rica and Guatemala. Bilateral trade treaties with Nicaragua and El Salvador are already in effect. In March, Panama was invited to join the Central American Bank for Economic Integration, and also attended a meeting of CACM planning directors later that month.

Since 1969, Honduras has not participated in the customs union of the CACM, although it has maintained membership in other CACM institutions. Negotiations to return Honduras to full membership remained stalled throughout 1974. Nevertheless, intra-CACM exports at mid-year reached a record high of \$243.7 million, more than one-fifth of total CACM exports. Guatemala and El Salvador were the principle exporters; the remaining members posted negative intra-regional trade balances.

The Caribbean Community and region

The Caribbean region includes all the islands of the Caribbean sea - independent nations, associated states and colonies-- plus Belize, Guyana, Surinam and French Guiana. Its principal exports are sugar, bauxite ore, crude and refined petroleum, coffee, cocoa, copra, and bananas. Most of the countries of the Caribbean are dependent on imports of petroleum for their energy needs, and foodstuffs, capital goods, and some raw materials as well. The increased world prices for their commodity exports have offset the increased cost of these imports, but unless this level of export receipts is maintained, the cost of petroleum imports will eventually restrict the capacity to import other necessities.

The value of U.S. imports from the Caribbean more than doubled in 1974, reaching \$5.3 billion. Three quarters of the value was in imports of crude and refined petroleum. Foodstuffs and raw materials accounted for another 15 percent. U.S. imports of manufactures and machinery from the region remain less than one-fifth of the value of imports of non-petroleum products.

The value of U.S. exports to the Caribbean rose 41 percent over 1973, to \$1.8 billion in 1974. Machinery and manufactured goods accounted for nearly 60 percent, and raw materials and foodstuffs comprised a quarter of the total. Five countries received three-quarters of the total U.S. exports to the Caribbean in 1974. These countries are the Dominican Republic, Jamaica, the Bahamas, the Netherlands Antilles, and Trinidad and Tobago.

The Caribbean Community.--The Caribbean commonwealth nations have taken the lead in fostering economic integration in the Caribbean region. In 1973, Jamaica, Guyana, Barbados, and Trinidad and Tobago signed the Treaty of Chaguaramas, establishing the Caribbean Community (CARICOM). It was intended that this organization replace the Caribbean Free Trade Association (CARIFTA), and the remaining CARIFTA members subscribed to the treaty between April and July of 1974. These countries are Antigua, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Montserrat, and Belize.

The objectives of the Community require a higher level of trade and economic integration among the member states than was planned under CARIFTA. The goals of CARICOM include the establishment of a regional common market, the coordination of foreign policies, and the functional integration of common services and efforts in social, cultural, and technological development of the region and its population.

Membership in the Caribbean Community is open to other nations, and both the Bahamas and Haiti considered joining in 1974. The Bahamas rejected membership, fearing the restrictions on trade and foreign policies that adherence to the Community would require. Haiti's request for membership will be studied and reconsidered in 1975.

CARICOM activities.--The countries of CARICOM are net importers of foodstuffs, and a major regional development objective is a reduction of this dependency. In May 1974, the Ministers of Agriculture of all the

CARICOM/CARIFTA countries met to develop concrete proposals and targets for an increase in regional agricultural production. Their immediate goal is the promotion of a maximum level of agricultural complementarity within the region and independence from foreign sources. To do this, fundamental changes in local agriculture and the creation of local substitutes for imported food will be required. To assist the members in making these adjustments, credits, training, marketing services, increased local shipping facilities, and drainage and irrigation development will be offered them through CARICOM. Representatives of Jamaica, Guyana, Barbados, and Trinidad and Tobago have formed a working committee to develop a Caribbean Food Production Plan, and the Inter-American Development Bank (IDB) has been requested to assist in evaluating the priorities and functions of the proposed development projects.

In the area of agricultural exports, meetings were held at several levels to examine the long term development and marketing prospects of the regional banana and sugar industries. Jamaica attended the Conference of Banana Exporting Countries as an observer, and several of the CARICOM nations participated in the formation of an association of Latin American sugar exporters.

The export price of copra was discussed at a meeting of the representatives of the government purchasing boards that have a monopoly on the purchase and export of copra and coconut oil in the CARICOM countries. Although the world price for these commodities was high in 1974, domestic producers were receiving a much lower price, and a shortage had developed. It was agreed to raise the price paid to copra producers, and an increase of 24 to 28 percent in production was planned for 1974.

Other issues discussed by the Caribbean Community in 1974 included the protection of local industry under the Common External Tariff of Caricom, developments in the international energy crisis, and the progress of trade negotiations between the Caribbean countries and the European Community. A common travel document and immigration card for all intra-regional travel was created and the principle of dual nationality within the region was approved.

## APPENDIX TO CHAPTER 1

## Highlights of the Trade Act of 1974

Introduction

This is the initial report on the operation of the trade agreements program submitted by the United States International Trade Commission in response to section 163(b) of the Trade Act of 1974 (Pub. Law 93-618, approved January 3, 1975, hereinafter "Trade Act"). The Trade Act represents the first major revision of U.S. trade agreements legislation since passage of the Trade Expansion Act of 1962 (TEA). By virtue of the Trade Act, the United States Tariff Commission was renamed the United States International Trade Commission (hereinafter the Commission) and given a broader role with respect to international trade matters. The Trade Act generally supersedes the provisions of the TEA and other prior legislation that relate to trade agreements and provides for continuance of the trade agreements program, initiated by the Trade Agreements Act of June 12, 1934. It includes a general provision (sec. 603(c)) that the Commission shall at all times keep informed on the operation and effect of provisions of trade agreements entered into under the trade agreements program that relate to duties and other import restrictions of the United States. Some of the substantive provisions of the Trade Act are noted below, with particular reference to those affecting the conduct of the trade agreements program and the functions of the Commission with respect thereto.

Negotiating authority

Historically the trade agreements program has rested on the principle that countries can mutually benefit from bargaining for the purpose of eliminating--or at least reducing--trade restrictions, and on the idea that for each concession granted a concession should be received. The Trade Act states that the overall U.S. negotiating objective is to obtain more open and equitable market access and the harmonization, reduction, or elimination of devices that distort trade or commerce (sec. 103), and delegates to the President, for a period of 5 years, new authority to enter into trade agreements (sec. 101 and 102). 1/

This new authority not only restores to the President the basic authority to enter into trade agreements and to proclaim the duty modifications needed to carry them out (sec. 101), 2/ but also grants him unprecedented authority to enter into agreements intended to reduce "nontariff barriers to and other distortions of trade" (sec. 102). 3/ The latter agreements must be submitted to Congress for approval and implementation. Thus, participation of the United States in the current round of multilateral trade negotiations was facilitated and

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1/ The last previous Presidential negotiating authority, delegated for a 5-year period under Section 201 of the TEA, expired in June 1967.

2/ The President is specifically authorized, within certain limits, to increase as well as decrease duties in effect on January 1, 1975. He may: eliminate such duties which did not exceed 5 percent; reduce by up to 60 percent duties which exceeded 5 percent; and proclaim increases in or imposition of duties up to the higher of either 50 percent above the Tariff Schedules of the United States (TSUS) column 2 rate or 20 percent ad valorem (percentage points) above the TSUS column 1 rate.

3/ Section 102(g) construes "barrier" to include the American Selling Price, "distortion" to include a subsidy, and "international trade" to include both goods and services.

strengthened. This seventh trade conference instituted by the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) was planned and prepared for with the expectation that real progress on reducing nontariff barriers would be possible.

One of the principle U.S. objectives with respect to entering agreements on nontariff obstacles to trade is to negotiate agreements that will assure this country availability, "at reasonable prices," of supplies of articles that are important to its economy (section 108). Although any agreements reached on nontariff restrictions are subject to the approval of Congress, the Act also provides for vigorous Congressional oversight of and involvement in negotiations on nontariff matters.

Before entering into a trade agreement for which he has been delegated negotiating authority under sections 101 and 102, the President must seek advice from government departments and various elements of the private sector, including consumer interests, regarding negotiating objectives and bargaining positions (section 135). The Act provides for establishing special advisory committees and holding public hearings. Furthermore, before the President can consider changes in duties on certain articles he is obliged to issue a public list of the articles to be considered and seek the Commission's advice as to the probable economic effect on both industries and consumers of such changes. With respect to nontariff barriers the President may request similar advice from the Commission (section 131).

Reform of the GATT

Section 121 of the new Act directs the President to take such action as may be necessary to bring existing trade agreements into conformity with one of the general purposes of the new legislation-- to promote development of an open, nondiscriminatory, and fair world economic system--including revision of the GATT. The section specifically refers to action to revise articles of the GATT that cover:

1. Decisionmaking procedures, so as to reflect more nearly the current balance of economic interests;
2. Safeguards that permit emergency (escape-clause) action on imports of particular products (article XIX), so as to take into account forms of import restraint other than tariffs;
3. Border tax treatment, so as to redress the disadvantages of direct taxation;
4. Balance-of-payments safeguards, so as to recognize import surcharges as being the preferable means for restraining imports;
5. Access to supplies (including export controls, the denial of fair and equitable access, and consultative procedures on shortages), so as to strengthen the rules.

The section also refers to adding provisions for:

1. Covering conditions of trade not covered;
2. Adopting international fair labor standards;
3. Adopting public petition and confrontation procedures;
4. Authorizing multilateral procedures when fair and equitable access to supplies is denied and the international community is substantially injured;
5. Consulting regularly with respect to international trade;

6. Adjudicating commercial disputes among countries;
7. Applying principles of reciprocity and nondiscrimination, including eliminating preferences and reverse preferences;

and revising or extending the Agreement so as to provide for:

1. Definition of the forms of subsidization of industries producing for export, including attraction of foreign investment, that are compatible with nondiscriminatory international trade;
2. Establishing an international agreement on certain articles (including footwear), including creation of--
  - a. Mechanisms for settling disputes and
  - b. A surveillance body to monitor all international shipments of such articles.

#### The Special Representative for Trade Negotiations

Section 141 of the Trade Act gave specific statutory life to the Office of the Special Representative for Trade Negotiations, which had existed since 1963 by virtue of an Executive order issued pursuant to section 242 of the TEA. Under section 141, the Special Representative for Trade Negotiations, is the head of the office, holds the rank of Ambassador Extraordinary and Plenipotentiary, reports directly to the President and the Congress, is assisted by two deputies, each holding the rank of Ambassador. The legislation was intended to give the Special Representative status equivalent to that of Cabinet-level secretaries. The Special Representative is also designated as the chief representative of the United States in each trade negotiation under the trade agreements program and given responsibility for the administration and execution of the trade agreements program.

For the purpose of carrying out certain provisions of the new Act, the President, by Executive order, 1/ delegated numerous functions to the Special Representative. These include his obligations under: section 102 that concern notifying and consulting with Congress with respect to agreements on nontariff barriers to and other distortions of trade; sections 131(c) and 132 that concern requesting Commission advice as to the probable economic effects on industries of any modification of nontariff trade restrictions and seeking advice from government and other sources before any trade agreement is entered; and section 135 that concern obtaining advice from the private sector with respect to negotiating objectives and bargaining positions before entering trade agreements, for which negotiating authority is granted the President under sections 101 and 102.

Import relief for domestic industries

The Trade Act continues Commission responsibility for conducting investigations to determine whether domestic industries are being injured from import competition. These investigations may be conducted in response to petitions filed by an entity representative of a domestic industry, to a request of the President or the Special Representative for Trade Negotiations, or to a resolution of either the House Committee on Ways and Means or the Senate Committee on Finance; they may also be instituted by the Commission on its own motion.

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1/ Executive Order 11846, signed by President Ford on March 27, 1975.

Within a 6-month period the Commission must determine whether increased quantities of imports of an article constitute "a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article." In making such a determination of injury, the Commission is to consider all relevant economic factors and whether the increase in imports, actual or relative to domestic production, is an "important" cause and "not less than any other cause." It must report its findings, including any dissenting views, to the President, and if injury or the threat of injury is found, recommend to him the amount of import relief needed to remedy or prevent injury, unless it determines that adjustment assistance--provided for elsewhere in the Act, for the workers, firms, and communities affected--can effectively remedy such injury, and recommends that such assistance be made available. 1/

The recommendations of the Commission with respect to import relief need not be followed by the President, but under section 202 he must provide some relief unless he believes that it is not in the nation's economic interest. 2/ According to section 203, relief may be provided in the form of new or higher import duties, tariff-rate quotas, quantitative restrictions on imports, negotiated limitations on exports of

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1/ Whenever investigations with respect to an industry are undertaken by the Commission, studies of the workers and firms in the industry are to be made by the Department of Labor and the Department of Commerce, respectively (sections 224 and 264). Reports on these studies are to be made directly to the President. Petitions for certification of eligibility to apply for adjustment assistance may, however, be filed directly with the Department of Labor or the Department of Commerce (sections 221, 251, and 271).

2/ If the President takes action differing from the Commission's recommendation (or takes no action) section 203(c)(1) provides for the action recommended by the Commission to be made effective upon and adoption by both Houses of the Congress of a concurrent resolution disapproving the action of the President.

trading partners and United States imports (orderly marketing agreements), or any combination of these measures. Following imposition of any such measures provided pursuant to section 203, and so long as they are in effect, the Commission must keep developments in the concerned industries under review, and on request of the President must, or on its own motion may, advise him as to the probable economic effect of extending, reducing, or terminating them.

#### Unfair trade practices

Foreign import restrictions and export subsidies.--In response to certain trade practices of foreign governments found to burden or restrict U.S. commerce--including trade-related services--the President may, within broad constraints, take retaliatory action (section 301). These unfair practices are considered to include unreasonable tariffs or other import restrictions, discriminatory acts or policies, subsidization or other export stimuli, and unjust or unreasonable restrictions on access to supplies. Before the President can take any responsive action with respect to U.S. import treatment of any product or service, he must provide opportunity for presentation of views of interested parties and may request the Commission for its view as to the economic impact on the U.S. economy of such action. With respect to subsidized foreign exports to the United States, however, Presidential action may be taken only if the Secretary of the Treasury has found such subsidies to have been provided, the Commission has found that exports of such subsidized products substantially reduce sales of competitive U.S. products in the U.S.

market, and the President has found the Antidumping Act, 1921, and section 303 of the Tariff Act of 1930 to be inadequate to deter such unfair practices. 1/

Unfair import practices.--Section 341 amends section 337 of the Tariff Act of 1930, greatly enlarging the role of the Commission by granting it final authority--subject to court review--in the determination of whether unfair acts are being committed in the importation of articles into the United States, the effect or tendency of which is to substantially injure or destroy an efficiently and economically operated domestic industry or prevent establishment of such an industry or to restrain or monopolize trade and commerce in the United States. The Commission is empowered either to direct that articles involved in violations of the statute be excluded from entry into the United States or to order persons engaged in such violations to cease and desist their unfair methods or acts.

Trade with nonmarket economies

One of the purposes of the Trade Act is, through trade agreements affording mutual benefits, to open up trade opportunities in nonmarket economies. Title IV provides for trade relations with countries not currently receiving nondiscriminatory (most-favored-nation) treatment. Two sections of this title concern Commission functions. Section 406 provides for investigations to be conducted by the Commission for the purpose of determining if disruption of the U.S. market exists in

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1/ Certain provisions of the Antidumping Act, 1921, and of the Tariff Act of 1930, including section 303, which provides for countervailing duties, were significantly amended by sections 321 and 331 of the Trade Act of 1974.

consequence of imports of products of Communist countries. Such investigations may be made by the Commission on its own motion, on request of the President or the Special Representative for Trade Negotiations, or upon resolution of either the House Committee on Ways and Means or the Senate Committee on Finance, or upon petition by an entity representative of a domestic industry. These investigations are conducted in accordance with section 406 and certain of the provisions in section 201, which, as previously indicated, also provides for investigations to determine whether domestic industries have been injured by competition from imported articles.

Section 410 directs the Commission to set up a program to monitor U.S. merchandise trade with countries having nonmarket economies and to publish at least once every calendar quarter a summary of relevant trade data, together with data on the effect of such imports on U.S. production of like or directly competitive articles and on employment in such industries. This publication is to be transmitted to the Congress and to the East-West Foreign Trade Board.

Library Cataloging Data

U.S. International Trade Commission.  
Operation of the Trade agreements  
program, 26th report, 1974.  
Washington, 1976.

138 p. 27 cm. (USITC Pub. 763)

1. Trade agreements program. 2. Commodity  
agreements. 3. East-west trade.  
4. Competition, Unfair--U.S. 5. Trade act--  
1974. 6. U.S.--Commerce. 7. U.S.--  
Commercial policy. I. Title.

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