

UNITED STATES TARIFF COMMISSION

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OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

20th Report

1968

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TC Publication 336

UNITED STATES TARIFF COMMISSION

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20th Report

1968

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

Washington  
1970



## Preface

This, the 20th report issued by the United States Tariff Commission on the operation of the trade agreements program, relates to the calendar year 1968. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program. 1/

The principal developments during 1968 that are discussed in this report relate to actions by the United States affecting its obligations under the trade agreements program, actions initiated by the Contracting Parties to the General Agreement on Tariffs and Trade to implement that agreement, and commercial policy developments in the major countries with which the United States has trade agreements.

The report was prepared principally by John F. Hennessey, Jr., Magdolna Kornis, and Jozef Dolina.

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1/ The immediately preceding report in this series was U.S. Tariff Commission, Operation of the Trade Agreements Program, With a Special Chapter on the Kennedy Round, 19th Report, January-December 1967, TC Publication 287, 1969. Hereafter that report will be cited as Operation of the Trade Agreements Program, 19th report. Other reports of the Tariff Commission on the operation of the trade agreements program will be cited in a similar short form.



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## Chapter 1

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

#### INTRODUCTION

At the close of 1968 the United States maintained trade-agreement obligations in force with most of the trading nations of the world. These obligations had resulted primarily from joint membership of the United States and most of its trading partners in the General Agreement on Tariffs and Trade (GATT). The remaining obligations had been incurred through bilateral agreements that were still operative between the United States and certain other countries; most of these bilateral trade-agreement partners were in Latin America. During 1968, one country, Iceland, acceded to full membership in the GATT.

Trade in automotive products continued to increase substantially between the United States and Canada, owing largely to the agreement that had been in force for the two countries since 1965. During the year, one group of workers filed a petition for adjustment assistance under the Automotive Products Trade Act of 1965 (APTA), the last to be filed under this act; after June 30, 1968, such petitions were to be filed under the provisions of the Trade Expansion Act of 1962 (TEA). In 1968 the United States continued to participate in the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA); it also continued to maintain bilateral agreement obligations with 22 countries in connection with its trade in cotton textiles, entering into new agreements or extending existing ones with five of these countries during the year.

During 1968 the U.S. Tariff Commission conducted two investigations under the escape-clause provisions of the Trade Expansion Act of 1962 and an investigation under section 22 of the Agricultural Adjustment Act, as amended. The Office of Emergency Preparedness (OEP) initiated one new investigation and continued two others under the national security provisions of the TEA. These developments are discussed in detail in the sections that follow.

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

U.S. trade-agreement obligations in recent years have been both multilateral and bilateral; the multilateral obligations have been contracted through U.S. participation in the GATT, while the bilateral have been incurred through U.S. negotiations with individual countries. Obligations assumed under multilateral arrangements have become predominant. Those contracted under bilateral agreements have declined, primarily because of the accession to GATT membership of former bilateral partners of the United States.

At the end of 1968 the United States had trade-agreement obligations in force with 80 countries, of which 76 had mutual trade-agreement commitments with the United States as a result of their common membership in the GATT. Of these nations 74 were full contracting parties to the GATT and the remaining two were provisional contracting parties. The United States also had trade-agreement obligations in force with four nonmembers of the GATT, by means of bilateral agreements.

On December 31, 1968, the United States had trade-agreement obligations in force with the following countries:

GATT--Full Contracting Parties 1/

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

GATT--Provisional Contracting Parties

Tunisia  
United Arab Republic

See footnotes at end of tabulation.

Bilateral Trade Agreements 4/

Argentina 5/  
El Salvador 6/

Honduras 6/  
Iceland 7/

Paraguay 6/  
Venezuela

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

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

3/ Acceded during 1968.

4/ The United States also had in force a preferential agreement with the Philippines concerning trade and other matters. This agreement was concluded as a result of special legislation enacted during a transitional period following the achievement of Philippine independence. Almost all other agreements were concluded within the framework of the reciprocal trade agreements program, which was inaugurated by the Trade Agreements Act of 1934 and continued by the Trade Expansion Act of 1962. (See Philippine Trade Agreement Revision Act of 1955 (69 Stat. 413); T.D. 53965; also Treaties and Other International Acts Series (TIAS) 3348, U.S. Department of State, Sept. 6, 1955.)

On Oct. 28, 1968, the Governments of the United States and Switzerland agreed to the termination of their bilateral trade agreement of 1935, and of certain other agreements supplementing or otherwise affecting this 1936 agreement.

5/ On Dec. 27, 1967, the Governments of the United States and Argentina agreed that the bilateral agreement of 1941 (as amended in 1963) between the two countries would remain in force until the consolidated schedule of the United States (schedule XX) had been completed and so proclaimed by the President of the United States. On Dec. 31, 1968, this bilateral agreement was still in effect).

6/ The schedules of concessions and the provisions relating to them in their respective bilateral trade agreements with the United States were terminated in January 1961 for Honduras, in June 1962 for El Salvador, and in June 1963 for Paraguay.

7/ On Dec. 31, 1968, although Iceland had acceded to full membership in the GATT earlier in that year, the bilateral trade agreement of 1943 (as amended in 1963 and 1964) between the United States and Iceland was still in force.

U.S. trade-agreement obligations were not materially increased by the accession of Iceland to full membership in the General

Agreement during 1968. <sup>1/</sup> Iceland previously had trade-agreement commitments in effect with the United States, for it had been a provisional member of the GATT for several years before 1968 and has had a bilateral trade agreement in force with the United States since 1943.

During 1968 a number of countries participated in the activities sponsored under the General Agreement, either on a de facto basis <sup>2/</sup> or under special arrangement; thereby establishing limited trade-agreement relations between themselves and the United States. On December 31, 1968, 12 countries--Algeria, Botswana, Congo (Kinshasa), Equatorial Guinea, Lesotho, Maldives Islands, Mali, Mauritius, Singapore, Southern Yemen, Swaziland, and Zambia--were applying the General Agreement on a de facto basis; Cambodia had been participating in the work of the Contracting Parties since November 1958, under a special arrangement similar to a provisional accession.

#### IMPLEMENTATION OF THE UNITED STATES-CANADIAN AUTOMOTIVE AGREEMENT

The United States-Canadian automotive agreement provides for limited free trade between the two countries in automotive vehicles

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<sup>1/</sup> On Sept. 4, 1967, the Contracting Parties decided that Iceland could accede fully to the General Agreement, under art. XXXIII. Iceland did not accede to full membership, however, until 1968; this accession entered into force for the United States on Apr. 21, 1968.

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

and original-equipment parts. By December 31, 1968, the agreement had been in effect for 4 years. 1/

In 1968, two-way trade in automotive products between the United States and Canada rose to about \$5.3 billion, 15 percent over that in 1967 and more than 600 percent higher than the 1964 total. Canadian imports of automotive products from the United States in 1968 were valued at \$2.7 billion, representing an increase of 35 percent over those in 1967 and more than 300 percent above the 1964 level. United States automotive imports from Canada increased sharply to \$2.6 billion in 1968, representing a gain of about 63 percent over the imports in 1967 and more than 3,300 percent over those in 1964, when such imports amounted to only \$76 million. The net U.S. balance of trade in automotive products in 1968 was calculated at about \$164 million, which was only 37 percent of the corresponding figure for 1967 and 28 percent of that for 1964. 2/

The Automotive Products Trade Act of 1965 3/ contained provisions for firms or groups of workers to apply for adjustment assistance to offset dislocations resulting from the implementation of the act. When these provisions for adjustment assistance expired on June 30,

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1/ For details on earlier implementation of the agreement, see Operation of the Trade Agreements Program, 17th, 18th, and 19th reports.

2/ The trade data given in this section relate to United States-Canadian trade in all automotive products--both those that were duty free under the agreement and those that were dutiable (e.g., replacement parts). Data used are the official import statistics of both countries.

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

1968, 1/ petitions had been filed by 21 groups of workers. Certificates of eligibility for such assistance were granted in 14 of these cases (the remaining seven petitions were denied), affecting more than 2,500 workers in six States.

United States and Canadian Production and Trade  
in Automotive Products

During 1968, production in the U.S. automotive industry increased for the first year since 1965, although it was still below the total 1965 output. Employment in the United States automotive industry rose to a record high in 1968, after falling off somewhat in 1967. Canadian automotive production and employment continued to increase annually, reaching record high levels in 1968.

United States production of motor vehicles totaled 10.8 million units in 1968, which was about 20 percent higher than the low total for 1967 but about 3 percent below the 1965 figure. Canadian production of motor vehicles in 1968 amounted to almost 1.2 million units, a record high, which was about 25 percent above the 1967 level and 60 percent above that of 1964. In 1968 the Canadian share in the aggregate number of motor vehicles produced in the two countries was nearly 10 percent, the same as in 1967, compared with 7 percent in 1964. 2/

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1/ After June 30, 1968, workers or firms claiming injury as a result of the automotive agreement were to file petitions for adjustment assistance under the provisions of the Trade Expansion Act of 1962.

2/ The Canadian share of the combined two-country output of motor vehicles was materially less than the percentages indicated, since Canadian-assembled vehicles contained a substantial proportion of parts and accessories manufactured in the United States, while vehicles assembled in the United States contained only a negligible proportion of parts and accessories made in Canada.

The average monthly employment in the United States motor vehicle industry increased to 903,000 workers in November 1968, representing a gain of almost 6 percent over the total employed in November 1967 (the figure for 1967 was depressed because of a strike in the industry during the fall of that year), approximately the same as in November 1966, and nearly 13 percent above the level of November 1964. The average monthly employment in the Canadian automotive industry rose to almost 91,000 workers, slightly above the November levels in the 3 preceding years but more than 20 percent higher than the number employed in November 1964.

The total two-way trade in automotive products between the United States and Canada was valued at more than \$5.3 billion in 1968, compared with almost \$3.6 billion in 1967 and \$735 million in 1964. Although exports of automotive products both from the United States to Canada and from Canada to the United States increased substantially, Canadian exports rose much more, proportionally. The demand for automotive products has grown more rapidly in Canada than in the United States, but the principal cause of the Canadian export expansion has been the implementation of the automotive agreement with the United States.

Canadian imports of motors, vehicles, and parts from the United States were valued at more than \$2.7 billion in 1968, compared with \$2.0 billion in 1967 and \$659 million in 1964. Of these totals, parts and accessories alone accounted for \$1.7 billion in 1968, almost \$1.3 billion in 1967, and \$597 million in 1964. The total

United States imports of motor vehicles and parts from Canada soared to a high value of nearly \$2.6 billion in 1968, however, compared with nearly \$1.6 billion in 1967, and only \$76 million in 1964. As a result the net United States balance in automotive trade with Canada was reduced to \$164 million in 1968, compared with \$439 million in 1967, and \$583 million in 1964. <sup>1/</sup> Meanwhile, the customary United States surplus in total trade with Canada changed from a positive balance of more than \$500 million in 1964 to a deficit of more than \$900 million in 1968.

In 1968 Canada continued as the principal foreign market and chief supplier for the United States with regard to trade in automotive products. During that year Canada took about 67 percent of U.S. exports of these products, compared with about 37 percent in 1964. At the same time, Canada supplied about 60 percent of such U.S. imports, in contrast to only 11 percent in 1964.

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<sup>1/</sup> United States and Canadian statistics on United States-Canadian trade in automotive products differ materially. These differences arise largely from the fact that both countries measure imports that enter duty free under the agreement more carefully than they measure exports that enter the other country duty free. United States import statistics on such trade, for example, are prepared in accordance with the import classifications established by the Automotive Products Trade Act, which identify all free entries resulting from the agreement. United States export classifications, however, do not separately identify some exports of automotive parts. Hence, statistical series on the United States export trade balance in automotive products with Canada differ, depending on whether they are based on United States data, Canadian data, or a combination of the two. The figures in the text were derived from United States and Canadian import statistics. For other series, see Second Annual Report of the President to the Congress on the Operation of the Automobile (sic) Products Trade Act of 1965, U.S. Senate, Committee on Finance, May 21, 1968, and Third Annual Report, July 17, 1969.

## Action on Petitions Filed

Under the Automotive Products Trade Act of 1965, firms or groups of workers could apply to the Automotive Agreement Adjustment Assistance Board to be compensated for dislocations attributable to the implementation of the act. During 1968 no firms and only one group of workers filed petitions for assistance under the act. After June 30, 1968, petitions from groups of workers requesting determination of their eligibility to apply for adjustment assistance were handled under the TEA of 1962, and no longer under the special provisions of the APTA.

The last of the APTA investigations and the only one instituted in 1968 was filed with the Board in January by the International Union, United Automobile Workers (UAW), of Detroit, on behalf of a group of workers at the C. M. Hall Lamp Co., Detroit, Mich.; the Tariff Commission made its report in March 1968 and a supplemental report in April, after which the Automotive Board, in May, found this group not eligible for adjustment assistance. <sup>1/</sup> In 1968 the Board also made determinations in connection with three petitions filed late in 1967. In one of these cases, the Board determined that the operation of the agreement had been the primary factor causing the actual or threatened

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<sup>1/</sup> Petitions from groups of workers were filed with the Automotive Agreement Adjustment Assistance Board, comprising the Secretaries of Commerce, Labor, and the Treasury. The President had delegated to the Board the responsibility of determining the eligibility of petitioners for adjustment assistance. In accordance with the act, the Tariff Commission was requested by the Board to conduct an investigation of the facts relating to each petition and to prepare a report which would assist the Board in making its determination.

unemployment or underemployment of the petitioning workers, and certified the petitioners as eligible for adjustment assistance; 1/ in the other two cases, the Board determined that the operation of the agreement had not been the primary factor and therefore found the petitioners not to be eligible for adjustment assistance. 2/

Between 1965 and July 1, 1968, 21 groups of workers filed petitions for adjustment assistance under the APTA. Seven petitions were denied by the Automotive Board, but certifications of eligibility for assistance were issued in the other 14 cases, affecting more than 2,500 workers in six States. Of these workers, about 1,950 had actually received weekly payments by July 1, 1968. Through December 1968, payments for adjustment assistance totaled approximately \$3.8 million. 3/ During the entire 1965-68 period, no petitions for assistance were submitted by firms. 4/

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1/ Petition filed by the International Union, UAW, Local No. 314, on behalf of a group of workers at the Long Manufacturing Division of the Borg-Warner Corp., Detroit, Mich., in November 1967.

2/ Petitions filed by (1) the United Glass & Ceramic Workers of North America, AFL-CIO-CLC, on behalf of a group of workers at Works No. 4, the Pittsburgh Plate Glass Co., Ford City, Pa., in November 1967, and (2) the United Glass & Ceramic Workers of North America, AFL-CIO-CLC, on behalf of a group of workers at Works No. 1, the Pittsburgh Plate Glass Co., Creighton, Pa., in November 1967.

3/ Included in this amount was \$61,000 for training allowances for workers. The APTA provided that assistance to workers could consist of unemployment compensation (trade readjustment), training, and relocation allowance.

4/ Adjustment assistance to firms could be in the form of technical, financial, or tax assistance.

PARTICIPATION IN THE LONG-TERM COTTON  
TEXTILES ARRANGEMENT

During 1968 the United States continued its participation in the Long-Term Arrangement Regarding International Trade in Cotton Textiles. <sup>1/</sup> No new accessions to the LTA took place during the year, the total membership remaining at 31 nations. The United States also maintained bilateral agreements concerning textiles with 22 countries, the majority of which were also participants in the LTA. New agreements or extensions of existing ones entered into force during the year between the United States and five of these countries.

The long-term arrangement was negotiated under the sponsorship of the GATT; it was designed to provide for the orderly growth of world trade in cotton textiles by promoting the expansion of exports of these commodities from developing countries, while at the same time avoiding disruption of the markets and lines of production of countries that import substantial quantities of cotton textiles. The LTA originally entered into force for a period of 5 years beginning October 1, 1962; during 1967 it was extended beyond the initial expiration date for a 3-year period, i.e., until September 30, 1970.

On December 31, 1968, the following countries were participants in the LTA:

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<sup>1/</sup> For a more detailed account of the history and provisions of the LTA, see Operation of the Trade Agreements Program, 15th, 16th, 17th, 18th, and 19th reports.

Group I--Industrialized Countries

Australia	Finland	Netherlands
Austria	France	Norway
Belgium	Germany, Federal Republic of	Sweden
Canada	Italy	United Kingdom
Denmark	Luxembourg	United States

Group II--Developing Countries

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

Group III--Industrialized Exporter Country

Japan

Colombia, Mexico, and the Republic of China were not contracting parties to the GATT.

At the close of 1968 the United States was imposing 17 restraints <sup>1/</sup> under article 3 of the LTA, involving imports of cotton textiles under 18 categories entering from eight countries (Argentina, Brazil, Honduras, Hungary, Malaysia, Romania, Trinidad and Tobago,

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

and Tunisia). At the beginning of 1968, 12 such restraints were being imposed, involving imports under 18 categories entering from three countries (Brazil, Malaysia, and Romania). No restraints under article 3 were imposed against U.S. exports of cotton textiles during 1968.

During 1968 the United States continued to maintain bilateral agreements concerning cotton textiles with 22 other countries. Extensions or new agreements entered into force during the year for five of these countries (Colombia, Japan, Philippines, United Arab Republic, and Yugoslavia). Nearly all of the bilateral agreements contained overall limitations affecting U.S. imports of all 64 categories of cotton textiles 1/ and fixed specific ceilings on U.S. imports of certain cotton textiles from the various countries concerned. For the most part, the agreements were effective for periods ranging from 1 to 4 years. The agreements provided for an annual increase of 5 percent in the import quotas and generally authorized the transfer of quotas, to the extent of about 5 percent, from one category to another. During 1968 most of the restrictions on imports of cotton textiles into the United States were imposed in accordance with the terms of these bilateral agreements. 2/

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

2/ Pursuant to art. 4 of the LTA, bilateral agreements could be concluded either between LTA participants or between participants and nonparticipants, providing the terms of the agreements were compatible with the basic aims of the multilateral arrangement.

The countries with which the United States had bilateral agreements concerning cotton textiles at the end of 1968 were as follows:

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

1/ Not a contracting party to the GATT.

2/ Latest agreement entered into force during 1968.

3/ Not a participant in the LTA.

In 1968, U.S. imports of cotton textiles of the type covered by the LTA were equivalent 1/ to more than 1.6 billion square yards of cloth, in comparison with 1.5 billion in 1967 and the record 1.8 billion in 1966. The greatest proportional increase in 1968 occurred in the imports of cotton yarn, from an equivalent of 170 million square yards in 1967 to 229 million in 1968, or by nearly 35 percent. In 1968, U.S. imports of cotton wearing apparel were more than 8 percent higher than in 1967, while those of cotton fabrics were only slightly higher.

During 1968, as in preceding years, U.S. imports of textiles of synthetic (manmade) fibers continued to increase. In that year such imports were nearly as large (88 percent) as total imports of cotton textiles, in terms of quantity; in 1964, the corresponding ratio was 30 percent.

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

Synthetic-fiber textiles and wool textiles, although competitive with cotton textiles, were not subject to import restraints. Because of the growing competition of synthetic-fiber textiles with cotton textiles, however, textile interests in the United States considered requesting the GATT negotiators to explore the possibilities for widening the base of the LTA to include textiles of manmade fibers and of wool.

#### GOVERNMENT ACTIONS AFFECTING TRADE-AGREEMENT ITEMS

During 1968 the Tariff Commission conducted two investigations under the escape-clause provisions of the Trade Expansion Act of 1962, as well as one investigation under section 22 of the Agricultural Adjustment Act, as amended. Meanwhile, the Office of Emergency Preparedness conducted three investigations under the national security provisions of the TEA.

Certain U.S. legislative provisions have authorized the imposition of import restrictions (1) to protect domestic industries being injured by increased imports resulting from trade-agreement concessions, (2) to prevent interference with agricultural programs of the U.S. Government, or (3) to prevent the impairment of national security. Furthermore, governmental assistance of various types has been made available through other provisions to firms or groups of workers that establish that they have been injured by increased imports resulting from trade-agreement concessions. Generally, an investigation by an agency of the Federal Government is required before imports can be restricted or adjustment assistance granted; the procedures invoked

vary with the relevant statutes. A number of such investigations were conducted during 1968. The circumstances relating to these investigations are discussed in the remainder of this chapter.

### The Escape Clause 1/

During 1968 the Tariff Commission concluded two investigations (initiated in 1967) under the escape-clause provisions of trade-agreement legislation; it also made several reports that reviewed the economic condition of industries producing articles for which escape-clause actions were in effect. Escape-clause investigations are conducted under the provisions of section 301(b) of the Trade Expansion Act of 1962; 2/ during 1968 these two investigations were concluded under the provisions of section 301(b)(1) of the TEA and were concerned with the articles shown below: 3/

<u>Article</u>	<u>Petition received</u>	<u>Investigation concluded</u>
Barbers' chairs-----	July 21, 1967	Jan. 22, 1968
Broomcorn-----	Sept. 27, 1967	Mar. 25, 1968

In both of these investigations the Commission unanimously found that the articles in question were not being imported, as a result in

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

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

3/ For more detailed information, see Fifty-second Annual Report of the U.S. Tariff Commission, TC Publication 273, 1968, pp. 1-3.

major part of trade-agreement concessions, in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles.

During 1968 the Tariff Commission submitted two annual reports to the President, under the provisions of section 351(d)(1) of the TTA; this section of the act requires the Commission to report annually to the President on developments in domestic industries in whose behalf escape-clause action had previously been taken. 1/ The articles on which those reports were made and the dates on which the reports were submitted to the President were as follows:

Wilton, Brussels, velvet, and tapestry carpets and rugs-----	Sept. 5, 1968
Sheet glass (blown or drawn flat glass)-----	Sept. 9, 1968

Action Under Section 22 of the Agricultural  
Adjustment Act

In 1968 the Commission conducted an investigation under section 22 of the Agricultural Adjustment Act, as amended, on the imports of certain dairy products. Under section 22 of that act, the President is authorized to restrict imports of any agricultural commodity, by imposing either fees or quotas within specified limits, whenever such imports render or tend to render ineffective, or materially interfere with, programs of the U.S. Department of Agriculture relating to agricultural commodities or products thereof. In addition, the

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1/ Secs. 351(d)(2) and (3) require the Commission, under specified circumstances, to advise the President of the probable economic effect on the industry concerned of a reduction or termination of an escape action taken by him pursuant to these sections or sec. 7 of the Trade Agreements Extension Act of 1951.

Tariff Commission is required, under section 22, to conduct an investigation, when so directed by the President, and to make a report and recommendation to him.

On June 10, 1968, the President requested the Commission to conduct an investigation under subsections (a) and (d) of section 22 of the Agricultural Adjustment Act, as amended, to determine whether condensed and evaporated milk and cream, certain cheeses, various chocolate and cocoa items, and certain butterfat-sugar mixtures were being imported, or were practically certain to be imported, into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the U.S. Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. The Commission's report was submitted to the President on December 20, 1968.

The Commissioners agreed that there had been material interference, or practical certainty of such interference, with the aforementioned price-support programs of the U.S. Department of Agriculture from imports of condensed and evaporated milk and cream and of butterfat-sugar mixtures. The Commissioners had differing opinions regarding imports of certain cheeses and of chocolate and cocoa items. Their recommendations differed on the type and extent of the quotas

assigned to these various imported products. 1/

#### National Security Investigations

During 1968 the Office of Emergency Preparedness initiated one new investigation under the national security provisions of the Trade Expansion Act of 1962. It also continued work on two others that had been started before 1968. The OEP had not concluded these three investigations by December 31, 1968.

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

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1/ For a detailed description of the findings and recommendations of the U.S. Tariff Commission on imports of these articles, see the Commission's report entitled Certain Dairy Products: Report to the President on Investigation No. 22-27 Under Section 22 of the Agricultural Adjustment Act, as Amended, TC Publication 274, 1968 (processed).

On Jan. 6, 1969, the President, acting upon the investigation and report of the Tariff Commission, issued Proclamation 3884, amending pt. 3 of the appendix to the Tariff Schedules of the United States with respect to the importation of agricultural commodities. The proclamation placed limitations on imports of additional dairy products into the United States, setting annual quotas, effective Jan. 1, 1969, on the importation of the types of dairy products involved.

On June 8, 1968, the Director of the OEP announced an investigation to determine whether imports of ferroalloys 1/ and related products were threatening to impair the national security. Application for the investigation had been filed by the committee of producers of these products. By December 31, 1968, this investigation was still in progress.

In addition, two investigations which had been initiated by the OEP (then the Office of Emergency Planning) before 1968 were still in progress at the close of the year. One, initiated in April 1967, was concerned with the national security implications of controls on imports of asphalt and on asphalt produced from imported crude and unfinished oils; 2/ it followed an earlier review which had led to the conclusion that the national security would not be impaired by a liberalization of the controls on the importation of asphalt for use without further refining. The other investigation was concerned with the effect of imports of textiles on the national security; it had been initiated in June 1961 by the Director of the Office of Civil and Defense Mobilization (a predecessor of the OEP), under the provisions of section 8 of the Trade Agreements Extension Act of 1958.

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1/ Ferroalloys are utilized principally in the production of special grades of steel.

2/ For a more detailed discussion of this investigation, see Operation of the Trade Agreements Program, 19th report (processed), pp. 27-29.



## Chapter 2

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

#### INTRODUCTION

This chapter describes the principal developments in 1968 relating to the General Agreement on Tariffs and Trade (GATT) and its agencies.

The activities of the Contracting Parties 1/ to the GATT in 1968 differed greatly from those in 1967. While in 1967 these activities were concentrated on the completion of the Kennedy Round of tariff negotiations, in 1968 they were mainly devoted to the preparatory work for further advances in trade liberalization and to the foreign-trade problems of developing countries. In addition, certain urgent problems that arose in the course of the year, including the monetary difficulties and severe balance-of-payments crises of certain GATT members, had to be dealt with by the appropriate GATT agencies. 2/

The Contracting Parties held their 25th Session in Geneva, in November 1968. At the session they took the following major actions:

Reviewed measures to expand and liberalize international trade in agricultural and industrial products;

Resolved to take prompt steps to improve the trade position of developing countries;

Considered action to remove or reduce nontariff and para-tariff barriers to trade;

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

2/ The 25th Session of the Contracting Parties, the Council of Representatives, and several working parties, committees, and groups especially assigned to study and report on specific subjects related to the objectives of the General Agreement.

Established a Committee on Antidumping Practices;

Reviewed quantitative restrictions maintained by GATT members;

Approved waivers permitting some GATT members to continue their preferential tariff treatment of certain specified imported commodities;

Approved the trade arrangement between India, the United Arab Republic, and Yugoslavia, subject to certain reservations.

On January 1, 1968, the full membership of the GATT consisted of 75 contracting parties. Iceland acceded to the General Agreement during 1968, and at the end of the year the following 76 countries were full contracting parties to the agreement:

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

At the close of 1968, two other countries--Tunisia and the United Arab Republic--continued their provisional membership, and one country--Cambodia--participated in the work of the Contracting Parties under a special arrangement. In 1968 two additional States, Colombia and Romania, applied for provisional membership. Moreover, 12 countries--Algeria, Botswana, Congo (Kinshasa), Equatorial Guinea, Lesotho, Maldiv Islands, Mali, Mauritius, Singapore, Southern Yemen, Swaziland, and Zambia--were benefiting as independent States from a de facto application of the General Agreement pending the formulation of their future commercial policies. The provisions of the GATT had previously been applied to these States inasmuch as they had been dependent areas of member States.

In all, therefore, at the end of 1968, 91 nations were using the provisions of the General Agreement as the basis for their mutual trading relations.

#### ACTIVITIES IN THE INTEREST OF DEVELOPING COUNTRIES

During 1968 the Contracting Parties continued their efforts to further develop and implement the programs to improve the trade position of less developed countries (LDC's). These efforts were described in the reports submitted to the Contracting Parties at their 25th Session by the Committee on Trade and Development, the joint advisory group on the International Trade Center, the Trade Negotiations Committee of Developing Countries, and the special group on tropical products. The reports were adopted by the Contracting Parties.

No special achievements could be noted during the year in the work of the Contracting Parties regarding general tariff preferences for developing countries. Of several contracting parties currently applying such preferences, only two--Australia and Italy--submitted annual reports required by the General Agreement. These reports are summarized in the section dealing with reports under GATT waivers.

#### The Committee on Trade and Development

The basic topics of the report of the Committee on Trade and Development are summarized below.

#### Implementation of part IV of the General Agreement 1/

The Committee noted that nine contracting parties had not yet accepted the protocol introducing part IV and that seven of these parties, including one important developed country, had given no indication of their intention concerning the acceptance of the protocol. 2/

In the course of a general review of the implementation of part IV, the developing countries expressed appreciation for the positive measures to this end taken by the developed countries. They cautioned, however, that much still remains to be done to achieve the objectives of part IV, in view of the continued deterioration of the trade of the developing countries with the developed countries. The latter

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1/ For the contents of the three new articles in pt. IV (arts. XXXVI, XXXVII, and XXXVIII), see Operation of the Trade Agreements Program, 17th report, pp. 29-32.

2/ According to the statement made by the Chairman of the Contracting Parties at the 25th Session in November 1968, at which the report of the Committee on Trade and Development was adopted, there remained only five contracting parties that had not yet accepted the protocol on pt. IV.

continued to apply import restrictions on the processed and semi-processed primary products of the developing countries. Apprehension was expressed concerning the harmful effects of present and future measures of agricultural protection and subsidies invoked by the developed countries against the commodities of the developing countries.

#### Residual import restrictions affecting exports of developing countries

At its 11th session, held in June 1968, the Committee agreed that the group on residual (import) restrictions should work on the basis of an up-to-date list of import restrictions affecting products of export interest to developing countries. Such a list was prepared by the Secretariat. The group had discussions with 13 developed countries which apply restrictions. The report of the group indicated that, while some progress had been made in the past year in the elimination of restrictions, the number of products subject to restrictions in some developed countries was still considerable. On the suggestion of the group, the Committee agreed to revert to the subject of residual restrictions affecting exports of developing countries after the close of the 25th Session and to review the problem in the light of the outcome of the discussion on the proposal by New Zealand concerning residual restrictions in general.

#### Application of the principle of nonreciprocity

Members of the Committee representing developed countries confirmed the intention of their governments to apply the principle of nonreciprocity in trade negotiations with developing countries as

embodied in part IV of the General Agreement'. They noted, however, that this principle does not relieve developing countries from the obligation to make certain contributions for the benefits received if such contributions are not inconsistent with their trade and financial needs. The Committee discussed the principle of nonreciprocity and certain of its members stressed the fact that there was need for a more precise interpretation of paragraph 8 of article XXXVI. <sup>1/</sup> The Committee agreed that this question should be further considered.

#### Tariff reclassification for liberalization of imports

At their 24th Session in 1967 the Contracting Parties had urged the developed countries to classify separately in their tariffs those products for which developing countries sought further tariff concessions or duty-free entry. The developed countries had already undertaken some of this classification during the Kennedy Round negotiations. Since that time, additional classifications had been completed, particularly in regard to hand-made and hand-loomed products. Some members of the Committee noted that this separate classification was useful not only in the tariff field but also in relation to other actions of commercial policy, such as the discontinuation of import restrictions. The Committee took note of the technical aspects of tariff reclassification carried out by the United Nations Conference on Trade and Development (UNCTAD) in cooperation with the Customs Cooperation

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<sup>1/</sup> Par. 8 of art. XXXVI reads: "The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less developed contracting parties."

Council. It also invited the contracting parties to supply information on this subject in their reports on the implementation of part IV.

#### Special tariff problem

At their 24th Session in 1967 the Contracting Parties had agreed on a series of studies concerning tariffs and other trade problems of developing countries. In 1968 the Secretariat started two preliminary studies, one on differential tariff rates for processed goods of developing countries and the other on the effects of specific duties on the exports of those countries. The first study examines the effect of tariff rates in the major import markets on copper and copper products at different stages of processing. The second study shows that, with respect to some products, the burden of specific duties is greater on imports from developing countries than on imports from developed countries. The Committee agreed that the Secretariat should continue with studies of this nature.

#### Joint Advisory Group on International Trade Center

Under the arrangement agreed upon at the 24th Session of the Contracting Parties in 1967, the International Trade Center had operated since the beginning of 1968 as a joint UNCTAD-GATT agency. As a consequence, the activities of the center expanded considerably. They were mainly concentrated in such fields as market information service, a training program for developing countries, publication of periodicals (International Trade FORUM) and pamphlets useful for

these countries, and the trade promotion advisory service. The unilateral contributions made by a number of developed countries greatly assisted the center in implementing its program. In 1968 the Swedish Government alone financed several programs of great importance to developing countries.

The first meeting of the joint advisory group, attended by experts and advisers from many countries and intergovernmental organizations, was held in May 1968. The participants approved the work program of the International Trade Center and made certain recommendations to improve and expand its activities.

#### Trade Negotiations Committee of Developing Countries

Before the 24th Session of the Contracting Parties in 1967 the Trade Negotiations Committee of Developing Countries had been established to promote the expansion of mutual trade between those countries, especially to prepare for the trade negotiations among them. The Committee, headed by the Director-General of the GATT, has concentrated on making arrangements for the exchange of information needed by participating countries, especially on preparing their indicative lists of products that might be traded. In 1968 it held several meetings at which a number of countries not parties to the GATT participated. Also, consultations were held on the exchange of information concerning trade patterns of particular countries and their import policies and tariffs. The Committee focused its attention on assisting participating countries to explore the possibilities

of a reciprocal exchange of trade concessions. In October 1968 the participating countries agreed to continue the work of the Committee.

#### Special Group on Trade in Tropical Products

The special group on trade in tropical products, originally established by the Council of Representatives in 1962, was requested late in 1967 to examine various problems affecting trade in tropical products, especially the incidence of revenue duties and internal charges on trade in such products. In 1968 its attention was given, on a priority basis, to tea, coffee, cocoa, bananas, oilseeds, vegetable oils, and spices. The Secretariat also undertook studies of the problems relating to trade in such products and arranged consultations with a number of exporting and importing countries to identify the specific issues raised by the group.

#### ACTIONS RELATING TO OBLIGATIONS UNDER GATT

The basic objectives of the GATT have been the reduction of customs duties, the dismantling or the lowering of other barriers to international trade, and the elimination of discriminatory practices in that trade. Under certain circumstances, however, the General Agreement allows contracting parties to act in a manner inconsistent with these objectives. Thus, article XII authorizes a contracting party to apply quantitative import restrictions to safeguard its balance of payments and its external financial position. Similarly, article XVIII permits developing countries to apply protective duties and other measures to facilitate their development programs. Articles

XIX and XXVIII authorize the withdrawal or modification of tariff concessions if designated conditions exist. Moreover, article XXV authorizes the Contracting Parties "in exceptional circumstances not elsewhere provided for" to grant a member country, by two-thirds vote, a waiver of any obligation imposed on it by the General Agreement.

Contracting parties applying import restrictions under articles XII or XVIII are required to consult with the Contracting Parties annually or biennially. Waivers have generally been granted for a fixed period of time, but have frequently been extended. Major actions relating to the contracting parties' obligations under the General Agreement are summarized below.

#### Import Restrictions for Balance-of-Payments or Economic Development Purposes

In November 1968, 22 contracting parties were applying quantitative import restrictions under articles XII or XVIII of the General Agreement. Between January and November 1968, 11 of these countries consulted with the committee on balance-of-payments restrictions regarding the nature, extent, and justification of such restrictions. Pursuant to the provisions of article XV of the General Agreement, earlier during the year each of the contracting parties concerned had held similar consultations with the International Monetary Fund.

At its consultations the committee on balance-of-payments restrictions studied the reports from the countries concerned and from the International Monetary Fund. The reports of the Fund

contained detailed analyses of the economic situation of the countries. The GATT committee gave particular attention to the question of whether or not the individual countries applied the restrictions in conformity with their obligations under the General Agreement. The International Monetary Fund found improvement in either the financial situation or the general economic performance in more than half of the consulted countries, and the committee on balance-of-payments restrictions noted the liberalization of quantitative import restrictions in about half of these countries.

At their 25th Session the Contracting Parties adopted the reports of the committee on balance-of-payments restrictions in respect to all the consulted countries, thus indicating their consent to continue the restrictions. The contracting parties involved in the consultations, the authority under which the consultations were conducted, and the dates on which the consultations were held are given below:

<u>Country</u>	<u>GATT authority (article No.)</u>	<u>Date consultation was held or com- pleted</u>
Ghana-----	XVIII:12(b)	Sept. 10, 1968
Finland-----	XII:4(b)	Nov. 4, 1968
Iceland-----	XII:4(b)	Jan. 17, 1968
Israel-----	1/	Apr. 29, 1968
New Zealand-----	XII:4(b)	July 9, 1968
Peru-----	XVIII:12(a)	May 20, 1968
South Africa-----	XII:4(b)	Nov. 1, 1968
Spain-----	1/	Sept. 11, 1968
United Arab Republic-----	1/	May 1, 1968
Uruguay-----	XII:4(b)	Apr. 25, 1968
Yugoslavia-----	1/	Apr. 30, 1968

1/ Authority not reported.

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

Early in 1968 the Secretariat of the GATT reminded all contracting parties of their obligations to give notice of all import restrictions applied by them which are inconsistent with the provisions of the General Agreement and are not authorized by the Contracting Parties. Shortly before the 25th Session, a further reminder was issued calling the attention of the contracting parties not only to their obligation to respond but also to the type of information required, in order that each country might review its notification and conform more adequately to the guidelines for such notifications approved by the Contracting Parties in 1962. 1/

The result of the GATT action in registering quantitative import restrictions of the contracting parties has never been satisfactory since the procedure started in 1960. As noted above, in November 1968 22 contracting parties applied restrictions for balance-of-payments or economic development purposes; they reported their import restrictions in that context. By the end of 1968, the response of the remaining 56 contracting parties to the GATT action had been as follows: Four contracting parties had notified the Secretariat, though not all of them recently, that they did not apply any quantitative import restrictions; 23 newly independent States responded within the period 1966-68 to the invitation to give notice of their entire restrictive systems without prejudice to the question of consistency

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1/ See Contracting Parties to the GATT, Basic Instruments and Selected Documents, 11th supp., Geneva, 1963, pp. 206-213. (This series will hereafter be referred to as Basic Instruments . . . .)

with GATT; 17 responded to the 1968 reminders of the Secretariat and submitted notifications of residual import restrictions in the form of comprehensive negative lists of imports; the following 11 countries 1/ either did not reply or submitted reports in November 1968 out of date or incomplete:

Argentina	Dominican Republic	Haiti
Barbados	France	Rhodesia
Central African Republic	Gambia	Rwanda
	Guyana	Uganda

The notifications so far submitted were examined by a panel of experts and the Secretariat of the GATT regarding their adequacy and usefulness. It was found that these notifications are of extremely limited use and that the required technical and statistical information can only be obtained by a renewal and standardization of the reporting procedures. The Contracting Parties, at their 25th Session, agreed that the Council of Representatives should pursue the discussion of the issue of the adequate reporting of quantitative import restrictions inconsistent with the General Agreement.

#### Reports on Actions Taken Under Waiver

In 1968 seven reports were submitted to the Contracting Parties on actions under waivers currently in force. These were the reports on U.S. import restrictions on agricultural products; United States-Canadian automotive products agreement, Turkish stamp duty, Franco-German treaty on the Saar, Australian tariff preferences for

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1/ Poland is subject to special consultations concerning its imports.

developing countries, Australian tariff preferences for products of Papua and New Guinea, and Italian tariff preferences for products of Libya.

U.S. import restrictions on agricultural products

In 1955 the Contracting Parties waived the United States obligation under article XI of the General Agreement to remove any quantitative import restrictions on agricultural products imposed under section 22 of the Agricultural Adjustment Act that did not conform fully with the terms of this article. The waiver was without limitation on the scope of restrictions or time. However, it set forth conditions and rules of procedure to be followed by the United States in imposing such restrictions and required a report annually to the Contracting Parties on actions under the waiver.

In 1968 the United States submitted its 13th annual report on the restrictions on imports of certain agricultural products currently in effect, on the reasons for the continuation of these restrictions, and on the actions taken to solve the problem of agricultural surpluses. At their 25th Session the Contracting Parties agreed to establish a working party to examine the report. Members of the working party were generally critical of the extent of the U.S. restrictions and expressed their disappointment that the United States has expanded the restrictions on dairy products. The report of the working party was adopted by the Contracting Parties.

United States-Canadian agreement on automotive products

In December 1965 the Contracting Parties authorized the United States to eliminate customs duties on certain automotive products imported from Canada under the United States-Canadian agreement on automotive products. In 1968 the United States submitted the second annual report on the operation of the agreement, covering the year 1967. The report was discussed by the Council of Representatives in June and again in September 1968. At the latter meeting the Council took note of the report but agreed that its examination should take place on a future occasion.

The operation of the United States-Canadian agreement on automotive products is discussed in chapter 1.

Turkish stamp duty (tax)

In April 1963 the Contracting Parties had granted Turkey a waiver, under article XXV:5 of the General Agreement, permitting it to apply a stamp tax of 5 percent on all imports--in effect, an import surcharge. The tax was one of the fiscal measures connected with Turkey's first 5-year development plan. In 1967 the Turkish Government increased the tax to 10 percent, and this action was approved by the Contracting Parties. In 1968, Turkey submitted the annual report on the operation of the stamp tax and informed the Contracting Parties that the tax had been raised to 15 percent. The Council of Representatives took note of the report without any further action.

Franco-German treaty on the Saar

In 1959, pursuant to the 1956 treaty between France and the Federal Republic of Germany, the Saar had been included in the West German customs area. Subsequently, duty-free trade between the Saar and France became subject to annual quotas and was legalized under GATT by a waiver in 1957. In 1968 both France and Germany submitted their 11th reports on actions under the waiver. At the 25th Session, the Contracting Parties took note of the report.

Australian tariff preferences for developing countries

In March 1966 the Contracting Parties authorized the Australian Government, at its request, to apply preferential tariff rates on certain imports from developing countries. The plan covered selected manufactures and semimanufactures subject to annual import quotas and certain handmade products of cottage industries admitted duty-free without quota limitations. In 1968, pursuant to paragraph 6 of the decision, the Government of Australia submitted its second annual report on actions under the waiver. According to the report, Australia's imports of the products involved from developing countries had increased considerably. In 1966/67, total quotas issued under the system amounted to \$3.7 million, and in 1967/68 such quota allocations reached \$9.0 million. The Australian Government stated its intent to continue, improve, and expand the application of the preferential rate system. The Contracting Parties took note of the report without any further action.

Australian tariff preferences for products of Papua and  
New Guinea

In 1953 the Contracting Parties permitted Australia a preferential tariff treatment of products imported from Papua and New Guinea. The purpose of the waiver was to encourage the economic development of the two areas. In 1968 Australia submitted to the Contracting Parties its 14th annual report on the operation of the system. The report indicated that no new measure had been taken since the 13th annual report. The Council of Representatives took note of the report without any further action.

Italian tariff preferences for products of Libya

In 1952 the Contracting Parties had granted Italy a waiver of preferential tariff treatment of certain products from Libya--a country with which Italy had special relations before World War II. In 1967 the waiver had been extended for the fifth time. Italian tariff preferences for these products had lost their significance by 1968 because oil had become Libya's main export and because exportable surpluses of other products had decreased. Under these circumstances, the Libyan Government informed the Contracting Parties of its wish to put an end to the preferential arrangement. The Contracting Parties took note of the report and of the fact that the preferential customs treatment permitted under the waiver would cease to be applied after December 31, 1968.

Waivers granted under article XXV:5

As noted, article XXV of the General Agreement authorizes the Contracting Parties to grant a member country a waiver of any obligation imposed on it by the agreement. The decisions on waivers must be approved by a two-thirds majority of the votes cast, and such majority must comprise more than half of the contracting parties.

In 1968 six waivers were granted to six contracting parties: three, extending the time limit for Brazil, Chile, and Malawi for the renegotiation of schedules necessitated by their new customs tariffs; one, approving Canada's delay in implementation of certain concessions; one, permitting Ceylon to continue the application of certain increased bound duties; and one, extending Uruguay's time limit for the application of import surcharges.

Only the waiver for Canada was new; the remaining five were extensions of time for the application of waivers previously granted to the countries concerned. The original waivers for Ceylon and Uruguay were first granted in 1961; the waiver for Chile, in 1966; and those for Brazil and Malawi, in 1967. The time limit of the waiver for Brazil was extended twice in 1968.

## VARIOUS ACTIONS TAKEN

Besides the actions presented above, the Contracting Parties or their agencies gave their attention to various other matters in 1968, the more important of which are summarized below.

Establishment of the Committee on  
Antidumping Practices

At their 25th Session the Contracting Parties established the Committee on Antidumping Practices, in accordance with article 17 of the agreement of June 30, 1967, on implementation of article VI of the General Agreement. <sup>1/</sup> Pursuant to article 17, the Committee shall meet once each year so that parties to the agreement may consult on matters relating to the administration of their antidumping procedures. The purpose of the Committee's consultations is to facilitate operation of the antidumping code (part I of the agreement).

Border Tax Adjustments

Following a request by the Government of the United States, in March 1968 the Council of Representatives appointed a working party to examine the provisions of the General Agreement relevant to border tax adjustments, the practices of the contracting parties concerning these matters, and the effect of border tax adjustments on international trade. The working party held five meetings during 1968. It completed the examination of the relevant provisions of the General Agreement and examined a number of border tax systems applied by some of the contracting parties. The work done so far brought out the fact that border tax adjustments have been applied by many countries and they may sometimes be used as a cover for protection.

At the 25th Session of the Contracting Parties the working party on border tax adjustments presented its interim report. The

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<sup>1/</sup> See Basic Instruments . . ., 15th supp., p. 24. The agreement entered into force on July 1, 1968.

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

#### Foreign Trade Measures Introduced by France

The Government of France, motivated by the prolonged halt in industrial production in May and June 1968, introduced a series of temporary restrictive measures in the field of foreign trade. They became effective July 1, 1968, and consisted of quantitative import restrictions and an export promotion scheme. A nondiscriminatory ceiling was imposed for 4 to 6 months on imports of motor vehicles, certain electrical appliances, iron and steel products, and certain categories of textile products. The main components of the export promotion plan were the reduction from 3 to 2 percent of the rediscount rate for export credits and a partial compensation of exporters of products other than agricultural and energy products for wage increases.

The GATT Council of Representatives examined the French trade measures early in July 1968 and established a working party to study them. In its first report, adopted by the Council on July 19, 1968, the working party recognized the exceptional circumstances that had induced the French Government to take the measures in question. The party noted, however, that the present case could not constitute a precedent for the future. In the second report, adopted by the Council on November 11, 1968, the working party noted certain relaxations of French restrictions (for example, the abolition of the exchange control on September 4) but urged the French Government to

examine the possibility of removing the remaining restrictions before the fixed dates.

#### Poland's Implementation of Accession Protocol

In 1967 Poland acceded to the General Agreement on Tariffs and Trade. Instead of reciprocal tariff concessions ineffective in a country with a state monopoly of foreign trade, Poland undertook to increase the total value of its imports from the contracting parties by not less than 7 percent per annum. 1/

In 1968, pursuant to paragraph 5 of the Protocol for the Accession of Poland, 2/ a special working party held the first annual consultation with the representative of the Polish Government concerning Polish foreign trade and submitted a report to the Contracting Parties.

During the first 6 months of 1968, Poland's imports from GATT countries were 7.6 percent above the level for the corresponding period of 1967. Those imports are expected to increase in 1969 by 7.2 percent over their value in 1968. At their 25th Session the Contracting Parties adopted the report of the working party on the consultation. 3/

#### United Kingdom Import Deposits

The representative of the United Kingdom notified the Contracting Parties at their 25th Session of various measures recently

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1/ Basic Instruments . . . , 15th supp., p. 52.

2/ Ibid., p. 49.

3/ For details, see Basic Instruments . . . , 16th supp., p. 67.

adopted by the British Government to accelerate progress in bringing the country's balance of payments into surplus. The measures included an import deposit plan. The Contracting Parties established a working party to examine the British import deposit plan and its implications and to present a first report to the Council of Representatives by January 21, 1969.

Trade Agreement Between India, the United Arab  
Republic, and Yugoslavia

Effective April 1, 1968, the Governments of India, the United Arab Republic, and Yugoslavia concluded a Trade Expansion and Economic Cooperation Agreement. The agreement was designed to increase trade between the three countries and to further their economic cooperation. In March 1968 the Council of Representatives discussed the provisions of the agreement and established a special working party to examine it "in the light of all relevant provisions of the General Agreement" and to report to the Council. The report of the working party was adopted by the Council. At their 25th Session the Contracting Parties decided that the agreement could be implemented subject to the usual consultations with the affected contracting parties and a review at the 26th Session. If this decision should be extended or modified at the 26th Session, the operation of the agreement shall be subject to an annual review.

Report of the Cotton Textiles Committee

Article 8(c) of the Long-Term Arrangement Regarding International Trade in Cotton Textiles requires the Cotton Textiles Committee of the

GATT to review the operation of the arrangement annually and to report to the Contracting Parties. In 1968 the report of the Committee on the sixth annual review took the form of a detailed discussion on the subject. <sup>1/</sup> The report was submitted to the Contracting Parties at their 25th Session and was adopted.

The operation of the arrangement regarding international trade in cotton textiles is discussed in chapter 1.

#### The Simplification of Consular Formalities

The interest of the Contracting Parties in discontinuation of various consular formalities connected with foreign trade originated in 1952, and the issue has been discussed annually. At their 22d Session, in 1965, the Contracting Parties decided that members still maintaining such formalities must report annually on the progress made toward removing them. In the following years the Secretariat of the GATT attempted to provide an up-to-date tabulation of these formalities. Up to the end of 1968 some progress in this work was made, but repeated requests for the submission of reports had never been fully effective. In response to the request in 1968 only two of eight countries concerned submitted reports.

At their 25th Session the Contracting Parties agreed that the matter should be discussed in the framework of nontariff trade barriers.

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<sup>1/</sup> See Basic Instruments . . . , 16th supp., p. 30.

Provisional Accession of Tunisia and the  
United Arab Republic

Tunisia and the United Arab Republic acceded to the General Agreement provisionally in 1959 and 1962, respectively. Since then, the declarations of provisional accession of both countries had been extended several times, but both arrangements were to expire on December 31, 1968. On the requests of the Governments of those countries, the Contracting Parties, at their 25th Session, extended the validity of the declarations for a further year.

REGIONAL ECONOMIC ARRANGEMENTS

Many contracting parties to the GATT are also members of regional economic arrangements, such as customs unions or free-trade areas. Under the General Agreement, they are required to report annually to the Contracting Parties on major developments within such regional arrangements.

During 1968 the Contracting Parties received reports from the representatives of the following regional arrangements: (1) The Arab Common Market; <sup>1/</sup> (2) the New Zealand-Australia Free Trade Agreement; (3) the Caribbean Free Trade Association; (4) the Central African Economic and Customs Union; (5) the European Economic Community; (6) the European Free Trade Association; (7) the Latin American Free Trade Association; and (8) the United Kingdom-Ireland Free Trade Area Agreement. The Central American Common Market did not submit the required report.

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<sup>1/</sup> For additional information on the Arab Common Market, see Operation of the Trade Agreements Program, 17th report, pp. 36-37, and 18th report (processed), pp. 80-82.

For most of these, the Contracting Parties, at their 25th Session in November 1968, simply took note of the report without any further action or decision. The Contracting Parties instructed the Council of Representatives to decide how some problems raised in the report of the European Economic Community should be dealt with, and established a special working party to give further study to the report of the Caribbean Free Trade Association. No action was taken in respect to the report of the Central African Economic and Custom Union; because of the continued reorganization of the Union its report was to be followed by another.

The major developments concerning the organization and commercial policy in several of the regional economic arrangements are discussed in chapter 3.



## Chapter 3

### Major Economic Developments in Regional Trading Blocs

#### INTRODUCTION

The economic developments in five major regional trade organizations, especially their commercial relations with the United States, are discussed in this chapter. These organizations are the European Community, the European Free Trade Association (EFTA), the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), and the Caribbean Free Trade Association (CARIFTA).

Growth of world trade continued vigorously in 1968, especially between advanced industrial areas. This rapid expansion was accompanied by significant changes in the trade balances of countries and subregions. The traditional surplus of the U.S. trade balance was virtually eliminated. Several of the major trading partners of the United States increased their overall surpluses (the European Community, Canada, Japan), reduced their trade deficits (EFTA), or experienced some decline in their overall surplus (LAFTA). The shift in the U.S. trade balance was caused predominantly by unusual growth in U.S. imports during the year, which, in turn, was spurred by vigorous business activity, rising consumer incomes, and strike-induced purchases of certain metals in the United States. U.S. exports, while they also accelerated in 1968, failed to match the increase in imports.

Thus, the disappearance of the U.S. trade surplus in 1968 was caused primarily by internal developments and cannot be attributed to the commercial policies of countries with which the United States has trade agreements. Nonetheless, in view of the gradually declining

U.S. trade surplus since 1964, the development of U.S. foreign trade appears to be more and more challenged by the commercial policies of the trading partners of the United States, especially those of regional economic organizations. Tariff and other commercial discrimination against third countries is an intrinsic feature of such regional groups. For example, the protectionist measures gradually adopted by the European Community, especially respecting agricultural trade, may lead to a significant decline in U.S. agricultural exports. Most of the countries with which the United States has trade agreements are members of various regional organizations, with the major exception of Japan, one of the leading U.S. trading partners.

Tariff discrimination directed against the United States, inherent in regional trading arrangements, was alleviated during the year under review, as the U.S. trading partners (along with the United States itself) implemented the tariff reductions scheduled for 1968 in the Kennedy Round of trade negotiations concluded within the framework of the General Agreement on Tariffs and Trade (GATT). If the tariff reductions implemented on January 1, 1969, are also taken into account, by the beginning of 1969 all major U.S. trading partners as well as the United States itself had cut their tariffs by 40 percent of the total reductions to which they had committed themselves. At the same time, however, increasing protectionist measures practiced through a variety of nontariff barriers were revealed during the year as major obstacles to multilateralism and nondiscrimination in international trade.

In 1968, Canada, the European Community, Japan, LAFTA, EFTA, and the CACM 1/ accounted for about 80 percent of all U.S. imports and 75 percent of all U.S. exports. Canada, Japan, and most members of the above regional organizations have trade-agreement obligations with the United States, primarily through their membership in the GATT.

#### EUROPEAN COMMUNITY 2/

Significant achievements were attained in the European Community during 1968. The European Economic Community (EEC), which was initiated in 1958, was virtually completed in 1968. It was attained fully in industry through establishment of a customs union and almost completely in agriculture, predominantly through special measures developed separately for various agricultural products. Hence, most commodities now move virtually free of restrictions in the Community, their production and prices regulated by the supply and demand conditions of the Community as a whole. Moreover, the products of the six members are now the subject of common Community protection against import competition from third countries; for industrial products, this protection

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1/ The trading partners are listed in the order of the value of U.S. imports from them.

2/ The six members of the European Community (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands) joined in three separate organizations; they established the European Coal and Steel Community in 1952 and the European Atomic Energy Community and the European Economic Community (EEC) in 1958. In the previous reports of this series the pertinent activities of the six member countries were discussed in terms of the EEC only. In 1967 the institutions of the three organizations merged, pending merger of the three organizations themselves. This report discusses the commercial policies of the six countries not only in terms of the EEC but also in the broader terms of the European Community.

takes the form of the common external tariff (CXT), and for agricultural products, either the CXT or common import levies. The process of single-marketing and subsidy schemes for the important agricultural products of the Community was also completed during the year under review. Such schemes were the precondition for establishment of common markets for many farm products.

Certain barriers to free trade and competition in the six-country area have nonetheless remained, such as various border restrictions, obstacles to the free flow of imports on the basis of health and technical standards, and differences between members in taxation and customs legislation. During the year under review, attention was given to the problem of removing these barriers. Moreover, the consideration of the Community turned increasingly to various areas of cooperation between members beyond the limited goal of free trade and common protection. The pursuit of such additional areas of cooperation is referred to as "building an economic union" and is considered to be the present objective of the Community. An economic union is generally understood as linking the economies of various sovereign States in a single economy, including a common market for commodities as well as for all resources. The union will develop common Community-level policies and law concerning all key social and economic areas (such as agriculture, industrial structure, energy, transport, social policy, finance, money, and nuclear and nonnuclear research).

In moving toward an economic union, the Community experienced both progress and frustration in 1968. Probably the most concrete achieve-

ment of the year was the establishment of a common labor market. <sup>1/</sup>  
An important proposal, with potentially far-reaching consequences, was that for a long-range structural reform program for agriculture in the Community. Progress was also made in the development of a common transport and commercial policy, and in policy regarding industrial structure in the Community. Nonetheless, national interests were frequently superimposed on interests of the Community as a whole, and resultant discord among members proved to be an impediment to progress in developing common policies in various areas. The members' inability to agree was notable with respect to both long-range programs and short-range policy matters.

While the virtual attainment of the common market made 1968 a landmark year in the Community's internal development, no change of comparable significance took place during the year in the external relations of the Community. A consensus of all the members on the vital issue of enlarging the Community and admitting the four European countries that applied for membership in 1967 could not be reached in 1968. Neither have the members agreed on any alternative course of action regarding the application of these countries. Perhaps the most important event of the year in terms of Community action toward third countries was the reduction of the CXT by 40 percent of the tariff concessions the Community agreed to in the Kennedy Round. These significant reductions of duties materially narrowed the trade gap between the Community and third countries, including the

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<sup>1/</sup> For further information see European Community, No.116, September 1968, p. 12.

United States. Another event affecting the Community's relations with third countries was the signing of a new association agreement between the Community and three east African countries.

#### The Customs Union 1/

On July 1, 1968, the customs union was virtually completed; the movement of nonagricultural commodities was made free of tariff restrictions within the Community, and the products of the members were placed under common tariff protection from the import competition of third countries. In the Treaty of Rome, 2/ the completion of the customs union was scheduled for 1970, but the vigorous economic expansion that took place in the Community during the so-called transitional period 3/ permitted its attainment 18 months earlier. Two important steps taken on July 1 completed the customs union: (1) the last 15 percent of the members' duty rates (the so-called base rates that were in force in 1957) were eliminated in intramember trade and (2) the common external tariff for industrial products was implemented.

The elimination of intra-Community customs duties took place gradually during the transitional period. Since January 1, 1961, the actual timetable of duty reductions has been ahead of the one set out

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1/ The customs union applies predominantly to manufactures. In the European Community a customs union is less important with regard to the agricultural sector, since alternative forms of protection are applied to many important agricultural products. Moreover, with respect to applicable farm products, the customs union has not yet been fully completed. See also pp. 59-60.

2/ The treaty that established the European Economic Community in March 1957 is generally referred to as the Treaty of Rome.

3/ The transitional period began in 1958, when the European Economic Community became operative, and ended with the completion of the customs union in 1968.

in the Treaty of Rome. Import quotas for manufactures were abolished among the Six as far back as 1961.

The common external tariff was established, as a general rule, on the basis of the arithmetic averages of the members' duties that were in force on January 1, 1957. The members of the Community adjusted their national tariffs to these averages in three stages: In 1961, by the first 30 percent of the existing gap; in 1963, by the same margin; finally, in July 1968, by the remaining 40 percent. These dates of adjustment, like the dates of the internal tariff reductions, preceded the ones originally scheduled (1962, 1966, and 1970, respectively). Concurrently with the final adjustment made in July 1968, the CXT was reduced by 40 percent of the tariff cuts agreed to in the Kennedy Round. 1/ Taken as a whole, the CXT that was introduced in 1968 was lower than the French and Italian national tariffs, roughly comparable with the West German tariff, and higher than the Benelux tariffs. 2/

#### Provisions To Make the Customs Union Fully Operative

In order to make the customs union function smoothly and effectively, a great number of measures other than elimination of internal tariffs and establishment of a common external tariff were needed.

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1/ See p. 64.

2/ According to a publication of the European Community (Economic Community, No. 113, June 1968, p. 6) the arithmetic average of the members' base duty rates on all industrial products was 12.8 percent. After the first two stages of the reductions agreed to in the Kennedy Round were applied, the CXT in force on July 1, 1968, represented an average duty rate of 10.7 percent.

Disparate import rules and regulations of various members concerning public health, safety, and technical standards continued to shield the domestic industries of one member against those of another. Moreover, various charges and controls at the Community national borders had to be eliminated if free trade in the customs area was to be truly attained. The diversity of turnover taxes and excise duties between members constituted further obstacles to the free movement of commodities in the customs area. As far as common protection against third countries was concerned, in addition to a common customs tariff, common rules in the application of the tariff were needed to assure uniform tariff protection throughout the Community.

During 1968, the Community devoted considerable effort to the development of measures required to perfect the customs union. The Commission of the Community referred a program concerning the removal of various technical obstacles to free internal trade to the Council. It had been agreed in 1967 that differing national turnover taxes would be replaced by 1970 with a uniform turnover tax system throughout the Community, and in 1968 several member States adjusted their laws accordingly. The Community Council adopted various rules for the application of the CXT; they concerned uniform classification and valuation of the goods imported to the Community's customs territory, as well as uniform definitions for establishing the origin of such goods. The Council studied proposals concerning the harmonization of the members' legislation regarding storage of imported goods, payment of charges, free zones, and so forth. Harmonizing pertinent

legislation for all members of the Community is necessary to insure that goods entering the customs territory of the Community receive identical customs treatment, irrespective of their point of entry. Otherwise, products of nonmember countries could enter the Community through the member with the most favorable customs treatment and be distributed from there throughout the Community.

### The Agricultural Common Market

The breakthrough towards establishment of an agricultural common market took place in 1967 with the completion of single markets for a number of basic farm products. With the completion of single markets for additional commodities in 1968, about 90 percent of the Community's agricultural production became completely free of trade restrictions. Moreover, a common system of protection had been established against imports from third countries by means of a variable levy system or the CXT. These measures amounted to the virtual completion of an agricultural common market. Only a few farm products were then subject to intra-Community trade restrictions or to disparate protection against imports from nonmembers.

When the Community became operative in 1958, all members had an agricultural support program, primarily to bolster farm income. In order to create a unified agricultural market for the entire Community, the existing differences between these national farm policies needed to be reconciled in a common agricultural policy (CAP). To achieve a unified agricultural market in which prices for identical

goods differ only by transportation costs, Community-wide regulations had to replace national price regulations, such as trade restrictions, marketing arrangements, and price or income subsidies. Finally, as with industrial products, an appropriate common system of protection against imports from nonmembers had to be provided. For industrial products this involved only the replacement of national tariffs by the common external tariff; for most agricultural products, however, the substantial farm support provided for in the CAP had to be complemented by a far more effective system of protection than the harmonization of existing national tariffs.

Although the Treaty of Rome spelled out the objectives of the CAP, 1/ a detailed policy program was not approved until 1962. Even then, owing to substantial difficulties of the members in reaching agreement, no long-range policy decisions were made concerning desirable structural changes of agriculture in the Community. Only a short-term program was developed, geared mainly to the establishment of a common agricultural market.

The effect of the CAP was to subsidize farming in the Community at a considerable cost. 2/ CAP regulations provided substantial price supports for commodity groups that supplied a large part of farm income. In order to maintain prices significantly above world market prices, the Community market for the products involved needed to be insulated from world price developments. Accordingly, a common

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1/ Title II of the Treaty of Rome.

2/ See the section on financing the CAP, pp. 63-64.

system of variable import levies, instead of CXT, was instituted for many important agricultural commodities in order to restrict their importation into the Community. 1/ In addition, the application of high support prices in the Community encouraged overproduction and created the need for common export subsidy systems to facilitate the disposal of production surpluses.

Regulations were developed separately for each commodity group that was designated to become subject to the CAP; 2/ these regulations differed materially in the extent and form of subsidization and import protection they provided. Some commodity groups (such as grains and rice) were accorded strong price guarantees, i.e., relatively high "intervention prices" at which the member governments were willing to purchase the product from the farmer in order to maintain his income. For other commodities (such as pork), price supports stabilized the market at only a moderate price level. For still others (eggs and poultry), no price guarantees were provided, although common marketing arrangements and a common levy system were developed for them. For some products (such as grains), a variable levy system designed to offset any price advantage that imported products may have over domestic ones was provided. 3/ For other CAP products a more liberal import policy that used either a less protective levy system (for pork,

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1/ The mechanics of the variable import levy were discussed in Operation of the Trade Agreements Program, 17th report, pp. 65-66.

2/ In 1968, more than 90 percent of the Community's agricultural production was subject to some CAP controls.

3/ A system of variable levies replaced customs duties for grains, rice, pork, eggs, poultry, milk products, olive oil, and sugar.

eggs, and poultry) or the CXT (for beef, veal, fruits, and vegetables) was applied.

For most commodities, the "common market stage"--i.e., the application of common prices and a common commercial policy--was reached gradually. During the transitional period, separate national prices were maintained by Community members while Community-level marketing arrangements were put into operation. Moreover, during the transitional years, while a common levy system against imports from nonmembers had already been applied, some forms of restriction on intra-Community trade were still being maintained. National tariffs were gradually aligned to the CXT for those CAP products (such as fruits, vegetables, beef, veal, and flowers) for which tariffs were not replaced by levies.

Generally speaking, the transitional period ended and the common market stage was attained for a specific product once single prices and common protection from nonmembers were applied throughout the Community and intra-Community restrictions to trade had been completely removed. Further requirements for the common market stage were a unified commercial policy and financing arrangements for subsidizing the product. For many important agricultural commodities that were subject to the CAP regulations (grains, rice, pork, oilseeds, olive oil, eggs, and poultry), this stage was reached during 1966-67.

In 1968 the common market stage was virtually reached for most of the remaining agricultural commodities subject to CAP regulations: for sugar, on July 1, and for beef, veal, milk, and milk products, on

July 29. For these products single-price systems were introduced, a common commercial policy was established, and intra-Community trade in them was liberalized. In some respects, however, the unification of markets was not fully completed. 1/ Moreover, in 1968 a common market organization was established for plants, flowers, bulbs, and the like, that provided for the liberalization of intra-Community trade and the application of the CXT for these products. In addition to the commodities covered by the CAP, intra-Community trade was liberalized in 1968 for some farm products that were not designated as subject to CAP regulations, 2/ and the national tariffs of the same products were aligned with the CXT. By the end of 1968, about 40 farm products (representing 40 positions in the common tariff of the Community) did not move freely among the members. Duties levied on these items, however, did not exceed 25 percent of the rates that existed in 1957. The national tariffs for these products have not been aligned into a common tariff.

#### Structural Reform of Agriculture

In December 1968 the Commission of the European Community presented a memorandum to the Council that contained a reform program for the Community called Agriculture 1980. Sicco L. Mansholt, Commission Vice President and chief architect of the Community's current farm

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1/ For sugar, certain transitional provisions were to remain in force for 7 more years, during which period price and marketing guarantees were to be tied to a quota system. For liquid milk, the single market was to be finalized by 1970.

2/ The products that were not intended to become subject to the CAP were listed in annex II of the Treaty of Rome.

policy, in explaining the need for an agricultural reform program, 1/ pointed out that the measures taken thus far by the Community in support of farming had not led to a permanent solution. Despite the considerable financial effort that went into supplementing agricultural incomes, farmers had not received their share of the increase in prosperity that had taken place since establishment of the Community. The gap between the quality of urban and rural life continued to widen. At the same time, subsidized farm prices encouraged production to the extent that, in many areas of farming, serious surplus problems were created. 2/

The 10-year reform program (1970-80) suggested by the Commission envisaged (a) the adjustment of production to internal and external market conditions and (b) a sharp increase in farming efficiency. Improved efficiency would be obtained by withdrawal of marginal land from farm uses and by concentration of production in well-managed farms large enough to employ modern techniques. The program suggested various measures that would promote the amalgamation of existing farms into viable units, change production patterns, and facilitate the retirement of older farmers and the shift of millions of younger farmers into nonfarming activities. Between 1970 and 1980 the program would move 5 million people off the farm.

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1/ Statement entitled "The Reform of Agriculture in the European Economic Community," in Brussels, on Dec. 10, 1968.

2/ Through 1968, growing surpluses of butter, milk powder, certain fruits, vegetables, and cereals were of concern to Community authorities.

The structural reform program was expected to increase the already high cost of the CAP materially. The Commission nonetheless chose to advocate the program, considering that it would provide a permanent solution to the problem of agriculture in the Community. In contrast, the current subsidy programs for various farm commodities required large expenditures and did not remove the farmers' basic discontent.

The implementation of an agricultural reform program along the suggested lines would greatly affect agricultural trade relations between the Community and third countries, including the United States. The proposed reforms could result in a Community agricultural policy that conforms more closely with the principles of free international trade. For example, the United States would have greater access to the Community market if the extensive subsidy schemes and special import restrictions are reduced. On the other hand, U.S. farmers might face increased competition in third markets if the Community succeeds in reducing farm costs substantially. In any event, it will be many years before the proposed reform program can be fully implemented, and U.S. agricultural trade relations with the Community will continue to be shaped for some time by the present CAP.

#### Financing of the CAP

The European Agricultural Guidance and Guarantee Fund (EAGGF) was established in 1962 as the instrument through which the considerable costs of the CAP would be financed. The Guidance Section of the Fund was designated to finance the structural improvement of agriculture in member countries; the Guarantee Section--much the greater part

of the total Fund--was to finance the price-support operations and the subsidization of exports under the CAP.

The EAGGF drew its resources from the member States partly from contributions based on a predetermined percentage distribution and partly from the levies members collected on imports from third countries. Since mid-1967, 90 percent of the levies collected on such imports have been going to the Fund, thereby reducing the fixed-percentage element in the members' contributions. From 1970 on, all levies collected are to go to the Fund, although additional sources of revenue will still be required to meet the full expenditures of the CAP.

Between 1962 and the end of 1968, the expenditures of the EAGGF amounted to \$2.2 billion. The major part of this sum, \$1.8 billion, financed price-support and export-subsidy schemes through the Guarantee Section. Expenditures for the structural improvement of the Community's agriculture were limited in this period. West Germany was the largest contributor to the Fund, followed by France, Italy, the Netherlands, Belgium, and Luxembourg. The chief recipient was France, followed by Italy and West Germany.

#### Commercial Policy Affecting Third Countries

##### Reduction of the common external tariff

On July 1, 1968, the Community reduced the CXT by 40 percent of the total reductions agreed upon in the Kennedy Round. The remaining 60 percent was scheduled to be eliminated by 1972 in three equal reductions.

France

In May 1968, 2 months before the scheduled establishment of the industrial customs union, France experienced a serious political and economic crisis. The resulting financial problems of that country threatened postponement by France of measures required for completion of the customs union and implementation by the Community of the agreement reached in the Kennedy Round. However, France did not jeopardize the July 1 deadline; it went ahead with eliminating duties in inter-member trade and adjusting duties against third countries to the CXT. Nevertheless, in July, in agreement with the Community, the French Government introduced a variety of temporary new measures deemed necessary to meet the country's financial difficulties. These consisted of exchange controls, import quotas in particularly sensitive industrial sectors (steel, motor cars, and certain textiles), import controls in a few others, export subsidies aimed at balancing newly accorded wage increases, and other measures that facilitated exports. France lifted its exchange controls in September and subsequently withdrew the quantitative restrictions.

In the wake of its currency crisis, however, in November France reimposed even more stringent foreign-exchange controls than the ones it had revoked in September and adopted additional measures to strengthen the franc. For example, it substituted a rise in value-added taxes (TVA) for the existing payroll taxes, since payroll taxes were not eligible under the GATT for border adjustments as value-added taxes were. This measure was designed to improve the balance of

trade, since it would allow an increase in both the border taxes on imports and the tax refunds for exports.

Community partners assisted France in its crises of 1968. They participated in financing a drawing made by France on the International Monetary Fund and provided short-term credit through their central banks for the Bank of France. Moreover, in accordance with the recommendations of the Community, a member State (the Federal Republic of Germany) accepted flotation on its capital markets of loans contracted by French borrowers. The Community outlined for the members additional economic policy measures that were designed to help France in its difficulties. Nonetheless, events of the year revealed that Community members had difficulty in adopting a common attitude in emergency situations and that more coordination of their economic policies and measures was needed for the future.

#### The Federal Republic of Germany

The measures adopted by the Federal Republic of Germany after the international financial crisis of November were designed, in contrast to the French measures, to reduce its foreign-trade surplus. On November 30, the German parliament passed a new law, scheduled to stay in force until April 1970, which gave importers a rebate defined in specified percentages of the import equalization tax payable on imported commodities. <sup>1/</sup> The new law was designed to work as an import incentive by providing tax relief to importers. Imports of products subject

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<sup>1/</sup> Importers were entitled to 2 or 4 percent rebate on imported commodities subject to 5.5 or 11 percent TVA, respectively, on the domestic market.

to the common agricultural policy of the European Community, however, were generally exempt from the new tax relief.

As a corollary to the reduction of border charges on imports, the new law introduced charges on exports. German exporters had heretofore obtained a refund for the full amount of value-added tax levied on the commodities they exported. Under the new law, only part of such taxes were to be refunded to the exporter. <sup>1/</sup> The new measure thus had the effect of increasing export selling prices by specified percentages. Agricultural products covered by the common agricultural policy of the Community were exempt from the new tax.

#### Enlargement of the European Community

The United Kingdom, Denmark, Norway, and Ireland had applied for membership in the EEC in 1967 <sup>2/</sup> and apparently would have obtained it, save for the refusal of France. In the first quarter of 1968 the Federal Republic of Germany submitted proposals to the Council regarding interim measures of cooperation between the Community and the countries that wished to become members. Proposals on the same subject were submitted earlier to the Council and other interested forums by the Benelux countries and Italy. All of these documents reaffirmed the strong belief of the five Community members (France excepted) in European unification. The German proposal emphasized cooperation

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<sup>1/</sup> Two or 4 percent of the tax was not to be refunded on exported commodities that were subject to 5.5 or 11 percent TVA, respectively, on the domestic market.

<sup>2/</sup> See Operation of the Trade Agreements Program, 19th report (processed), pp. 141-144.

between the Community and the would-be members, particularly in two fields--commercial policy and technology. It advocated a preferential trade arrangement between the Community and the applicants. The proposed system was to be multilateral, based on reciprocity, and was to include provisions for progressive tariff cuts and the removal of other restrictions to trade in industrial products. Regarding agricultural trade, West Germany advocated that a special system of preferential treatment be negotiated bilaterally between the Community and the other members of the proposed preference zone. With respect to research and development, West Germany advocated cooperation in the field of atomic energy, as well as in other areas where investments were costly and where the participants were lagging behind leading technology. The proposal included a European patent that would entitle the applicant countries to take part in the Community's patent arrangements.

In April the Commission submitted to the Council a document entitled "Opinion Concerning Certain Problems Resulting from the Application for Membership Received from the United Kingdom, Ireland, Denmark and Norway." The Commission suggested a preliminary preferential arrangement that would align the participants' tariffs as applied to third countries. Later in April the Council opened an exchange of views on this document and the problems covered therein on European cooperation. In September, in a meeting of Community foreign ministers, the French representative rejected the German proposals. While accepting the viability of limited tariff-cutting arrangements, France did

not consider these a prelude to membership for the United Kingdom and other countries in the Community.

The United States considered that a preferential arrangement for the applicants would conflict with the most-favored-nation principle and would discriminate against U.S. products, thus constituting a serious threat to U.S. foreign trade. <sup>1/</sup> An actual enlargement of the Community would also involve an exchange of trade preferences between the new partners, but the discriminatory effect presumably would be counterbalanced by the trade-creating effect of economic integration. For this reason, as well as for political reasons, the United States has advocated an expanded Community that would include the United Kingdom and other European countries.

#### Other External Relations

In 1968 the Community continued to expand the intricate preferential system it had developed since 1958. The Community created this system by successive agreements of association <sup>2/</sup> with European and African countries; first with Greece in 1961, with 18 African and Malagasy States <sup>3/</sup> and with Turkey in 1963, with Nigeria in 1966, and,

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<sup>1/</sup> The formal objection of the United States to the European preferential trade agreement is reported in Future United States Foreign Trade Policy: Report to the President submitted by the Special Representative for Trade Negotiations, 1969, pp. 9-10.

<sup>2/</sup> Association agreements are generally agreements regarding the eventual establishment of a customs union or free-trade area. Associations indicate a wider scope of economic ties between participants than trade agreements but a narrower one than full membership in a regional organization.

<sup>3/</sup> This agreement of association conferred associate status on former territories that have since become independent.

finally, with three east African States in 1968. In addition, the Community negotiated other agreements of association with Austria, Spain, Israel, and Malta which, by the end of 1968, had not been concluded. The Community also signed bilateral trade agreements with Iran, Lebanon, Israel, Morocco, and Tunisia.

The concessions accorded by the Community to its associates and specific trading partners are inherently discriminatory against other less developed countries not associated with the Community's preferential system. The United States does not support the Community's discriminatory arrangements or other regional preferential systems, but instead advocates a generalized system of preferences to all developing countries. Along with other developed countries, the United States has agreed to explore the possibilities of such a system. 1/

#### Association with three east African countries

In July 1968, three east African countries--Tanzania, Uganda, and Kenya--became the most recent African associates of the Community. The new agreement was induced by a declaration of intention issued by the EEC Council of Ministers in 1963, which invited African countries with economic structures comparable to those of the 18 associated African States to request negotiation with the Community regarding eventual association. The new agreement, however, expired on May 31, 1969; the same termination date applied to the Community's other two association agreements with African countries--the Yaoundé Convention,

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1/ Twelfth Annual Report of the President of the United States on the Trade Agreements Program--1967, 1968, pp. 42-43.

negotiated with the 18 African States, and the Lagos Agreement, concluded with Nigeria. The coincidence of the expiration dates was intentional, designed to facilitate the joint consideration of renewal items for all three of these associations.

The agreement with the east African countries was signed at Arusha, Tanzania, and was to come into force after ratification by the parties involved. It provided, as a general rule, that the exports of the east African countries to the Community, like those of the Yaoundé countries, would be accorded treatment identical with that accorded the exports of Community members to each other. To avoid harmful competition for the Yaoundé countries, however, sales by the east African associates to the Community of coffee, cloves, and tinned pineapple were to be limited. Moreover, the association council was to decide later on the treatment by the Community of some agricultural export commodities of the east African partners which had competitive counterparts in Community countries. The east African partners, on their behalf, committed themselves to eliminate customs duties and quotas on goods originating in Community countries, but were allowed to make exceptions where their development needs, balance of payments, or fiscal considerations so required. The obligations of the east African countries to the Community were similar to those of the Yaoundé associates and Nigeria.

#### Renewal of the African association agreements

In 1968 the signatories of the Yaoundé Convention made preparations for negotiating a new convention, as the current one was due

to expire in 1969. Many points of disagreement existed, however, between the African and the European views on the terms of a new association. The African countries were generally dissatisfied with the growth of Community imports from them. During the years of association, the growth of such imports had been significantly less than the expansion of intra-EEC trade, and even less than the growth of Community imports from nonassociated countries during the same period. The African associates blamed this shortfall on remaining trade barriers maintained by the Community, such as excise taxes levied on many imported tropical goods in Community countries. Moreover, they felt that the tariff preferences accorded to them did not sufficiently protect them from the competition in tropical exports of other African countries and American countries that were not associated with the Community. The African associates expected, therefore, to propose different trading arrangements that would allow a faster expansion of their trade with the Community.

It appeared in 1968 that the Community, on its behalf, planned to propose that the basic features of the previous agreement be essentially maintained with some modifications. These would be designed predominantly to help the production and marketing of some tropical products in the associate countries and facilitate their exportation to the Community.

#### Foreign Trade

The Community members' trade with each other has expanded significantly as a result of the gradual elimination of the obstacles to

such trade. Over the 10 years in which the Common Market has existed, intra-Community trade has more than quadrupled; it reached \$28.4 billion in 1968, compared with only \$6.8 billion in 1958. The Community's trade with third countries also expanded appreciably during the same period, although at a lower rate than intra-Community trade. In 1968, Community exports to third countries amounted to \$35.3 billion and imports from third countries, to \$33.5 billion, more than double and almost double, respectively, the 1958 values. This growth of external trade outstripped the increases in overall world trade and the foreign trade of most other countries or economic groupings. The Community's balance of external trade, which was in deficit during the first 6 years of this decade, improved to a surplus position in 1967. This surplus more than doubled during the year under review, mainly because of a sharp improvement in the West German and Italian trade balances.

#### Commercial Relations With the United States

Trade with the United States was largely responsible for the significant improvement in the Community's trade balance in 1968. The traditional trade deficit of the Community with the United States was all but wiped out in 1968 as the United States increased its imports from the Community by 30 percent to \$5.9 billion. The increase in U.S. imports was accounted for by consumer goods and by substantial purchases of iron and steel products in expectation of a steel strike. The 8-percent growth of U.S. exports to the Community to \$6.1 billion was far lower than the 30-percent rise in U.S. imports from the

Community. Consequently, the U.S. trade surplus with the Community declined from \$1.2 billion in 1967 to \$250 million in 1968.

The virtual disappearance of the U.S. trade surplus with the Community in 1968 appears to have resulted mainly from developments that took place within the U.S. economy. Nonetheless, contraction of the U.S. surplus that began after 1965 seems to reflect, at least in part, the effect of certain measures applied by the Community. For example, the CAP reduced the access of U.S. agricultural products to the Community market. Various nontariff barriers also had a restricting effect on U.S. exports.

The expansion in 1968 of United States-Community trade continued an uninterrupted trend. Whereas in 1958 the United States accounted for 17 percent of the Community's total imports from third countries and 10 percent of its exports to them, in 1968 these percentages increased to 19 and 16 percent, respectively. The rapid economic development that took place in the Community evidently had a trade-creating effect that also boosted Community trade with extraregional countries, in particular with the United States, despite the discrimination against third countries inherent in a regional trade system.

During the year, the Community offered to assist the United States in its efforts to restore its balance of trade. In April the Council of the Community decided to bring forward by a year (from January 1, 1970, to the same date in 1969) the one-fifth cut in the tariff concessions the Community agreed to in the Kennedy Round and to allow the United States to postpone for a year its own tariff reduction, due on

January 1, 1969. In exchange for this concession, the Council required that the United States abolish the American-selling-price (ASP) system of valuation 1/ for chemical products by January 1, 1969, and refrain from introducing any further protectionist measures in that field. The Council's decision has not been implemented because the United States has not abolished the ASP system.

#### THE EUROPEAN FREE TRADE ASSOCIATION 2/

In 1968, members of the European Free Trade Association (EFTA) continued to give their attention to possible new forms of regional integration, both within and outside the Association. The members that wished to accede to the European Community persevered actively in their search for solutions to this end, and the four Scandinavian members renewed their interest in closer Nordic cooperation among themselves. However, no decisions regarding new regional patterns of European integration were made during the year.

EFTA members continued to improve the functioning of the free-trade area attained in 1966. Their primary efforts were directed toward the removal of nontariff trade barriers and the establishment of proper rules of competition in the area.

With respect to third countries, EFTA members generally followed independent commercial policies. During the year they all reduced

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1/ The ASP system of customs valuation gives added protection to a segment of domestic chemical production and some other goods by assessing the dutiable value of competitive imported products, not on the basis of the foreign cost, but on the basis of the ASP of such products.

2/ The Association includes the following countries as members: Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. Finland is an associate member.

duties toward third countries, as scheduled in the Kennedy Round of negotiations under the GATT, and made a conditional offer to accelerate their schedule of reductions unilaterally to give support to the U.S. balance of payments. The trade balance with the United States improved considerably in 1968 in EFTA's favor. In 1968 the United Kingdom put into effect a number of measures designed to improve its trade balance and strengthen its currency, the effects of which were expected to show in 1969.

#### The Future of the Organization

Frustrations felt over the inadequate development of European integration overshadowed the performance of EFTA during 1968. In December 1967, French opposition prevented any agreement, for the time being, on the applications for membership in the European Community by three EFTA countries: the United Kingdom, Denmark, and Norway. As far as member countries were concerned, EFTA was regarded from the beginning as a transitional arrangement, designed to further the eventual integration of its members into a larger Western European regional economic organization. On the last day of 1966, EFTA attained the major objective of completing the establishment of an industrial free-trade area among its members. After this accomplishment, however, the organization subordinated its efforts to function as an independent free-trade area in order to prepare for the accession of most of its members to the European Community.

EFTA Ministerial meetings devoted a considerable time in 1968 to possible interim solutions that would bridge the time until EFTA

members could accede to the Community. Some suggestions were put forward by members of the European Community, such as proposals for preferential trading and technical cooperation between the Community and EFTA members. Representatives of EFTA members expressed their readiness to consider any constructive proposals put forward by the Community, but there was little likelihood of an early solution, considering the disagreement that prevailed among the Community members even on the subject of an interim arrangement. 1/

EFTA's Scandinavian members meanwhile renewed interest in a Nordic customs union or economic union. 2/ In April 1968 the Prime Ministers of four EFTA countries (Denmark, Norway, Finland, and Sweden), together with an applicant for EFTA membership (Iceland), 3/ held preliminary discussions on the possibility of expanding economic cooperation among their countries. Cooperation among the four Scandinavian EFTA countries has always been greater than among other EFTA members; it extended beyond the trade concessions accorded each other on the basis of the EFTA treaty to other economic relations as well as social and cultural affairs. Trade between the four Nordic countries has increased much faster than intra-EFTA trade as a whole. Moreover, in the final, crucial months of the Kennedy Round, the Nordic countries negotiated as one unit.

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1/ See the section entitled "Enlargement of the European Community" on p. 67 of this report.

2/ In 1952 a Nordic Council was established by Denmark, Iceland, Norway, and Sweden. Finland acceded to it in 1955. The Council is a joint consultative body among the five parliaments, and meets annually. The possibility of a Nordic customs union was intermittently discussed by the Council.

3/ Iceland applied for EFTA membership in November 1968. The EFTA Council was to consider the application in 1969.

In the April meeting of the Scandinavian ministers it was proposed that Nordic economic cooperation be intensified to offset the failure to obtain membership in the Community. Cooperation would be extended into such areas as common agricultural, financial, and investment policies. Meanwhile, increased Nordic cooperation should not conflict with the continued functioning of EFTA as a whole, nor should it prejudice the final objective of an ultimate broad European solution. The ministers decided further that various ways of expanding Nordic economic cooperation would be investigated.

#### Internal Activities

In 1968 the EFTA was once more at a crossroads in formulating its internal objectives. In 1963, after the bids of several EFTA members to join the Community were rejected for the first time, EFTA proceeded with its original plan of establishing an industrial free-trade area. Having attained this objective, EFTA could now decide on a relatively passive internal program designed merely to keep the free-trade area functioning, or it could embark on a more ambitious one aiming at higher levels of integration among its members.

Representatives of various EFTA countries expressed widely divergent opinions about the path that the Association should be following. The work program agreed upon at the London meeting of EFTA ministers in May 1968 did not call for economic integration of EFTA members, but was designed predominantly to maintain and improve the functioning of the industrial free-trade area. The work program established three major objectives: (1) To improve the trading opportunities opened up

by the Association still further, (2) to pursue a more precise interpretation of the provisions of the Stockholm Convention, including the "rules of competition," and (3) to extend consultation within EFTA and with third countries in a number of fields, such as financial and economic policy.

Programs for removal of various nontariff barriers to EFTA trade and to free competition in the EFTA area came under the first two objectives. After the removal of industrial tariffs in 1966, nontariff barriers became the first concern of the Association. In general, the great significance of nontariff barriers in restricting international trade and competition has been recognized only recently. Among regional economic organizations EFTA has taken a pioneer role in identifying these barriers and searching for ways of coping with them.

In July 1968 the Association specified in what manner government aids could be used so that they would be compatible with free EFTA-wide competition. 1/ The rule on government aids 2/ provided that no types of aid, such as direct subsidies or remission of direct taxes, that would negate the benefits obtained from the removal of duties and quantitative restrictions in intra-EFTA trade should be granted to exporters. The agreement reached in 1968 on the application of this

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1/ The provisions of the EFTA convention on government aids are contained in art. 13 of the EFTA convention. Agreements regarding the interpretation of other EFTA rules of competition, which concerned the rights of establishment, restrictive business practices, and purchasing practices of public undertakings in the EFTA area, were reached in previous years. The provisions of the EFTA convention on these three rules of competition are contained in arts. 14-16.

2/ Annex C of the EFTA convention contains the full list of government aids that came under this rule.

rule did not go as far as harmonizing the aids provided by various governments in the EFTA area. However, it specified practices that were prohibited because they constituted barriers to trade or promoted unfair conditions of competition between member States. The agreement excluded forms of aid that did not constitute a net transfer of funds from a government to the recipient or that were intended to benefit research, development, structural changes, or general export promotion.

An important specific case of government aid was considered on the ministerial level during the year under review. EFTA ministers discussed the proposed expansion of aluminum-smelting capacity in the United Kingdom with the assistance of government aid and the possible effect this could have on Norwegian exports of aluminum. The two Governments concerned were called upon to settle their differences bilaterally and report to the EFTA.

During 1968 various working parties studied problems relating to the implementation of other rules of competition. Other groups investigated certain nontariff trade barriers and ways to eliminate them, especially the possibility of patent cooperation and the establishment of uniform industrial standards for safety and quality in EFTA countries. The diversity of such standards and of patent legislation within the EFTA area was considered a major cause of discrimination by one EFTA member against the products of another. The EFTA Council reached agreement during the year on facilitating intra-area trade of pharmaceutical products.

## Foreign Trade

The gradual removal of trade restrictions in the free-trade area resulted in a substantial growth of trade between the eight members of EFTA. In 1968 trade amounted to \$8.6 billion, 145 percent more than in 1959, the last year before the EFTA was established. Total exports by EFTA countries (including intra-area trade) reached \$33.2 billion in 1968 and their total imports, \$39.6 billion, representing increases over the comparable 1959 figures of 83 and 88 percent, respectively. During the year, EFTA's trade deficit with third countries decreased to \$6.4 billion from \$6.6 billion in 1967. The main component of this deficit, however, that of the United Kingdom, continued to grow from \$3.3 billion in 1967 to \$3.6 billion.

## Commercial Policy Affecting Third Countries

During 1968 EFTA members reduced their duties to be levied on imports from third countries in accordance with the schedule agreed upon in the Kennedy Round negotiations of the GATT. On January 1, 1968, Austria, Portugal, and Switzerland put into effect one-fifth of the total reduction to which they had committed themselves. The other EFTA countries--Denmark, Finland, Norway, Sweden, and the United Kingdom--were following a different schedule; on July 1, 1968, they reduced their duties by two-fifths of their total commitment, combining the reductions that were due on January 1 of 1968 and 1969.

The international monetary troubles of November 1968 induced the United Kingdom, the dominant member of EFTA, to apply a series of

measures designed to strengthen its financial and trade positions. These measures included an import deposit scheme, to be effective for 1 year, that required importers of certain goods to deposit 50 percent of the value of such goods with the customs office. The deposits were to be made before the release of the goods from customs warehouse and were returnable in full after 6 months. The scheme generally applied to goods other than basic foods, feedstuffs, fuel, raw materials, and certain commodities imported mainly from developing countries. The system of deposits, together with other measures, 1/ was expected to reduce imports. The application of such measures was needed because the devaluation of the pound 1 year earlier 2/ and other measures adopted thereafter 3/ had not reestablished full confidence in this currency. The improvement in the balance of trade had been insufficient, primarily because the high level of consumer spending and buildup of stocks had prevented the necessary reduction in the volume of imports.

#### Commercial Relations With the United States

Despite the discrimination against third countries inherent in a regional free-trade arrangement, trade between the EFTA and the United States has expanded more rapidly than the total trade of either partner. The EFTA generally has a trade deficit with the United States that fluctuates from year to year.

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1/ Increases in sales taxes and new restrictions on bank lending.

2/ See Operation of the Trade Agreements Program, 19th report (processed), p. 140.

3/ In the first months of 1968 the British Government adopted various measures to restrict domestic demand.

In 1968 the EFTA countries collectively were beneficiaries of the deterioration in the U.S. trade balance, and the aggregate trade deficit of the EFTA with the United States was reduced, especially the deficit of the United Kingdom. Furthermore, 1968 was the first year in the postwar period when the Scandinavian countries--all EFTA members--jointly had a surplus in their trade with the United States.

The United States imported 3.4 billion dollars' worth of merchandise from the EFTA countries, 19 percent more than in the previous year, and exported 3.8 billion dollars' worth, 15 percent more than in 1967. The U.S. trade surplus with EFTA was reduced to \$390 million. U.S. imports from EFTA countries, particularly from the United Kingdom, were boosted in part by inflationary pressures in the United States.

EFTA members, like the European Community, offered during the year to take steps that would give support to the U.S. balance of payments, 1/ provided the United States fulfilled certain conditions. Unlike the Community, however, which proposed to complete three-fifths of the tariff reductions agreed to in the Kennedy Round by January 1, 1969, the EFTA countries were willing to complete their entire program of reductions by the same date, without requesting reciprocal action from the United States. No progress was made on the offer during the year.

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1/ The offers were made individually and more or less simultaneously by the EFTA governments in the form of notifications to the United States. The contents of the offers were more or less identical.

CANADA 1/

Canada's surplus of trade more than doubled in 1968, rising to more than \$1 billion. It resulted from a 19-percent increase in exports (to \$12.6 billion), compared with only a 14-percent increase in imports (to \$11.4 billion). The percentage growth in exports was the highest achieved in the postwar period and resulted largely from the accelerated growth of Canadian exports to the United States. The Canadian trade balance showed a surplus with the United States for the first time in nearly 80 years.

In 1968 the United States imported 9 billion dollars' worth of merchandise from Canada, 26 percent more than in the previous year. Increased U.S. demand for automotive products and industrial materials was largely responsible for the expansion in imports. U.S. exports to Canada increased by 13 percent, to \$8 billion. Thus, the U.S. trade deficit with Canada was close to \$1 billion.

United States-Canadian trade has expanded rapidly; it doubled in the period 1963-68, when automotive products were largely responsible for the growth of trade flows in both directions. 2/ The U.S. export surplus in this trade declined in 1966 and 1967. During 1968, however, the continued rapid increase in U.S. imports of automotive products

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1/ Canada also belongs to a regional group, the (British) Commonwealth of Nations, which is far older and different in character from the major regional groups of recent origin. No major commercial policy developments affecting U.S. interests occurred in this organization during the year under review.

2/ The implementation of the Automotive Products Trade Act of 1965 and United States-Canadian trade in motor vehicles and parts are discussed in ch. 1 of this report.

from Canada was virtually matched by a parallel rise in other Canadian exports to the United States. Thus, the trade surplus achieved by Canada with the United States in 1968 was accounted for in large part by commodities other than automotive products.

On January 1, 1968, the Canadian Government implemented, as scheduled, one-fifth of the tariff reductions it had agreed to in the Kennedy Round. Some of Canada's commitments had been implemented previously, in one step.

#### JAPAN

In 1968 Japan exported 12.7 billion dollars' worth of merchandise, 24 percent more than in 1967, and its imports increased by 13 percent, reaching \$10.2 billion. Hence, Japan's trade surplus of \$1.2 billion in 1967 more than doubled to \$2.5 billion in 1968.

During 1968, U.S. imports from Japan amounted to \$4.1 billion, and U.S. exports to Japan, to \$3.0 billion. The United States had been running a trade deficit with Japan since 1965, despite steadily increasing U.S. exports to that country. The 1967 U.S. trade deficit with Japan more than tripled to \$1.1 billion in 1968. Nearly half of Japan's total trade surplus resulted from that country's trade with the United States alone.

Japan chose to effect the first two of its scheduled tariff reductions under the Kennedy Round simultaneously on July 1, 1968. On that date Japan implemented 40 percent of its agreed tariff reductions. However, the Japanese Government maintains various nontariff

barriers (in particular, quantitative restrictions) that curtail United States access to its market to a large extent. In the course of 1968, the Japanese Cabinet announced its intent to review these restrictions and to ease import controls.

#### LATIN AMERICAN FREE TRADE ASSOCIATION

The year 1968 was noteworthy for the Latin American Free Trade Association (LAFTA) <sup>1/</sup> because of (1) the crisis over the Common List of permanent tariff concessions on commodities entering into intra-regional trade and (2) the growing enthusiasm for subregional rather than LAFTA-wide arrangements. The failure to agree on the second of four stages of the Common List in the extraordinary sessions of 1968, following the initial inability to negotiate at the annual LAFTA Conference in 1967, could result in the extension of the date set for the completion of the list, i.e., 1973, when virtually all intraregional trade was scheduled for liberalization. It could also necessitate a new formula for tariff reduction on the list, or could result in liquidation of the Common List itself. The progress achieved in negotiating tariff concessions for inclusion on the national lists of the individual LAFTA countries and in concluding industrial "complementation agreements," however, could minimize the impact of the stalemate on the Common List. The trend toward sub-regional agreements, although facilitating economic development on

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<sup>1/</sup> By the close of 1968, the membership of LAFTA consisted of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

a more limited scale in smaller areas, constituted a potential threat to the eventual success of the larger regional and overall Latin American efforts.

Considerable progress was realized in the negotiation of the national lists during the eighth annual Conference in 1968. These bilateral negotiations, consisting of the exchange of concessions between members on a product-by-product basis, added many commodities important to intraregional commerce to the lists. The success, although on a limited scale, of the industrial complementation agreements, which provided free trade within the region for a number of industrial products and groups of products, was also encouraging. No system for automatically reducing tariffs has won approval by LAFTA, but the strong confidence manifested by the industrial sector in the bilateral negotiating procedure, coupled with the success of recent negotiations, implies that LAFTA is still functioning dynamically.

The interest in subregional agreements within the framework of LAFTA, especially in that of the Andean Group of nations, reached high levels during 1968. It was believed that tariff liberalization and economic integration, perhaps even the formation of a common market, could achieve greater success on a small scale among countries of more or less equal development than on a LAFTA-wide scale among countries of greatly disparate economies. Despite the advantages of subregional arrangements, however, it was widely recognized that such fragmentation or limitation of original goals would be detrimental to LAFTA by making more difficult the eventual attainment of

economic integration and a common market for all of Latin America, as projected by the American chiefs of State at Punta del Este, Uruguay, in 1967. To the extent that individual countries or small groups of countries concentrate their initiatives and energies on internal development, they have less to contribute to the economic growth of a broad region.

After leveling off in 1967, intraregional trade resumed its upward course during 1968, primarily because of considerable gains in the value of Argentine and Brazilian trade within the region. Extraregional trade, especially with the United States, increased in 1968; U.S. exports to LAFTA rose about 15 percent in value during 1968, after falling off slightly in 1967.

LAFTA made steady progress during 1968 in the field of administrative measures designed to encourage and increase the liberalization of intraregional trade and to lay the groundwork for an eventual Latin American common market. The coordinating commission for LAFTA and the Central American Common Market (CACM) held its first formal meeting to arrange the projected merger of the two groups. Progress was made towards completing the uniform tariff nomenclature of the Association and in extending the quantity and improving the quality of regional statistical services, especially in the compilation of uniform statistics by the members of LAFTA.

Trade Concessions Added to National Lists 1/

At the eighth annual LAFTA Conference, during October-December 1968, approximately 500 new tariff concessions were added to the national lists of the members of the Association. By the end of 1968, the total number of these concessions granted since the inception of LAFTA amounted to nearly 11,000. About 6,500 of these consisted of concessions granted by four of the 11 participating countries-- Argentina, Brazil, Ecuador, and Mexico. It should be noted that the mere number of concessions granted is of little importance in assessing their contribution to the LAFTA program for the reduction of intraregional trade barriers. Most of the concessions (about 7,600) were granted during the first 2 years (1961-62) of the Association's existence; many were counted more than once, having been included in most of the individual national lists. In addition, a large proportion of the products subject to concessions granted had never appeared in intraregional trade and were not produced in the grantor nations. It is not surprising, therefore, that about half of the concessions granted had never been utilized by the end of 1968.

As the list of products available for concessions narrowed down to leading agricultural exports and those produced by new industries

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1/ The primary goal of LAFTA, scheduled for accomplishment at the end of a 12-year transitional period (1962-73), is the elimination of tariffs and other barriers to intraregional trade. The Montevideo Treaty provided three principal mechanisms--national lists, the Common List, and complementation agreements--to achieve this goal. (See Operation of the Trade Agreements Program, 19th report (processed), p. 142.)

that wished to be shielded from foreign competition, the number of new concessions appearing on national lists of LAFTA countries became fewer and fewer. However, the comparatively few concessions of the 1964-68 period included products (1) produced in the grantor nations, (2) increasingly important in intraregional trade, (3) finished through either manufacturing or processing, and (4) subject to duty at relatively high rates.

The qualitative rather than quantitative aspect of specific concessions, therefore, has been most significant in the expansion of the intraregional trade of LAFTA. A large concession on a single major product has generally been much more important to intraregional trade than minor concessions on a number of miscellaneous items. For example, Argentina had granted over 1,000 concessions on products for importation from Paraguay by 1968. Only 30 items, however, have accounted for approximately 95 percent of the annual value of Paraguayan exports to Argentina in recent years. In general, the commercial importance of concessions has varied in accordance with (1) the extent of the effective demand in each market within the region and (2) the extent of the margin of preference between the reduced rates levied on imports from fellow members of LAFTA and those levied on imports entering from non-LAFTA countries.

The principle of reciprocity has been firmly adhered to in the granting of trade concessions for inclusion on the national lists; although negotiating with reciprocity is a slow process, limited progress has been made in reducing intraregional tariffs. There is

little likelihood that the principle of automaticity 1/ will be adopted for these duty reductions, as the small and middle-sized members of LAFTA have been reluctant to make concessions that would permit the larger and more industrialized LAFTA countries to flood their limited markets with commodities to the detriment of their own embryonic industries. The larger countries, on the other hand, have been reluctant to make concessions to fellow members not in a position to reciprocate with concessions of equal value.

The LAFTA Secretariat calculated that, by the beginning of 1968, Argentina, Brazil, Chile, Mexico, and Uruguay had reduced their intra-regional duties, through concessions on their respective national lists, by a higher percentage (on a 6-year cumulative basis) than specified by the Montevideo Treaty; Colombia was slightly below the specified level. By December 1968, on a 7-year cumulative basis, Mexican tariff reductions had fallen below the indicated level, and those of Peru were considerably short of the goal specified in article 5 of the treaty. As for the products involved, most concessions in recent years have been granted on mechanical and electrical machinery, organic and inorganic chemicals, cement, tanning materials, tools, photographic equipment, and optical instruments.

By 1968, about 90 percent of the value of LAFTA intraregional trade was composed of products on which tariff concessions had been

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1/ Linear, across-the-board tariff reduction, made according to predetermined percentage rates on specific products and product groups and regulated by a predetermined timetable, and therefore automatic; this is in contrast to the method of reciprocal, item-by-item negotiation.

granted. These "concession products" have consisted traditionally of basic raw materials, which still account for the bulk of intra-LAFITA trade. Nontraditional products such as light manufactures and chemicals, however, accounted for increasing proportions of this trade during recent years, especially in 1968.

#### The Problem of the Common List

The second stage of the Common List was scheduled for 1967, <sup>1/</sup> to be completed during the seventh annual Conference of LAFITA. When the member countries failed to agree, a special Conference was held in July 1968 for the express purpose of negotiating the list, but the conferees again failed to reach agreement. Major obstacles to these negotiations were (1) objections to inclusion on the Common List of wheat and petroleum, largely state-traded items in the LAFITA area, which together have accounted in recent years for more than 25 percent of the value of intraregional trade; (2) the desire of some of the members to insert numerous escape clauses in the list; and (3) the fact that commodities once included on the list may not be withdrawn.

Failure to negotiate the second stage of the Common List was regarded in many quarters as inimical to the overall success of LAFITA, reflecting a basic inability to continue its forward movement and to function dynamically. However, there is no stipulated time schedule for the Common List, and the Montevideo Treaty requires only that all products in intraregional trade be liberated from duties and charges.

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<sup>1/</sup> The first triennial conference to negotiate the Common List was successfully completed in 1964; see Operation of the Trade Agreements Program, 17th report, p. 83.

by 1973. Suggestions have been made within the Association for advancing the completion time of the Common List or for modifying the proportional requirements (regarding the 25-percent liberalization of intraregional trade). The success of the concessions on national lists, as well as the possibilities offered by the program of complementation agreements among LAFTA industries, implies that the completion of the Common List may not be indispensable to the progress of the Association.

#### Complementation Agreements 1/

By the end of 1968, five important regional complementation agreements had been ratified by the LAFTA members; these were concerned with such commodities as data-processing machines and equipment, electronic tubes, domestic heating equipment, electric communications equipment, and chemicals. 2/ A number of new agreements were proposed or were in various stages of negotiation during 1968; these involved household electronic equipment, glassware, household refrigerators, equipment for generating and transmitting electricity, canned fruits and vegetables, electronics and communication equipment, valves, plastics, and petrochemicals.

The agreements provide for two or more members to establish free trade within LAFTA for specified products or groups of products. They

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1/ For additional information, see Operation of the Trade Agreements Program, 17th 18th, and 19th reports.

2/ As of Dec. 31, 1968, the agreement on chemicals had been ratified by Brazil, Colombia, Chile, and Peru; Argentina, Mexico, Uruguay, and Venezuela, the other parties involved, had not ratified the agreement by this date.

are designed to accelerate development and integration of the industries involved, enabling them to coordinate their plans for diversification, specialization, and expansion. Such industry-by-industry negotiations are binding only for those LAFTA members in whose territories these industries are located.

#### Industrial Sector Meetings

Seventeen sector meetings were scheduled by LAFTA during 1968, each for a different industrial group within the region. <sup>1/</sup> Representatives of LAFTA industries and governments were to recommend products for inclusion on the national lists of the member countries or as subjects of complementation agreements, to stimulate and expand the Association's region-wide program of free trade and economic integration.

The 17 sector meetings yielded recommendations for tariff reductions on a total of 910 industrial items. This included 858 items for inclusion on national lists (i.e., available to all LAFTA members), of which 456, or 53 percent, were adopted by the LAFTA governments; the remaining 52 items were recommended for special lists available only to the less developed members, of which 36, or 69 percent, were adopted by the LAFTA governments. Most of the recommendations were

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<sup>1/</sup> The LAFTA industrial sectors participating in these meetings were as follows: Office machines, lumber and furniture, perfumery and toilet articles, valves, machine tools, chemicals, drugs (pharmaceuticals), refrigeration and air-conditioning appliances, electronics and electric communication equipment, equipment for the generation and transmission of electricity, electric-lighting equipment, fish and shellfish, canned fruits and vegetables, canned meat, citrus products, bakery products, and plastics.

made by the sectors for electrical appliances and equipment; all of the recommendations adopted were from these particular sectors. Almost 60 percent of the tariff concessions for national and special lists negotiated at the eighth annual LAFTA Conference, during October-December 1968, were recommended by the sector meetings held during the year.

The valves and plastics sectors also recommended that the Permanent Executive Committee of LAFTA consider complementation agreements for these industries. By December 31, 1968, no action had been taken on these recommendations.

#### The Andean Group

During 1968, the Andean Group 1/ of nations succeeded in overcoming some of the difficulties that had retarded progress in LAFTA. In February of that year the initial phase of this subregional agreement, which featured intra-group trade liberalization and a common external tariff, was drafted. 2/ Also in February, an agreement forming the Andean Development Corporation was signed by the six Andean countries in Bogota, Colombia; the corporation was initially capitalized at \$100 million, with Caracas, Venezuela, designated as its

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1/ The Andean Group is composed of six South American countries--Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. It was projected initially by the declaration of Bogota, signed in 1965 by all of these nations except Bolivia. It was to be carried out within the framework of LAFTA, as provided in the Montevideo Treaty in 1960 and in the declaration of the American chiefs of State at Punta del Este, Uruguay, in 1967. The six countries of the group combined have a population of approximately 60 million and produce about 80 percent of the petroleum, 50 percent of the iron ore, and more than 40 percent of the coal of Latin America as a whole.

2/ This phase of the agreement came to be known as the Colombian-Chilean position on economic integration.

administrative headquarters. <sup>1/</sup> It was designed to stimulate economic development within the subregion and especially to finance new or expanding industries, whether owned privately or by a particular government, that could only be established on a subregional basis. The corporation was also to provide financing and administrative and technical assistance to subregional projects.

During 1968, difficulties arose which resulted in postponement of the scheduled April meeting of the mixed commission of the group and of the anticipated signing of the basic agreement in May. The desire to protect domestic industry (especially new enterprises) in the individual countries and national differences in relative stages of economic development appeared to be the greatest obstacles to progress by the group, as with LAFTA itself.

The mixed commission meeting finally took place in June 1968, with government and industry representatives seeking to eliminate disagreement among the member nations. The draft agreement produced at this meeting elevated subregional economic integration and the harmonization of the respective economic and social policies to the same important position as was held by subregional tariff reduction and the common external tariff. Indeed, only the representatives of Colombia and Chile showed concern about tariff liberalization at this initial phase of the subregional group.

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<sup>1/</sup> By Dec. 31, 1968, Peru and Colombia had ratified this agreement. At least three of the Andean countries must ratify before the corporation could become operative. With the ratification by Canada, the corporation became operative in January 1970.

The majority of the members of the Andean Group, while acknowledging the need for reduction of trade barriers, have indicated their recognition of the more urgent need to expand and diversify production within the subregion and to attract the new investments essential to economic development. The reduction and eventual elimination of tariffs and other charges within the subregion can only result in a limited increase in the trade of that area if the members of the group do not produce more of the commodities required by other members.

The Andean Group has been attempting to arrange industrial complementation agreements similar to those of LAFTA in order to stimulate economic growth in the subregion. In July 1968, four members of the group (Bolivia, Chile, Colombia, and Peru) signed a complementation agreement concerning the petrochemical industry; the agreement has received the approval of LAFTA. Also during 1968, possibilities were explored for such agreements in the automobile, steel, electronics, and fertilizer industries.

The petrochemical agreement involved 57 different products, each of which is to be produced in one or more of the member nations. Only one of these products, however, has actually been produced within the area. The subregional specialization should substantially reduce the costs of refining and distributing these products. Officials of the group have estimated that approximately \$70 million in subregional petrochemical trade will be realized in 1970 as a result of the agreement.

The complementation agreement required that participating countries reduce their import duties annually by 20 percent on petrochemical products not yet produced within their territories, the first 20-percent reduction to become effective on January 1, 1969. It further required that such duties be completely eliminated at the time production is started on a specific product. All nontariff restrictions on the petrochemical trade within the group were to be eliminated on the date the agreement became operative. The agreement also stipulated that a common external tariff on trade in a given product should go into effect at the time that product first goes into production and that participants should harmonize their laws and regulations affecting the petrochemical industry.

#### River Plate Basin (Cuenca del Plata) Group

During 1968 the River Plate Basin Group of countries--Argentina, Bolivia, Brazil, Paraguay, and Uruguay--agreed upon a subregional arrangement within the framework of LAFTA. This subregional group is expected to concentrate its efforts on specific economic development projects. The group held a meeting of its foreign ministers in Brasilia, Brazil, in April 1969; subjects considered included institutionalization of the subregional agreement, establishment of a group development bank, expansion of the infrastructure of the subregion, and increased development and use of the water resources of the five countries.

## Growth of Intraregional Trade

In 1968 the total value of trade between LAFTA members 1/ rose to \$1.6 billion, compared with the annual level of about \$1.4 billion registered in each of the 3 preceding years; in 1961, the year in which LAFTA became operative, the value of this trade was \$658 million. The increase in total intraregional trade during 1968 was principally the result of gains in the value of Argentine and Brazilian trade within LAFTA; during recent years, these two countries combined have accounted for approximately 60 percent of the value of intra-LAFTA trade.

There are several causes for this increase in trade during 1968. Argentina and Brazil have always had considerable commerce with each other and their smaller immediate neighbors, and recent economic development has spurred activity in the industrial sector of each nation. This economic development, in turn, has been aided substantially by increased intra-LAFTA trade resulting from tariff concessions on the national lists, from the complementation agreements, and from the industrial sector meetings. Argentina and Brazil were involved in a very large share of these LAFTA activities.

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1/ The statistics presented herein for total intraregional trade cover only the original (since 1961) nine members of LAFTA: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay. Intraregional trade totals for the other two members, Bolivia and Venezuela, have not yet been included in the comparative statistics of LAFTA because of their late accession (1966-67) to the Association and the desire to preserve the comparability of recent figures with statistics compiled for the earlier years of LAFTA. The value of the intra-LAFTA trade of these two countries combined amounted to more than \$200 million in 1967 (the latest complete year for which official statistics were available at the time of the preparation of this report).

### Extraregional Trade Trends

In terms of value, the extraregional trade of LAFTA as a whole was greater during 1968 than in the previous year. The extraregional trade of countries such as Brazil and Mexico rose substantially in 1968, while that of countries such as Argentina and Peru decreased considerably. During recent years, LAFTA trade with countries outside the region has generally followed an upward trend, although its course was often irregular for individual years and countries.

U.S. exports to the nine original LAFTA countries rose in value from \$2.6 billion in 1961 to more than \$3.3 billion in 1968. <sup>1/</sup> The overall gain, however, was largely attributable to substantially increased U.S. exports to Mexico, which rose in value from approximately \$800 million in 1961 to nearly \$1.4 billion in 1968. On the other hand, U.S. exports to Argentina and Uruguay have declined considerably during recent years; exports to Argentina were valued at \$435 million in 1961, compared with \$281 million in 1968, while those to Uruguay were valued at \$50 million in 1961, compared with \$28 million in 1968.

### Miscellaneous Developments

During 1968 LAFTA cooperated with other groups on a number of activities whose ultimate goal was the achievement of economic integration and a common market for all of Latin America. Some of the more noteworthy projects are discussed below.

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<sup>1/</sup> As with intraregional trade, Bolivia and Venezuela were not included. If U.S. exports to these two countries are added to the LAFTA total, then the increase in value was from \$3.1 billion in 1961 to \$4.0 billion in 1968.

The LAFTA-CACM Coordinating Commission 1/

The first meeting of the LAFTA-CACM Coordinating Commission was held in Port-of-Spain, Trinidad and Tobago, October 14-18, 1968. Its membership comprised representatives of the Permanent Executive Committee of LAFTA and the Executive Council of the General Treaty for Central American Economic Integration of the CACM. These representatives were directed to make studies and recommendations regarding increased cooperation between the two regional organizations, as well as the economic integration of Latin America as a whole. The conferees discussed such specific subjects as the mechanics of the proposed merger of the two regional organizations, the prospects for making industrial complementation agreements available to all countries of Latin America, the feasibility of subregional groups composed of members of both organizations, an understanding to halt the imposition of new import restrictions within the two regions, and the granting of tariff preferences commensurate with the different degrees of development in the countries concerned.

Latin American industrial congress

The economic integration of Latin America was the principal subject considered at a meeting of Latin American industrialists held in Mexico City during March 1968. The Secretary General of LAFTA made a major speech at the meeting, in which he emphasized the need for more investments in the LAFTA countries. Other important topics discussed

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1/ The foreign ministers of LAFTA had authorized meetings with representatives of the CACM and the creation of the coordinating commission at Asunción, Paraguay, on Sept. 2, 1967.

included the financing of intraregional shipments, the carrying of intraregional freight by Latin American ships, and the mineral resources of the LAFTA countries. Members of the congress were unable to reach agreement on such important matters as the programmed (automatic) reduction of import duties, the integration of basic industries, and regional enterprises.

#### Uniform trade statistics

The eighth annual LAFTA Conference approved a resolution which directed that all member countries that had not already adopted the LAFTA version of the Brussels Tariff Nomenclature should do so by January 1, 1970. Those members that had adopted it were urged to keep their national tariff schedules current, taking into consideration whatever amendments to this nomenclature might be approved by the Brussels Customs Cooperation Council. An advisory commission on nomenclature was authorized to conduct periodic investigations to insure that the national nomenclatures of the LAFTA members are kept up to date. In addition, the LAFTA Secretariat agreed to provide, upon request, whatever technical assistance may be required by the individual member nations in adopting and keeping this nomenclature current.

#### CENTRAL AMERICAN COMMON MARKET

During 1968, basic economic difficulties served to obscure the future prospects of the Central American Common Market, 1/ despite

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1/ The Central American Common Market is composed of five countries: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. It became operative in 1961.

the considerable progress achieved in removing virtually all restrictions on intraregional trade and in extending the common external tariff to nearly all items imported from extraregional sources. The value of intraregional trade reached a record high level in that year. CACM imports from the United States and other extraregional countries also rose in value in 1968. The value of total CACM exports increased very little, however, resulting in a continuation of the annual deficit in the trade balance and in the balance of payments that this region has been experiencing in recent years.

By the end of 1968 the CACM appeared to be nearing the limit of its forward progress; its success seemed contingent upon the broadening of its economic base. Industrialization, including the system of regional "integrated" industries, has been increasing at a slow rate, owing fundamentally to the small size of the regional markets, the absence of the majority of the CACM population from the money economy, the low per capita income of those in the economy, the high rate of illiteracy in the area, and the chronic shortage of local investment capital. In 1968 there was growing evidence that the program of integrated industries was not moving satisfactorily because of the small regional market which it serves. Integration appeared to be confined largely to the establishment of assembly enterprises and to the increased utilization of capacity in existing industries. The limited industrial expansion achieved to date has increased the demand

for extraregional imports of capital goods which the region cannot afford, with resultant balance-of-payments difficulties.

During the year, serious financial problems beset the CACM, notably the loss of customs revenues resulting from the freeing of virtually all intraregional trade, high interest rates, and the balance-of-payments deficit caused by the high level of imports from outside the region. In July 1968, in an attempt to cope with these problems, the CACM imposed a 30-percent surcharge on nonessential extraregional imports and optional consumption taxes on all imports regardless of origin, subject to ratification and adoption by the individual members. The meeting of the five CACM Presidents with the President of the United States in July helped to strengthen the resolve of the regional leaders to persevere toward their economic goals, and also resulted in the pledge of new financial assistance to the CACM from the U.S. Government. In addition, the financing of regional projects of the CACM was stimulated by expansion of the capitalization and loans of the Central American Bank for Economic Integration (CABEI) and the establishment of the new Central American Investment Bank during the year. Unified monetary and fiscal policies and a customs union, so badly needed by the CACM, were still unfulfilled goals at the close of 1968. Political difficulties and national rivalries have dimmed the outlook for attainment of these goals, at least in the near future.

During 1968 the CACM increased its cooperation with other countries and trade groups to implement the recommendations of the American chiefs of State in their 1967 resolutions projecting the establishment

of a Latin American common market. It became more apparent that the CACM required participation in a larger trading area than its own in order to achieve its goals of economic growth and development. Accordingly, steps were taken during the year to bring about the proposed merger of the CACM with LAFTA, to increase trade with and financial assistance from Mexico, to establish economic relations with the Andean Group of South American nations and some of the Caribbean countries, and to explore the possibility of CACM membership for Panama.

#### Growth of Intraregional Trade

During 1968 the intraregional trade of the CACM rose in value to about \$260 million, more than 20 percent greater than that in 1967; in 1961 the value of this trade had amounted to only \$37 million. Between 1961 and 1968, the share of intraregional trade in the total foreign trade of the CACM rose from 7 percent to more than 20 percent.

This continued growth of intraregional trade is mainly attributable to the extensive reduction of trade barriers within the region, along with the CACM policy of substitution of products of regional origin for a wide variety of products formerly imported from extraregional sources of supply. The overall regional expansion of trade, however, has been uneven. In 1968 and other recent years, El Salvador and Guatemala had sizable surpluses in intraregional trade, owing primarily to their greater production and exportation of manufactured commodities, while Honduras and Nicaragua, on the other hand, recorded considerable deficits in trade with fellow members of the CACM, since they were unable to achieve a rapid expansion in the volume of their

predominantly agricultural exports. In 1968, trade in manufactured products within the CACM accounted for slightly more than 50 percent of the total value of intraregional trade, compared with about 37 percent in 1961.

By the close of 1968, restrictions had been eliminated on intraregional trade in about 98 percent of the items of CACM origin listed in the Uniform Central American Customs Nomenclature (NAUCA). 1/ Trade barriers on the remaining 2 percent of intraregional trade items were scheduled for removal by 1970. The remaining items, however, included commodities important to the trade of the region, such as refined petroleum products, coffee, wheat, and sugar; these items have accounted, in recent years, for approximately 20 percent of the total value of intraregional trade, as well as for an equally large share of the total customs revenues collected by the five CACM countries.

#### Common External Tariff 2/

By the end of 1968 the five members of the CACM were imposing common duties on about 95 percent of the items in the NAUCA that were being imported from countries outside the region. By 1972, when the Protocol of Guatemala 3/ is to become fully operative, the individual

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1/ Nomenclatura Arancelaria Uniforme Centro América.

2/ The duties and charges of the CACM on imports entering from extraregional sources are governed by the Central American Agreement on the Equalization of Import Duties and Charges, of 1959. In 1960 this agreement was ratified by all five members of the CACM. The agreement, along with the several protocols added to it in subsequent years, has provided the guidelines for the establishment of the common external tariff of the CACM.

3/ This protocol to the Central American Agreement on the Equalization of Import Duties and Charges was signed in Guatemala City on Aug. 1, 1964.

CACM countries are to equalize their import duties on approximately 25 more items listed in the NAUCA, which will result in a common external tariff on 98 percent of the NAUCA items. A common customs administration for the CACM was scheduled by the close of 1970; such a customs union is essential to the ultimate success of the CACM, for it will be impossible to achieve a free flow of commodities and services within the region unless a system is established to distribute equitably the revenues realized from CACM duties on extraregional imports. By the end of 1968, products of Central American origin were circulating virtually free of restriction within the region, but most products originating in third countries could not move freely from one CACM country to another without the payment of the common external duty at each national border.

#### Extraregional Trade

During 1968, as in 1967 and 1966, the CACM experienced a substantial deficit in extraregional trade, caused largely by a sharp rise in imports of capital goods and raw materials for the expanding industries and the many new development projects within the region. The heightened economic activity and increased per capita income have resulted in an expansion of CACM imports of all types. Extraregional exports of the CACM, on the other hand, have not increased at the same pace as imports. The principal export items are agricultural commodities subject to international agreements; low world prices have reduced their value, and a number of natural disasters have reduced the volume available for export.

In 1968, U.S. exports to the CACM were valued at \$366 million, slightly above the level of 1967 and 1966. In 1961, the year when the CACM became operative, U.S. exports to this market were valued at \$210 million. During 1961-68, the relative share of the United States in the value of global imports of the CACM remained at about 40 percent annually.

U.S. imports from the CACM increased to \$336 million in 1968 from about \$300 million in 1967 and 1966; 1/ the total in 1961 was nearly \$200 million. While the value of coffee exported annually by the CACM to the United States remained almost constant during 1961-68, considerable gains were realized in the exportation of bananas, beef, sugar, and shrimps.

#### Integrated Industries

In February 1968 a protocol to the Agreement on the System of Central American Integrated Industries 2/ became effective; under this protocol, signed in January 1963 by the members of the CACM, the first two of these enterprises (a tire factory in Guatemala and a caustic soda and insecticide plant in Nicaragua) were established. A glass factory in Honduras has also been designated as an integrated industry. Another protocol, signed in November 1967, stipulated that

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1/ The principal CACM commodities imported by the United States have been coffee, bananas, beef, sugar, shrimps, and cotton.

2/ Agreement signed by all CACM members in June 1958. Under this agreement, products of an industry certified as regional were allowed to move duty free throughout the CACM; products of noncertified industries were subject to duties on entry into any of the individual CACM countries.

other CACM industries, regardless of location within the region, could enjoy duty-free intraregional trade for their products and the protection of the common external tariff, provided that each industry so favored was capable of supplying at least half of the total regional demand for such products. <sup>1/</sup>

Industrialization in the CACM, although increasing, has faced formidable obstacles. The population of all five countries in 1968 was estimated at some 13 million, but the majority of these people were outside the money economy. In 1968 the annual economic growth rate for the CACM was calculated to be slightly in excess of 5 percent, but the average per capita income for the region was not much more than \$300. Potential industries have been faced with a scarcity of local investment capital and of skilled labor.

Progress in the establishment of integrated industries has been slow, as indicated by the few plants in operation by 1968. In part this is because comparable concessions are often available to nonintegrated industries from individual CACM governments and through the "special system" protocol. Tariff protection and special tax incentives have been extended by the different governments, under their industrial development laws. It has generally been less difficult for a national industry to obtain benefits from its own government than for an integrated industry to obtain them from the five governments. Once approved, an integrated industry is subject to much . . . .

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<sup>1/</sup> The arrangement introduced by the protocol of 1967 has usually been called the "special system" to promote industrial activity within the CACM.

greater control from the CACM over price, quality, and marketing practices than is a nonintegrated industry from a single government.

The majority of Central American authorities still believe that industrialization is essential to economic development of the region. The architects of the CACM have sought primarily to achieve a balanced regional economic development through more rapid industrialization and diversification of the Central American economy; they were never content with only the liberalization of intraregional trade and the creation of a common external tariff. The liberalization of trade among five small countries with similar economies can advance regional economic development only to a limited extent. More substantial progress requires broadening of the economic base through increased regional production. Differences in the degree of development and in the distribution of industrial facilities among the individual members of the CACM, however, could result in concentration of investment and economic activity in the more advanced countries at the expense of the less developed. The program of integrated industries was introduced as a means of assuring even industrial development throughout the region.

#### Balance-of-Payments and Fiscal Problems

During 1968 the balance-of-payments difficulties of the CACM were intensified. Income from some basic "money" exports, such as coffee, bananas, cacao, and cotton, was reduced by falling world prices for these commodities and by various natural calamities.

The accelerated commercial and industrial activity generated an increased demand for imported products, especially capital goods and raw materials unavailable in the region. Honduras and Nicaragua were particularly affected, since it has been difficult to expand earnings from their predominantly agricultural exports. For the CACM as a whole, the rapid rise of imports has substantially exceeded the comparatively slow increase of exports, resulting in growing annual deficits in its trade balance and its balance of payments.

In June 1968 the finance ministers of the CACM, meeting in San José, Costa Rica, drew up a protocol to the General Treaty for Central American Economic Integration on measures to protect the balance of payments. The protocol was designed to improve the balance-of-payments situation by discouraging extraregional imports of luxury and other nonessential goods and at the same time to provide compensation to the individual member governments for the loss of customs revenues resulting from reduced imports. It required the imposition of a 30-percent surcharge on all imported commodities entering the CACM from third countries, with the exception of a number of products considered essential. It also permitted optional consumption taxes to be levied by the individual member nations on all imported products regardless of origin, including a sales tax of 10 to 20 percent on luxury goods. Considerable opposition to the protocol developed in private industry, despite the encouragement of the five CACM Presidents. As of December 31, 1968, only Nicaragua, El Salvador, and Guatemala had deposited their instruments of ratification with the Organization of Central

American States (ODECA); <sup>1/</sup> the Honduran legislature ratified the protocol in August 1968 but by the end of the year had not yet formally notified the ODECA of its action.

If and when the protocol becomes effective, it will probably result in some reduction in the rate of growth of imports from the United States and other industrial nations, especially imports of consumer goods and nonessentials; however, it would promote economic stability in the region and thereby improve the prospects of the CACM for obtaining loans for development projects.

#### The Central American Bank for Economic Integration

The Central American Bank for Economic Integration was chartered in 1961, situated in Tegucigalpa, Honduras, and capitalized by both U.S. and Central American funds. Its basic aim is to promote regional economic integration, with balanced development of the individual CACM countries. The CABEI has concentrated on financing of regional industrial, agricultural, and infrastructure projects; by 1968, CABEI loans for such projects totaled approximately \$125 million, of which about \$50 million was granted to regional industries.

In 1968 the total resources of the CABEI amounted to more than \$200 million. The original authorized capitalization of \$20 million had been expanded to \$60 million; the remainder of the Bank's disposable funds were supplied by loans from the United States and other extraregional governments, from international banks, and from the private sector.

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<sup>1/</sup> Organización de los Estados Centroamericanos.

The Central American Investment Bank

Private financiers in the CACM countries established a new Central American Investment Bank (BICA) <sup>1/</sup> in 1968 to finance regional development. BICA will finance projects concerning more than one CACM country and will encourage mergers of the small firms in the five countries. Other activities planned for BICA include the development of a regional market for securities of the CACM, the creation of an acceptance market for commercial paper, and the underwriting of new corporate stock issues.

## Meeting of the Presidents

In July 1968 the President of the United States met with the CACM Presidents in San Salvador, El Salvador, and visited each of the five countries. In a joint declaration, the Central American Presidents pledged themselves to give their full support to measures designed to protect their respective balances of payments, especially the implementation of the Protocol of San José, still pending ratification; to seek the prompt ratification of the Central American agreement on tax incentives (to investors); to support measures to achieve the coordination of national monetary policies and the establishment of a Central American stabilization fund; to encourage the expansion and diversification of agricultural production and the adoption of a coordinated regional industrial policy; to support measures to complete and improve the common market, by removing remaining restrictions on intraregional trade and extending the common external tariff to

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<sup>1/</sup> Banco de Inversiones Centroamericano.

products which have been exempt from it; to complete the Central American capital market; to adopt measures to facilitate the free movement of labor within the region; to aid in the building of the regional infrastructure; 1/ to provide the regional integration agencies with the necessary funds to meet their expanding responsibilities; to reaffirm their support for the formation of a Latin American common market and the development of economic ties between the CACM and other hemisphere groups; to increase their efforts to extend the benefits of economic integration and development to their less privileged citizens; to raise the educational levels, especially those of the rural population; to work to improve health services for their people; and to introduce reforms in the legal and administrative structure of the ODECA in order to expedite regional development and integration.

The President of the United States, recognizing the need for financial aid for this ambitious program, authorized the negotiation of new U.S. loans to the CACM totaling \$65 million. Of this amount, \$30 million was designated for the Central American Fund for Economic Integration to provide a regional electric power supply and a telecommunications network; the remaining \$35 million was to be divided among the five member nations to improve agriculture, education, and infrastructure. 2/

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1/ An integrated transportation, electrical, and communications network for the region.

2/ The CACM is attempting to obtain, on a regional scale, a highway program, an air navigation system, electric power transmission, and a telecommunications network.

## Cooperation With Other Countries

During 1968 the CACM continued its efforts to expand its economic relations with other countries and groups, especially to achieve a larger trading area. In October 1968 the first meeting of the joint LAFTA-CACM Coordinating Commission was held in Port-of-Spain, Trinidad and Tobago, 1/ to discuss the proposed merger of the two regional organizations and other measures of trade liberalization and economic integration. The CACM also attempted to establish economic relations with the Andean Group of nations.

A joint commission continued to study means for increasing CACM-Mexican trade and for providing Mexican financial assistance to the Central American countries. CACM representatives also had conversations with officials of Colombia, Venezuela, and some of the Caribbean countries on the subject of economic cooperation. While the possibility of Panamanian membership in the CACM continued to be discussed during the year, the obstacles still appeared formidable; progress has been realized, however, in Panamanian participation in a number of subsidiary agencies of the CACM. 2/

## Trade and Economic Integration Treaties of Central America

Trade and economic integration treaties among Central American countries and the dates on which they were signed are listed below:

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1/ See also section on LAFTA, p. 101.

2/ See Operation of the Trade Agreements Program, 18th report (processed), pp. 175-176.

	<u>Date signed</u>
1. Multilateral Treaty for Free Trade and Central American Economic Integration-----	June 10, 1958
2. Agreement on the System of Central American Integrated Industries-----	June 10, 1958
a. Protocol (San Salvador)-----	Jan. 29, 1963
b. Second Protocol (San Salvador)-----	Nov. 5, 1965
c. Protocol (Special System To Promote Industrial Activities)-----	Nov. 16, 1967
3. Central American Agreement on the Equalization of Import Duties and Charges-----	Sept. 1, 1959
a. Protocol (Central American Preferential Tariff)-----	Sept. 1, 1959
b. Protocol (First, of Managua)-----	Dec. 13, 1960
c. Protocol (of San José)-----	July 31, 1962
d. Protocol of Adherence of Costa Rica to Protocol of Managua-----	July 31, 1962
e. Protocol (First, of San Salvador)-----	Jan. 29, 1963
f. Protocol (of Guatemala)-----	Aug. 1, 1964
g. Special Central American Agreement on Equalization of Import Charges on Textiles of Rayon and Other Artificial or Synthetic Fibers-----	Feb. 7, 1965
h. Protocol (Second, of San Salvador)-----	Nov. 5, 1965
i. Protocol (Second, of Managua)-----	Nov. 16, 1967
4. Treaty of Economic Association (signed by Guatemala, El Salvador, and Honduras)-----	Feb. 6, 1960
5. General Treaty for Central American Economic Integration (GTEI)-----	Dec. 13, 1960
a. Protocol (adherence of Costa Rica)-----	July 23, 1962
b. Protocol, containing Uniform Central American Customs Code (CAUCA)-----	Dec. 13, 1963
c. Protocol (guaranteeing free trade in paper and glass containers)-----	Oct. 12, 1966
d. Protocol (Emergency Measures To Protect the Balance of Payments)-----	June 1, 1968
6. Constitutive Charter of the Central American Bank for Economic Integration (CABEI)-----	Dec. 13, 1960
a. Protocol (adherence of Costa Rica)-----	July 23, 1962
7. Central American Agreement on Fiscal Incentives to Industrial Development-----	July 31, 1962
a. Protocol (on preferential treatment for Honduras)-----	Sept. 23, 1966

	<u>Date signed</u>
8. Central American Agreements on Transportation	
a. Temporary Importation of Vehicles by Highway--	Nov. 8, 1956
b. Highway Travel-----	June 10, 1958
c. Uniform Road Signs and Signals-----	June 10, 1958
9. Special Protocol on Grains (Limón)-----	Oct. 28, 1965
10. Telecommunications Treaty (signed by Guatemala, El Salvador, Honduras, and Nicaragua)-----	Apr. 26, 1966
a. Protocol (adherence of Costa Rica)-----	Jan. 10, 1967
11. Protocol Amending the Temporary Regulations of the ODECA Charter-----	Dec. 13, 1967
12. Protocol on the Admission of the Republic of Panama to New Subsidiary Agencies of the ODECA---	Dec. 13, 1967

#### CARIBBEAN FREE TRADE ASSOCIATION

The Caribbean Free Trade Association (CARIFTA), <sup>1/</sup> establishing a free-trade area among Caribbean countries of the British Commonwealth, became operative on May 1, 1968. Antigua, Barbados, Guyana, and Trinidad and Tobago were charter members of the CARIFTA. On July 1, 1968, the Association was augmented by new members from the Windward and Leeward Islands: Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, and St. Vincent. Jamaica and Montserrat were admitted on August 1, 1968.

Since May 1, 1968, free trade has existed within the area for all intra-Commonwealth Caribbean trade. This trade was to be subject to lists of reserved commodities which would be freed immediately or within a 5-year period by the more developed countries and within a

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<sup>1/</sup> The original agreement establishing the CARIFTA was signed at Dickenson Bay, Antigua, on Dec. 15, 1965, by Antigua, Barbados, and Guyana.

10-year period by the less developed countries. The CARIFTA's stated objectives include the eventual formation of a full customs union with a common external tariff; no provision for the establishment of such a union, however, had been made by the end of 1968.

The entire CARIFTA area embraces a population of more than 4.5 million, with a range for individual members of about 14,000 in Montserrat to approximately 2 million in Jamaica. All member countries stand to increase their sales of agricultural products because of the creation of the CARIFTA. Owing to their more diversified production, greater resources, larger labor force, and greater industrial potential, the larger countries will benefit to a greater extent than the small member States. Nevertheless, the CARIFTA agreement has many provisions designed especially to assist the less developed member countries, including the extension of financial aid and tariff preferences to them by the larger, more developed members.

Trade between the United States and the CARIFTA will change little in the near future. Broadening of the industrial base of the area is a prerequisite for any substantial increase of this trade. During 1968 the competitive trade position of the United States was improved in Jamaica, Guyana, and Trinidad and Tobago when these countries permitted the duty-free entry of imported raw materials used in their domestic industries.

### Removal of Intraregional Trade Restrictions

The immediate goal of the CARIFTA was the removal, as of May 1, 1968, of duties on intraregional imports, 1/ with the exception of Guyanese petroleum products, 2/ products protected in a member country by an agreement between the producer and the government, and commodities on special Reserve Lists. The agreement prohibits the imposition by CARIFTA countries of quantitative restrictions on trade with other countries within the Association, 3/ except trade in agricultural commodities that are listed in an "agricultural marketing protocol," trade that would cause balance-of-payments difficulties and lead to reduction of domestic employment or production, and trade that involves the protection of health, law and order, or public morals. Quantitative restrictions not excluded were to be removed immediately; they were not subjected to gradual phasing out, as were import duties on products on the Reserve Lists.

#### The Reserve Lists

The agreement created two Reserve Lists of imported products on which duties were to be eliminated in progressive phases over a period of years; 4/ these lists constitute the chief exception to the immediate removal of all trade restrictions. Such a gradual course has been followed in order to avoid abrupt dislocations of production in a

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1/ Art. 4.

2/ Art. 38 of the agreement granted Guyana the right to protect any petroleum-refining industry that it may establish in the future, up to a third of its annual consumption of petroleum products.

3/ Arts. 13 and 14.

4/ Annexes B and D of the consolidated text of the agreement.

member country resulting from a sudden increase in competition from a more efficient industry in another CARIFTA country and to avoid an immediate loss of revenue to a member country resulting from the removal of import duties. Longer periods were allowed for trade liberalization by the less developed countries because of their greater need for protection of industries and their lesser ability to withstand sudden and substantial losses of customs revenues.

In annex B of the Reserve Lists, import duties on biscuits, brushes, and coconut-fiber products must be removed immediately by the more developed countries of Barbados, Guyana, Jamaica, and Trinidad and Tobago, and progressively phased out over a 10-year period by the less developed countries of the Leeward and Windward Islands; import duties on preserved fruits, tobacco, paints, wooden containers, radio and television sets, furniture, mattresses, underwear, outerwear, and footwear must be gradually eliminated over a 5-year period by the more developed countries and over a 10-year period by the less developed countries. In annex D of the list, the protective element in revenue duties on beer, liquors (whisky, gin, and vodka), and petroleum products must be eliminated progressively in 5 years by all CARIFTA members. The protection afforded rum through revenue duties was to be removed gradually, within 5 years in the more developed countries and within 10 years in the less developed.

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Basic Materials List

The Basic Materials List <sup>1/</sup> contains 73 items, raw materials and

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<sup>1/</sup> Schedule to annex C of the agreement.

semimanufactured products which are considered to be of area origin when used in production within the CARIFTA, even if imported from outside the area. Finished products made from items on this list will be considered as of area origin regardless of the percentage that their value added represents in the export price. The percentage of value accounted for by imported materials not on the list may not be in excess of 50 percent of the final export price if they are to receive free-trade treatment.

#### Qualifying Process List

The Qualifying Process List, still in the formative stage, will consist of a list of manufacturing processes, certifying that the finished products are of area origin if such processes take place within a member country. The West Indian region lacks a wide variety of natural resources and depends heavily on imported raw materials or components. Accordingly, the process list will seek to qualify for area treatment imports of certain materials required in advanced manufacturing or chemical processing.

#### The Agricultural Marketing Protocol

The Agricultural Marketing Protocol prohibits member countries of the CARIFTA from importing a number of specified agricultural products <sup>1/</sup> from extraregional sources until they have purchased all the

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<sup>1/</sup> Carrots, peanuts, tomatoes, kidney beans, black pepper, sweet pepper, garlic, onions, potatoes, string beans, cinnamon, cloves, cabbage, plantains, pork, poultry, eggs, okra, oranges, pigeon peas, and pineapple.

supplies available within the region. This protocol was intended as a positive instrument to encourage trade and coordinate production of agricultural products among CARIFTA members, with the cooperation of their respective agricultural marketing agencies. It is recognized, however, that this move may not cause an expansion in such trade, largely because most member countries of the CARIFTA have in force very low import duties, or none at all, on such products. Until coordination of agricultural production is achieved, however, individual members may impose quantitative restrictions on imports from other CARIFTA countries included in this protocol or render governmental assistance to agriculture through subsidies and price guarantees.

#### Miscellaneous provisions

When a CARIFTA country is losing its market in another member country because of dumping by either a member or nonmember, it is expected to have recourse to the GATT provisions concerning this practice. 1/ If a CARIFTA member is suddenly faced with balance-of-payments difficulties, it may impose quantitative restrictions on its imports, provided that the CARIFTA Council of Ministers is notified initially. The Council must be consulted if the restrictions are maintained for a long period. 2/

The less developed countries of the CARIFTA are permitted by the agreement to impose a protective tariff on imported commodities entering from a more developed member if such commodities are in competition

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1/ Art. 12.

2/ Arts. 15 and 22.

with similar commodities produced by an embryonic industry; 1/ the protective rate may be maintained as long as is necessary for the new industry to become firmly established. Less developed countries are to be granted more generous incentives for attracting industries than those allowed for the more developed CARIFTA members. 2/

#### Trade With the United States

At the close of 1968 it was still too early to measure the effect of the CARIFTA on trade between the United States and the countries of the Association. The volume of U.S. trade with this area is not expected to change greatly in the near future. The increase of CARIFTA imports from the United States will depend largely on the expansion of the industrial base of these countries, with the resultant rise in their demand for raw materials and semimanufactures. U.S. exports to the CARIFTA during 1968 were valued at approximately \$300 million.

During the year, Jamaica, Guyana, and Trinidad and Tobago listed raw materials utilized by domestic industries and accorded such materials duty-free entry into their territories. This action placed U.S. exporters in an equal competitive position with suppliers of the British Commonwealth, who formerly employed Commonwealth preferences on the import tariffs of these CARIFTA countries.

#### The Caribbean Regional Development Bank

The Caribbean Regional Development Bank was established on May 1, 1968, but it did not begin operations until early in 1970. Barbados

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1/ Art. 39.

2/ Arts. 8, 17, and 23, and annex F.

will be the headquarters of the Bank. All the CARIFTA countries are members of the Bank, with the exception of Jamaica; a non-CARIFTA country, British Honduras, is also a member. The Bank will extend loans from its special funds to the less developed member countries for investment in the development of agriculture, industry, tourism, and infrastructure.

A large proportion of the special funds and of the total capitalization of the Bank is to be contributed by the more developed CARIFTA countries. The initial capitalization of \$50 million is to be provided in part by Canada and the United Kingdom.

In addition to the loans and investments, the Bank will provide planning and technical assistance, along with coordination of the various development programs of the member countries, in order to achieve more efficient utilization of the resources of the area and to create regional markets. The Bank will initially promote the diversification of agriculture, the establishment of light industry, and the expansion of tourism. This program should prove especially beneficial to the smaller islands in the region.