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UNITED STATES TARIFF COMMISSION

Operation of the

TRADE AGREEMENTS PROGRAM

Fourth Report

July 1950–June 1951

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UNITED STATES TARIFF COMMISSION

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Foreword

This is the fourth report of the Tariff Commission on the operation of the trade agreements program. Each of the successive Executive orders, No. 9832 of February 25, 1947, No. 10004 of October 5, 1948, and No. 10082 of October 5, 1949, has required the Commission to submit to the President and to the Congress at least once each year a factual report on this subject.

In April 1948 the Commission issued in preliminary form its first report on the operation of the trade agreements program; this report covered the period from June 1934 to April 1948. At that time it was not possible to complete a detailed analysis of the concessions obtained by the United States in the General Agreement on Tariffs and Trade, concluded at Geneva in 1947. Later, the Commission revised and extended the preliminary report to include a detailed account of those concessions. The final report, consisting of five parts, was issued during 1948–49 as Tariff Commission Report No. 160, Second Series.

The second report of the Tariff Commission on the operation of the trade agreements program covered the period April 1948 to March 1949. During this period the United States concluded no trade agreements, and there were thus no new concessions to be analyzed; the report discussed in detail, however, matters that had arisen with respect to existing or prospective trade agreements. The printed edition of this report, which was designated Tariff Commission Report No. 163, Second Series, was issued in 1950.

In 1951 the Commission issued the printed edition of its third report on the operation of the trade agreements program, which was designated Tariff Commission Report No. 172, Second Series. During the period covered by the report—April 1949 through June 1950—the United States and other contracting parties to the General Agreement met at Annecy, France, to negotiate with countries which desired to accede to the agreement. The report discussed the negotiations at Annecy and analyzed the concessions that the United States there granted and obtained. It also covered, for 1949 and early 1950, other important developments relating to the trade agreements program. Like the second report, it also discussed such matters as the actions of foreign countries that affected concessions they had made to the United States; the application of quantitative restrictions and exchange controls by foreign countries that have trade agreements with the United States; and United States measures affecting this country's trade-agreement obligations.

The present report, which discusses the operation of the trade agreements program from July 1950 through June 1951, covers much the same range of subjects as the previous reports. Among other things, it describes the multilateral negotiations held by the Contracting Parties to the General Agreement at Torquay, England, from September 1950 to April 1951, and gives a preliminary general analysis of the concessions that the United States there granted and obtained.

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Chapter 1

Summary

This, the fourth report of the Tariff Commission on the operation of the trade agreements program, covers the period from July 1, 1950, through June 1951.[1] During this period, the United States and 26 other contracting parties to the General Agreement on Tariffs and Trade met at Torquay, England, principally to exchange new or additional tariff concessions among themselves and to negotiate with 7 countries that desired to accede to the agreement.[2] This report describes the negotiations at Torquay, and gives a general analysis of the concessions obtained and granted there by the United States.

The report also covers other important developments respecting the trade agreements program during 1950–51. These include the further extension and amendment of the United States Trade Agreements Act; developments relating to the general provisions of the General Agreement; actions of foreign countries that affect trade-agreement concessions which they have made to the United States, including the application of quantitative restrictions and exchange controls; and United States measures that bear on this country's trade-agreement obligations.

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[1] The first report of the Tariff Commission, *Operation of the Trade Agreements Program, June 1934 to April 1948,* Rept. No. 160, 2d ser., 1949, consisted of five volumes, as follows: Part I, Summary; Part II, History of the Trade Agreements Program; Part III, Trade-Agreement Concessions Granted by the United States; Part IV, Trade-Agreement Concessions Obtained by the United States; Part V, Effects of the Trade Agreements Program on United States Trade. Hereafter this report will be cited as *Operation of the Trade Agreements Program* (first report). The second report of the Tariff Commission was *Operation of the Trade Agreements Program: Second Report, April 1948–March 1949,* Rept. No. 163, 2d ser., 1950. Hereafter this report will be cited as *Operation of the Trade Agreements Program* (second report). The third report of the Tariff Commission was *Operation of the Trade Agreements Program: Third Report, April 1949–June 1950,* Rept. No. 172, 2d ser., 1951. Hereafter this report will be cited as *Operation of the Trade Agreements Program* (third report).

[2] The General Agreement on Tariffs and Trade is known by the short titles "General Agreement," and "GATT." In this report the short title "General Agreement" is ordinarily used.

UNITED STATES TRADE AGREEMENTS LEGISLATION OF 1951

During the last half of 1950 and the first half of 1951 the trade agreements program was conducted under the provisions of the Trade Agreements Act, as amended, and the Trade Agreements Extension Act of 1949.[3] Since the latter act extended the President's authority to enter into trade agreements only until June 12, 1951, House bill 1612 was introduced immediately after the Eighty-second Congress convened; it provided solely for the further extension of the President's authority for 3 years.

After public hearings on the bill, the House Committee on Ways and Means reported favorably on it, and debate in the House began on January 31, 1951. On February 12, the House passed the bill extending for 3 years the President's authority to negotiate trade agreements, but with several important amendments.

With some interruptions, the Senate Committee on Finance held public hearings on the House bill from February 22 to April 6, 1951. On April 27 it unanimously recommended that the House bill, with some modifications, be approved by the Senate. The Senate began debate on the bill, as reported by the Committee on Finance, on May 17, 1951. It passed the bill on May 23, accepting all the amendments of the committee and an additional amendment from the floor.

The bill was then sent to conference. The conference committee adopted the Senate version, with one major and some minor modifications, and recommended its passage by the respective Houses. The Senate adopted the conference report on House bill 1612 on May 29, and the House of Representatives adopted it on June 5, 1951. The President approved the bill on June 16, 1951, on which date it became effective.

The Trade Agreements Extension Act of 1951 extends (sec. 2) the President's authority to enter into trade agreements with foreign countries for a period of 2 years from June 12, 1951. The new act (secs. 3 and 4) incorporates the "peril point" provision in substantially the same form as it appeared in the Trade Agreements Extension Act of 1948. The peril-point provision of the 1951 act requires that the President, before negotiating any trade agreement, must transmit to the Tariff Commission a list of the articles that may be made the subject of negotiations. The Commission is required to make an investigation, including a hearing, of the listed commodities and, within 120 days, to report to the President its findings regarding (1) the maximum decrease in duty, if any, which can be made on each listed com-

[3] For a detailed history of the trade agreements legislation, see *Operation of the Trade Agreements Program* (first report), pt. 2, ch. 2; *Operation of the Trade Agreements Program* (second report), ch. 2; and *Operation of the Trade Agreements Program* (third report), ch. 2.

modity without causing or threatening serious injury to the domestic industry producing like or directly competitive articles, or (2) the minimum increase in duty or additional import restriction that may be necessary for any of the products in order to avoid such injury or threat thereof. If the President concludes a trade agreement which provides for a greater reduction in a duty than the Commission specified in its report, or which fails to provide for the additional import restrictions specified in the report, he must transmit to the Congress a copy of the agreement, identifying the articles concerned and stating his reasons. Promptly thereafter, the Tariff Commission must deposit with the appropriate House and Senate committees a copy of the portions of its report to the President that deal with the articles identified by the President in his report to the Congress.

Section 5 of the new act directs the President, as soon as practicable, to suspend, withdraw, or prevent the application of any tariff concession contained in any trade agreement to imports from the Soviet Union and from any Communist-dominated or Communist-controlled countries or areas.

The Trade Agreements Extension Act of 1951 makes it mandatory to include in all future trade agreements an escape clause conforming to the policy of section 6(a) of the act. Section 6(a) provides that no tariff concession in any future trade agreement shall be permitted to continue in effect when the concession results in such an increase in imports (actual or relative) as to cause or threaten serious injury to the domestic industry concerned. Section 6(b) directs the President, as soon as practicable, to bring all existing trade agreements into conformity with this policy.

The procedure for administration of trade-agreement escape-clause provisions is set forth in section 7 of the act. Under this section, the Tariff Commission, upon request of the President, upon resolution of either House of Congress, upon resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, upon application of any interested party, or upon its own motion, must promptly make an investigation (including, under specified conditions, a public hearing) to determine whether any commodity on which a tariff concession has been granted is, as a result (wholly or in part) of the duty or other customs treatment reflecting the concession, being imported in such increased quantities (either actual or relative) as to cause or threaten serious injury to the domestic industry producing like or directly competitive products. Section 7 provides that should the Tariff Commission find the existence of such injury or threat thereof, the Commission shall recommend to the President that the concession be withdrawn or modified, that it be suspended (in whole or in part), or that import quotas be established, to the extent and for the time necessary to prevent or remedy the injury. The Commission is directed to consider a number of specified factors, not to the exclusion of others, in arriving at its determination. Within 60 days, the Commission must transmit to the Senate Committee on Finance and the House Committee on Ways and Means a copy of its report and recommendations to the President. Should the President fail to follow the Commission's recommendations within 60 days, he is required to report to the Senate Committee on Finance and the House Committee on Ways and Means, stating the reasons for his action. Should the Tariff Commission find that serious injury or the threat of serious injury does not exist, it is required to make and publish a report of its findings and conclusions.

Section 8 of the 1951 act provides that no existing or future trade agreement shall be applied in a manner inconsistent with the provisions of section 22 of the Agricultural Adjustment Act, as amended, thereby reversing the previous provision of law.

Section 8 also provides that when the Secretary of Agriculture reports to the President and the Tariff Commission that, because of the perishability of any agricultural commodity, a condition exists requiring emergency treatment, the Tariff Commission shall make an investigation under section 22 of the Agricultural Adjustment Act or under section 7 of the Trade Agreements Extension Act of 1951, and recommend such relief as may be appropriate; the time allowed for the investigation and action by the President is limited to 25 days. If he considers it necessary, the President may act without awaiting the recommendations of the Commission.

The other sections of the Trade Agreements Extension Act of 1951 delete certain provisions of the Trade Agreements Act of 1934 and the Customs Administrative Act of 1938 which made section 516(b) of the Tariff Act of 1930 (relating to appeals from the classification of imports by the customs authorities) inapplicable to commodities included in any trade agreement (sec. 9); declare that enactment of the act shall not be construed to determine or indicate the approval or disapproval by the Congress of the General Agreement on Tariffs and Trade (sec. 10); and direct the President to prohibit imports of certain furs and skins which are the products of the Soviet Union or of Communist China (sec. 11).

DEVELOPMENTS RESPECTING THE GENERAL PROVISIONS OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The multilateral agreement known as the General Agreement on Tariffs and Trade now embraces the agreement entered into by the original contracting parties at Geneva in 1947; the Annecy Protocol of 1949, under which 9 additional countries acceded to the agreement; and the Torquay Protocol of 1951, which provides for the accession of 6 additional countries. On June 30, 1951, the number of contracting parties to the General Agreement (not taking into account the impending Torquay accessions) was 31, or one less than the year before.

The general provisions of the General Agreement were originally intended to be a device for regulating trade between member countries and for safeguarding concessions made in the agreement. Ultimately, they were to have been superseded by the proposed Charter for an International Trade Organization (ITO), and most of the general provisions of the General Agreement therefore parallel certain provisions of the proposed charter. In December 1950, however, the United States announced that it would no longer seek congressional approval of the charter, but instead would seek appropriate legislative authority to make more effective United States participation in the General Agreement.

Aside from the amendment to article XXVIII, which prolonged the assured life of the Geneva and Annecy concessions until January 1, 1954, there were no major changes in the general provisions of the General Agreement during the period July 1, 1950, to June 30, 1951. At their Fifth and Special Sessions, however, the Contracting Parties held various consultations and discussions relating to the general provisions, the operation of the agreement, and routine problems and complaints.

The Fifth Session of the Contracting Parties[4] was held at Torquay, England, from November 2 to December 16, 1950. Of the 32 contracting parties to the General Agreement, 29 were represented at this session. Seven countries that were participating in the Torquay negotiations with a view to acceding to the General Agreement participated as observers, as did also six other countries that were not participating in the tariff negotiations, and four international organizations.

The major consultations and discussions by the Contracting Parties at their Fifth Session related to arrangements for placing in effect the results of the Torquay tariff negotiations; the prolongation of the assured life of the Geneva and Annecy concessions; quantitative restrictions imposed on imports by member countries for balance-of-payments reasons (arts. XI-XIV); quantitative restrictions imposed on imports by member countries for purposes of economic development and reconstruction (art. XVIII); the withdrawal by the United States of its concession on certain types of women's hats and hat bodies made of fur felt (art. XIX); Brazilian and United Kingdom internal taxes on imported products (art. III); and special exchange agreements (art. XV).

At the Special Session of the Contracting Parties, held at Torquay from March 29 to April 3, 1951, the principal subject of discussion was the disparity in the levels of European tariffs.

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[4] In this report, when the term "contracting parties" refers to the member countries acting as a group, it is rendered with initial capitals (Contracting Parties); when it refers to member countries acting individually, it is rendered without initial capitals (contracting parties).

THE TORQUAY TARIFF NEGOTIATIONS

At their Third Session, held in Annecy in 1949, the Contracting Parties to the General Agreement on Tariffs and Trade appointed a working party to study the possibility of conducting a third set of multilateral tariff negotiations. This working party recommended that a conference for such a purpose be convened September 28, 1950. At their Fourth Session, held at Geneva in February–April 1950, the Contracting Parties formally approved the recommendations of the working party, and selected Torquay, England, as the site of the Conference.

Of the 29 nonmember countries to which the Contracting Parties sent invitations to attend the Torquay Conference, the following 7 accepted, with a view to acceding to the General Agreement: Austria, the Federal Republic of Germany, Guatemala, Korea, Peru, the Republic of the Philippines, and Turkey. All the 24 original contracting parties and the 10 additional countries that had negotiated at Annecy in 1949 indicated that they would attend. Some of these 34 countries did not actually attend the Conference.

In preparation for the Torquay Conference, the countries that had elected to attend it exchanged information on their current customs tariffs during the fall of 1949. During the first half of 1950, they submitted to each other preliminary and final lists of the products on which they intended to request tariff concessions at Torquay.

As part of the United States preparation to participate in the Torquay negotiations, the Tariff Commission in the latter part of 1949 and the early part of 1950 prepared statistical analyses of United States imports from each of the countries scheduled to negotiate with the United States; made available its Summaries of Tariff Information on dutiable and free-list commodities; and thereafter prepared confidential digests of information on all commodities that had been listed for possible concessions. Simultaneously, the Department of Commerce prepared statistical analyses of the United States export trade with each of the countries with which the United States expected to negotiate, and prepared confidential digests of information on all commodities on which the United States intended to seek concessions.

On April 11, May 15, and August 17, 1950, the Trade Agreements committee issued public notices of intention to negotiate with 24 foreign countries at Torquay, and published lists of the commodities to be considered for possible concessions. Six of the countries were those desiring to accede to the General Agreement, and 18 were contracting parties with which the United States wished to consider the possibility of exchanging new or additional tariff concessions. Simultaneously, the Committee for Reciprocity Information issued notices of three public hearings to be held beginning May 24, June 19, and September 25, 1950, for the purpose of affording interested persons and organizations an opportunity to present their views on concessions that might be granted or sought by the United States. The lists of import commodities announced as subjects of possible concessions by the United States comprised items included in about 480 paragraphs and subparagraphs of the Tariff Act of 1930. The United States had granted concessions on a majority of these commodities in earlier trade agreements; others were to be considered for the first time.

The tariff negotiations at Torquay, which extended from September 28, 1950, to April 21, 1951, were of four types: (1) Those looking toward the accession of new countries to the General Agreement; (2) those between contracting parties that had not previously concluded bilateral negotiations with one another; (3) those between contracting parties that had concluded bilateral negotiations, but wished to negotiate regarding new or additional tariff concessions; and (4) those designed to adjust concessions negotiated at Geneva or Annecy, under the provisions of article XXVIII of the General Agreement.

Thirty-four countries met at Torquay for the Tariff Negotiations Meeting. Of these, 27 were contracting parties, and 6 were countries desiring to accede to the General Agreement. Although Uruguay was not yet a contracting party, it was given permission to negotiate at Torquay. Pairs of negotiating teams, representing pairs of countries, conducted the initial negotiations on a bilateral basis. At the end of the Conference the results of the bilateral negotiations were combined to form the separate country schedules for each participating country. All participating countries then reviewed these consolidated country schedules in order to assess the over-all results of the negotiations and, where necessary, negotiate to remove inequities that might have arisen in the course of the bilateral negotiations. The 34 countries that negotiated at Torquay completed all together 147 pairs of negotiations. Of these, 58 were between countries that were already contracting parties (and Uruguay); 86 were between such countries (and Uruguay) and the newly acceding countries; and 3 were between the acceding countries themselves.

The results of the Torquay negotiations are embodied in a series of instruments. To the Final Act, which was signed by the contracting parties and the acceding countries at Torquay on April 21, 1951, are annexed (1) the several Decisions agreeing to the accession of the acceding governments, (2) the Torquay Protocol to the General Agreement on Tariffs and Trade, and (3) the Declaration on continued application of the schedules to the General Agreement. The Torquay Protocol contains the terms of accession for the acceding countries, the terms for making the annexed schedules of tariff concessions effective, and certain amendments to the general provisions of the General Agreement. The Declaration on continued application of the schedules to the General Agreement establishes the principle that, except in special circumstances, the signatories will maintain until January 1, 1954, all the concessions granted by them at Geneva, Annecy, and Torquay. This extension of the period of the Geneva and Annecy concessions was effected by amending article XXVIII to change from January 1, 1951, to January 1, 1954, the date after which tariff concessions could be modified or withdrawn without joint action by the Contracting Parties.

The Torquay Protocol was opened for signature at Torquay on April 21, 1951. It was then deposited with the Secretary-General of the United Nations in New York for signature from May 7 to October 21, 1951. By June 20 more than the required number of governments had agreed to the accession of the 6 acceding countries. Between June 20 and October 21, 1951, all the acceding countries except Korea and the Republic of the Philippines signed the protocol. The schedules of each of these countries became effective on the thirtieth day following the date of its signature. Although Uruguay was not a contracting party during the Torquay negotiations, the Contracting Parties made special arrangements to permit Uruguay to sign the Torquay Protocol provided it first signs the Annecy Protocol.

At Torquay, the United States completed negotiations with 17 countries. Of these, 12 were contracting parties at the opening of the Conference: Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Brazil, Canada, Denmark, the Dominican Republic, France, Indonesia, Italy, Norway, and Sweden. The United States also completed negotiations with 5 of the 6 countries that acceded to the General Agreement at Torquay—Austria, the Federal Republic of Germany, Korea, Peru, and Turkey. As commercial relations between the United States and the Republic of the Philippines are governed by the terms of the bilateral trade agreement concluded under the provisions of the Philippine Trade Act of 1946, the United States did not negotiate with the Philippines. The United States did not exchange new tariff concessions with Uruguay at Torquay.

In return for the concessions it obtained from the 17 countries with which it concluded negotiations at Torquay, the United States granted concessions on products which in 1949 accounted for 477.6 million dollars' worth of imports from all countries, or 7.2 percent of total United States imports in that year. Based on the value of the trade in 1949, the United States reduced duties on products the imports of which from all countries were valued at 419.3 million dollars (15.5 percent of total dutiable imports); bound duties at existing rates on 24.3 million dollars' worth of imports (about 1 percent of total dutiable imports); and bound existing duty-free treatment on 34 million dollars' worth of imports (about 1 percent of total duty-free imports).

In direct negotiations with the 17 countries with which it concluded agreements, the United States obtained concessions at Torquay on products that in 1949 accounted for imports from the United States into those countries valued at about 1.1 billion dollars. The benefits that will accrue to the United States as a result of concessions exchanged by other participants at Torquay apply to commodities valued at more than 100 million dollars in

1949. Thus the concessions that the United States obtained directly and indirectly at Torquay apply to imports from the United States into those countries valued at about 1.2 billion dollars in 1949, or about 20 percent of total United States exports in that year to the 17 countries with which it concluded negotiations.

Before the Torquay Conference, 16 countries had announced their intention to withdraw or modify certain of their Geneva or Annecy concessions, under the provisions of article XXVIII of the General Agreement. Under that article, the United States negotiated at Torquay with 15 of these countries—the Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Brazil, Chile, Cuba, Denmark, Finland, France, Haiti, Italy, New Zealand, Sweden, the Union of South Africa, and Uruguay. At Torquay, the negotiating countries modified or withdrew concessions on articles the United States exports of which in 1949 were valued at approximately 100 million dollars. In exchange for agreeing to these modifications or withdrawals, the United States obtained compensatory concessions on articles the exports of which in 1949 were valued at about 105 million dollars.

As of July 1, 1951, assuming the entry into the General Agreement of all the countries which acceded at Torquay, the United States was a party to trade agreements covering 46 countries. These countries fall into two groups: (1) 35 countries that are or will shortly be contracting parties to the General Agreement on Tariffs and Trade and (2) 11 countries that are not parties to the General Agreement.

TARIFFS, QUANTITATIVE IMPORT RESTRICTIONS, AND SUBSIDIES EMPLOYED BY CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

During all or part of the period covered by this report there were, besides the United States, 30 contracting parties to the General Agreement on Tariffs and Trade. This section relates to actions of these countries during 1950–51 with regard to tariffs and other charges on imports, quantitative restrictions and exchange controls (distinguishing those maintained for balance-of-payments reasons from those maintained for purposes of economic development), and subsidies.

Tariffs and Other Charges on Imports

General upward tariff revisions have been exceptional in recent years. Numerous concession rates have been renegotiated in accordance with provisions laid down in the General Agreement, although relatively few were so renegotiated during 1950–51. The number of violations (that is, unauthorized departures from obligations under the agreement) with respect to duties and other charges on imports has been negligible during the past year.

Just before the beginning of the period covered by this report, Cuba put into effect the various tariff changes, increases as well as decreases, that resulted from the renegotiation with the United States of certain concessions in the Cuban schedule of the General Agreement. The United States joined Cuba in formally reporting those results to the Contracting Parties on November 3, 1950, during their Fifth Session at Torquay. The Contracting Parties approved the incorporation of the renegotiated items and the compensatory concessions in the Cuban schedule of the General Agreement. In the absence of objections by interested contracting parties, all these Cuban tariff changes entered into force definitively on February 21, 1951.

A more comprehensive and much more important group of items on which Cuba initially granted concessions to the United States at Geneva was discussed during the second stage of the United States-Cuba renegotiations, which began in Washington on August 7, 1950. The group comprised virtually all fabrics of cotton and rayon, and related articles. Later, cotton wiping waste and cotton felt or batting were added to the agenda. The undertaking to renegotiate on the textile-fabric items in general, and on colored-woven fabrics in particular, had developed during the closing days of the Annecy Conference, when the United States expressed its willingness to negotiate bilaterally with Cuba on outstanding tariff problems.

Related to the Cuban textile tariffs as such was the problem of the adverse effects on United States trade of certain nontariff measures that Cuba had established to control imports of cotton and rayon fabrics and related items from the United States. United States textile exporters had reported that these regulations were unduly burdensome and restrictive of trade.

Although both the United States and Cuba desired to complete these renegotiations as to textiles before the Torquay Conference, only the initial discussions of the problems could be undertaken in Washington. The two countries, however, made the textile renegotiations their first order of business at Torquay; they continued their discussions there from October 1950 to March 1951, when the renegotiations were merged with the negotiations relating to Cuba's modifications under article XXVIII.

A further troublesome problem involving an important concession that Cuba had granted to the United States at Geneva was the disturbance in the normal trade pattern of United States exports of rice to Cuba. The procedures which Cuba adopted in July 1950 for administering the tariff quota on rice aggravated the difficulties and uncertainties that United States exporters of rice had previously experienced. During 1950 a very substantial part of the large volume of United States rice actually imported into Cuba paid duty at the "overquota" rate of $3.70 per 100 kilograms instead of at the "inquota" rate of $1.85. This situation resulted from Cuba's failure to make timely announcements of import requirements for rice and of revisions of the tariff quota, such as are contemplated by the quota provision in the Cuban schedule of the General Agreement. The rice-quota problem was further complicated by questions involving the margin of preference for United States rice on overquota imports, by differences regarding the proper computation of the tariff quota (whether on gross or net weight), and by the fact that Cuba continued to collect the 6-percent gross sales tax on imported rice while exempting from this tax rice produced in Cuba. The delegations of the United States and Cuba discussed these problems at Torquay but reached no mutually satisfactory solution by the time the Conference ended in April 1951. Further negotiations were held in Havana during May–June 1951, but these had not been completed as of July 1, 1951.

For some time the Contracting Parties have asked Brazil to cease applying discriminatory internal taxes to numerous imported items in violation of article III of the General Agreement, which forbids imposition of higher internal charges on imports than are levied on like products of national origin. Brazil has given assurances that it will remove this discrimination.

Quantitative Restrictions for Balance-of-Payments Reasons

Articles XI–XIV of the General Agreement relate to the conditions under which quantitative restrictions on imports may be imposed for balance-of-payments reasons and the conditions under which discrimination in the application of these restrictions is permitted. Almost all the foreign countries that are contracting parties to the General Agreement have had balance-of-payments difficulties, mainly with hard-currency countries, and have taken advantage of the provisions of these articles to impose quantitative restrictions on imports and to apply them in a manner which involves discrimination, especially against imports from the United States and other hard-currency countries.

It is a function of the Contracting Parties to the General Agreement (acting as a group) to consider from time to time the balance-of-payments positions of the several countries and to advise as to whether quantitative import restrictions imposed for balance-of-payments reasons can be safely removed or relaxed. The International Monetary Fund (most of the members of which are also contracting parties to the General Agreement) performs similar functions with regard to the maintenance of exchange controls for balance-of-payments reasons. It is also a function of the Contracting Parties to endeavor to prevent quantitative restrictions imposed for balance-of-payments reasons from being used, or prolonged, for the purpose of protection.

During the early part of 1950 the dollar position of most of the General Agreement countries improved considerably. For some countries the improvement continued into 1951; the dollar reserves of some other countries, however, declined rapidly in the second half of 1950 and the first half of 1951. The currency devaluations made by many countries in the fall of 1949 tended to increase exports to, and decrease imports from, the United States. Moreover, unusually heavy foreign buying by the United States after the outbreak of the conflict in Korea and the establishment of new rearmament requirements by the United States greatly augmented the supply of dollar exchange in many countries. These developments were important factors in reducing or eliminating balance-of-payments difficulties that had previously deterred countries from relaxing their quantitative restrictions on imports. Even before hostilities began in Korea some countries had improved their external financial position by restricting imports for which they lacked exchange, and by increasing their exports to the United States.

Another factor that prompted some countries to relax their restrictions on imports was their desire to import and stockpile critical materials (especially machinery) after the beginning of the Korean conflict, when the accelerated rearmament program made it apparent that serious shortages might develop. On the other hand, this heavy buying was an important factor in creating a fresh crisis in the foreign-exchange position of some countries, particularly the United Kingdom.

British countries—general

During the early part of 1950 the hard-currency reserves of the United Kingdom and the countries associated with it in the sterling area increased substantially. The United States, Canada, Belgium, and Cuba (the countries most interested in seeing restrictions on their exports removed) therefore expressed before the Contracting Parties the view that the time had come for the United Kingdom, Australia, New Zealand, Ceylon, and Southern Rhodesia to relax their restrictions on imports from hard-currency countries. The International Monetary Fund had already reported that there was a sound basis for such relaxation. The British countries named, however, refused to appreciably relax their restrictions on imports from hard-currency areas, on the ground that their improved financial position was likely to be temporary, particularly because they would soon be obliged to make vastly increased expenditures in hard-currency countries for rearmament. Both India and Pakistan, on the other hand, had relaxed their restrictions on hard-currency imports somewhat, and had indicated their intention to relax them still further in 1951.

South Africa

In 1948 the drain on South Africa's gold and dollar reserves had become so great that the Government established a rigid system of import controls. These controls were first applied to goods to be paid for in dollars; as the country's gold position became weaker they were applied also to goods from the sterling area. Dollar receipts and gold (of which South Africa is a very large producer) were used to purchase imports designated as essential; imports designated as nonessential were paid for out of receipts from soft-currency countries. In effect, therefore, South Africa employed two currency pools for trade with different groups of countries. After the currency devaluations in 1949, South Africa's external financial position improved greatly. The increased price of gold in terms of sterling enabled South Africa to relax its restrictions on imports from sterling-area countries. Devaluation of the South African pound also checked South Africa's imports of hard-currency goods, and stimulated its exports to the United States and other hard-currency areas.

Despite the improvement in its dollar position, South Africa was at first reluctant to relax its import restrictions on dollar goods. Since the Government had already considerably relaxed its import restrictions on goods from soft-currency countries, the discrimination against imports from hard-currency countries had been intensified. As a result of pressure from South African interests, however, the Government at the beginning of 1951 likewise relaxed restrictions on imports from hard-currency countries. The decision to do so resulted in a considerable modification of South Africa's basic laws respecting the control of foreign trade. The net effect has been to permit the bulk of the country's imports to be paid for from a single currency pool (instead of from two, as formerly) regardless of whether the goods originate in soft-currency or hard-currency areas. This action eliminates most of the discrimination against hard-currency imports.

Canada

Canada is the only country of the British Commonwealth that has never been a member of the sterling area. Like other Commonwealth countries, however, for some time after the war it experienced difficulties in obtaining sufficient United States dollars to meet the demand for imports from the United States. In 1947 Canada adopted highly restrictive exchange-conservation measures, primarily to conserve the country's dollar exchange. As a result of these restrictions, Canada's trade deficit with the United States declined markedly. Canadian exports to the United States, which had already increased greatly, increased further after the outbreak of hostilities in Korea. This development, together with the heavy flow of United States capital to Canada, enabled the Canadian Government to remove virtually the last of its restrictions on imports during the second half of 1950.

Brazil

During 1950 Brazil's external financial position, which had been very unfavorable in 1949, improved markedly. Contributing factors included the stricter import-licensing regulations that had been imposed in 1949, the stimulation of exports through a system of private barter transactions, higher prices for coffee, and heavy borrowing from the International Monetary

Fund. As a result of the improvement in its balance-of-payments position and the Brazilian Government's desire to facilitate imports of certain essential materials that were in short supply, Brazil relaxed its import restrictions considerably during the second half of 1950 and the first half of 1951. Licensing regulations were modified to permit importation from the United States of various essential goods that had previously been licensed only for importation from soft-currency countries.

In 1949, when the new and severe restrictions were placed on imports, Brazil authorized trade on a compensation or barter basis in order to direct exports of surplus commodities to those countries that could supply Brazil's requirements on the most advantageous terms. The compensation system did not prove entirely satisfactory, mainly because "over-exporting" tended to create domestic shortages and higher domestic prices. In the meantime, however, improvement in Brazil's foreign-exchange position and the decline in its surplus stocks of commodities under the barter system made resort to this method of trade less urgent. Early in 1951 compensation trade was suspended.

Chile

A highly complex multiple-exchange system has been Chile's principal device for discriminating between various classes of imports and for encouraging exports of certain commodities. As an additional method of restricting imports to a level consistent with the country's foreign-exchange position, Chile requires prior import permits for many commodities. During 1950 Chile's reserves of hard currency increased to such an extent that the Government permitted a considerable increase in imports. Because of this development, the United States and other hard-currency countries that are parties to the General Agreement did not press Chile to relax its import restrictions further.

In the middle of 1950 Chile employed five fixed rates of exchange and permitted certain goods to be imported at the free-market rate. In November 1950 a new basic exchange law classified Chilean imports into four main categories, each subject to a different rate of exchange or a different quantitative limitation, depending on the degree of essentiality of the imports. Imports of luxury goods continue to be purchased mainly with the foreign-exchange proceeds from exports of gold, the selling rates for which are much higher than for exchange sold to purchase essential imports. Under this arrangement, restrictions on imports were relaxed considerably in November 1950 by enlarging the list of items that may be imported at the prevailing free-market rate without prior import permits. The list of luxury items that may be imported was also enlarged. Tobacco manufactures, alcoholic beverages, wearing apparel, iron and steel for construction, kitchen utensils and appliances, and luxury foodstuffs, however, remain among the articles on the list of prohibited imports.

Continental European countries

In 1950 all the continental European countries with which the United States had arrangements in effect under the General Agreement (except Belgium and Luxembourg) continued to apply their import restrictions so as to discriminate against goods from the United States and other hard-currency countries. Czechoslovakia, Denmark, Finland, France, Greece, Italy, the Netherlands, Norway, and Sweden all reported that balance-of-payments difficulties were the reason for such discrimination. Belgium, Luxembourg, and all the other countries named above (except Czechoslovakia and Finland) are members of the European Payments Union, which was organized in the fall of 1949. As members they are obliged to relax the restrictions on their intra-European trade in accordance with the policies of the Organization for European Economic Cooperation.

Czechoslovakia's trade continued to shift from western to eastern Europe, but the Contracting Parties found that Czechoslovakia had not intensified its discriminatory treatment of hard-currency imports. Finland likewise continued to discriminate against products from hard-currency countries in about the same degree as in former years, and was not pressed by the Contracting Parties to relax its restrictions immediately.

Use for Protective Purposes of Restrictions Imposed for Balance-of-Payments Reasons

During 1950 the Contracting Parties showed considerable concern over the tendency of member countries to use for protective purposes quantitative import restrictions originally imposed for balance-of-payments reasons, and called attention to a variety of ways in which members were misusing such restrictions. These include granting priority to imports of commodities that are the least competitive with domestic products; imposition of administrative obstacles to the full utilization of quotas imposed for balance-of-payments reasons; and use of balance-of-payments restrictions to retaliate against a country that has refused to conclude a bilateral payments agreement.

To minimize the undesirable incidental protective effects of balance-of-payments import restrictions, the Contracting Parties suggested several procedures: Discouragement of investment in enterprises that could not survive removal of balance-of-payments restrictions without other protection; use of unrestricted general import licenses or unallocated nondiscriminatory import quotas instead of quotas allocated among the various supplying countries; and maintenance of "token import" schemes.

The Contracting Parties made similar findings and suggestions as to the use of quantitative restrictions on exports. Such restrictions also have been used for purposes not permitted by the General Agreement, such as retaliation, bargaining, and protection or promotion of domestic industries.

Quantitative Restrictions for Purposes of Economic Development

Article XVIII of the General Agreement permits contracting parties to the agreement, under specified conditions, to use quantitative import restrictions for purposes of economic development. Such action requires approval by the Contracting Parties.

In 1950 fewer countries asked the Contracting Parties for permission to use quantitative import restrictions for purposes of economic development than in 1949. After Denmark, Haiti, and Italy acceded to the General Agreement at Annecy, they notified the Contracting Parties of measures they already had in force for purposes of economic development and applied for permission to maintain these measures.

Italy subsequently withdrew its request to maintain its measures (which related to seed oil, radio equipment, and dyestuffs) for purposes of economic development, but pointed out that the same measures were already being enforced for balance-of-payments reasons. Haiti's measure, for the establishment of a state tobacco monopoly to develop the domestic production of raw tobacco, was found not to be discriminatory, and Haiti was granted permission to subject imports of tobacco products to licensing for a period of 5 years. Denmark's request for permission to maintain certain measures to protect and develop its domestic sugar, potato-flour, and liquor industries was not acted upon by the Contracting Parties because similar measures were already being maintained by Denmark for balance-of-payments reasons.

Subsidies

In 1950 the Contracting Parties collected information regarding the use by contracting parties of subsidies (including income and price-support measures) that operate to increase exports or to reduce imports. Subsidies of this type, defined in article XVI of the General Agreement, must be reported to the Contracting Parties. Eighteen contracting parties reported that they maintain no such subsidies. Four countries did not report on the use of subsidies. Ten contracting parties (Australia, Belgium, Canada, Cuba, Denmark, Finland, India, Sweden, the Union of South Africa, and the United States) definitely indicated that they employ certain subsidies within the meaning of article XVI. Most of the subsidies that these countries grant are on raw materials and foodstuffs.

TARIFFS, QUANTITATIVE IMPORT RESTRICTIONS, AND EXCHANGE CONTROLS EMPLOYED BY COUNTRIES WITH WHICH THE UNITED STATES HAS BILATERAL TRADE AGREEMENTS

During all or part of 1950–51 the United States had trade agreements in force with 15 countries that are not contracting parties to the General

Agreement on Tariffs and Trade. Eleven of these bilateral agreements were with Latin American countries (Argentina, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay, and Venezuela) ; the others were with Iceland, Iran, Switzerland, and Turkey. The bilateral trade agreement with Mexico was terminated as of December 31, 1950, and that with Costa Rica, as of June 1, 1951.

Argentina extensively revised its customs tariff during the year, but the revision did not affect items on which Argentina had granted trade-agreement concessions to the United States. Mexico also substantially revised its tariff after the United States-Mexico trade agreement was terminated. Several months before the agreement was terminated, the United States had agreed to provisional increases in the import duties on some items in Mexico's schedule of trade-agreement concessions, pending completion of negotiations between the two countries for revision of the agreement. Uruguay imposed a new ad valorem tax on all imports into the country. It also, with certain exceptions, increased by 30 percent the official import valuations, which valuations in effect make the ad valorem duties specific. Late in 1950, Iran consolidated its import duties with other import charges, and in March 1951 the United States Government approved application of the consolidated rates to trade-agreement items, in accordance with a provision in the United States-Iran trade agreement of 1944 that permits such action. For other countries with which the United States has bilateral trade agreements there appear to have been no major tariff revisions and, moreover, very few instances in which changes in tariffs or in other charges on imports violated trade-agreement obligations.

Most of the countries with which the United States has bilateral trade agreements have had balance-of-payments difficulties for a number of years, and have applied import restrictions, especially on goods from dollar and other hard-currency countries. Rearmament and the stockpiling of strategic materials by the United States after the outbreak of the conflict in Korea greatly stimulated United States purchases in foreign countries, particularly in Latin America. The resulting increase in dollar earnings by these countries enabled them to relax their restrictions on dollar imports. In anticipation of world shortages and because of rising prices and the export restrictions that were being imposed by the United States and other supplying countries, these countries were for the most part eager to make it easier to import essential materials and equipment.

The use of multiple exchange rates for the purpose of enabling exchange-control authorities to apply favorable rates to essential commodities and less favorable rates to less essential or nonessential imports is quite common in Latin American countries. This system is also useful in assisting the exportation of commodities that are difficult to sell abroad, because it enables the authorities to buy the foreign exchange yielded by such commodities at a more favorable rate than they pay for the proceeds from commodities that find ready acceptance abroad.

Argentina, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela, as well as Iran, employ multiple exchange rates. All these countries modified their exchange-rate structures during the past year. Most of these countries simplified them substantially in an effort to relax some of the more restrictive features.

As Argentina's exchange position improved and shortages of many materials developed in world markets, Argentina greatly simplified its complicated multiple-exchange system in order to facilitate imports. This occurred in August 1950, at which time imports were also facilitated by modification of Argentina's import-permit system and by other means.

Costa Rica, on the other hand, found that its effective rates of exchange were not high enough to keep its imports, especially in the nonessential categories, in balance with its receipts of foreign exchange; accordingly, it increased its rates of exchange for the purchase of imports by applying surcharges ranging from 10 percent to 100 percent.

Late in 1950 Ecuador changed the par value of its currency and simplified its multiple-exchange system, with a view to stimulating imports of goods that are in short supply in the United States and other exporting countries and that are considered by Ecuador to be of critical importance to its economy.

During 1950 Paraguay greatly restricted imports as part of its program to support the rigid price-control system it had established earlier in the year. It not only limited imports to the most essential commodities, but also took steps to assure that exports would go to preferred markets such as those in the dollar area. In March 1951 the Government devalued the currency from 3.09 to 6 guaranis per United States dollar; at the same time it simplified its multiple-exchange system by replacing with two rates the four rates of exchange previously in use. Essential goods are imported at the more favorable rate of 6 guaranis per dollar, and less essential commodities, at 9 guaranis. Proceeds from readily exportable commodities are liquidated at the 6-guarani rate; proceeds from commodities more difficult to sell abroad are liquidated at the 9-guarani rate.

By the second half of 1950 Peru's foreign-exchange position had improved so greatly that it could begin to liquidate the arrears in its foreign commercial obligations. By early 1951, it was able to eliminate entirely the very severe quantitative import restrictions that had been in effect for several years. Peru also facilitated the entry of goods into the country by abolishing some 45 national, regional, and customs surtaxes on imports, and replacing them with a new "unified tax" or surcharge.

Uruguay's foreign-exchange position improved greatly during 1950, partly because of the severe restrictions on imports that had been in effect for some years, but mainly as a result of a substantial increase in exports of wool to the United States. During the second half of the year Uruguay gradually eliminated its import controls on essential commodities. Early in 1951 it abolished import controls on a specified list of less essential commodities imported from the United States and several other countries. It also established new quotas for imports of nonessential goods from the United States. Uruguay employs a multiple-exchange system, which operates in much the same way as it does in other countries. Highly essential imports are financed by purchases of dollars and other foreign exchange at rates more favorable than those applied to imports of less essential or luxury goods. Proceeds from the exportation of basic export commodities are purchased at rates lower than those paid for the proceeds from exports of commodities that are at a competitive disadvantage in foreign markets.

Although Venezuela has no balance-of-payments difficulties that require restrictions on imports, it nevertheless employs quotas and import licensing. It has also increased the rates of duty on various products, particularly since 1949, when the Government embarked on a program to protect domestic industries. Import licenses are required for only about 20 commodities, mostly those of a type produced in Venezuela. Quotas continue to apply to imports of certain commodities. Venezuela has recently followed a policy of relaxing its import restrictions in order to stockpile commodities for which it anticipates world shortages. Although Venezuela employs no exchange restrictions, multiple exchange rates result from the application of differential rates to various classes of imports and exports.

Iran employs severe quantitative import restrictions, as well as exchange control and a multiple-exchange system that is designed to differentiate between essential and nonessential imports in the allocation of foreign exchange. It prohibits the importation of commodities listed as nonessential, as well as certain commodities of a type produced within the country. Licenses are required for all permitted imports, and a number of commodities are subject to import quotas. Virtually all foreign exchange must be sold to the authorities. There are three official rates of exchange. In 1950, Iran relaxed its import restrictions considerably, in part to permit the importation of commodities that were becoming scarce, and in part as an anti-inflationary measure. The demand for exchange soon became so great, however, that in order to conserve its exchange resources the Government drastically curtailed credit facilities to importers.

Considering the large number of items on which countries that are parties to bilateral agreements have made concessions to the United States, there have not been many instances of failure to abide by the obligations as to tariffs and other charges on imports. Promptness by the United States in calling the attention of the other parties to actual violations, or to violations that might result if certain contemplated measures were applied, has sometimes been sufficient to bring about the necessary corrections.

When the United States called the attention of Guatemala to that country's action of February 1951, which doubled the duty on cheese (an agreement item) by placing it in a different tariff classification, Guatemala indicated that it would abide by the terms of the agreement. Early in 1951 Paraguay removed a graduated tax on foreign-exchange transactions after the United States Government pointed out that application of the tax to trade-agreement items would violate the agreement between the two countries. After Uruguay imposed a new tax on all imports into the country in November 1950, the United States requested that trade-agreement items be exempted from the tax, and the Uruguayan Government promptly complied.

In some instances a government that takes steps to correct certain actual or possible violations of its trade-agreement obligations fails to take such action on other complaints by the United States that trade-agreement obligations are being violated. For example, although Guatemala corrected the violation mentioned above, it has not taken satisfactory action with respect to its restrictions on flour, a trade-agreement item. Likewise Paraguay, despite United States protests that a newly imposed consular fee violated Paraguay's agreement not to impose new charges on trade-agreement items, has taken no action to correct the violation.

Issues of long standing between the United States and the Governments of Argentina and Turkey remained unresolved in 1950–51. Under the terms of the United States-Argentina trade agreement of 1941, Argentina agreed that when its customs receipts exceeded a stated figure it would apply lower duties on products on which it granted concessions to the United States. Although its customs receipts have been at the specified level since 1947, Argentina has taken no action to place in effect the duties agreed upon. Violation by Turkey of its trade agreement with the United States consists of Istanbul's imposing on admission tickets a tax that discriminates against theaters showing United States motion-picture films. This discrimination has existed since 1948, but recent indications are that steps will be taken to eliminate it.

UNITED STATES MEASURES RELATING TO IMPORTS OF TRADE-AGREEMENT ITEMS

Trade Agreements

During 1950 the United States placed in effect the concessions that it had negotiated with 9 countries at Annecy in 1949. In the first half of 1951 it also placed in effect the concessions it had granted to 6 countries with which it concluded negotiations at Torquay in 1950-51. For technical and other reasons, the United States also placed in effect during the first half of 1951 a few of its concessions to the 11 other countries with which it negotiated at Torquay.

With certain exceptions, the United States continued in effect during 1950 and the first half of 1951 all concessions it had granted in schedule XX of the General Agreement and in bilateral trade agreements that have not been superseded by that agreement. The concessions that were not continued were certain ones the United States had made to Mexico in the 1943 trade agreement with that country; certain concessions it had granted to China at Geneva; the concession on women's fur felt hats and hat bodies valued at more than $9 but not more than $24 per dozen, which had been granted at Geneva; and the concessions on dyed stencil silk, dehydrated onion powder, and certain types of women's and children's leather gloves, which had been granted at Geneva and which were withdrawn at Torquay. During 1950 the United States placed in effect a temporary technical revision of the concession on Irish potatoes contained in schedule XX of the General Agreement.

By mutual agreement, the trade agreement between the United States and Mexico ceased to be in force after December 31, 1950. On most of the commodities on which the United States had granted concessions to Mexico in the agreement, the rates of duty reverted to those specified in the Tariff Act of 1930; on a few they reverted to rates established in the General Agreement on Tariffs and Trade or in an effective bilateral trade agreement. On some commodities, the rates of duty on which had increased as a result of the termination of the agreement, the United States granted concessions at Torquay.

It having become evident that special conditions in Costa Rica would not permit that country in the foreseeable future to apply the terms of its 1937 trade agreement with the United States, the two countries agreed in April 1951 to terminate the agreement, effective June 1, 1951. The tariff status of the United States import commodities covered in the trade agreement is not affected by its termination. The dutiable items on which the United States had granted concessions to Costa Rica are specified at the same or lower rates in other United States trade agreements, and the free-list items are bound free in other agreements.

The 1936 trade agreement between the United States and Switzerland was the most important of the bilateral trade agreements that did not contain an escape clause. During 1949 and the first half of 1950, therefore, the United States negotiated with a view to amending the trade agreement with Switzerland by incorporating therein an escape clause. In a note to Switzerland on August 10, 1950, the United States gave 6 months' notice of its intention to terminate the 1936 trade agreement unless Switzerland agreed to include in it the standard escape-clause provision. On October 13, 1950, Switzerland accepted the inclusion of the escape clause in the agreement.

On May 5, 1950, the Chinese Nationalist Government withdrew from the General Agreement on Tariffs and Trade, and its Geneva schedule of tariff concessions ceased to be in force. Under the provisions of article XXVII of the General Agreement, the United States in the summer of 1950 notified the other contracting parties that it intended to withdraw certain concessions it had granted in negotiations with China at Geneva. After sufficient time had elapsed for interested contracting parties to request consultation on specific items, the President issued a proclamation withdrawing, as of December 11, 1950, certain of the concessions the United States had initially negotiated with China. On most of the dutiable commodities affected, the rates of duty reverted to those specified in the Tariff Act of 1930. On certain other commodities, the United States did not withdraw the concessions it had negotiated initially with China, because other contracting parties have a substantial interest in them. On still other commodities it postponed possible withdrawal of the concessions, pending consultation with interested contracting parties. This consultation was largely completed at the Torquay Conference. At Torquay, the United States granted concessions on several of the items on which it had negotiated with China at Geneva, either at the same rates as those previously granted or at lower rates.

Escape-Clause Actions

Between April 20, 1948, when the first application for investigation under the escape clause of trade agreements was made, and June 30, 1951, the Tariff Commission received a total of 23 applications. As of June 30, 1951, it had dismissed 16 of these applications after preliminary inquiry; had instituted and completed 2 investigations; had ordered but not completed 4 investigations; and had deferred action on 1 application, to study further developments. [5]

Before June 30, 1951, the Commission completed two formal investigations under the escape clause—those on spring clothespins and on women's fur felt hats and hat bodies. The four formal investigations that the Commission had ordered but had not yet completed by June 30, 1951, are those on hatters' furs, or furs not on the skin, prepared for hatters' use, including fur skins carroted; on watches and watch movements, parts thereof, and watch cases; on motorcycles, finished and unfinished (subsequently, the Commission broadened the investigation to include motorcycle parts); and on blue-mold cheese.

Quantitative Controls of Imports

During 1950 and the first half of 1951 the United States continued to apply quantitative restrictions on imports of cotton (distinguishing short- and long-staple cotton), wheat and wheat flour, and sugar. The restrictions on

[5] This application was withdrawn on July 5, 1951; the Commission accepted the withdrawal on July 11, 1951.

cotton and on wheat and wheat flour have been applied under the provisions of section 22 of the Agricultural Adjustment Act, as amended. That act authorizes the President to restrict imports of any commodities, either by imposing import fees or by quota limitations, whenever such imports render or tend to render ineffective or materially interfere with the Department of Agriculture's programs relating to agricultural commodities. Before the President takes any action under section 22, the Tariff Commission must make an investigation (including the holding of a public hearing) and report its recommendations to him.

Import quotas were established for long-staple cotton in 1939, and for wheat and wheat flour and some other wheat products in 1941. In recent years the Commission has conducted a number of supplementary investigations regarding amendment of the quota restrictions on long-staple cotton. During 1950 and the first half of 1951 it made two such investigations on imports of harsh long-staple cotton, and two on imports of extra-long-staple cotton. [6] Quotas on imports of sugar, which began with the Sugar Act of 1934, have been continued under the Sugar Acts of 1937 and 1948.

By means of licenses, the United States has continued to control imports of a limited number of commodities, principally fats, oils, and rice. These restrictions, which began during World War II under the Second War Powers Act of 1942, have been maintained primarily as measures to aid in the equitable distribution of products in world short supply or to assist in the orderly liquidation of temporary surpluses of stocks owned or controlled by the Government. Since fats and oils were removed from international allocation in February 1949, the number of products to which the restrictions apply has been reduced considerably.

The United States maintains absolute quotas on imports from the Philippines of rice, cigars, scrap and filler tobacco, coconut oil, pearl or shell buttons, sugar, and hard-fiber cordage. These quotas, which were established by the Philippine Trade Act of 1946, are part of the extensive provisions of that act for the transition of Philippine products, upon their entry into the United States, from their present duty-free status to full-duty status. Under the act, the commodities now subject to import quota, together with all other Philippine products, will become dutiable by gradual steps beginning in 1954. In 1974, when the full duties will apply, the quotas are scheduled to be removed.

Prohibitions and restrictions which the United States maintains on imports, other than those mentioned above, are those in which protection to domestic producers, if any, is incidental to other social or administrative purposes. They consist of various prohibitions and restrictions on imports specified in the Tariff Act of 1930; in the Federal Food, Drug, and Cosmetic Act; in

[6] For the Commission's recommendations after these investigations, see ch. 7.

the Plant Quarantine Act; and in laws (especially those of 1890 and 1903) to prevent the introduction of animal diseases.[7]

Mixing Regulations for Rubber

During the last half of 1950 and the first half of 1951, as in the preceding years, the United States continued its practice of requiring that specified minimum proportions of domestically produced synthetic rubber be used in the manufacture of certain rubber products. These mixing regulations were continued after the war, for reasons of national security, to preserve a domestic synthetic-rubber industry. With the outbreak of hostilities in Korea, however, conservation of the supply of rubber for national defense, and its equitable distribution, became the primary objectives of Government controls on rubber. To achieve these objectives, the National Production Authority on March 1, 1951, issued new mixing regulations for a comprehensive list of rubber manufactures. These regulations fix the proportion of natural rubber that may be used in the manufacture of each rubber product. Effective May 1, 1951, a change in the mixing regulations for rubber eliminated the provision that rubber products imported into the United States could not contain more natural rubber than was permitted in the same products manufactured domestically. The mixing regulations for rubber do not conflict with United States obligations under the General Agreement on Tariffs and Trade. While under certain circumstances they might restrict imports of rubber into the United States, they have apparently had little or no hampering effect on imports of natural rubber, which have continued to be limited primarily by the available supply.

Subsidies

Article XVI of the General Agreement provides that each member country shall notify the Contracting Parties of any subsidy it maintains which operates directly or indirectly to increase exports or reduce imports. On April 13, 1951, the United States submitted its notification of subsidies in effect during the fiscal year 1950–51. In its report the United States noted that its use of subsidies had been greatly curtailed during the year because of the greatly changed international commodity situation after the outbreak of hostilities in Korea and because of the disposition of surplus commodities through domestic donation and diversion programs and through foreign donations or sales for relief purposes.

During the fiscal year 1950–51 subsidies maintained by the United States fell into two categories: (1) Government support of agricultural prices, and (2) export-subsidy programs. Price-support operations by the United States were conducted entirely under the Agricultural Act of 1949, which makes

[7] See ch. 7.

it mandatory to support prices of 13 so-called basic commodities and designated nonbasic commodities. In addition, price-support programs were announced for the 1950 production of 7 commodities for which price-support operations are discretionary. Export-subsidy programs maintained by the United States during the fiscal year 1950–51 were conducted under section 32 of the Agricultural Adjustment Act, as amended; under section 407 of the Agricultural Act of 1949, which provides that the Commodity Credit Corporation may sell for export, at a loss, any commodity owned or controlled by it; and under section 2 of the International Wheat Agreement Act of 1949, which provides for payment of export subsidies on wheat.

Chapter 2

United States Trade Agreements Legislation of 1951

During the last half of 1950 and the first half of 1951[1] the trade agreements program was conducted under the provisions of the Trade Agreements Act of 1934, as amended, and the Trade Agreements Extension Act of 1949.[2]

Legislative History of Trade Agreements Extension Act of 1951

The Trade Agreements Extension Act of 1949 extended until June 12, 1951, the President's authority to enter into trade agreements. In order to assure the continuation of the President's authority, the Chairman of the House Committee on Ways and Means, on January 17, 1951, introduced House bill 1612 shortly after the Eighty-second Congress convened. The bill simply provided for the extension of the President's authority to enter into trade agreements for a period of 3 years from June 12, 1951.

The House Committee on Ways and Means held public hearings on the bill from January 22 to January 26, 1951, inclusive. The Democratic majority reported favorably on the bill without amendments, and recommended that the bill be passed. The Republican minority, on the other hand, recommended (1) that the "peril point" provision of the Trade Agreements Extension Act of 1948 be reenacted in substantially its original form; (2) that the President be directed to prevent the application to imports from the Soviet Union or any Communist satellite country of reduced import duties and other concessions made in trade agreements; (3) that certain standards be established by Congress to guide the President in determining relief under the "escape clause"; and (4) that the authority of the President to negotiate trade agreements under the act be extended for only 2 years.

The House of Representatives began debate on House bill 1612 on January 31, 1951. On February 12, 1951, the bill for the extension of the President's authority was passed, but with several important amendments. In addition to provisions covering the first three recommendations by the minority members of the Committee on Ways and Means, the bill as passed by the House

[1] Until June 16, 1951.

[2] For a detailed discussion of the provisions of the Trade Agreements Extension Act of 1949, see *Operation of the Trade Agreements Program* (third report), ch. 2. For the earlier history of the trade agreements legislation, see *Operation of the Trade Agreements Program* (first report), pt. 2, ch. 2, and *Operation of the Trade Agreements Program* (second report), ch. 2.

included a provision designed to require the inclusion of an escape clause in all trade agreements; a procedure for the administration of trade-agreement escape clauses under which the Tariff Commission would make escape-clause investigations upon the request of the President, upon its own motion, or upon application of any interested party;[3] and a provision prohibiting the application of trade-agreement concessions to any agricultural commodity for which price support was available to United States producers, unless the imported commodity sold in the United States market at a price higher than the support price.

With some interruptions, the Senate Committee on Finance held public hearings on House bill 1612 from February 22 to April 6, 1951. On April 27, 1951, it unanimously recommended that the bill approved by the House be also approved by the Senate, but with considerable modification. The principal differences of substance between the House-approved bill and the bill reported to the Senate by the Committee on Finance were as follows:

1. The Committee on Finance recommended only a 2-year extension of the Trade Agreements Act, whereas the House had approved a 3-year extension.

2. The provision of the House-approved bill prohibiting the Tariff Commission, its members, officers, or employees, from participating in the making of decisions with respect to the terms of proposed trade agreements and from participating in trade-agreement negotiations, was eliminated. The committee report, however, stated that this should not be construed as authority for members of the Commission or of its staff to conduct trade-agreement negotiations.

3. The provision of the House-approved bill for the withholding of future trade agreements concessions from products of Communist-dominated countries and areas was changed to cover existing concessions as well, but the 90-day maximum period for accomplishing this provided for in the House bill was eliminated, leaving it to be done by the President "as soon as practicable."

4. The escape-clause provisions of the House-approved bill requiring the inclusion of an escape clause in all trade agreements were modified to require the inclusion of an escape clause in existing trade agreements only "as soon as practicable"; to provide that either House of Congress, or either the Committee on Finance or the Committee on Ways and Means, could also direct the Tariff Commission to institute escape-clause investigations; and to change the criteria of injury specified in the House-approved bill into factors which, not to the exclusion of others, the Tariff Commission was to consider in such investigations.

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[3] Although differing in detail, a similar procedure had previously been established under Executive Orders 9832, 10004, and 10082.

5. A new provision restored to full operation the right of domestic producers to seek remedy in court under section 516(b) of the tariff act with respect to customs classifications of imports. This remedy had been denied under the Trade Agreements Act with respect to products included in trade agreements.

6. The House-approved provision prohibiting tariff concessions on price-supported commodities was deleted, but substituted therefor was a provision for emergency action with respect to perishable agricultural products under the escape-clause procedure or section 22 of the Agricultural Adjustment Act, as amended.[4]

7. A new provision was inserted prohibiting the application of any existing or future trade agreement in a manner inconsistent with section 22 of the Agricultural Adjustment Act, as amended.

8. Another new provision contained a declaration that passage of the bill should not be construed to determine or indicate either the approval or disapproval by the Congress of the General Agreement on Tariffs and Trade.

The Senate began debate on the bill, as it was reported by the Committee on Finance, on May 17, 1951. It passed the bill by a vote of 72 to 2 on May 23, 1951, accepting all the amendments of the committee and an additional amendment from the floor. The additional amendment provided for annual quotas on imports of mink, silver fox, and muskrat furs or skins, beginning July 1, 1951.

In order to reconcile the differences between the House and Senate versions of the bill, it was then sent to conference. The conference committee adopted the Senate version of the bill, with an amendment to the "escape clause" provision and a substitute for the provision relating to imports of furs, and recommended its passage by the respective Houses. The Senate version of the escape-clause procedure required the Tariff Commission to determine whether an article is being imported "in such relatively increased quantities (compared to a representative period prior to the concessions)" as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles. The conference committee substituted for the quoted language "in such increased quantities, either actual or relative." The substitute provision relating to furs directed the President "as soon as practicable" to prohibit the importation of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furs and skins which are the product of the Soviet Union or of Communist China.

The Senate adopted the conference report on House bill 1612 on May 29, and the House of Representatives adopted it on June 5, 1951. The President approved the bill on June 16, 1951, on which date it became effective.

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[4] Sec. 22 provides for the imposition of quotas or fees on imports when necessary to prevent material interference with Government agricultural programs.

Provisions of the 1951 Act

The Trade Agreements Extension Act of 1951 extends (sec. 2) the President's authority to enter into trade agreements with foreign countries, for a period of 2 years from June 12, 1951.

Except for two changes, sections 3 and 4 of the new act incorporate the peril-point provision of the Trade Agreements Extension Act of 1948. The peril-point provision of the extension act of 1948 was applicable to imports which were "like or similar" to those produced domestically, whereas the corresponding provision of the extension act of 1951 is applicable to imported commodities which are "like or directly competitive" with domestic products. The other change relates to the requirement for submission by the Tariff Commission of peril-point reports to the House Committee on Ways and Means and the Senate Committee on Finance when the President fails to follow a peril-point finding. Under the 1948 act, if the President failed to follow a peril-point finding of the Commission, he was required to submit a copy of the trade agreement to Congress, and the Tariff Commission was required to submit a copy of its entire peril-point report to the Committee on Ways and Means and the Committee on Finance. Under the 1951 legislation the Commission must submit only that portion of its report which deals with the products on which the President failed to follow its findings.

The peril-point provision of the 1951 act requires that the President, before entering into negotiations concerning any proposed trade agreement, transmit to the Tariff Commission a list of the articles which are to be considered for the granting of concessions in such negotiations. Upon receipt of this list, the Commission is required to make an investigation, including a hearing, and to report its findings to the President regarding the maximum decrease in duty, if any, which can be made on each listed commodity without causing or threatening serious injury to the domestic industry producing like or directly competitive articles, or the minimum increase in duty or additional import restriction that may be necessary for any of such products in order to avoid such injury. The Commission is required to report its findings to the President not later than 120 days after the receipt of the list of articles to be considered in the negotiations. No trade agreement may be entered into by the President until after the Commission's report is submitted to him, or until the expiration of the 120-day period.

If the President concludes a trade agreement providing for a greater reduction in a duty than the Commission specified in its report, or which fails to provide for additional import restrictions specified in the report, he must transmit to the Congress a copy of the agreement, identifying the articles involved and stating his reasons. Promptly thereafter, the Tariff Commission must deposit with the House Committee on Ways and Means and the Senate Committee on Finance a copy of those portions of its report to the President dealing with the articles identified by the President in his report to Congress.

Section 5 directs the President, as soon as practicable, to suspend, withdraw, or prevent the application of any tariff concession contained in any trade agreement entered into under the authority of the Trade Agreements Act to imports from the Soviet Union and from any Communist-dominated or Communist-controlled countries or areas.[5]

The Trade Agreements Extension Act of 1951 makes it mandatory to include in all future trade agreements an escape clause conforming to the policy of section 6(a) of that act, and, "as soon as practicable," in all existing agreements which do not contain such a clause. Section 6(a) of the act provides that no tariff concession in any future trade agreement shall be permitted to continue in effect, when, as a result (in whole or in part) of the duty or other customs treatment reflecting such concession, a commodity is being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products. The President is directed to report to the Congress on or before January 10, 1952, and every 6 months thereafter, on the action taken by him to include an escape clause in existing trade agreements.

The procedure for administration of trade-agreement escape-clause provisions is set forth in section 7. Under this section, the Tariff Commission, upon request of the President, upon resolution of either House of Congress, upon resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, upon application of any interested party, or upon its own motion, must promptly make an investigation to determine whether any commodity upon which a trade-agreement concession has been granted is, as a result (wholly or in part) of the duty or other customs treatment reflecting the concession, being imported in such increased quantities (either actual or relative) as to cause or threaten serious injury to the domestic industry producing like or directly competitive products. If in the course of its investigation the Commission finds evidence of such injury, or when directed to hold a hearing by the Senate Committee on Finance or the House Committee on Ways and Means, it must hold a hearing and afford reasonable opportunity for interested parties to be heard. The Commission is required to make a report on its investigation not later than one year after the application is made.

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[5] In notes dated June 23 and June 27, 1951, respectively, the United States notified the Soviet Union and Rumania that it was terminating the existing commercial agreements, in compliance with this section. Also, a request to notify the Bulgarian Government of termination of the existing commercial agreement with that country was conveyed to the Government of Switzerland, which now represents the United States in Bulgaria. In notes dated July 5, 1951, the United States notified the Governments of Hungary and Poland of withdrawal of the most-favored-nation treatment accorded by the United States to those countries in existing treaties of friendship, commerce, and consular rights.

Should the Tariff Commission find, as a result of its investigation and after hearing, that imports are entering in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive products, and that this is the result in whole or in part of the duty or other customs treatment reflecting the concession, the act provides that it shall recommend to the President the withdrawal or modification of the concession, its suspension in whole or in part, or the establishment of import quotas, to the extent and for the time necessary to prevent or remedy such injury. In arriving at a determination, the Tariff Commission is directed to consider a number of factors (not to the exclusion of other factors) enumerated in section 7 of the act. Also, within 60 days, the Commission must transmit to the Senate Committee on Finance and the House Committee on Ways and Means an exact copy of its report and recommendations to the President. Should the President fail to follow the recommendations of the Commission within 60 days, he is required to submit a report to the Senate Committee on Finance and the House Committee on Ways and Means, stating the reasons why he did not follow the recommendations of the Tariff Commission. Should the Tariff Commission fail to find the existence or threat of serious injury to the domestic industry concerned, by reason of increased imports of the commodity involved, it is required to make and publish a report stating its findings and conclusions.

Section 8 of the 1951 act amends paragraph (f) of section 22 of the Agricultural Adjustment Act, as amended, by providing that no existing or future trade agreement shall be applied in a manner inconsistent with the provisions of section 22 of the Agricultural Adjustment Act, as amended. Paragraph (f) had previously provided, in effect, that section 22 should not be applied in a manner inconsistent with international obligations of the United States.

Section 8 also provides that when the Secretary of Agriculture finds and reports to the President and to the Tariff Commission that with respect to any perishable agricultural commodity a condition exists requiring emergency treatment, the Tariff Commission shall make an immediate investigation under section 22 of the Agricultural Adjustment Act, as amended, or under section 7 of the Trade Agreements Extension Act of 1951, and recommend to the President such relief as may be appropriate. If he considers it necessary, the President may act without waiting for the recommendations of the Commission. The report and findings of the Commission, as well as the action by the President, must be made not later than 25 calendar days after the case is submitted to the Tariff Commission.

The other sections of the Trade Agreements Extension Act of 1951 delete the provisions of the Trade Agreements Act of 1934 and of the Customs Administrative Act of 1938 which made section 516(b) of the Tariff Act of

1930 [6] inapplicable to commodities which were included in any trade agreement (sec. 9); declare that enactment of the act shall not be construed to determine or indicate the approval or disapproval by the Congress of the General Agreement on Tariffs and Trade (sec. 10); and provide that the President shall, as soon as practicable, prohibit the importation into the United States of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furs or skins which are the product of the Soviet Union or of Communist China (sec. 11).

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[6] This subsection affords recourses to the domestic producer if he feels that the Treasury Department is incorrectly classifying an imported article for duty purposes.

Chapter 3

Developments Respecting the General Provisions of the General Agreement on Tariffs and Trade

This chapter on developments respecting the General Agreement on Tariffs and Trade includes a short discussion of the history and nature of the General Agreement; an article-by-article discussion of the principal developments since June 1950 respecting the general provisions; a section on changes in membership during the period July 1, 1950–June 30, 1951; and a separate discussion of the Fifth and Special Sessions of the Contracting Parties. Such an arrangement necessarily involves some duplication of subject matter; for example, the section on principal developments respecting the General Agreement since June 1950 discusses in detail matters that are covered also in the section on the Fifth and Special Sessions of the Contracting Parties. This arrangement was adopted in order that readers interested in either an article-by-article discussion or a discussion based on the proceedings of the various sessions might have the desired information readily at hand.

HISTORY AND NATURE OF THE GENERAL AGREEMENT

The multilateral agreement known as the General Agreement on Tariffs and Trade, entered into by the United States under the authority of the Trade Agreements Act, now embraces the following: The original agreement concluded by 23 contracting parties at Geneva in 1947;[1] the Annecy Protocol of 1949, under which 9 additional countries acceded to the agreement;[2] and the Torquay Protocol of 1951, which provides for the accession of 6 additional countries.

The General Agreement consists of two parts: (1) The so-called general provisions, which are the numbered articles that set forth rules for the conduct of trade between the contracting parties, and (2) the schedules of tariff concessions resulting from the multilateral negotiations at Geneva, Annecy, and

1 China ceased to be a member of the General Agreement on May 5, 1950; Lebanon, on February 25, 1951; and Syria, on August 6, 1951.

2 The tenth country—Uruguay—did not sign the Annecy Protocol within the time specified in that document. At their Fifth Session, the Contracting Parties provided that Uruguay may sign the Torquay Protocol if it first signs the Annecy Protocol.

Torquay.[3] Under the existing provisional application of the general provisions of the agreement, the contracting parties are not required to amend existing domestic legislation or to promulgate new legislation in order to adhere to the agreement. They are, however, required to refrain from enacting new legislation inconsistent with the agreement.

Under the General Agreement, initial tariff negotiations are conducted bilaterally on a product-by-product basis at conferences sponsored by the Contracting Parties. Ordinarily, each participating country negotiates on the basis of the principal-supplier rule, negotiating on any given import commodity with the country that has been, or gives promise of becoming, the principal supplier of that commodity. The understandings reached in the bilateral negotiations are then combined to form the respective schedules of tariff concessions that are set forth in the General Agreement.

The general provisions of the General Agreement were originally intended to be a temporary device for safeguarding the tariff concessions exchanged by the contracting parties. Ultimately, they were to have been superseded by the proposed Charter for an International Trade Organization (ITO). For that reason, certain of the general provisions of the General Agreement parallel similar provisions of the proposed charter.[4] In December 1950, however, the United States Government announced that it would no longer seek congressional approval of the charter, but instead would seek appropriate legislative authority to make more effective United States participation in the General Agreement on Tariffs and Trade.[5] Other countries also will probably not ratify the charter. Section 10 of the Trade Agreements Extension Act of 1951 provides that enactment of the act shall not be construed to determine or indicate the approval or disapproval by the Congress of the Executive Agreement known as the General Agreement on Tariffs and Trade.

PRINCIPAL DEVELOPMENTS SINCE JUNE 1950 RESPECTING THE GENERAL PROVISIONS OF THE GENERAL AGREEMENT

Amendments to the general articles of the General Agreement that the Contracting Parties adopted at their First and Second Sessions were described in *Operation of the Trade Agreements Program* (second report). Although the Contracting Parties did not amend the general provisions during their Third Session at Annecy in 1949 and their Fourth Session at Geneva in 1950,

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[3] For a more detailed description of the provisions of the General Agreement on Tariffs and Trade, see *Operation of the Trade Agreements Program* (first report), pt. 2, pp. 39–60.

[4] See *Operation of the Trade Agreements Program* (third report), p. 32.

[5] U. S. Department of State Press Release No. 1221, Dec. 6, 1950.

they did hold a number of consultations and discussions relating to those provisions. These were described in detail in *Operation of the Trade Agreements Program* (third report).

The immediately following sections of this chapter deal with the principal consultations and discussions that the Contracting Parties held with respect to the general provisions of the agreement during the period July 1950 to June 1951. Other matters discussed by them are set forth in the section of this chapter on the Fifth and Special Sessions of the Contracting Parties, which were held at Torquay during the multilateral tariff negotiations of 1950–51. An amendment to article XXVIII of the General Agreement, adopted at the Fifth Session, extended to January 1, 1954, the time after which tariff concessions on particular products may be modified or withdrawn without joint action by the Contracting Parties. This amendment, which is discussed in detail in chapter 4 of this report, prolonged for 3 years the life of the Geneva and Annecy tariff concessions, as they were modified by the article XXVIII negotiations at Torquay.

Quantitative Restrictions for Balance-of-Payments Reasons (Arts. XI–XIV)

Article XI of the General Agreement prohibits, with specified exceptions, the application by any member country of various nontariff restrictions on trade with other contracting parties, such as import prohibitions, quotas, licensing systems, and other quantitative control measures. Article XII, however, provides for temporary departure from the general rule when such departure is necessary to safeguard a country's balance-of-payments position or to effect a necessary increase in its monetary reserves. Article XIII provides that, in the administration of such quantitative restrictions as are permitted in accordance with this principle, discrimination shall not be practiced against any contracting party to the agreement. The Contracting Parties have recognized, however, that strict compliance with this provision would not be possible during the immediate postwar period. Accordingly, article XIV permits certain deviations from the rule of nondiscrimination for balance-of-payments reasons.[6]

One of the most important items on the agenda of the Fifth Session of the Contracting Parties was the series of consultations, under the provisions of article XII, with seven of the British Commonwealth countries and Chile regarding restrictions they had imposed on imports from the dollar area. The representatives of several countries, including the United States, as well as the observer of the International Monetary Fund, expressed the view that the time had come for Australia, Ceylon, New Zealand, Southern

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[6] See *Operation of the Trade Agreements Program* (second report), pp. 22–23, and *Operation of the Trade Agreements Program* (third report), pp. 34–35.

Rhodesia, and the United Kingdom to progressively relax their restrictions on imports from hard-currency countries. Although the representatives of the last-mentioned countries admitted that the gold and dollar positions of those countries had improved markedly during the previous year, they felt that insufficient attention had been given to the adverse factors involved, including the responsibilities their countries were undertaking under the current rearmament program, the full force of which would not be felt until later.[7]

At the conclusion of the various consultations during the Fifth Session, the representatives of the governments concerned stated that they would convey to their governments the views of the other contracting parties, for consideration.

The Contracting Parties did not suggest that India, Pakistan, and Chile undertake further general relaxation of their restrictions on imports from the dollar area.

Quantitative Restrictions for Economic Development (Art. XVIII)

Article XVIII of the General Agreement, as amended at Geneva in 1948, permits contracting parties to maintain, for purposes of economic development or reconstruction, any nondiscriminatory nontariff protective measures (such as quantitative restrictions) that were in existence on September 1, 1947. The provisions of article XVIII also enable contracting parties to impose new measures of special assistance to promote the development or reconstruction of their industry or agriculture. These measures may involve release from a negotiated commitment, from obligations under a general provision of the agreement, or both. Individual contracting parties must obtain prior approval from the Contracting Parties for these new measures, but such approval by the Contracting Parties is mandatory if the quantitative restriction meets certain specified standards, even though it otherwise conflicts with the commercial-policy provisions of the agreement.[8]

At the Fifth Session, the Governments of Denmark, Haiti, and Italy notified the Contracting Parties of certain restrictive measures that they wished to maintain under article XVIII.

Examination revealed that the import restrictions Denmark desired to maintain under article XVIII were already being applied for balance-of-payments reasons under article XII of the General Agreement. As a result, Denmark withdrew its application. The Contracting Parties agreed, however, that when the Danish Government no longer found it necessary to

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[7] For a complete discussion of discrimination by Australia, Ceylon, New Zealand, Southern Rhodesia, and the United Kingdom, see ch. 5 of this report.

[8] See *Operation of the Trade Agreements Program* (second report), pp. 24–25.

apply the restrictive measures under article XII, it could then apply for permission to maintain them under the provisions of article XVIII.

Examination of Italy's request revealed that the restrictive measures it wished to maintain on imports of synthetic organic dyestuffs and radio sets, under the provisions of article XVIII, were also being applied for balance-of-payments reasons. Italy therefore withdrew its application to maintain them under article XVIII.

Exercising their powers under paragraph 12 of article XVIII, the Contracting Parties granted a release permitting Haiti to maintain, for a period of 5 years, a measure that provides for the licensing of imports of tobacco, cigars, and cigarettes. The purpose of the measure is to promote the production of tobacco in Haiti.[9]

Withdrawal of Concession by the United States Under the Escape Clause (Art. XIX)

Article XIX of the General Agreement provides that if, as a result of unforeseen developments and of the obligations incurred by a contracting party under the agreement, "any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession" under certain conditions.

On November 1, 1950, under this "escape clause," the Government of the United States announced that, in accordance with the findings of the United States Tariff Commission, it would on December 1, 1950, withdraw part of the tariff concession it had granted at Geneva in 1947 on women's hats and hat bodies made of fur felt.[10] At their Fifth Session, the Contracting Parties held consultations with the contracting parties principally concerned—Czechoslovakia, France, Italy, and the United States. The results of the consultations, however, proved to be unacceptable to Czechoslovakia, which contended that in withdrawing the concession the United States had failed to fulfill the requirements of article XIX. The Contracting Parties assigned the task of further examining the case to an intersessional working party, and instructed it to present its report to them at their Sixth Session.

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[9] For a more complete discussion of the measures proposed by Denmark, Italy, and Haiti, see ch. 5 of this report.

[10] For a complete discussion of the withdrawal of the concession, see ch. 7 of this report.

Customs Unions (Art. XXIV)

Article XXIV of the General Agreement exempts from the most-favored-nation principle the trade between countries forming a customs union or entering into an interim agreement preparatory to forming such a union, provided the agreement fulfills certain conditions, and provided it may be expected to achieve the desired results within a reasonable time.[11]

For the purpose of the multilateral tariff negotiations at Geneva in 1947, the Contracting Parties accepted two groups of countries as customs unions: Belgium, the Netherlands, and Luxembourg (the Benelux Customs Union); and Syria and Lebanon (the Syro-Lebanese Customs Union). During their Third Session, the Contracting Parties also approved a proposed customs union between South Africa and Southern Rhodesia. In March 1950 Lebanon and Syria dissolved their customs union, and both countries subsequently withdrew from the General Agreement.[12]

In accordance with the Declaration of the Contracting Parties on May 18, 1949, the Governments of South Africa and Southern Rhodesia submitted to the Fifth Session the First Annual Report of their Customs Union Council. Under article XXIV of the agreement the Contracting Parties are mainly concerned with two points relating to the proposed customs union: First, whether the interim agreement between the two countries is likely to result in the formation of a full customs union and, second, whether the interim period prescribed is a reasonable one. The First Annual Report of the Southern Africa Customs Union Council pointed out that, in its activities, the Council has first concentrated on the alinement of the tariff rates of the two countries and that although it has considered proposals to eliminate restrictions between the two countries, further study is necessary before they can be removed.

Internal Taxation of Imported Products (Art. III)

Article III of the General Agreement requires the contracting parties to grant national treatment with regard to internal taxes on products imported from other contracting parties. Accordingly, imported products may not be subjected to internal taxes or other charges of any kind in excess of those levied directly or indirectly on like domestic products. However, existing discriminatory internal taxes (that is, those in effect on October 30, 1947) may be maintained. In an amendment to article III adopted at Geneva in 1948, the Contracting Parties recognized that internal taxes and other internal charges should not be applied to imported or domestic products in such a manner as to afford protection to domestic

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[11] For a discussion of art. XXIV and the amendment relating to free-trade areas adopted at Geneva in 1948, see *Operation of the Trade Agreements Program* (second report), p. 21.

[12] See the section of this chapter on withdrawals from membership.

production. The amendment also provided for conversion of existing taxes into tariff duties.[13]

Brazil

During the Third Session of the Contracting Parties, a question was raised about Brazil's action in revising the rates of its internal taxes on certain products, including watches, clocks, beer, spirits, apéritifs, and cigarettes. For many years Brazil has employed an extensive system of "consumption" taxes, largely for revenue purposes. In the application of these taxes, many imported products have been subject to taxes substantially higher than those levied on like domestic products.

The countries exporting the specified products to Brazil contended that Brazil's 1948 revision of its consumption taxes further widened the margin of discrimination against such products. The Brazilian Government therefore agreed to request the Brazilian Congress to amend the laws in question as soon as possible, with a view to ending the discriminations. The matter was taken up again at the Fourth Session of the Contracting Parties. Not having reached a satisfactory solution of the problem at that session, the Contracting Parties concluded that they would have to examine the matter again at their Fifth Session.

Examination of the draft law which Brazil presented to the Contracting Parties at their Fifth Session revealed that adoption of the proposed legislation would eliminate most of the discriminations established by the law of 1948, and would bring Brazil's consumption-tax legislation into conformity with the provisions of the General Agreement. The proposed legislation would not eliminate most of the discriminations that were in effect on October 30, 1947; however, the General Agreement permits a country to maintain discriminations that were in force on that date.

United Kingdom

At the Fifth Session the Netherlands Government called the attention of the Contracting Parties to an action by the United Kingdom that the Netherlands alleged constituted a violation of the provisions of article III of the General Agreement. According to the Netherlands, the United Kingdom had been applying the British purchase tax to a number of imported products while exempting comparable domestic goods from the tax. The United Kingdom admitted that the purchase-tax system, although not designed for the purpose of protection, had in practice developed some protective effects. It declared, however, that it was taking steps to eliminate such discrimination against imports as might have resulted from the application of the purchase tax. On the basis of this declaration, the Contracting Parties took no further action in this matter. However, the subject was

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[13] See *Operation of the Trade Agreements Program* (second report), p. 24.

placed on the agenda of the Sixth Session for further discussion, should that prove necessary.

Special Exchange Agreements (Art. XV)

Article XV of the General Agreement provides that any contracting party that is not a member of the International Monetary Fund, or that ceases to be a member of the Fund, shall enter into a special exchange agreement with the Contracting Parties.

At the beginning of the Fifth Session, five contracting parties had not yet become members of the International Monetary Fund. However, the texts of special exchange agreements with them, the draft of which had been approved by the Contracting Parties at their Second Session, had been deposited with the Secretary-General of the United Nations, for signature. These countries were Burma, Haiti, Indonesia, New Zealand, and Sweden. The Contracting Parties noted that the Governments of Burma, Haiti, and Sweden had made substantial progress towards joining the Fund. Therefore the Contracting Parties extended to September 17, 1951, the time limit for acceptance of special exchange agreements by those countries, should they fail meanwhile to become members of the Fund. The Government of Indonesia informed the Contracting Parties that it had made arrangements to deposit an instrument of acceptance of its special exchange agreement. The Contracting Parties noted, however, that New Zealand had not complied with the provisions of article XV of the General Agreement within the time limit fixed by resolution of the Contracting Parties at their Fourth Session.

Other Developments During 1950–51

At their Fourth Session the Contracting Parties examined Chile's complaint against the continuation by Australia of its subsidy on imports of ammonium sulfate, after it had removed a similar subsidy on imports of sodium nitrate. Chile charged that continuation of the subsidy on ammonium sulfate constituted nullification or impairment of the Australian tariff concession on sodium nitrate. At the Fifth Session the delegates of Chile and Australia reported that they had arrived at a mutually satisfactory solution and that they had filed the terms of their agreement with the Secretariat.

At the Fifth Session the Canadian Delegation proposed that a standing committee of the Contracting Parties be established. It also proposed that, because there is now no continuing machinery for conducting business between the periodic sessions of the Contracting Parties, a GATT secretariat be established. The Canadian proposals were particularly significant because of doubts that had arisen as to the approval by the governments of the contracting parties, of the proposed Charter for an International Trade Organization. The Contracting Parties established a working party to study Canada's proposals and to report at the next session on the feasibility of establishing a standing committee and a secretariat.

The Contracting Parties at their Fifth Session also considered the United States proposal to adopt a code of standard practices that would minimize the commercial uncertainties and hardships now experienced under the administration of import-licensing and exchange-control systems. Recognizing that such controls may continue for some time, but that the uncertainties resulting from their operation could be materially reduced, the Contracting Parties suggested that the governments employing such restrictions review their current practices and, if possible, improve them in accordance with the proposed code. The Contracting Parties also established a working party to study and revise the proposed code and to report on it to the next session of the Contracting Parties.

In order to reduce the many complexities that result from the lack of standard descriptions of commodities moving in international trade, the European Customs Union Study Group formulated a common tariff nomenclature known as the 1950 Brussels Nomenclature. This document was opened for signature toward the end of 1950. The Study Group called the attention of the Contracting Parties to the fact that adherence to the Brussels Convention of Tariff Nomenclature might raise the problem of minor adjustments in the tariff schedules of the General Agreement. The Contracting Parties agreed to inform the General Secretary of the Study Group that any country that changed its tariff schedule as a result of its adherence to the Brussels Nomenclature could resort to the normal rectification procedure under the General Agreement. They pointed out, however, that should any contracting party object to such changes, the provisions of the General Agreement will prevail and that desired adjustments should be negotiated by the interested contracting parties.

At their Fifth Session the Contracting Parties also considered plans for conducting their annual review of quantitative import restrictions and for their second annual report on the discriminatory application of such restrictions.[14] They established a working party to prepare and submit to them a draft questionnaire to be used for the review of import restrictions pursuant to article XII, 4(b), and for the second report on the discriminatory application of restrictions under the transitional arrangements of article XIV, as required by article XIV, 1(g).

Finally, at their Fifth Session, the Contracting Parties considered the draft agreement on the importation of insecticides, sponsored by the World Health Organization and designed to insure a free flow of such materials in international trade; a report by the French Delegation on the proposed European coal and steel agreement; the position of Indochina in relation

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[14] For a detailed discussion of the nature and purposes of these annual reports, see *Operation of the Trade Agreements Program* (third report), pp. 52–53.

to the General Agreement; and a number of minor problems and administrative matters.

Withdrawals From Membership

The additions to the membership of the General Agreement as a result of the negotiations at Torquay are discussed in chapter 4 of this report.

During the period July 1, 1950, to June 30, 1951, one country withdrew from membership in the General Agreement and another country gave notice of its withdrawal. Lebanon withdrew from the General Agreement, effective February 25, 1951, and Syria announced its intention to withdraw as of August 6, 1951. On June 30, 1951, the number of contracting parties to the General Agreement (not taking into account Syria's impending withdrawal or the impending Torquay accessions) was 31, or 1 less than the year before.

China

As a result of the withdrawal of the Chinese Nationalist Government from the General Agreement in May 1950, and in accordance with the provisions of article XXVII of that agreement, the United States Government terminated, effective December 11, 1950, a large proportion of the concessions it originally negotiated with China at Geneva. However, a number of concessions were not terminated at that time because they related to commodities in which other contracting parties have a substantial interest or on which such other countries had specifically requested consultations with the United States.[15]

At Torquay the United States negotiated with other countries on a few of the products on which concessions to China were terminated, as well as on a few on which concessions were not terminated. Other concessions to China that were not terminated were still subject to consultations with contracting parties to the General Agreement.

Lebanon and Syria

Lebanon and Syria, acting jointly as the Syro-Lebanese Customs Union, became contracting parties to the General Agreement on Tariffs and Trade through the multilateral tariff negotiations at Geneva in 1947. In March 1950, Lebanon and Syria dissolved their customs union, and, effective February 25, 1951, Lebanon withdrew from the General Agreement. As reasons for its withdrawal, Lebanon cited its unfavorable balance of trade and its burdensome surpluses of certain domestically produced commodities that it wished to dispose of abroad with the greatest possible freedom of action.

Inasmuch as all the concessions that the United States had granted to the Syro-Lebanese Customs Union at Geneva were of substantial interest to

[15] See the section of ch. 7 on withdrawal of concessions granted to China at Geneva.

Syria and some of them, to other contracting parties, the United States did not withdraw any concessions as a result of Lebanon's withdrawal from the agreement. At the time of its withdrawal, Lebanon stated that for the time being it did not intend to change its customs duties. By a decree of March 1, 1951, however, it deleted from the Lebanese Customs Tariff the statement "Normal Duty confirmed at Geneva in 1947."

On June 7, 1951, the Government of Syria gave official notice that it intended to withdraw from the General Agreement, effective August 6, 1951.

FOURTH SESSION OF THE CONTRACTING PARTIES

The Tariff Commission's third report on the operation of the trade agreements program discussed in some detail the proceedings of the Fourth Session, held at Geneva from February 22 to April 3, 1950, that related to plans for the Torquay Conference and to the two reports adopted by the Contracting Parties on certain trade practices of participating countries.[16] Because complete information was not available when the third report was prepared, however, the Commission deferred to the present report a discussion of certain of the actions of the Contracting Parties with respect to the routine operation of the General Agreement. Among these were the following: The proposed participation by Switzerland in the General Agreement; special exchange agreements between the Contracting Parties and member countries that are not also members of the International Monetary Fund; and Brazil's discriminatory application of certain internal taxes.

In September 1949 the Contracting Parties invited Switzerland, together with 28 other countries, to participate in the proposed multilateral tariff negotiations to be held at Torquay, with a view to accession to the General Agreement. In replying to the invitation Switzerland pointed out that, because of its peculiar position in European trade, certain special difficulties would arise if it accepted all the obligations of membership in the General Agreement. At their Fourth Session the Contracting Parties examined several proposals designed to permit Switzerland's accession to the General Agreement with certain reservations, but decided not to adopt any of them.

At their Third Session, the Contracting Parties had approved a draft of the special exchange agreement required by article XV of the General Agreement; the draft closely follows similar provisions of the Articles of Agreement of the International Monetary Fund. At their Fourth Session the Contracting Parties adopted a resolution requiring those contracting parties that were not members of the International Monetary Fund to enter

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[16] See pp. 51–53 of that report; see also ch. 6 of this report.

into a special exchange agreement with the Contracting Parties not later than November 2, 1950.

At their Third Session the Contracting Parties had examined Brazil's discriminatory application of internal taxes on imported products.[17] At that time, Brazil agreed to request its Congress to amend the pertinent legislation as soon as possible, to bring it into conformity with article III of the General Agreement. At the Fourth Session, the Contracting Parties decided that, in the absence of a satisfactory adjustment between Brazil and the countries materially affected by the discriminatory taxes, the Contracting Parties would have to reconsider the matter at the Fifth Session.[18]

FIFTH AND SPECIAL SESSIONS OF THE CONTRACTING PARTIES

The Fifth Session of the Contracting Parties to the General Agreement was held at Torquay from November 2 to December 16, 1950. Of the 32 contracting parties to the General Agreement, only Lebanon,[19] Syria,[20] and Nicaragua were not represented at this session. Seven countries that participated in the tariff negotiations at Torquay with a view to acceding to the General Agreement—Austria, the Federal Republic of Germany, Korea, Peru, the Philippine Republic, Turkey, and Uruguay—were represented by observers. Six other nonmember countries that did not participate in these tariff negotiations—El Salvador, Guatemala, Mexico, Venezuela, Switzerland, and Yugoslavia—also had observers at the Fifth Session. Four international organizations—the United Nations, the International Monetary Fund, the Organization for European Economic Cooperation, and the World Health Organization—were similarly represented.

Although the proceedings of the Fifth Session were concerned largely with problems arising under the general provisions of the General Agreement, they dealt also with other matters, such as problems arising from the tariff negotiations that were simultaneously being held at Torquay,[21] arrangements to implement the results of the Torquay negotiations, and arrangements to extend to January 1, 1954, the tariff concessions that had been negotiated at Geneva and Annecy.

At their Fifth Session the Contracting Parties disposed of many problems directly in plenary meetings, but established working parties to deal with

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[17] See *Operation of the Trade Agreements Program* (third report), pp. 36–37.

[18] See also the section of this chapter on internal taxation of imported products (art. III).

[19] Lebanon ceased to be a contracting party on February 25, 1951. See the section of this chapter on withdrawals from membership.

[20] Syria ceased to be a contracting party on August 6, 1951. See the section of this chapter on withdrawals from membership.

[21] For a detailed discussion of the Torquay negotiations, see ch. 4 of this report.

the more complicated issues. The special tasks of the various working parties included the following: (1) Examination of applications by Haiti, Italy, and Denmark to maintain nontariff protective measures for purposes of economic development; (2) consideration of problems relating to the tariff schedules of the General Agreement; (3) preparation of the budget of the Secretariat and the schedule of contributions for 1951; (4) examination of the World Health Organization's proposal regarding a draft international agreement on insecticides; (5) analysis of a draft Brazilian law designed to eliminate certain discriminatory internal taxes; (6) consideration of arrangements to extend the period during which countries can apply quantitative restrictions on surplus goods or goods in short supply under part II of article XX of the General Agreement; (7) examination of the United States proposal to minimize trade uncertainties and hardships under import and exchange controls; (8) preparation of a questionnaire, in accordance with articles XII and XIV of the General Agreement, for the review of quantitative import restrictions and for the annual report on the discriminatory application of such restrictions; (9) review of the status of countries that are required to enter into special exchange agreements with the Contracting Parties; (10) consultation with certain governments regarding recent changes in their import programs; (11) examination of proposals for establishment of a permanent committee designed to make the administration of the General Agreement more effective; and (12) examination, between sessions, of Czechoslovakia's complaint against the withdrawal by the United States of its concession on women's fur felt hats and hat bodies in certain price brackets. In addition, the Contracting Parties reappointed the intersessional committee that examines applications addressed to the Contracting Parties between sessions, under the provisions of article XVIII (quantitative restrictions for economic development), and the committee that considers certain questions that arise under articles XII–XIV (quantitative restrictions for balance-of-payments reasons).

Besides the specific problems that the various working parties examined, the Fifth Session also considered these matters: (1) Actual instances of quantitative restrictions applied for protective purposes (art. XXIII); (2) the French export restrictions on hides and skins; (3) the report by Australia and Chile with respect to the Australian subsidy on ammonium sulfate; (4) the effect of the United Kingdom purchase tax on certain imports into the United Kingdom (art. III); (5) rectification of schedules resulting from adherence to the Brussels Convention of Tariff Nomenclature; (6) the proposed European coal and steel agreement; and (7) the First Annual Report of the Southern Africa Customs Union Council.

To consider certain problems that had arisen after the close of their Fifth Session, the Contracting Parties held a Special Session at Torquay from March 29 to April 3, 1951. The principal subject before this session was the disparity among the European countries in the level of their tariffs. A number of countries, including the United States, contended that although the tariff reductions resulting from the Torquay negotiations might be significant, they would probably not contribute materially to the reduction of such disparity. After an examination of the problem, the Contracting Parties invited the 10 countries which had jointly raised the question (9 European countries and the United States), to submit proposals for multilateral action and other procedures designed to reduce the disparity in the level of European tariffs on a nondiscriminatory basis, taking into account the differences in the economic and social structures of the countries concerned. The Contracting Parties also established an intersessional working party to study the proposals that might be submitted and to formulate recommendations.

Chapter 4

The Torquay Tariff Negotiations

The negotiations regarding the General Agreement on Tariffs and Trade, held at Torquay, England,[1] from September 28, 1950, to April 21, 1951, constituted the third set of tariff negotiations under the General Agreement. The first set of these multilateral tariff negotiations took place at Geneva, Switzerland, from April 10 to October 30, 1947, and the second, at Annecy, France, from April 11 to August 27, 1949. At Torquay, as at Annecy, the Contracting Parties to the General Agreement held a session during the course of the Conference.[2]

PREPARATIONS FOR THE TORQUAY TARIFF NEGOTIATIONS

Toward the end of their Third Session at Annecy in 1949 the Contracting Parties appointed a working party to study the possibility of holding a third set of multilateral tariff negotiations. This working party met at Annecy and reconvened later in London to draft the rules of procedure for such negotiations, and to prepare a list of the countries which it believed should be invited to participate. The working party proposed that a third set of tariff negotiations be held commencing September 28, 1950. At their Fourth Session, held at Geneva from February 22 to April 3, 1950, the Contracting Parties formally approved the proposal of the working party, and decided to hold the Conference at Torquay.

Preparations by the Contracting Parties

Late in 1949 the Contracting Parties invited to the proposed Conference the following 29 nonmember countries, with a view to their accession to the General Agreement:

Afghanistan	Ecuador	Iceland
Argentina	Egypt	Iran
Austria	El Salvador	Iraq
Bolivia	Federal Republic of Germany	Ireland
Colombia		Israel
Costa Rica	Guatemala	Jordan

[1] Torquay is on the southern coast of England, in Devon.

[2] The Contracting Parties held their First Session at Havana from February 28 to March 24, 1948, during the closing weeks of the United Nations Conference on Trade and Employment.

Republic of Korea	Peru	Switzerland
Mexico	Republic of the Philippines	Turkey
Nepal	Poland	Venezuela
Panama	Portugal	
Paraguay		

Of these 29 countries, the following 7 accepted:[3]

Austria	Peru[1]
Federal Republic of Germany	Republic of the Philippines
Guatemala	Turkey
Korea	

[1] Peru had been invited to attend the Annecy Conference, but did not send a delegation.

All the 33 existing contracting parties[4] and Uruguay (which negotiated at Annecy in 1949 but did not sign the Annecy Protocol) indicated that they would attend the Torquay Conference, either to negotiate with the new participating countries or to exchange new or additional tariff concessions with other contracting parties. Thus, with the 7 new countries that had accepted invitations, it was expected that 41 countries would be represented at Torquay. Actually, only 34 nations participated in the Conference.[5] One of the newly invited countries (Guatemala) did not send a delegation; 4 contracting parties (Burma,[6] Liberia,[6] Nicaragua, and Syria[7]) did not engage in tariff negotiations at Torquay; and 2 contracting parties (China and Lebanon) withdrew from the General Agreement before the Conference began.[8]

In preparation for the Torquay Conference, the Contracting Parties requested the countries that desired to participate in the negotiations to exchange with each other copies of their current customs tariffs, the details of their other charges and taxes on imports, and statistics on their import trade for postwar and selected prewar years. They also requested each participating

[3] Of the 7 accepting countries, all but Guatemala sent delegations to the Torquay Conference.

[4] The 23 original contracting parties; the 9 countries which acceded at Annecy; and Indonesia, which became an independent contracting party on February 24, 1950 (see ch. 3).

[5] Several countries that were not contracting parties or acceding countries sent observers to the Torquay Conference.

[6] Burma and Liberia sent representatives to the Fifth Session of the Contracting Parties and observers to the Tariff Negotiations Meeting.

[7] Syria has announced its withdrawal from the General Agreement, effective August 6, 1951.

[8] China's withdrawal was effective May 5, 1950; Lebanon's withdrawal was effective February 25, 1951.

country to submit to each other participating country with which it wished to negotiate, by January 15, 1950, a preliminary list of the products on which it intended to request tariff concessions at Torquay, and, not later than June 15, 1950, a final list of the tariff and other concessions it intended to request from that country. Because the United States Government is required by law to give public notice of all tariff items that are to be the subject of negotiation, and to hold public hearings thereon, the United States treated the preliminary lists received from other countries as definitive. After study of these preliminary and final lists, each participating country was expected to be ready, at the beginning of the Torquay Conference, to announce the concessions it was prepared to offer to each country from which it had received a request for concessions.

Preparations by the United States

The United States carried out its preparations for participating in the tariff negotiations at Torquay under the procedures specified in the Trade Agreements Act, as amended by the extension act of 1949, and in Executive Order 10082.

In accordance with these procedures,[9] and at the request of the Trade Agreements Committee, the Tariff Commission in 1949 and 1950 prepared statistical analyses of United States imports from each country that had expressed a desire to negotiate with the United States. The Commission also provided, for the use of the trade agreements organization and other interested parties, copies of its Summaries of Tariff Information (on dutiable and free-list commodities), all of which had been revised during the period 1947–50. As required by Executive Order 10082, the Commission also provided the trade agreements organization with confidential digests of information on all commodities that the United States had listed for possible concessions at Torquay. These digests included analyses of data relating to the production, trade, and consumption of each of the articles, to the probable effects of granting a concession thereon, and to the competitive factors involved.

At the same time that the Tariff Commission prepared this material on imports, the Department of Commerce prepared for the trade agreements organization statistical analyses of the United States export trade with each of the countries with which the United States expected to negotiate at Torquay. As required by Executive Order 10082, that Department also prepared confidential digests of information for all commodities on which the United States intended to seek concessions from other countries at

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[9] For a detailed description of the procedures the Interdepartmental Committee on Trade Agreements and the trade agreements country committees follow in negotiating trade agreements, see *Operation of the Trade Agreements Program* (first report), pt. 2, pp. 31–35.

Torquay. These digests included an analysis of the data relating to the foreign production, trade, and consumption of each of the articles, and to the probable effects on the domestic economy of obtaining a concession thereon.

On the basis of the information provided by the various agencies of the Government and the country committees, and other information at its disposal, the Trade Agreements Committee on April 11, 1950, issued its public notice of intention to enter into negotiations with 17 foreign countries. In a supplementary announcement, on May 15, 1950, it gave public notice of intention to negotiate with 6 additional countries. On August 17, 1950, in a second supplementary announcement, the Trade Agreements Committee gave public notice of its intention to enter into negotiations with Cuba. Each announcement included a list of the import commodities which were to be considered for possible concessions.

Of the seven countries that had expressed a desire to accede to the General Agreement at Torquay, the United States announced that it would consider the negotiation of tariff concessions with six: Austria, the Federal Republic of Germany, Guatemala, Korea, Peru, and Turkey. The United States also announced that it would consider negotiating new or additional tariff concessions with Australia, Belgium, Brazil, Canada, Cuba, Denmark, the Dominican Republic, France, India, Indonesia, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Sweden, the Union of South Africa, and the United Kingdom.

At the same time that the foregoing announcements were made, the Committee for Reciprocity Information (CRI) issued notices of three public hearings to be held by that Committee beginning May 24, June 19, and September 25, 1950.[10] The CRI hearings relate not only to possible tariff concessions to be granted by the United States, but also to concessions that may be sought by the United States from foreign countries, as well as to more general matters relating to the negotiations. Under the provisions of the Trade Agreements Extension Act of 1949 (unlike those of the extension act of 1948) the President was not required to submit to the Tariff Commission the lists of commodities to be considered for possible concessions by the United States, and the Tariff Commission was not required to find "peril points" on the commodities listed for negotiation.

The lists of United States import commodities to be considered for possible concessions at Torquay, as announced by the Trade Agreements Committee on April 14, May 17, and August 17, 1950, comprised items included in about 480 paragraphs and subparagraphs of the Tariff Act of 1930, and embraced approximately 2,800 statistical classifications. About 440 of the paragraphs and subparagraphs applied to dutiable articles, and the rest, to

[10] The three sets of public hearings were held, respectively, from May 24 to June 9, inclusive; from June 19 to June 20, inclusive; and from September 25 to September 28, inclusive.

articles on the free list. Inasmuch as the United States had granted concessions on most of these commodities in earlier agreements, it was to consider them for possible further concessions. Other commodities were to be considered for the first time.

After the hearings before the Committee for Reciprocity Information, each of the several country subcommittees of the Interdepartmental Committee on Trade Agreements began the work of analyzing the mass of information supplied for each of the commodities tentatively listed for negotiation by the various Government agencies and by private parties through the Committee for Reciprocity Information. On the basis of this information, each country committee then made recommendations to the Committee on Trade Agreements as to the specific commodities on which it believed the United States should grant and request concessions in the negotiations with the particular foreign country, as well as the nature and extent of the concessions it believed should be made to, or requested of, that country. On the basis of the reports and recommendations received from the various country committees, the Trade Agreements Committee determined whether balanced agreements appeared possible, and, if so, transmitted to the President, through the Secretary of State, a recommendation that formal negotiations be undertaken. Accompanying each such recommendation were two tentative lists of items: (1) Concessions which the United States might appropriately ask of the foreign country concerned, and (2) concessions which the United States might appropriately grant to the specified country. After the proposals of the Committee on Trade Agreements had been approved by the Secretary of State and the President, the formal negotiations with the specified countries were held at Torquay.[11]

CHARACTER OF THE TORQUAY TARIFF NEGOTIATIONS

Like the Annecy Conference in 1949, the Torquay Conference consisted of two separate but interrelated meetings. These were the Fifth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, which began on November 2 and ended on December 16, 1950;[12] and the third set of tariff negotiations regarding the General Agreement on Tariffs and Trade, which began on September 28, 1950, and ended on April 21, 1951.

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[11] For a more detailed discussion of the procedures employed by the trade agreements organization, see *Operation of the Trade Agreements Program* (first report), pt. 2, ch. 5.

[12] The proceedings of the Fifth Session of the Contracting Parties are discussed in ch. 3 of this report.

Tariff Negotiations Meeting

Four types of tariff negotiations took place at the Torquay Conference: (1) Negotiations leading to membership in the General Agreement by countries that had not become contracting parties at Geneva or Annecy; (2) negotiations between contracting parties that had participated in the Geneva or Annecy Conference but did not then conclude bilateral negotiations with one another; (3) negotiations for new or additional tariff concessions between existing contracting parties; and (4) consultations and negotiations between contracting parties for the purpose of making adjustments, under the provisions of article XXVIII of the General Agreement, in tariff concessions negotiated at Geneva or Annecy.[13] The rates of duty in effect in the various participating countries on November 15, 1949, were generally used as the basis on which concessions were made at Torquay.

As at the 1949 Annecy Conference, the participating countries established a Tariff Negotiations Working Party at the beginning of the Torquay Conference. This working party coordinated the tariff negotiations and made policy recommendations on such matters connected with the conduct and conclusion of the negotiations as required joint action by the Contracting Parties and the acceding countries.

At Torquay, the tariff negotiations followed the general pattern established at Geneva in 1947 and at Annecy in 1949. Initially they were conducted on a bilateral basis, product by product, between negotiating teams representing pairs of countries. As each pair of countries was ready to begin negotiations, each of the countries gave to the other a list of the concessions it was prepared to offer. After these "offer lists" had been exchanged and studied by the respective negotiating teams, negotiations between the pair of countries began.

When the offer lists were exchanged by the various pairs of negotiating teams, copies were also sent to the delegations of all other participating countries. Through this technique of multilateral tariff bargaining, a country—in determining the concessions it is finally prepared to make—can take into account those benefits it may expect to obtain from all other negotiating countries as a group, since all contracting parties obtain the benefit of any concessions granted by a particular country to any one or more of the other members. In making up its offer lists, each participating country generally

[13] Par. 1 of art. XXVIII originally provided that "On and after January 1, 1951, any contracting party may, by negotiation and agreement with any other contracting party with which such treatment was initially negotiated, and subject to consultation with such other contracting parties as the Contracting Parties determine to have a substantial interest in such treatment, modify, or cease to apply, the treatment which it has agreed to accord under Article II to any product described in the appropriate Schedule annexed to this Agreement." At the Fifth Session the Contracting Parties amended art. XXVIII by changing the date specified from January 1, 1951, to January 1, 1954. For a further discussion of this and other provisions of art. XXVIII, see the section of this chapter on negotiations under art. XXVIII.

initiates negotiations with the country that is its principal supplier of the given product, or seems likely to become the principal supplier.

As at Geneva and at Annecy, the negotiations at Torquay were conducted on a selective product-by-product basis. The negotiators on each team thus had an opportunity to consider the needs of individual countries and industries. In the process of negotiation, the pairs of negotiating teams either agreed upon schedules of reciprocal concessions, or concluded that no basis for agreement existed, in which circumstance the negotiations were terminated. In all cases, the actions of the negotiating teams were subject to the approval of designated authorities on the delegations which they represented.[14]

In making tariff commitments at Torquay, countries agreed to reduce an import duty or to bind it against increase at the existing levels, or they agreed not to raise a duty above a specified higher level. In the final stage of the Torquay Conference the concessions agreed to in the various bilateral negotiations were consolidated into separate schedules of concessions for each participating country. Copies of these consolidated schedules were then sent to the delegations of all participating countries, so that they might assess the over-all results of the negotiations, and, where they considered it necessary, negotiate to remove inequities that might have arisen in the course of the various bilateral negotiations. All schedules of tariff concessions in the final Torquay agreement therefore had the assent of all the contracting parties. Because the General Agreement negotiations are multilateral, each of the contracting parties obtains in its own right the concessions in all the country schedules.

Negotiations Under Article XXVIII

An important phase of the Torquay Conference was the series of consultations and negotiations by a number of countries about certain concessions that had been granted at Geneva in 1947 and Annecy in 1949. The successful outcome of these negotiations made it possible for certain countries to sign the Torquay Protocol and the Declaration on the continued application of schedules.

Article XXVIII of the General Agreement provided that contracting parties might modify their schedules after January 1, 1951, without joint action by the Contracting Parties. Commencing with that date, any contracting party was permitted to withdraw or modify a concession it had originally granted. The contracting party desiring to do so, however, was first required to negotiate with the contracting party with which the concession was originally negotiated. It was also required to consult with other contracting parties having a substantial interest in the concession. In such

[14] For the United States, the officially designated authority was the Trade Agreements Committee, the decisions of which were subject to the approval of the President of the United States.

negotiations, provision might be made for compensatory adjustments with respect to other products.

The Torquay Protocol made one amendment in article XXVIII; it changed the date after which adjustments may be made from January 1, 1951, to January 1, 1954. Thus the Geneva and Annecy concessions (with the modifications agreed to in the article XXVIII negotiations described in this section) are bound for another 3-year period.

Another provision of article XXVIII stipulates that if agreement cannot be reached, the concession in question may nevertheless be withdrawn or modified. However, the country to which the concession was originally granted and the other contracting parties having a substantial interest in it may thereupon themselves withdraw concessions substantially equivalent to those withdrawn from them.

Before the Torquay Conference, under the provisions of article XXVIII and the procedure established by the Contracting Parties at their Fourth Session, 16 countries announced their intention to withdraw or modify certain concessions they had granted at Geneva or at Annecy. All but two of the notifications related, at least in part, to concessions initially negotiated with the United States. The 16 countries which took action at Torquay under article XXVIII were the Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Brazil, Chile, Cuba, Denmark, Finland, France, Haiti, Italy, New Zealand, Sweden, the Union of South Africa, the United Kingdom, and Uruguay. The notifications by the United Kingdom and Haiti did not affect any concessions granted initially to the United States, but the Haitian action did apply to commodities of substantial interest to the United States.

The modifications and withdrawals by Cuba, France, and the Union of South Africa under the provisions of article XXVIII were quite extensive, but those by the other countries listed above were moderate or small. The United States did not modify or withdraw any concessions under article XXVIII. In all, the 16 countries which took action under the provisions of article XXVIII withdrew or modified concessions on 295 items. Many modifications were deliberate protective measures undertaken to stimulate domestic agriculture or industry at the expense of imports. Many others represented attempts to adjust specific duties or to establish alternative ad valorem ceilings, in an effort to compensate for price increases. Some modifications substituted ad valorem rates for specific duties. Others merely reclassified certain items in the country's schedule of tariff concessions. In return for the right to modify or withdraw concessions, the notifying countries granted compensatory concessions on other articles, as envisaged in article XXVIII, to offset the loss of benefits, both by the country to which a concession was originally granted and by third countries having a substantial interest in the concession.

Several of the countries that took action under article XXVIII reduced their initial notification lists considerably after they consulted with the countries having a substantial interest in some items. No country that negotiated under article XXVIII has resorted to retaliatory withdrawals, which are permitted when any participating country is dissatisfied with the compensation offered.

It was not possible, during the course of the Conference, to complete all the negotiations initiated under article XXVIII at Torquay. Under the provisions of paragraph 5(a) of article XXV, the Contracting Parties permitted certain negotiations to be continued afterward, so that delay in their completion would not prevent any country taking action under article XXVIII from signing the Torquay Protocol and Declaration.

Participation by the United States

The United States Delegation to the third set of tariff negotiations regarding the General Agreement on Tariffs and Trade consisted of the chairman, alternate chairman, and vice chairman; members and alternates of the Trade Agreements Committee; advisers; members and alternate members of the negotiating teams; and the secretariat. Altogether it comprised approximately 100 persons from nine United States Government agencies.[15] About 75 of these persons were officials, and the rest, members of the secretariat. About two-thirds of the officials were members of the various United States negotiating teams.

The Trade Agreements Committee held regular meetings at Torquay from December 1950 to April 1951. The Committee, presided over by a representative of the Department of State, consisted of members or alternates from the Departments of State, Agriculture, Commerce, Defense, Interior, Labor, and Treasury; the Tariff Commission; and the Economic Cooperation Administration.

For the Torquay Conference, the Trade Agreements Committee designated 10 United States negotiating teams, all headed by representatives of the Department of State, to negotiate with representatives of the following countries or groups of countries:

I. United Kingdom
II. Canada
III. Australia, New Zealand, and South Africa
IV. Belgium, Indonesia, Luxembourg, and the Netherlands
V. France
VI. Federal Republic of Germany
VII. Austria, Denmark, Italy, Norway, and Sweden
VIII. India, Korea, and Turkey
IX. Cuba and the Dominican Republic
X. Brazil and Peru

[15] Not all the members of the delegation served at Torquay for the entire period of the Conference.

Each United States negotiating team consisted of members from the Department of State, the Department of Commerce, the Tariff Commission, and the Department of Agriculture. The negotiating teams not only had the services of the technical experts who were members of the teams, but also acted under the direction of the Trade Agreements Committee, and had the technical assistance of experts and advisers detailed to Torquay by various agencies of the Government. All the actions of the several United States negotiating teams were subject to approval by the Trade Agreements Committee.[16] As each negotiating team reached a stage in its negotiations when it considered either that a satisfactory agreement could be concluded or that no agreement was possible, it appeared before the Committee with its report and recommendations. The Trade Agreements Committee either approved the recommendations of the teams, or instructed the teams to proceed with further negotiations as indicated by the Committee, or instructed the teams to terminate the negotiations.

In accordance with the provisions of Executive Order 10082, a member of the Tariff Commission served on the Trade Agreements Committee at the Torquay Conference. Sixteen members of the Commission's staff attended the Conference as members of the United States Delegation: 11 as members or alternate members of the various negotiating teams, 1 as legal adviser, 3 as technical assistants to the negotiating teams or the secretariat, and 1 as a member of the secretariat.

At the Annecy Conference in 1949 the United States Delegation served for both the Third Session of the Contracting Parties and the Tariff Negotiations Meeting. For the Torquay Conference, however, the President designated a separate United States Delegation for the session of the Contracting Parties. The United States Delegation to the Fifth Session, which met from November 2 to December 16, 1950, consisted of 11 persons: the chairman and vice chairman; 6 advisers, representing the Departments of Agriculture, Commerce, State, and Treasury, and the Economic Cooperation Administration; and 3 members of the secretariat. Of these 11 members, 5 also served as members of the United States Delegation to the Tariff Negotiations Meeting.

SCOPE OF THE TORQUAY TARIFF NEGOTIATIONS

Thirty-four countries participated in the Tariff Negotiations Meeting at Torquay, which was in session from September 28, 1950, to April 21, 1951.[17]

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[16] Actions of the Trade Agreements Committee, in turn, were subject to approval by the President.

[17] Seven countries accepted invitations to attend the Torquay Conference, with a view to acceding to the General Agreement, but one of these (Guatemala) did not send a delegation.

The Contracting Parties made special arrangements to permit Uruguay, which took part in the Annecy Conference but did not subsequently become a contracting party, to negotiate at Torquay.[18]

The 27 countries—already members of the General Agreement—that participated in the Torquay Conference were as follows:[19]

Australia	Czechoslovakia	Italy
Benelux Customs Union (Belgium, the Netherlands, and Luxembourg)	Denmark	New Zealand
Brazil	Dominican Republic	Norway
Canada	Finland	Pakistan
Ceylon	France	South Africa
Chile	Greece	Southern Rhodesia
Cuba	Haiti	Sweden
	India	United Kingdom
	Indonesia	United States

The 6 countries (other than Uruguay) that negotiated at Torquay with a view to accession to the General Agreement were as follows:

Austria	Peru
Federal Republic of Germany	Republic of the Philippines
Korea	Turkey

Not every country that participated in the Torquay Conference negotiated with all the other participating countries. Many countries had too little trade with one another to warrant the exchange of concessions. Other countries, because of the extensive negotiations they had concluded at Geneva or Annecy, had little in the way of possible further concessions to offer. In all, the 34 participating countries completed 147 pairs of negotiations. Of this total, 58 were between parties that were members of the General Agreement before the Torquay Conference took place;[20] 86 were between this group on the one hand, and the 6 newly acceding countries on the other; and 3 were between acceding countries themselves. The negotiating countries all together granted about 8,800 individual concessions, compared with approximately 5,000 concessions granted at the Annecy Conference in 1949, and some 45,000 granted at Geneva in 1947.

The Torquay negotiations further increased the share of world trade carried on under the General Agreement on Tariffs and Trade. With the addition of 6 new countries, membership in the General Agreement will consist of 36 countries[21] which together account for more than 80 percent

[18] Special provisions in the Torquay instruments permit Uruguay to sign the Torquay Protocol if it completes its own accession to the General Agreement.

[19] Four contracting parties—Burma, Liberia, Nicaragua, and Syria—did not undertake tariff negotiations at Torquay.

[20] For the purpose of this calculation, Uruguay is included in the group.

[21] Not including Uruguay, which has not yet acceded to the General Agreement.

of total world imports and exports. The consolidated schedules resulting from the three sets of tariff negotiations—at Geneva, Annecy, and Torquay—cover approximately 58,800 classifications of items.

Enlargement of the General Agreement

The results of the Torquay negotiations are embodied in a series of instruments. The Final Act, signed at Torquay on April 21, 1951, by the participating contracting parties and by the acceding governments, authenticates the texts of the annexed instruments. The annexed instruments are (1) the Decisions agreeing to the accession of the acceding governments (annex I); (2) the Torquay Protocol to the General Agreement on Tariffs and Trade (annex II); and (3) the Declaration on the continued application of the schedules to the General Agreement on Tariffs and Trade (annex III).

Decisions agreeing to accession

Article XXXIII of the General Agreement provides that new countries may become contracting parties on terms to be agreed upon by the Contracting Parties. Accession to membership requires approval by a two-thirds majority of the countries that are already members. A separate decision was made for each country which negotiated at Torquay for accession. If the necessary two-thirds vote in favor of accession of a particular country was cast by June 20, 1951, and if that government signed the Torquay Protocol by June 20, it would become a contracting party on July 20, 1951. If a country received the necessary two-thirds vote by June 20, 1951, and signed the protocol later, it would become a contracting party on the thirtieth day after the day it signed, which it could do at any time up to October 21, 1951.

Like all other contracting parties, the governments that accede to the General Agreement as a result of the Torquay negotiations are to apply the general provisions of the agreement under the Protocol of Provisional Application.[22] They must give full effect to part I (including the schedules of tariff concessions) and part III, but must apply part II only to the fullest extent not inconsistent with their legislation existing on April 21, 1951, the date of the Torquay Protocol. As long as they apply the agreement provisionally, the acceding countries may withdraw from it by giving 60 days' notice to the Secretary-General of the United Nations.

Accession of the Federal Republic of Germany to the General Agreement presented special problems: (1) Recognition of the special status of the trade among the different parts of Germany; and (2) provision for most-favored-nation treatment for commodities originating in the three western sectors of Berlin. The Decision agreeing to the accession of Germany there-

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[22] For a discussion of the difference between provisional and definitive application of the General Agreement, see *Operation of the Trade Agreements Program* (second report), p. 20, footnote 4.

fore provides that the Federal Republic may continue its existing customs treatment of goods of German origin without being required to extend the same treatment to foreign goods, and that the contracting parties will extend to West Berlin commodities that may be exported from the Federal Republic the same treatment they extend to goods exported from the Federal Republic.

Declaration on continued application of schedules

At the Torquay Conference the Contracting Parties arranged to extend (after some adjustments under the provisions of art. XXVIII which have already been mentioned) the period during which contracting parties would not modify or withdraw concessions granted at Geneva and Annecy.[23] The Declaration on continued application of the schedules to the General Agreement on Tariffs and Trade provides that, except in special circumstances, signatories shall maintain until January 1, 1954, all the concessions granted at Geneva, Annecy, and Torquay. This extension of the period of the Geneva and Annecy concessions was effected by amending article XXVIII to change from January 1, 1951, to January 1, 1954, the date after which tariff concessions could be modified or withdrawn without joint action by the Contracting Parties. In order to make this amendment possible, various countries negotiated at Torquay to modify certain concessions in their Geneva or Annecy schedules. In accordance with article XXX of the General Agreement, the amendment became effective when two-thirds of the contracting parties had signed the Torquay Protocol.

Both the formal amendment of article XXVIII, as contained in paragraph 6 of the protocol, and the Declaration on continued application of schedules specify that the obligation not to initiate action under article XXVIII applies only to concessions originally negotiated with countries that have assumed the same obligation. Moreover, the amendment and the Declaration in no way limit a country's right to resort to retaliatory withdrawals or modifications under article XXVIII, if a contracting party retaining the right to take action thereunder should do so. Any country which requires legislative action before signing the Declaration is permitted to give an undertaking that its executive will not initiate action under article XXVIII until its legislature has had an opportunity to consider the matter.

The Torquay Protocol permits any country that negotiated under article XXVIII for the modification or withdrawal of Geneva or Annecy tariff concessions, to place in effect the part of its schedule containing such modifications or withdrawals before it places its entire Torquay schedule in effect, provided it simultaneously places in effect the compensation agreed on. Under paragraph 3(b) of the protocol, the Secretary-General of the United Nations must be given 30 days' notice of any such early application of a portion of a schedule. Paragraph 3(c) of the protocol provides that portions of a

[23] See the section of this chapter on negotiations under art. XXVIII.

country's Torquay schedule containing the results of other renegotiations (such as those between the United States and Cuba on certain parts of the Cuban schedule) may be placed in effect before the schedule as a whole goes into effect.

The Torquay Protocol and annexed schedules

The Torquay Protocol contains the terms of accession for the newly acceding countries, the terms on which the annexed schedules of tariff concessions will be made effective, and certain amendments of the general provisions of the General Agreement. The provisions of the General Agreement to be applied by each acceding country are those of the original agreement, as rectified, amended, supplemented, or otherwise modified by protocols or other actions in force on the day the acceding country becomes a contracting party. In acceding, a country also agrees to be governed by all instruments relating to the General Agreement that are open for acceptance when and if they shall go into effect.

Under the terms of the Torquay Protocol, new contracting parties are entitled in their own right to all concessions contained in the schedules of the General Agreement, including those granted at Torquay. In turn, they must apply the agreement and place in effect their respective schedules of concessions. The rights and obligations of newly acceding countries under the general provisions of the agreement become applicable to these countries in the same way they did to the countries that acceded at Geneva and Annecy. The general provisions include reciprocal obligations to accord most-favored-nation treatment in the application of import and export duties, rules for according national treatment in the application of internal taxes, and limitations on the use of quotas.

In general, each contracting party is obliged to place in effect all the concessions it granted at Torquay by the thirtieth day after the day it signs the Torquay Protocol. Paragraph 4 of the Torquay Protocol provides, however, that any signatory government shall be free at any time to withhold any concession in its schedule, or to withdraw it in whole or in part, if that government finds that the concession was initially negotiated with a country that has not signed the protocol. All contracting parties must be notified of such withholding or withdrawal within 30 days after the date of such action. The withholding or withdrawal must cease, at the latest, on the thirtieth day after the day the protocol is signed by the country with which the concession was initially negotiated.

At Torquay, the Contracting Parties took steps to clarify the situation resulting from the three sets of tariff negotiations at Geneva, Annecy, and Torquay, and from the existence of some 15 protocols and other instruments (some of which are not yet in force for all contracting parties) which affect application of the general provisions and the schedules of tariff concessions. The Torquay Protocol provides that acceding countries shall accede to the General Agreement with all modifications then in effect, and that signature by acceding governments shall be construed as acceptance of modifications in the general provisions and schedules contained in all instruments open for signature or other action but not yet in force. The protocol also provides that signature thereof by a contracting party shall be construed as acceptance of all pending modifications when and if they become effective. When it signs, however, a contracting party may qualify its acceptance of this provision.

Because the Torquay schedules contain the results of the article XXVIII negotiations and certain other renegotiations, the Contracting Parties adopted a special rule to determine which schedule (Geneva, Annecy, or Torquay) would prevail in the event of conflict. Paragraph 3(d) of the Torquay Protocol provides that if a product appears in a country's Torquay schedule and also in an earlier schedule of that country, the treatment specified in the Torquay schedule shall prevail.

The schedules of tariff concessions annexed to the Torquay Protocol are divided into annex A, which supplements the schedules of the previous contracting parties and Uruguay, and annex B, which contains the schedules of the newly acceding governments. As in the Geneva and Annecy Protocols, the schedules of concessions annexed to the Torquay Protocol include commitments to reduce or eliminate import duties on specified articles, to bind existing customs treatment (including duty-free status) of specified articles, and to reduce or eliminate tariff preferences on specified articles.

As a result of the tariff negotiations at Torquay, the coverage of the General Agreement has been enlarged: the number of individual schedules is greater, and more commodities are covered in the schedules of most of the contracting parties which had already acceded at Geneva and Annecy. The Geneva negotiations in 1947 resulted in 20 separate country schedules (numbered I through XX).[24] The Annecy negotiations in 1949 added 10 new country schedules (numbered XXII through XXXI). Accession of Indonesia as an independent contracting party on February 24, 1950, added schedule XXI.[25]

The new schedules incorporated in the General Agreement as a result of the Torquay negotiations are as follows:

Schedule	*Country*	*Schedule*	*Country*
XXXII	Austria.	XXXV	Peru.
XXXIII	Federal Republic of Germany.	XXXVI	Republic of the Philippines.
XXXIV	Korea.	XXXVII	Turkey.

[24] For a list of the 20 Geneva schedules, see *Operation of the Trade Agreements Program* (first report), pt. 2, p. 59. Schedule VIII was dropped when the Republic of China withdrew from the General Agreement in 1950.

[25] Schedule XXI had been reserved for Colombia, which withdrew its application for accession toward the end of the Annecy Conference. This schedule number was assigned to Indonesia upon its accession.

At their Fifth Session, the Contracting Parties decided to publish a set of consolidated country schedules that will show, in a single schedule for each country, the concessions currently in effect as a result of all negotiations and modifications to date.

The general provisions of the General Agreement, as they have been modified, are designed to supplement (and some of them to safeguard) the tariff concessions set forth in the schedules annexed to the Torquay Protocol. These provisions, which the acceding countries are obliged to observe, relate to trade discriminations, nontariff trade barriers (such as quantitative restrictions on imports), and internal taxation. Each negotiating country agrees, for example, to extend to all contracting parties all the tariff concessions in its schedule, as soon as those concessions become effective.

Each of the acceding countries will benefit in varying degree from concessions which it did not originally negotiate with the countries that granted them. Each of the Geneva, Annecy, and Torquay concessions accrues to each of the acceding countries in its own right, and this consideration was taken into account in the Torquay negotiations. In becoming parties to the General Agreement, acceding countries will benefit from the direct concessions they obtained from the particular countries with which they negotiated at Torquay. They will also benefit from the concessions negotiated by other new countries that participated in the Torquay Conference, from concessions resulting from new negotiations among the contracting parties at the Conference, and from concessions already granted by the contracting parties in the 1947 Geneva and 1949 Annecy negotiations.

Entry Into Force of the Torquay Protocol

After the conclusion of the Tariff Negotiations Meeting, the Torquay Protocol to the General Agreement on Tariffs and Trade was opened for signature at Torquay on April 21, 1951. It was then deposited with the Secretary-General of the United Nations, and was open for signature at headquarters of the United Nations in New York from May 7 to October 21, 1951.

Under the terms of the Torquay Protocol, accession of each of the 6 acceding countries was to be decided upon by the Contracting Parties if, by June 20, 1951, two-thirds (21) of the latter had signed the Decision agreeing to the accession of that particular country. For each acceding government whose accession to the General Agreement was approved by June 20, the Torquay Protocol was to enter into force on July 20, 1951, provided that by that date it had been signed by the particular acceding country. If it was not signed by the acceding government by June 20, it was to enter into force for that country on the thirtieth day after the day upon which such acceding government did sign it.

By June 20, 1951, more than the required number of governments had signed the various decisions governing accession, thus permitting accession of the six new members. By that date, however, none of the acceding countries had signed the protocol, and thus none of the schedules for those countries was placed in effect on July 20, 1951. Between June 20 and October 21, 1951, all the acceding countries except Korea and the Philippines had signed the protocol; the schedule of each of these countries became effective on the thirtieth day following the date of its signature. At their Sixth Session, held at Geneva from September to October 1951, the Contracting Parties extended the time for Korea's signature until March 31, 1952, and for the Philippines' signature, until May 22, 1952.

Although Uruguay was not a contracting party during the Torquay negotiations, special provision was made to permit it to sign the Torquay Protocol on condition that it first complete its own accession to the General Agreement. At Annecy, Uruguay had negotiated for accession to the agreement, but had failed to sign the Annecy Protocol within the time prescribed. Since Uruguay still desired to accede, the Contracting Parties decided on November 9, 1950, at their Fifth Session, that it could have until October 21, 1951, to sign the Annecy Protocol. The Torquay Protocol therefore provided that Uruguay would be permitted to sign the Torquay Protocol if it first signed the Annecy Protocol. At their Sixth Session, the Contracting Parties extended until April 30, 1952, the date for Uruguay's signature to the Annecy and Torquay Protocols. Should Uruguay accede to the General Agreement, it will do so under the terms of the Annecy Protocol, except to the extent that its Annecy schedule of concessions has been modified by its Torquay schedule. Should Uruguay accede, its Torquay schedule will become effective as prescribed for the schedules annexed to the Torquay Protocol.

For the six acceding countries that negotiated at Torquay, the Torquay Protocol became provisionally effective on the dates set forth below:

Country	*Date*	*Country*	*Date*
Austria	Oct. 19, 1951	Peru	Oct. 7, 1951
Federal Republic of Germany	Oct. 1, 1951	Republic of the Philippines.[2]	
Korea.[1]		Turkey	Oct. 17, 1951

[1] Granted extension of time for signature until Mar. 31, 1952.

[2] Granted extension of time for signature until May 22, 1952.

Except for the Philippines, with which the United States did not negotiate, these dates are also those on which the concessions granted by the United States to the respective countries were made effective.

The Torquay schedules of the present contracting parties were to enter into force on the thirtieth day after their signature of the protocol or on the forty-sixth day after the date of the protocol (April 21, 1951), whichever was the later. The following are the dates on which the present contracting parties signed the Torquay Protocol:

Country	Date	Country	Date
Australia	Oct. 18, 1951	India	Oct. 19, 1951
Belgium	Apr. 21, 1951	Indonesia	Do.
Brazil.[1]		Italy	Oct. 18, 1951
Burma	Oct. 21, 1951	Liberia	June 19, 1951
Canada	May 7, 1951	Luxembourg	Apr. 21, 1951
Ceylon	Apr. 21, 1951	Netherlands	Do.
Chile.[1]		New Zealand	Oct. 12, 1951
Cuba	Apr. 21, 1951	Nicaragua.[1]	
Czechoslovakia	June 8, 1951	Norway	July 3, 1951
Denmark [1]	Dec. 21, 1951	Pakistan	Oct. 19, 1951
Dominican Republic	Apr. 21, 1951	South Africa	Do.
Finland	July 5, 1951	Southern Rhodesia	June 20, 1951
France	Apr. 21, 1951	Sweden	June 7, 1951
Greece	Do.	United Kingdom [1]	Dec. 19, 1951
Haiti	Oct. 9, 1951	United States	Apr. 21, 1951

[1] Granted extension of time for signature until Dec. 31, 1951.

NEGOTIATIONS BY THE UNITED STATES AT TORQUAY

At the Torquay Conference the United States concluded agreements with 17 of the 22 countries with which it negotiated there. Of these countries, the 12 listed below were contracting parties to the General Agreement at the opening of the Conference:

Benelux Customs Union (Belgium, the Netherlands, and Luxembourg)	Canada	Indonesia
Brazil	Denmark	Italy
	Dominican Republic	Norway
	France	Sweden

The 5 acceding countries with which the United States concluded agreements were Austria, the Federal Republic of Germany, Korea, Peru, and Turkey.

At Torquay the United States did not negotiate with the Republic of the Philippines because commercial relations between the two countries are governed by the terms of a bilateral trade agreement concluded under the provisions of the Philippine Trade Act of 1946. That act prohibits the United States from entering into any agreement with the Philippines under the Trade Agreements Act of 1934, as amended.

The United States did not exchange new tariff concessions with Uruguay. Uruguay, as already mentioned, participated in the Annecy Conference, but did not subsequently complete the steps necessary to become a contracting party to the General Agreement.[26]

[26] The 1943 bilateral trade agreement between the United States and Uruguay is still in effect.

At Torquay the United States negotiated with Australia, Cuba, India, New Zealand, and the United Kingdom, but did not conclude agreements with those five countries. The United States and the United Kingdom, Australia, and New Zealand could not reach agreement, primarily because of differences in their position on imperial preference. The concessions previously negotiated with these countries at Geneva and Annecy of course remain in effect.

The United States did not engage in new negotiations at Torquay with nine of the previous contracting parties: Ceylon, Chile, Czechoslovakia, Finland, Greece, Haiti, Pakistan, Southern Rhodesia, and the Union of South Africa.

Of the agreements which the United States concluded at Torquay, those with Germany and Canada applied to the greatest amount of trade. The agreements with Turkey, Peru, the Benelux Customs Union, France, and Austria also covered substantial volumes of trade. The remaining agreements applied to relatively small absolute amounts of trade, but some of them derive increased significance because they represent additions to the membership of the General Agreement.

Besides its negotiations for new or additional tariff concessions at Torquay, the United States also negotiated with 15 countries for withdrawal or modification, under the provisions of article XXVIII, of concessions granted by those countries at Geneva or Annecy. These countries are as follows: The Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Brazil, Chile, Cuba, Denmark, Finland, France, Haiti, Italy, New Zealand, Sweden, the Union of South Africa, and Uruguay.

Concessions Granted by the United States

At Torquay, the United States granted concessions on products (both dutiable and free) which in 1949 accounted for 477.6 million dollars' worth of imports from all countries,[27] or 7.2 percent of total United States imports for consumption in that year.

The United States reduced duties on products which in 1949 accounted for imports from all countries valued at 419.3 million dollars, or 15.5 percent of total dutiable imports from all countries in that year; it bound at existing levels duties on products which in 1949 accounted for imports valued at 24.3 million dollars, or about 1 percent of total dutiable imports; and it bound existing duty-free treatment on products which in 1949 accounted for imports valued at 34 million dollars, or about 1 percent of the value of all duty-free imports. The United States granted concessions on about 1,325 of the approximately 2,800 statistical classifications covered by the lists of

[27] Exclusive of imports of sugar and cigars from Cuba and the Republic of the Philippines.

commodities announced as being considered for possible concessions. The trade value of the concessions granted at Torquay is shown in table 1.

TABLE 1.—*United States imports (for consumption) in 1949 of articles on which concessions were granted at Torquay, by kind and extent of concession*

Item	Foreign value
	1,000 dollars
Total United States imports for consumption	6,598,058
Dutiable	2,711,804
Free	3,886,254
Total covered by Torquay concessions	[1] 477,576
Duty reduced below 1951 rate	419,271
By less than 25 percent	155,597
By 25 percent to 35 percent	103,861
By 36 percent to 50 percent	[2] 159,813
Duty bound	24,305
Duty-free status bound	34,000

[1] Does not include imports of sugar and cigars from Cuba and the Republic of the Philippines, since the rates of duty on these articles were not changed at Torquay.
[2] Includes imports of articles valued at $2,460,000 on which reductions of more than 50 percent were made from rates of duty in effect in 1951, but not more than 50 percent from those in effect on Jan. 1, 1945.

Source: Compiled from official statistics of the United States Department of Commerce. All statistics are preliminary and some are based partly on estimates.

The United States entered into negotiations at Torquay under existing legal authority which provides that rates of duty may not be reduced by more than 50 percent below the rates in effect on January 1, 1945. At Geneva and Annecy the United States had granted maximum permissible reductions on a substantial number of items, and had made lesser concessions on a large number of other items. Thus, the scope and depth of the concessions at Torquay—particularly those to existing contracting parties—were necessarily limited. The United States did, however, grant reductions in the duties on a considerable number of items on which it had previously made no trade-agreement concessions. Most of these were negotiated with the newly acceding countries. The United States also made further reductions in rates of duty on a considerable number of other items on which it had previously made some reduction.

Nearly all United States rates of duty that were in effect when the Torquay negotiations began were at or below the rates in effect on January 1, 1945, but a few of them were not. The increases in some rates of duty after January 1, 1945, had resulted primarily from the termination or suspension of certain United States trade agreements. As a consequence of these increases, several United States concessions at Torquay resulted in reductions of more than 50 percent from the rates of duty in effect when the Conference opened.

Each of the countries that participated at Torquay will benefit not only from the concessions which the United States negotiated directly with it, but also from those which the United States negotiated with other countries there. The newly acceding countries will also benefit from the concessions which the United States made at Geneva in 1947 and at Annecy in 1949—although those concessions had already been generalized to them, as well as to all other countries—since these countries are now assured in their own right of the concessions which the United States has granted to all contracting parties, without regard to whether the United States continues its present practice of generalizing tariff concessions to all countries.

Table 2 shows United States total imports in 1949 from each of the countries to which the United States granted concessions at Torquay. The table also shows imports from these countries of the articles on which the United States granted concessions to them at Torquay, the duty reductions being classified according to the percentage by which the 1951 rates were lowered. For those countries that had acceded to the General Agreement before Torquay, in general little change from previous concessions was made at Torquay, so that the Torquay concessions represent only a small part (in a few instances an insignificant part) of the total imports from those countries.

In May 1951 the United States Department of State released a publication containing an analysis of the concessions granted by the United States to each of the countries with which it completed negotiations at Torquay.[28] This publication, prepared on the basis of information supplied by the United States Government agencies that participated in the negotiations at Torquay, also contained an over-all tabulation showing the following data: Every item, identified by tariff paragraph and statistical class, on which the United States granted a concession at Torquay; the country or countries with which each concession was initially negotiated; the rate of duty before and after the concession was made; and the value of United States imports in 1949 of each of the items on which a concession was made.

A further analysis of the concessions granted by the United States at Torquay, together with an analysis of their effect on the level of the United

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[28] U. S. Department of State, *Analysis of Torquay Protocol of Accession, Schedules, and Related Documents, General Agreement on Tariffs and Trade, Negotiated at Torquay, England, September 1950–April 1951,* Pub. 4209 (Commercial Pol. Ser. 135), 1951 (hereafter cited as *Analysis of Torquay Protocol*).

TABLE 2.—*United States imports (for consumption) in 1949 from the countries with which the United States concluded negotiations at Torquay: Total value and value of commodities on which the United States initially negotiated concessions with the country indicated, by kinds of commitment*

[In thousands of dollars]

Country	Imports of all commodities			Imports of items on which concessions were initially negotiated with country indicated					
					Dutiable items bound or reduced				
					Rate of duty reduced below 1951 rate				
	Total	Dutiable	Free	Total	Less than 25 percent	25–35 percent	36–50 percent [1]	Rate of duty bound	Duty-free items bound free
Acceding countries:									
Austria	9,615	8,098	1,517	6,501	8	21	22	6,450	....
Federal Republic of Germany	43,660	23,861	19,799	6,853	2,296	2,207	2,223	3	124
Korea	1,602	1,025	577	141	....	....	91	2	48
Peru	40,708	16,660	24,048	25,789	3,350	3,077	17,893	567	902
Turkey	50,047	36,432	13,615	44,604	124	30,806	2,439	1,526	9,709
Contracting parties:									
Benelux Customs Union (Belgium, Netherlands, and Luxembourg)	154,680	92,160	62,520	29,914	18,384	8,139	3,240	1	150
Brazil	551,084	38,727	512,357	107	....	....	65	....	42
Canada	1,551,499	567,625	983,874	125,539	65,752	23,042	32,272	....	4,473
Denmark	6,445	4,365	2,080	263	1	1	114	147	....
Dominican Republic	24,679	9,266	15,413	2,844	1,183	1,620	....	....	41
France	62,207	45,236	16,971	13,370	8,933	3,394	544	441	58
Overseas areas	20,170	5,863	14,307	2,676	82	15	2,497	....	82
Indonesia	120,262	3,267	116,995	42	2	....	40	....	....
Italy	70,572	52,755	17,817	5,073	3,044	1,116	913	....	....
Norway	29,942	17,825	12,117	2,020	1,284	6	708	....	22
Sweden	54,430	8,251	46,179	403	351	27	25	....	....

[1] Includes imports of commodities valued at $2,460,000, on which the reductions were more than 50 percent of the rates of duty in effect in 1951, but not more than 50 percent of those in effect on Jan. 1, 1945.

Source: Compiled from official statistics of the U. S. Department of Commerce. All statistics are preliminary and some are based partly on estimates.

States tariff, will be given in the Tariff Commission's next annual report on the operation of the trade agreements program.

Concessions Obtained by the United States

At Torquay the United States obtained concessions, in direct negotiations with the 17 countries with which it concluded agreements, on products which in 1949 accounted for imports from the United States into those countries valued at 1,060 million dollars, equal to about 19 percent of total United States exports to those countries and to about 9 percent of total United States exports to all countries. The concessions which the United States negotiated directly with the 6 countries newly acceding at Torquay apply to commodities the imports of which from the United States into those countries in 1949 were valued at 667 million dollars; new or increased concessions which the United States negotiated with countries that had become contracting parties at Geneva in 1947, or at Annecy in 1949, covered imports into them from the United States valued at about 390 million dollars.

The benefits that will accrue to the United States as a result of concessions exchanged by other participants at Torquay, in approximately 130 negotiations between pairs of countries, apply to commodities the United States exports of which were valued at more than 100 million dollars in 1949.

Table 3 shows imports into the negotiating countries from the United States in 1949 of products on which the United States directly negotiated for the concessions it obtained at Torquay. An analysis of these concessions is contained in United States Department of State Publication 4209.[29]

Concessions which the United States obtained at Torquay consist of reductions in duties and bindings of existing duties or duty-free treatment on a wide range of agricultural and industrial products. On some of the articles listed the United States obtained concessions from several countries. Some reductions in duties were accompanied by a narrowing of margins of preference, and a few duties were completely eliminated.

Some of the more important agricultural products on which the United States obtained concessions were wheat, flour, corn, oil seeds, vegetable oils, cotton, tobacco, nuts, canned and dried vegetables, soups, lard, pork, canned and salted meats, canned and powdered milk, cheese, dried eggs, confectionery, canned fish, prepared food specialties, fruit juices, and fresh, dried, and canned fruit.

In the machinery field the more important articles on which concessions were obtained were many types of industrial machinery; automotive vehicles and products, including passenger cars, trucks, trailers, industrial

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[29] U. S. Department of State, *Analysis of Torquay Protocol.*

TABLE 3.—*Imports in 1949 from the United States into the countries with which the United States negotiated directly at Torquay, of products on which the United States there obtained direct concessions*

Country	Value of imports from the United States [1]
	1,000 dollars
Acceding countries:	
Austria	[2] 30,310
Federal Republic of Germany	556,594
Korea	6,917
Peru	[3] 45,252
Turkey	28,038
Total, acceding countries	667,111
Contracting parties:	
Benelux Customs Union (Belgium, Netherlands, and Luxembourg)	[3] 34,783
Brazil	295
Canada	290,049
Denmark	[3] 17,227
Dominican Republic	5,444
France	[4] 25,600
Indonesia	750
Italy	[5] 9,341
Norway	[3] 5,629
Sweden	1,453
Total, contracting parties	390,571
Total	1,057,682

[1] Converted to United States dollars from the respective foreign currencies, except as otherwise indicated.
[2] Commercial and European Recovery Program imports.
[3] 1948 statistics; data for 1949 are not available.
[4] Including concessions by French overseas territories and departments (partly estimated).
[5] Based on United States export statistics.

Source: Compiled from official statistics of the respective countries, except as otherwise indicated.

lift trucks, tractors, mining locomotives, and automobile parts and accessories; machine tools and metalworking machinery; mining machinery; earth-moving equipment, air compressors, and pumps; pneumatic tools; printing presses and other equipment for the graphic arts; and agricultural machinery and implements. Concessions obtained on electrical machines, equipment, and appliances included those on refrigerating and air-conditioning machinery; radio and television receiving and transmitting apparatus; motors, generators, and transformers; ignition systems; household appliances, such as washing machines, irons, heating devices, and lighting fixtures and equipment; X-ray apparatus; and batteries, electronic tubes, and incandescent light bulbs.

The United States obtained concessions also on chemical, pharmaceutical, and medicinal products; rubber goods, including tires, tubes, hose, belting, and packing; petroleum products, including lubricants, petrolatum, and paraffin; naval stores, including rosin and turpentine; glass manufactures, including bottles, jars, and specialties; leather and leather manufactures; various kinds of lumber, plywood, paper, and paper products; manufactures of iron and steel, including tin plate, boilers, tanks, and bathroom fixtures; coal, coke, sulfur, and borax; asbestos manufactures; abrasives, including paper, cloth, and stones; and other typical United States export specialties, such as office machines and appliances, motion pictures, film, cameras and projection apparatus, hand tools, phonographs, fountain pens, safety razors and blades, metal office furniture, nylon hosiery, toilet preparations, and paints and varnish.

A further analysis of the concessions obtained by the United States at Torquay will be given in the Tariff Commission's next annual report on the operation of the trade agreements program.

Negotiations Under Article XXVIII [30]

Before the beginning of the Torquay Conference, 16 countries announced that they wished to exercise their rights under the provisions of article XXVIII of the General Agreement to withdraw or modify certain concessions they had granted at Geneva in 1947 or at Annecy in 1949. These countries were the Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Brazil, Chile, Cuba, Denmark, Finland, France, Haiti, Italy, New Zealand, Sweden, the Union of South Africa, the United Kingdom, and Uruguay.

All but two of the notifications (those by the United Kingdom and Haiti) referred, at least in part, to concessions originally negotiated with the United States. Although the notifications by the United Kingdom and Haiti did not apply to any concessions granted initially to the United States, the action by Haiti covered commodities in which the United States had a substantial interest.

With a few exceptions, for which special arrangements have been made by the contracting parties, the negotiating countries at Torquay reached agreement on the compensation to be given in return for permission to modify or withdraw Geneva or Annecy concessions under article XXVIII. Of the concessions which had been granted to the United States at Geneva or Annecy, modifications or withdrawals were made by other countries under article XXVIII at Torquay on products representing United States exports in 1949 valued at approximately 100 million dollars. In exchange for agreeing to these modifications or withdrawals, the United States

[30] For a general discussion of the art. XXVIII negotiations, see the section of this chapter on character of the Torquay Conference.

obtained compensatory concessions applicable to commodities the United States exports of which were valued at about 105 million dollars in 1949.[31]

A country-by-country analysis of the article XXVIII negotiations in which the United States engaged at Torquay is contained in Department of State Publication 4209.[32] The article XXVIII negotiations in which the United States participated will be discussed in detail in the next report of the Tariff Commission on the operation of the trade agreements program.

Entry Into Force of United States Concessions

Under the provisions of the Torquay Protocol, the United States on June 6, 1951, placed in effect the tariff concessions which it initially negotiated at Torquay with the Benelux Customs Union, Canada, France, and the Dominican Republic. These countries except Canada had joined the United States in signing the protocol at Torquay on April 21, the opening date for signature of the document. Canada signed at New York on May 7. In virtually all instances the United States withheld the concessions it initially negotiated with 11 other countries at Torquay until the thirtieth day after each of these countries signed the protocol. For technical and other reasons, however, the United States on June 6, 1951, placed in effect a few of the concessions it negotiated initially with those 11 countries.

The following are the dates on which the United States made effective the concessions it granted at Torquay in the negotiations with the respective countries:

Country	*Date*
Austria	Oct. 19, 1951
Benelux Customs Union	June 6, 1951
Brazil.[1]	
Canada	June 6, 1951
Denmark [1]	Jan. 20, 1952
Dominican Republic	June 6, 1951
Federal Republic of Germany	Oct. 1, 1951
France	June 6, 1951
Indonesia	Nov. 18, 1951
Italy	Nov. 17, 1951
Korea.[2]	
Norway	Aug. 2, 1951
Peru	Oct. 7, 1951
Sweden	July 7, 1951
Turkey	Oct. 17, 1951

[1] Granted extension of time for signature until Dec. 31, 1951.
[2] Granted extension of time for signature until Mar. 31, 1952.

STATUS OF UNITED STATES TRADE AGREEMENTS AFTER THE TORQUAY NEGOTIATIONS

Trade Agreements in Effect

On July 1, 1951, assuming the entry into force of all the concessions negotiated by the United States at Torquay, the United States was a party to trade agreements with 46 countries, negotiated under the authority of the Trade Agreements Act, as amended. These countries fall into two groups.

[31] These figures, which are preliminary, are based partly on estimates. They are not weighted by type or extent of the modification or compensation.

[32] U. S. Department of State, *Analysis of Torquay Protocol.*

1. The first group consists of those 35 countries that were (or shortly would be) contracting parties to the General Agreement on Tariffs and Trade. These countries, together with the dates on which they gave provisional effect to the General Agreement, are listed below:

(a) Countries (21) that acceded at Geneva:

Country	Date	Country	Date
Australia	Jan. 1, 1948	Indonesia [2]	Feb. 24, 1950
Belgium [1]	Do.	Luxembourg [1]	Jan. 1, 1948
Brazil [1]	July 31, 1948	Netherlands [1]	Do.
Burma	July 30, 1948	New Zealand	July 31, 1948
Canada [1]	Jan. 1, 1948	Norway	July 11, 1948
Ceylon	July 30, 1948	Pakistan	July 31, 1948
Chile	Mar. 16, 1949	Southern Rhodesia	July 12, 1948
Cuba [1]	Jan. 1, 1948	Syria [3]	July 31, 1948
Czechoslovakia	Apr. 21, 1948	Union of South Africa	June 14, 1948
France [1]	Jan. 1, 1948	United Kingdom [1]	Jan. 1, 1948
India	July 9, 1948		

(b) Countries (9) that acceded at Annecy:

Country	Date	Country	Date
Denmark	May 28, 1950	Italy	May 30, 1950
Dominican Republic	May 19, 1950	Liberia	May 20, 1950
Finland [1]	May 25, 1950	Nicaragua	May 28, 1950
Greece	Mar. 9, 1950	Sweden [1]	Apr. 30, 1950
Haiti [1]	Jan. 1, 1950		

(c) Countries (5) that acceded at Torquay:

Country	Date	Country	Date
Austria	Oct. 19, 1951	Peru [1]	Oct. 7, 1951
Federal Republic of Germany	Oct. 1, 1951	Turkey [1]	Oct. 17, 1951
Korea.[4]			

[1] Had concluded a bilateral trade agreement with the United States.
[2] The Netherlands negotiated concessions on behalf of the Netherlands Indies at Geneva in 1947. On Feb. 24, 1950, the United States of Indonesia (now the Republic of Indonesia) was recognized as a contracting party to the General Agreement in its own right.
[3] On June 7, 1951, the Government of Syria announced that it intended to withdraw from the General Agreement, effective Aug. 6, 1951.
[4] Not yet effective.

2. The second group consisted of those 11 countries that had trade agreements with the United States but were not contracting parties to the General Agreement on Tariffs and Trade. These countries, together with the effective dates of the respective bilateral trade agreements, were as follows:[33]

[33] The trade agreement between the United States and Colombia, which became effective May 20, 1936, was terminated by mutual consent, effective December 1, 1949. The trade agreement between the United States and Mexico, which became effective January 30, 1943, was terminated by mutual consent, effective December 31, 1950. The trade agreement between the United States and Costa Rica, which became effective August 2, 1937, was terminated by mutual consent, effective June 1, 1951.

Country	Date	Country	Date
Argentina	Nov. 15, 1941	Iran	June 28, 1944
Ecuador	Oct. 23, 1938	Paraguay	Apr. 9, 1947
El Salvador	May 31, 1937	Switzerland	Feb. 15, 1936
Guatemala	June 15, 1936	Uruguay [1]	Jan. 1, 1943
Honduras	Mar. 2, 1936	Venezuela	Dec. 16, 1939
Iceland	Nov. 19, 1943		

[1] Uruguay negotiated for accession to the General Agreement at Annecy, and also negotiated at Torquay, but has not yet signed either the Annecy or the Torquay Protocol.

Suspension, Termination, or Modification of Pre-Geneva, Pre-Annecy, or Pre-Torquay Agreements

From the inception of the trade agreements program in 1934 until the Geneva Conference in 1947, the United States concluded bilateral trade agreements with 29 countries. Two of these agreements, those with Nicaragua and Czechoslovakia, were terminated in 1938 and 1939, respectively. The bilateral trade agreements between the United States and Colombia, Mexico, and Costa Rica were terminated, by mutual consent, on December 1, 1949, December 31, 1950, and June 1, 1951, respectively.[34]

Of the 23 countries that participated in the Geneva Conference, 8 had previously concluded bilateral trade agreements with the United States: Belgium, Brazil, Canada, Cuba, France, Luxembourg, the Netherlands, and the United Kingdom. With the signing of the General Agreement, the bilateral trade agreements previously in force between the United States and those countries were suspended; they will remain inoperative as long as the United States and the countries concerned are contracting parties to the General Agreement. Should the United States or any of these countries cease to be parties to the General Agreement, the respective bilateral trade agreements would again become effective, regardless of whether the Trade Agreements Act is still in force. These bilateral trade agreements, however, whether in effect or, as at present, suspended, are subject to termination on 6 months' notice.

Four of the ten countries with which the United States negotiated at Annecy had previously concluded trade agreements with the United States. These countries were Finland, Haiti, Sweden, and Uruguay. After the Annecy Conference the United States and these four countries agreed to terminate, rather than suspend, the trade agreements previously in force. The termination became effective when the concessions initially negotiated by the United States with the respective countries were placed in effect.[35]

[34] For details of the termination of the trade agreements with Colombia and Mexico, see *Operation of the Trade Agreements Program* (third report), pp. 55–57. For details of the termination of the agreement with Costa Rica, see ch. 7 of this report.

[35] Uruguay has not yet signed either the Annecy Protocol or the Torquay Protocol. The bilateral trade agreement between the United States and Uruguay is, therefore, still in effect.

Only two of the newly acceding countries with which the United States negotiated at Torquay—Peru and Turkey—had previously concluded bilateral trade agreements with the United States. When the concessions initially negotiated with Peru at Torquay became effective, the bilateral trade agreement with that country was terminated.[36]

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[36] Steps are now under way for the termination of the bilateral trade agreement with Turkey, after the accession of that country to the General Agreement in October 1951.

Chapter 5

Changes in Quantitative Import Restrictions and Other Trade Controls by Contracting Parties to the General Agreement on Tariffs and Trade

During all or part of the period covered by this report (July 1950–June 1951) the United States had in effect trade-agreement concessions that it had negotiated with 31 contracting parties to the General Agreement on Tariffs and Trade.[1] Since the Tariff Commission prepared its third report on the operation of the trade agreements program in mid-1950, there have been some notable developments and new trends in the application of exchange controls and quantitative import restrictions by a number of countries that are contracting parties to the General Agreement. Following their usual pattern of procedure, practically all of these countries also temporarily increased or reduced certain of their tariff rates; aside from revisions made under the general provisions of the General Agreement (mainly under article XXVIII) after Annecy,[2] none of them extensively revised their tariff schedules.

The General Agreement contemplates that member countries shall not employ quantitative restrictions as an instrument of commercial policy. Conditions in recent years, however, have been such that most countries have relied heavily on exchange controls and quantitative restrictions to regulate the volume and composition of their import trade. The General Agreement permits temporary use of such restrictions in exceptional circumstances. The outstanding condition giving rise to their use has been balance-of-payments difficulties.[3]

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[1] These countries were Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Czechoslovakia, Denmark, the Dominican Republic, Finland, France, Greece, Haiti, India, Indonesia, Italy, Lebanon, Liberia, Luxembourg, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Southern Rhodesia, Sweden, Syria, the Union of South Africa, and the United Kingdom. Lebanon's withdrawal from the General Agreement was effective February 25, 1951; Syria's withdrawal became effective August 6, 1951.

[2] Denmark, the Dominican Republic, Finland, Greece, Haiti, Italy, Liberia, Nicaragua, and Sweden became contracting parties to the General Agreement as a result of the Annecy negotiations. Indonesia was admitted to membership in February 1950.

[3] The nature of this problem and the measures employed to deal with it have been discussed extensively in previous reports on the operation of the trade agreements program.

Domestic producers and other interests often exert strong pressure on their governments to retain quantitative import restrictions after the passing of the emergency which caused their original adoption. On the other hand, the contracting parties to the General Agreement are required to relax such restrictions as rapidly as conditions permit. The Contracting Parties, acting as a general administrative body for carrying out the terms of the agreement, exert a continuous pressure on members to observe this obligation. In this they are supported by the International Monetary Fund, which is responsible for assisting its members to relax and abolish their restrictions on the use of foreign exchange.[4]

In 1950 nearly all the contracting parties to the General Agreement which had been employing exchange controls and quantitative restrictions for balance-of-payments reasons experienced a marked improvement in their external financial positions. Accordingly, some relaxed their import controls appreciably, and one or two countries eliminated them entirely by the end of 1950 or by early 1951. Others refused to relax their restrictions, although they were urged to do so by the Contracting Parties and the International Monetary Fund. A few countries were not in a position to relax their restrictions further. The chief immediate objective of efforts to relax or eliminate quantitative import restrictions has been to eliminate discrimination by soft-currency countries against imports from hard-currency sources, since this feature of the restrictive systems has been most disturbing to trade relations. During 1950 and the first half of 1951 some countries with greatly improved dollar positions did eliminate part or all of their discrimination against dollar goods.

The outbreak of hostilities in Korea in June 1950 and the growing international uncertainty as the conflict continued were major factors in causing many countries to relax their controls. Fear that there would be shortages of critical supplies because of heavy buying of strategic materials caused many countries to stockpile essential raw materials and even manufactured products regarded as essential to their economies. Consequently, they relaxed their quantitative import restrictions and found means of paying (or arranging to pay) for imports that had seemed impossible to acquire only a few months earlier. Many countries relaxed their restrictions on the use of

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[4] By the end of 1950, all contracting parties to the General Agreement, except New Zealand, had either joined the Fund, or signed a special exchange agreement, or were in the process of doing one or the other. The special exchange agreement is provided for in the General Agreement, and is analogous to that provided for in the Articles of Agreement of the Fund. For a review of recent developments in exchange controls by members of the Fund, see International Monetary Fund, *Second Annual Report on Exchange Restrictions,* Washington, April 1951. The Fund also issued, in April 1951, *Surveys of Exchange Controls and Restrictions in Argentina, Burma, Federal Republic of Germany, Hashemite Kingdom of the Jordan, Indonesia, Japan, New Zealand, Portugal, Spain, Sweden, Switzerland.*

foreign exchange, expanded lists of "permitted" imports, enlarged quotas, and relaxed requirements governing the issuance of import permits. Some countries with complicated multiple-exchange-rate systems simplified these systems in order to facilitate import procedures.

Unusually heavy foreign purchases by the United States also placed a greatly augmented supply of dollar exchange at the disposal of many countries, thus increasing their ability to relax import restrictions and increase their imports. A large part of United States purchases were of strategic materials which were sought also by other countries. Consequently, the general competition for these materials increased substantially.

Another aspect of the fear of shortages was the increasing use of export restrictions by countries that were anxious to conserve their own resources of critical materials and products. Most countries forbade exportation unless permission had first been obtained, while a number of countries completely prohibited the exportation of certain commodities. Some countries took advantage of the strong market for their goods to impose or increase export duties and taxes.

A considerable share of the progress made in late 1950 and early 1951 in relaxing quantitative trade restrictions and exchange controls is attributable to the action taken by the 17 countries which are members of the Organization for European Economic Cooperation (OEEC) in relaxing import restrictions on trade with each other in accordance with their agreement upon adhering to the European Payments Union (EPU). The policy of EPU is for members to extend credit to each other and thus to facilitate the general convertibility of their currencies. This system was inaugurated in September 1950, but considerable time elapsed before certain problems could be resolved and the system brought into smoother operation.

THE GENERAL PROBLEM OF QUANTITATIVE IMPORT RESTRICTIONS

Article XI of the General Agreement on Tariffs and Trade lays down a general rule against the use of quantitative trade restrictions by contracting parties. Article XII, however, permits contracting parties under certain specified conditions to apply such restrictions to protect their balance-of-payments position. Article XII also requires countries employing quantitative restrictions to progressively relax them as conditions improve, and to eliminate them entirely when conditions no longer justify their institution or maintenance. Most of the countries that have invoked this provision have been in balance-of-payments difficulties principally with respect to dollars and other hard currencies. Consequently they have applied their restrictions in a discriminatory manner, but such discriminatory application also is permitted by the General Agreement (art. XIV) as an exceptional transitional-period arrangement.

In certain instances the Contracting Parties have granted contracting parties permission to use quantitative restrictions for a stated period for purposes of economic development, as permitted under article XVIII of the General Agreement. The General Agreement does not explicitly state that quantitative restrictions shall not be used for protective or other commercial purposes, but the Contracting Parties have taken the position that quantitative restrictions used for such purposes are inconsistent with the provisions of the agreement. The Contracting Parties recognize that, once quantitative restrictions are adopted for balance-of-payments reasons, there is a serious risk that they will be retained for protective purposes after the emergency for which they were established has ceased to exist. Attempts to prevent their retention for such purposes have occupied much of the attention of the Contracting Parties.

When the General Agreement was drawn up at Geneva in 1947, it was expected that the emergency quantitative trade controls then in use would soon disappear. Although some relaxation of the controls did occur, they were still widely used some 4 or 5 years later. Recognizing that it would still be a considerable time before such controls could be removed, the Contracting Parties in 1950 decided that at least the administration of them might be improved. With this in view, the Contracting Parties, at their Fifth Session at Torquay, England, in December 1950, adopted a code of standard practices for the administration of import and export restrictions and exchange controls.[5] This code, which was recommended for adoption by the individual contracting parties, although they are under no obligation to adopt it, is reproduced below:

1. The grant of an import license should imply that the necessary foreign exchange will be obtainable if applied for within a reasonable time. When both import licenses and exchange permits are required, the operation of the two requirements should be co-ordinated. If more than one rate of exchange applies in payment for imports, the import license or exchange permit should indicate the type of exchange which will apply in the settlement of the particular transaction.

2. Any new or intensified restrictions on importation or exportation should not apply to goods shown to the satisfaction of the control authority to have been en route at the time the change was announced or to have been paid for in substantial part or covered by an irrevocable letter of credit.

3. Goods proven to have been covered by adequate confirmed prior order at the time new or intensified restrictions are announced, and not marketable elsewhere without appreciable loss, should receive special consideration on an individual case basis, provided their delivery can be completed within a specified period. Such goods, as well as those covered under paragraph 2, should be accountable against any import or export quota or exchange allocation that may have been established for that particular class of goods.

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[5] Contracting Parties to the General Agreement on Tariffs and Trade, *Standard Practices for Import and Export Restrictions and Exchange Controls,* Geneva, December 1950.

4. The administrative formalities in connection with the issuance of import and export licenses or exchange permits should be designed to allow action upon applications within a reasonably short period. A license or permit should be valid for a sufficient period to allow for the production and delivery of the goods, taking into account the character of the goods and the conditions of transport from the country of origin. The control authorities should not withdraw licenses or permits unless they are satisfied that exceptional circumstances necessitate such action, and should give sympathetic consideration to requests for renewal or revalidation of licenses or permits when exceptional circumstances prevent their utilization within the original period.

5. Under a system involving the fixing of quotas for particular classes of goods or of allocations of exchange in payment for them, any period that may be set, within which applications for such quotas or allocations must be made, should be sufficient to allow for the exchange of communications with likely foreign suppliers and the conclusion of purchase contracts.

6. When foreign products subject to quantitative limitations are apportioned among importers largely in the light of their past participation in the trade, the control authorities, at their discretion and without undue prejudice to the interests of established importers, should give consideration to requests for licenses or permits submitted by qualified and financially responsible newcomers.

7. If an assurance regarding the issue of an import license is required as a condition of consular legalization of shipping documents in the country of exportation, a reliable communication giving the number of the import license should suffice.

8. The authority given to customs officials should be adequate to allow them, at their discretion, to grant reasonable tolerance for variations in the quantity or value of individual shipments as delivered from that specified in the prior import or export authorization, in accordance with the character of the product involved and any extenuating circumstances.

9. Where, owing to exceptional and unforeseen balance-of-payment difficulties, a country is unable to provide foreign exchange for imports immediately payment becomes due to the supplier, transfers of foreign exchange in respect of goods already imported or licensed for importation should have priority over transfers in respect of new orders, or should at least have a definite and equitable share of the total amounts of foreign exchange currently available for imports.

DISCRIMINATORY APPLICATION OF QUANTITATIVE IMPORT RESTRICTIONS BY GENERAL AGREEMENT COUNTRIES

Article XIV of the General Agreement requires the Contracting Parties to report, not later than March 1, 1950 (3 years after the date on which the International Monetary Fund began operations), and in each year thereafter, on any action still being taken by individual contracting parties that involves the discriminatory application of import restrictions. In March 1950, in accordance with this obligation, the Contracting Parties at their Fourth Session adopted and issued their first report.[6] The report, based on a

[6] Contracting Parties to the General Agreement on Tariffs and Trade, *First Report on the Discriminatory Application of Import Restrictions*, Sales No.: GATT/1950-1, Geneva, March 1950.

questionnaire addressed to the contracting parties in October 1949, disclosed that Belgium, Cuba, Haiti, Lebanon, Luxembourg, Syria, and the United States were not applying import restrictions under article XII in order to safeguard their external financial position.[7] These countries therefore were not employing discriminatory trade practices within the meaning of article XIV. The contracting parties which reported that they were employing discriminatory import restrictions for balance-of-payments reasons were Australia, Brazil, Canada, Ceylon, Chile, Czechoslovakia, Denmark, Finland, France, Greece, India, Italy, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Sweden, the Union of South Africa, and the United Kingdom.[8]

During 1950 nearly all the 20 contracting parties to the General Agreement that employ discriminatory import controls had substantial increases in their dollar and other hard-currency receipts. Some of these countries accordingly relaxed their restrictions on imports from hard-currency countries. Others, although called upon by the United States and other hard-currency countries to relax their restrictions on imports from these sources, refused to do so.

The United Kingdom and the British Commonwealth countries associated with it in the sterling area have shown the most pronounced reluctance to commit themselves definitely to relax import restrictions applicable to goods from hard-currency countries. Nevertheless, these countries made some provision in 1950–51 to increase their purchases from hard-currency countries. The Union of South Africa, which participates to a limited degree in the sterling-area system of trade controls (but not in the area's dollar pool), also increased its purchases of hard-currency goods. Canada, which has never been a member of the sterling area, has followed an independent policy with respect to trade restrictions. Canada greatly intensified its restrictions with respect to imports payable in United States dollars, especially in 1948–49, but by the middle of 1950 its balance of payments with the United States had improved to such an extent that it entirely eliminated application of the restrictions.

Both Brazil and Chile, the only Latin American countries among the contracting parties to the General Agreement that have had reason to apply discriminatory import restrictions for balance-of-payments reasons, relaxed their restrictions on dollar imports during 1950–51. Several continental European countries that are members of the General Agreement and that apply discriminatory import restrictions for financial reasons have not appreciably relaxed restrictions on dollar goods, although they have been

[7] The questionnaire was sent to 29 contracting parties, but Burma and China did not reply.

[8] Denmark, Finland, Italy, and Sweden had not yet become contracting parties to the General Agreement when the inquiry was made.

pressed to do so. As members of the European Payments Union, however, they have made considerable progress in relaxing restrictions on trade among themselves. These countries are Denmark, France, Greece, Italy, the Netherlands, Norway, and Sweden. Czechoslovakia and Finland have not been pressed to relax their import restrictions because of their contention that they were not in a position to do so owing to their unfavorable external financial position.

The reasons for the actions taken or continued in 1950 with respect to quantitative restrictions by the various contracting parties to the General Agreement are discussed in detail in the following sections.

Relaxation of Discrimination by Canada and the Union of South Africa

Canada

By the beginning of 1951 Canada had withdrawn practically all the import restrictions it had adopted or restored in 1947 in order to conserve exchange. After the outbreak of hostilities in Korea in June 1950, Canadian exports to the United States increased so greatly that for the year as a whole Canada's trade deficit with this country was reduced to almost negligible proportions. This reduced trade deficit and other factors, including the tremendous flow of United States capital to Canada during the second half of 1950 and prospects for continued heavy exports to the United States, led Canada to remove the last of the import restrictions it had applied under the Emergency Exchange Conservation Act of 1947. Canada took another important step by abandoning, effective October 1, 1950, the fixed official rates for the United States dollar and for sterling, thus permitting the return of trading in those currencies to a free market for the first time since 1939.[9]

Canada has not, however, abandoned its authority to control imports. The life of the Export and Import Permit Act of 1947 has been extended to July 31, 1954. The act has been amended to permit the Canadian Government to control imports of products the manufacture of which in Canada might be prohibited or restricted in the interest of conserving materials considered essential for security reasons. Imports of steel remain under control, but only to enable the Government to supervise its allocation. Supplies of steel have been insufficient to meet Canadian requirements, with the result that restrictions have been placed on some end uses. Certification is required of importers so that steel will not be diverted to prohibited fields of consumption.

Economic cooperation between Canada and the United States, similar to that during World War II under the terms of the Hyde Park agreement of 1941, was formally arranged by an exchange of notes between the two

[9] On December 14, 1951, the Canadian Government removed all remaining restrictions on payments or receipts of foreign currencies.

countries on October 26, 1950. In a "Statement of Principles for Economic Cooperation" the two countries agreed that "barriers which impede the flow between Canada and the United States of goods essential for the common defense effort should be removed as far as possible." Under this agreement the United States continues to exempt Canada from United States export-control measures. The United States has also extended to Canada the same priority it grants to United States producers who require materials for carrying out defense orders. On its part, Canada has extended certain tariff advantages to the United States.

Canada's program of selling certain major articles of food in bulk to the United Kingdom under contract, which was in effect for about 10 years, is no longer in operation. At the beginning of 1950 only bacon and cheese were subject to bulk sale, and contracts for the sale of these commodities were not renewed for 1951. Beginning July 31, 1950, Canada conducted its sales of wheat to the United Kingdom and other countries under the terms of the International Wheat Agreement; before that time sales of wheat to the United Kingdom had been by bilateral contract.

Union of South Africa

Toward the end of 1947 the Union of South Africa ceased to participate in the sterling-area dollar pool; since then it has made no contributions to the pool, nor has it drawn upon the pool for its hard-currency requirements. Instead, it has retained for its own use its receipts of dollars and other hard currencies, supplemented by its gold production. In November 1948, because of the heavy drain on its gold and dollar reserves, the country adopted its present system of import controls. This system, which enabled the Government to restrict imports from the United States and other hard-currency sources, arrested the drain on the country's reserves of hard currency. By the middle of 1949, however, South Africa found it necessary to restrict imports from the sterling area also in order to conserve its sterling reserves. Thus imports from all countries were restricted, although the Union continued to restrict those from hard-currency sources more severely than those from soft-currency sources. Under this arrangement, South Africa's foreign-currency earnings were kept in two separate pools. One pool consisted of earnings from gold production, from exports to hard-currency countries, and from capital borrowed from hard-currency countries; payments were made from this pool for imports designated as essential, and for which "universal" import licenses were issued. The other pool consisted of earnings from exports to soft-currency countries and from capital borrowed from such countries. Imports designated as nonessential were paid for from this pool.

The Union of South Africa ordinarily depends to a large extent on its output of gold to maintain a balance in its foreign-trade position. After World War II, however, the position of the South African gold-mining industry became progressively weaker because the world price of gold was too low to make it profitable for the country's mining interests to maintain production. This situation changed radically after the general devaluation of currencies (including that of South Africa) late in 1949. Devaluation tended to ease South Africa's balance-of-payments position and to strengthen the monetary and trade links between the Union and the sterling area. The increase in the price of gold, in terms of sterling, that resulted from devaluation enabled the Union to relax its restrictions on imports from the sterling area; it also resulted in an expansion of capital inflow, mainly of sterling origin.

Devaluation of the South African pound checked imports from hard-currency sources and had a stimulating effect on the Union's exports to the United States and other hard-currency areas. Exports probably benefited even more from the sharp increase in prices of raw materials that accompanied the intensified demand for many raw materials after the outbreak of hostilities in Korea. The combined effect of these factors was a continued improvement in South Africa's balance-of-payments position throughout 1950.

Early in 1950 the South African Government began to relax its import controls. Because its sterling position had shown more improvement than its dollar position, however, the relaxation was confined almost entirely to imports from the sterling area. This procedure increased rather than decreased the degree of discrimination against goods of hard-currency origin. Combined with the restrictive effect of currency devaluation on dollar imports, this policy reduced imports from the United States in 1950 to a point below the low level reached in 1949 after the restrictive policy of 1948 became effective. The licensing of imports from the United States was confined almost entirely to a small number of raw materials and to essential capital equipment.

In view of the improvement in its dollar position, South Africa's failure to significantly relax its import restrictions on goods from hard-currency countries resulted in considerable dissatisfaction among certain of that country's domestic interests. Devaluation alone had made products from soft-currency sources more competitive with those from hard-currency sources, and, it was asserted, the country was being deprived of needed supplies that could be obtained in hard-currency countries. At the end of September 1950, the Government announced that, effective January 1, 1951, the controls on imports payable in hard currencies would be relaxed appreciably.

This decision entailed certain significant changes in the country's basic laws governing the control of foreign trade. The import-control system introduced in June 1949 had undergone no significant change up to this time. Certain nonessential items on the "prohibited" list could not be imported from any country, and a prior import permit was required for practically all permitted imports. The authorities issued two types of permits:

those described as "restricted," valid only for imports from soft-currency sources, and the "universal" permits, valid for imports from any country. Permits of the latter type were much more difficult to obtain than those for the purchase of soft-currency goods, although the universal permits were more freely issued as South Africa's hard-currency position improved.

When the modifications in South Africa's control law became effective at the beginning of 1951, they opened most of the Union's import trade to free competition for the first time since import controls were introduced in November 1948. Restricted permits continue to be valid only for goods purchased in soft-currency countries, but the new general permit, which replaces the universal permit, is designed to facilitate larger imports from hard-currency sources. Like the universal permits, the general permits are valid for purchases in any country. The old universal permits were issued up to the limit of the Union's net hard-currency earnings plus current gold output, but their use was restricted to certain "essential" categories of goods. The new-type general permits, on the other hand, are intended to be issued up to the approximate value of the total amount of both hard and soft currency earned by the Union from its current exports of commodities and its gold production, plus capital receipts in hard currency and an equivalent amount of soft-currency receipts. Soft-currency receipts in excess of the hard-currency capital inflow are set aside for the use of restricted permits—that is, for purchases from soft-currency countries. Under the revised import-permit system, fewer goods are licensed under restricted permits and more under general permits. Consequently, the great majority of South Africa's imports will be paid for from one currency pool (instead of two), and most of the discrimination against hard-currency imports will cease.

Under a modified arrangement with the United Kingdom regarding sales of gold, South Africa will sell less gold to the United Kingdom than it formerly did and, as a result, will have more gold at its disposal for purchases outside the sterling area.[10] Early in 1950 the United Kingdom agreed

[10] The International Monetary Fund undertakes to maintain a structure of stable exchange rates throughout the world by keeping the price of gold at the rate of $35 per ounce in all official transactions. Since World War II, gold has sold in free markets at a considerable premium above the official price, and this fact has led to pressure from some of the gold-producing countries to have the official price of gold raised. The Union of South Africa has taken the lead in this campaign, but has not succeeded in inducing the Fund to change its official position with respect to the special price of gold.

In June 1947 the Fund recommended that its members take effective action to prevent external transactions in gold at premium prices. The purpose of this recommendation was to keep gold from finding its way into private hoards to an extent that would undermine exchange stability and impair monetary reserves. The Fund recognized the right of members to export gold at premium prices against affidavits from the importing countries that the gold is required for industrial purposes; it also permitted domestic transactions in gold above the official price under certain condito give South Africa free access to the London capital market; South Africa, on its part, agreed to finance, by the sale of gold to the Bank of England, the purchase of certain essential categories of goods in soft-currency areas. Under this arrangement sales of gold evidently exceeded the level anticipated by South Africa, since it sought modification of the agreement to use less gold for the purchase of sterling than it formerly did.

Heavy borrowing in foreign countries has been another important factor in the ability of the South African Government to relax its import restrictions. In January 1951 the International Bank for Reconstruction and Development granted the Union of South Africa loans amounting to 50 million dollars; simultaneously, a group of United States commercial banks extended to the Union a credit of 10 million dollars. The funds thus made available to South Africa were to be used to finance imports of equipment for expanding electric-power and transportation services. On the basis of orders placed soon after the loans were made, it was estimated that approximately 20 percent of the proceeds of the International Bank loan would be spent on equipment purchased in the dollar area, and 80 percent on equipment primarily from the United Kingdom.

The South African Government's new import policy, which became effective January 1, 1951, was further modified in February. This modification resulted in a still more liberal treatment of all classes of imported goods except those on the prohibited-imports list. The authorities pointed out, however, that the import-control measures will be retained in order to permit the Union to relax or tighten import restrictions as circumstances may require, and that the list of prohibited imports might be extended, if necessary, to prevent excessive imports of luxury or nonessential goods.

Continuation of Discrimination by the United Kingdom, Australia, New Zealand, India, Pakistan, Ceylon, and Southern Rhodesia

In 1948, for balance-of-payments reasons, the United Kingdom, Australia, New Zealand, India, Pakistan, Ceylon, and Southern Rhodesia imposed severe and discriminatory restrictions on imports; during 1949 and 1950 they intensified their restrictions on imports from hard-currency sources. The import-permit systems of these countries, all of which acted in concert as members of the sterling area, were applied with increased severity to imports from dollar areas. In July 1949, to check the drain on their reserves of hard currency, these countries agreed among themselves to endeavor to reduce dollar imports 25 percent below the 1948 level. In the fall of 1949 all the

tions. Despite the Fund's official position, the flow of gold into the free markets increased, becoming especially strong in 1951. South Africa, in particular, found outlets for its gold as its own interests dictated. Finally, in a statement issued in September 1951, the Fund gave up its attempt to control premium gold transactions; it did not, however, relinquish its control over gold transactions between members.

countries except Pakistan devalued their currencies, and this action served to further check imports. Devaluation also stimulated exports from these countries to the United States and to other hard-currency countries, and such exports further increased after the outbreak of hostilities in Korea.

During 1950 the hard-currency reserves of these sterling-area countries increased to such levels that those contracting parties to the General Agreement that were most interested in removal or relaxation of restrictions on their exports—the United States, Canada, Belgium, and Cuba—declared that the time had come for the United Kingdom, Australia, New Zealand, Ceylon, and Southern Rhodesia to progressively relax their hard-currency restrictions.

The International Monetary Fund had already reported that there was a sound basis for relaxing these restrictions. Although the Fund representatives of the United Kingdom, Australia, New Zealand, and Ceylon admitted that there had been a marked improvement in the gold and dollar reserves of these countries, they stated that it was not possible to distinguish clearly between the effect of devaluation on the rate of their dollar imports and the effect of the intensification of the import restrictions. They maintained that the improvement in the reserve position of these countries was due largely to devaluation and other exceptionally favorable temporary factors in 1950, but that the effect of certain unfavorable factors working in the opposite direction would not be fully felt until 1951. Particularly they had in mind the new rearmament responsibilities which would soon require vastly increased expenditures in the hard-currency areas.

On these grounds, the United Kingdom, Australia, New Zealand, Ceylon, and Southern Rhodesia refused to commit themselves to a general policy of relaxing their restrictions on imports from hard-currency sources. Actually, however, these countries made provision in the second half of 1950 and the first half of 1951 for increasing their purchases from hard-currency countries. This action reduced to some extent the area of discrimination against hard-currency goods, but did not represent any departure from the sterling-area policy of maintaining a very cautious approach to the problem of relaxing its discriminatory restrictions on hard-currency imports.

Despite a dwindling of its gold and dollar reserves, the United Kingdom found it necessary in 1951 to obtain from hard-currency sources essential raw materials for its rearmament program. New Zealand and Ceylon likewise made provision for substantial increases in hard-currency imports. A new agreement between Ceylon and the United Kingdom permits Ceylon to retain part of its dollar earnings for its own use; this arrangement, together with a favorable balance of trade with the dollar area after the devaluation of Ceylon's currency, enabled Ceylon to announce in January 1951 that, from July 1951, import controls would be relaxed on all essential imports from the United States, Canada, and other hard-currency countries. Licenses were to be issued freely for over 200 items, including electrical goods, sewing machines, cereal breakfast foods, books, and metals. Australia permitted purchase of goods, without license, from an additional list of countries found to be in the "easy currency" category. Heavy wool sales to the United States permitted some increase in Australia's purchases from this country. The relaxation of restrictions on dollar imports, however, was handled with caution; all dollar imports are subject to license.

The United States and the other interested contracting parties decided not to suggest that India and Pakistan further relax their restrictions on hard-currency imports, and the International Monetary Fund concurred in this decision. India had slightly relaxed its restrictions on imports from dollar sources in the second half of 1950, and had announced that in 1951 it would probably increase its imports of capital equipment and specified essential consumer goods from these sources. Pakistan had gone even farther in relaxing its restrictions on dollar imports in 1950, having entirely removed those on chemicals, machinery, and other goods from dollar countries. The outlook for additional relaxation in 1951 was enhanced by an agreement between Pakistan and the United Kingdom which permits Pakistan to retain a portion of its dollar earnings instead of turning them over to the sterling-area dollar pool. As 1951 progressed, however, it became apparent that India and Pakistan, because of an increasingly unfavorable balance in their gold and dollar reserves, might find it necessary to revert to the stricter import controls of early 1950.

The United Kingdom's action in imposing a purchase (sales) tax on certain imported articles while exempting comparable domestic products from the tax led the Netherlands Government in 1950 to repeat its former charge that such treatment is discriminatory within the meaning of article III of the General Agreement, and therefore violates the agreement. Article III provides that the products of any contracting party, when imported into any other member country, shall not be subject to internal taxes or other internal charges higher than those applied directly or indirectly to like products of national origin.

Domestically produced consumer goods classified as "utility" goods in the United Kingdom are not liable to the purchase tax. Comparable articles imported from abroad, the Netherlands Government pointed out, are not generally exempted from the tax. An exception was made by the United Kingdom Government in 1949 when it exempted imports of furniture from the Netherlands from the tax. However, since no other products of the Netherlands had been exempted, the Netherlands Government—in accordance with the procedure provided in paragraph 2 of article XXIII (Nullification or Impairment) of the General Agreement—referred the matter to the Contracting Parties in order to obtain a decision on whether the discriminatory levy of the purchase tax on goods imported into the United Kingdom is consistent with provisions of article III of the agreement. The

United Kingdom later announced that it was attempting to find a way to eliminate the discrimination.[11]

Relaxation of Discrimination by Brazil and Chile

Brazil and Chile are the only Latin American contracting parties to the General Agreement that for balance-of-payments reasons have applied discriminatory quantitative import restrictions on goods from dollar and other hard-currency sources. Both countries relaxed their restrictions on dollar imports during 1950.

Brazil

During 1949 Brazil's balance-of-payments position became so unfavorable that the country adopted stricter licensing regulations to restrict imports, particularly those from the United States and other hard-currency countries, and attempted to stimulate exports by a system of private barter transactions. As a result of these and other measures, including heavy borrowing from the International Monetary Fund, Brazil's foreign-exchange position improved. During 1950 Brazil substantially relaxed its import restrictions and curtailed the use of barter arrangements. Domestic manufacturing increased considerably during this period of restricted imports. Higher prices for coffee also were an important factor in improving Brazil's foreign-exchange position in 1950.

Under the export-import control law adopted late in 1949, Brazil requires import licenses for all except a few products, and exchange permits for all transactions in excess of 20,000 cruzeiros (equivalent to about $1,000). Licenses are granted up to limits set by individual import quotas. Practically all exchange payments are subject to a 5-percent tax. Licenses to make payments abroad are issued on the basis of an exchange priority system. Varying amounts of exchange are allocated under five import categories, ranging from the most essential to the least essential imports and other obligations calling for transfers. Specified essential commodities that are exempt from import licenses are accorded priority in the issuance of exchange. Virtually all agricultural machinery imported into Brazil is exempt from the payment of duties.

The requirement of import permits for the bulk of Brazil's imports enables the Government to tighten or relax its control over trade in accordance with the foreign-exchange situation and other international developments. During the first half of 1950, import licensing was conducted on a strict basis, but during the second half of the year it was relaxed considerably. Improvement in Brazil's foreign-exchange position was partly responsible for the more liberal licensing of imports. Another factor was the Government's desire to facilitate imports of certain essential materials that were becoming increas-

[11] See the section of ch. 3 on internal taxation of imported products.

ingly difficult to obtain because of the stockpiling programs of various governments and the increased application of export restrictions to certain materials.

The relaxation of import-licensing regulations by Brazil took various forms. In January 1951 more than 80 items were added to the previous list of commodities for which license applications would be accepted for the first half of 1951. Later it was announced that applications for import licenses would be accepted for a new list of products for which payment was to be made in United States dollars, pounds sterling, Swiss francs, or Swedish crowns. Another method of relaxing controls in connection with import licensing is to grant licensing privileges to firms not previously allowed such privileges, or to expand the licensing privileges of those already possessing the right to import. Brazil employed both variants of this policy during the second half of 1950. During this period licensing criteria also were altered to permit various essential commodities which were previously licensed only for importation from soft-currency countries to be licensed for importation from the United States and other countries. The stockpiling of essential commodities was facilitated by issuing import licenses for these essentials beyond immediate requirements, with the proviso that payment could be made from the 1951 exchange budget rather than from that for 1950. As a result of this policy, licenses with a total value of more than 100 million dollars were issued against the 1951 exchange budget.

Since late in 1949, when Brazil adopted its present export-import control law, it has conducted a considerable part of its trade under a system of private barter transactions. During 1950 almost half of Brazil's total exports were covered by these compensation arrangements. The Government's primary aim in authorizing trade on a compensation basis is to stimulate exports and to direct them to countries that can supply needed commodities on the most advantageous terms. When this system was adopted, Brazil considered it preferable to the alternative of establishing multiple exchange rates. Originally, imports permitted under the barter transactions were limited to those commodities readily admissible under license, but for which foreign exchange was not available in sufficient amounts to meet the demand.

A major draw-back to the barter system of stimulating exports is its tendency to create domestic shortages of the commodities exported and thus to increase prices unduly. To Brazil, this consideration is particularly important with respect to foodstuffs because the Government has also endeavored to stabilize the cost of living. In order to stimulate exports without reducing domestic supplies too sharply, therefore, the Government seeks to confine exports under the barter system to surpluses. This policy makes it necessary to control such transactions strictly; they are permitted when the authorities want to encourage exports of specified commodities, and are not permitted when adverse effects would be likely to result from further expansion of exports. In 1950, the Government authorized barter deals for rice and corn in order to help market the large surpluses of these commodities, and to raise prices, which had fallen sharply after the harvest. Toward the end of the year the Government ceased authorizing barter transactions in these commodities. Large exports of rice and corn had already been made under the authorized arrangements, and the Government feared that further stimulation of exports would create domestic shortages and high prices.

Other Brazilian products authorized for export under compensation agreements were lumber, plywood, and cacao. As a result of barter authorizations, Brazil increased its sales of lumber to the United Kingdom, the Union of South Africa, Australia, and even to the United States, which is not a traditional importer of Brazilian timber products. Besides compensation transactions with the United States for the disposition of lumber, similar arrangements were made for the shipment of rice and cacao to this country. In compensation for these commodities, Brazil accepted shipments of automobiles and certain other products from the United States.

At the beginning of the barter system late in 1949, private barter transactions were limited to trade with soft-currency countries, but in 1950 they were extended to hard-currency countries. At the end of 1950, Brazil permitted barter transactions for about 20 export commodities, including caffeine, theobromine, tanned pigskins, alligator skins, yerba maté, tobacco, bananas, tea, lumber (except pine logs), cotton textiles and yarns, hoofs and horns, and certain gums, oils, and nuts. Most of the principal exports are exempted from export-license requirements.

As Brazil's foreign-exchange position improved during 1950, and as its surplus stocks of commodities declined under the system of private barter transactions, Brazil was under less pressure to engage in barter. Early in 1951, a little more than a year after the system of compensation transactions was adopted, the Bank of Brazil suspended private barter arrangements (except those approved up to February 8, 1951), thus indicating a transition to an official free foreign-exchange market for transactions previously conducted on a barter basis.

Besides the system of private barter transactions, Brazil has concluded commodity-exchange agreements with several countries. During 1950 it concluded or revised agreements of this sort with Argentina, Austria, Czechoslovakia, the Federal Republic of Germany, Italy, the United Kingdom, and Yugoslavia. These agreements, which set forth the lists of the commodities to be exchanged, are accompanied by payments agreements that place the commercial relations between Brazil and the respective countries on a compensation basis.

Before Brazil attempted to improve its balance-of-payments position by stricter licensing controls and by barter arrangements, the International Monetary Fund had extended considerable financial help to the country. In 1949 Brazil purchased from the Fund, with cruzeiros, 37.5 million dollars to meet its accumulated dollar obligations. Although Brazil's negative balance of trade with the United States shifted to a positive balance in 1950, its balance with various European countries continued to be negative and exhausted Brazil's holdings of sterling, Belgian francs, and some other currencies. To meet its accumulated obligations in these funds, Brazil procured private loans and, in January 1951, purchased 10 million pounds sterling (equivalent to 28 million dollars) from the Fund. Brazil's total purchases from the Fund in dollars and sterling thus were equivalent to 65.5 million dollars.

Brazil prohibits the exportation of ores containing uranium or thorium except on a government-to-government basis. Beryl (the production of which has declined markedly in Brazil) may not be exported except on the express authorization of the President.

Brazil's action in applying discriminatory internal taxes to numerous articles in violation of article III of the General Agreement was discussed in the Commission's third report.[12] Article III provides that the products of any contracting party, when imported into any other member country, shall not be subject to internal taxes or other internal charges of any kind in excess of those applied directly or indirectly to like products of national origin. Brazil has for some time imposed discriminatory taxes, in violation of article III, on imported clocks and watches, playing cards, numerous tobacco products, and other articles. It has assured the Contracting Parties, however, that legislation will be introduced in the Brazilian Congress to remove all new and increased internal-tax discrimination introduced since October 30, 1947. Thus Brazil's legislation on consumption taxes will be brought into conformity with the General Agreement.

Chile

Import restrictions in Chile are closely associated with the operation of that country's complex multiple-exchange-rate system. During 1950 and early 1951, as its reserves of hard currency increased, Chile considerably relaxed its restrictions on imports, particularly from the United States and other hard-currency countries. Because of this development, the United States and other contracting parties to the General Agreement which operate on a hard-currency basis decided not to suggest that Chile further relax its import restrictions on goods from hard-currency countries.[13] The International Monetary Fund concurred in this decision.

In the middle of 1950 there were in Chile five fixed rates of exchange, ranging from about 20 to 60 pesos per dollar; imports of certain goods were permitted only at the free-market rate of about 100 pesos per dollar. Ex-

[12] See *Operation of the Trade Agreements Program* (third report), p. 128.

[13] The United States and others took a similar position as to the import restrictions of India and Pakistan.

change purchased in the free market arises from the subsidized exportation of placer gold, which operates under the so-called gold law of 1948. Goods that may be imported under this arrangement consist of luxury and "non-essential" items specified in the gold-law list. Importers who wish to purchase dollar exchange to import items on this list therefore pay a much higher rate than importers who purchase dollar exchange for other purposes.

The Chilean Government has followed the practice of requiring that specified percentages of the exchange derived from exports of certain goods be sold to the Government at fixed rates. Profits derived by the Government from selling the exchange to importers at higher rates are placed in a fund used to subsidize Chilean exports which would otherwise be unable to compete in foreign markets. In the first half of 1950 private investment capital entered Chile at a rate of 43 pesos per dollar, and in the second half, at about 50 pesos per dollar. These rates, however, failed to attract the amount of capital desired.

At various times the Chilean Minister of Economy has emphasized the desirability of reorganizing the exchange-control authority and abandoning the multiple-exchange system. Although the Government has not adopted a single-rate system, it did promulgate a new basic exchange-control law in November 1950. This law was designed to encourage exports through favorable exchange rates, and to make capital investment more attractive to foreign investors by permitting foreign capital to enter the country at the free-market rate. During much of 1950, the free-market rate was about 100 pesos per dollar, but by the end of 1950 it was less than 70 pesos per dollar. Early in April 1951, as a result of inflationary tendencies in the Chilean economy, the free-market rate increased to 77.50. At this point it was considerably more attractive than the rates of 43 and 50 pesos per dollar at which foreign capital had formerly entered. Capital imports, therefore, were expected to be more than twice as large in 1951 as they were in 1950.

Under the new exchange-control law in effect during 1951, Chilean imports are classified into four main categories. It was estimated early in the year that about 25 percent of total Chilean imports of merchandise would enter without restriction as to quantity and not subject to prior import license, with exchange at the free-market rate. The items in this category include some transferred from the gold-law list, and certain commodities that were formerly importable at the rate of 60 pesos per dollar; they consist largely of machinery, chemicals, and other manufactured products. A slightly larger group, constituting almost 30 percent of the estimated imports for 1951, consists mostly of items which were formerly importable at the 50-peso rate, but which in 1951 will probably be subject to rates of 50 or 60 pesos per dollar, or to free-market rates. The items in this category are subject to import license, but may be imported without limitation as to quantity; they consist largely of agricultural and chemical products. A third group, consisting predominantly of animal-industry products, constitutes about 10 percent of Chile's anticipated imports in 1951. These products may be imported at the free rate, but the quantities are subject to limitation. The fourth import category—composed predominantly of food products, chemicals, and imports for official use—is expected to account for about 36 percent of Chile's imports in 1951. Items in this group may be imported at rates of 31, 50, or 60 pesos per dollar, or at free-market rates; the volume of such imports is controlled.

Goods designated as luxuries continue to be imported under the gold law, but the gold-law list has been extended. At the beginning of 1951 the principal items on the gold-law list were automobiles (under a certain value) and accessories, certain household refrigerators, cameras, cigars, and whisky. Certain items remain on the prohibited list. These include fine raw furs; processed or semiprocessed grains for food purposes; refined edible oils; canned and prepared foodstuffs; most wines, spirits, and liquors; tobacco manufactures; wearing apparel and household-textile products in general; toilet preparations; iron and steel for construction; kitchen utensils in general; bicycles; and electric refrigerators. Certain articles on the prohibited list may be imported if such importation is necessary to comply with international agreements.

The over-all effect of the various changes in Chile's trade-control policy has been a considerable relaxation of the country's import restrictions. Of greatest significance is the extension of the list of items that may be imported without prior permit and at the prevailing free-market rate. More favorable fixed rates of exchange for some classes of goods also represent an element of relaxation in Chile's import restrictions. All together, about one-third of total Chilean imports in 1951 will probably enter at the free-market rate of approximately 70 pesos per dollar. About two-thirds of the goods imported at the free rate will require no import permit.

Continuation of Discrimination by Continental European Countries

Except for Belgium and Luxembourg, all the continental European countries with which the United States had trade agreements in effect under the General Agreement in 1950 reported to the Contracting Parties that they were making exceptions to the rule of nondiscrimination in the application of quantitative import restrictions to protect their monetary reserves, as permitted under article XIV. The countries of continental Europe thus discriminating against imports from hard-currency countries were Czechoslovakia, Denmark, Finland, France, Greece, Italy, the Netherlands, Norway, and Sweden.

Belgium and Luxembourg, as well as all the other General Agreement countries named above except Czechoslovakia and Finland, became members of the European Payments Union (EPU) in the fall of 1950.[14] Membership in EPU carries the obligation to relax the restrictions on the intra-European trade of the members in accordance with the policies of the Organization for European Economic Cooperation (OEEC). The proponents of EPU expect that in time the restoration of multilateral trade and nondiscrimination among the EPU countries will help to solve the general balance-of-payments problem and contribute to the removal of restrictions and discrimination against trade with hard-currency countries. In addition, the International Monetary Fund, to which all the afore-mentioned countries belong,[15] has the responsibility of assisting its members in overcoming their exchange difficulties, also with a view to the removal of discriminatory trade barriers associated with exchange control. As previously mentioned, the Fund thus cooperates with the Contracting Parties to the General Agreement in the effort to reduce trade restrictions.

None of the countries that continued in 1950 to adhere to the policy of discrimination against imports from hard-currency areas felt that their balance-of-payments position justified any appreciable relaxation of their import controls,[16] and they maintained this attitude into 1951. They continued to restrict the issuance of import licenses for goods from hard-currency areas to essential products not readily obtainable in the soft-currency areas. In taking this action they were within their rights under that provision of the General Agreement which permits exceptions to the rule of nondiscrimination under conditions of financial stringency. In view of these circumstances, the United States and other hard-currency countries did not press those countries in financial difficulties to relax their trade restrictions more than conditions would justify. To an appreciable extent the continuation of restrictions against goods from hard-currency areas contributed to the ability of the EPU countries to relax their restrictions on intra-European trade.

The payments position of Czechoslovakia, which is outside the EPU organization, was virtually the same as that of the other General Agreement countries. Whereas the EPU countries tended to increase their trade with each other at the expense of trade with countries outside the organization, Czechoslovakia's trade continued to shift to an increased extent from western to eastern Europe. About half of Czechoslovakia's trade is now with the Soviet Union and countries of the Soviet bloc. Bilateral arrangements play an important part in the conduct of Czechoslovakia's foreign trade. During the period under review there were apparently no significant changes in

[14] The United Kingdom, elsewhere discussed, is the only other General Agreement country in EPU. Iceland, Switzerland, and Turkey, with which the United States has bilateral trade agreements, are also members of EPU.

[15] Sweden did not become a member of the Fund until August 1951.

[16] Contracting Parties to the General Agreement on Tariffs and Trade, *First Report on the Discriminatory Application of Import Restrictions*, Geneva, 1950.

Czechoslovakia's quantitative import restrictions and exchange-control regulations. The Contracting Parties found that Czechoslovakia had not intensified its import controls, and therefore they did not request the relaxation of these restrictions. It is quite evident, however, that the concessions granted by Czechoslovakia under the General Agreement become less and less valuable to the other contracting parties as Czechoslovakia's trade, carried on under state trading operations, becomes increasingly oriented with the Soviet bloc.

Finland, also outside the EPU, likewise did not relax its import controls and was not pressed to do so by the Contracting Parties. Throughout 1950 and early 1951 it continued to require exchange permits for all imports and to subject both its import and export trade to strict licensing regulations. In July 1950 Finland notified the Contracting Parties that it proposed to shift its tariff from a specific to an ad valorem basis, but noted that this proposal would involve no impairment of the concessions it had made in the General Agreement.

RENEGOTIATIONS AND DISCUSSIONS BETWEEN THE UNITED STATES AND CUBA

As pointed out at the beginning of this chapter, there were some revisions of tariff rates during the period July 1950–June 1951 by virtually all contracting parties to the General Agreement, but, apart from the general revisions after Annecy, none of the members made extensive revisions. Among the partial revisions that took place, the one that grew out of the limited negotiations between Cuba and the United States, by reason of Cuba's desire to increase its duties on certain textile products, is of particular interest here.

The renegotiation of a number of concessions in the Cuban schedule of the General Agreement, a renegotiation recommended by the Contracting Parties, was conducted in Washington from February 6 to May 31, 1950. On June 2, 1950, the Governments of Cuba and the United States reported the conclusion of these renegotiations to the Chairman of the Contracting Parties, and on June 12, 1950, Cuba put into effect the various tariff changes to which the two countries had agreed,[17] and also the corresponding adjustments in the most-favored-nation rates, some of which were included in part 1 of the Cuban schedule. The two Governments requested that their

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[17] See *Operation of the Trade Agreements Program* (third report), pp. 134–136. Because certain Cuban industries had been adversely affected by considerably increased imports which entered in anticipation of upward changes in tariff rates, the renegotiation of which had been announced in December 1949, Cuba departed from its previous practice of making increases in duty effective only after advance notice of 30 days and invoked the escape clause of the General Agreement (art. XIX).

report be circulated to all the contracting parties, and on November 3, 1950, they formally reported the results of the renegotiations to the Contracting Parties during the Fifth Session at Torquay. The Contracting Parties approved the incorporation of the renegotiated items and the compensatory concessions in the Cuban schedule of the General Agreement. On January 15, 1951, the various contracting parties to the General Agreement were notified that, if the Executive Secretary received no objection by February 14, 1951, the results of the Cuba-United States renegotiations would be considered as definitively in force and each of the changes provided for therein would be applied as if it had been inserted in its appropriate numerical order in the Cuban schedule of the General Agreement (schedule IX). On February 21, 1951, the various contracting parties were informed that the results of the renegotiations had so entered into force.

The second stage of the renegotiations between the United States and Cuba—revision of the textile tariffs in the Cuban schedule of the General Agreement—began in Washington on August 7, 1950. A detailed list of the cotton and rayon textile items for which Cuba had requested renegotiation was included in the public notice issued by the United States on December 27, 1949, which first announced the proposed renegotiations between the two countries. As the public notice stated, the renegotiations were to provide also for new concessions to be granted by Cuba in return for any upward modification to which the United States might agree, of tariff concessions initially negotiated at Geneva. The renegotiations were also to include consideration of the possible withdrawal by the United States of some concessions it had granted to Cuba at Geneva. Moreover, the agenda for these renegotiations included, as a related item, the discussion of the effects on United States trade of particular measures which the Government of Cuba had established to control imports of cotton and rayon fabrics and related articles from the United States. American textile exporters had called attention to the difficulties they had experienced in endeavoring to comply with the Cuban regulations, which they alleged were unduly burdensome and restrictive of trade.[18] Interested persons had made extensive representations on all these aspects of the textile renegotiations to the Committee for Reciprocity Information, both in briefs and at the public hearings before the Committee on February 1, 1950.

The scope of the textile renegotiations was further widened by adding cotton wiping waste and cotton felt or batting to the agenda. The Cuban rates of duty on these products were announced as the subject of renegotiations between the two countries beginning August 18, 1950.[19] When the General Agreement was negotiated at Geneva in 1947, the United States understood that cotton wiping waste would continue to enter Cuba free of

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[18] See *Operation of the Trade Agreements Program* (third report), pp. 155–156.
[19] U. S. Department of State Press Release No. 770, July 20, 1950.

duty under tariff item 112–B, and that cotton felt or batting would enter free of duty under either item 112–A or item 112–B. In 1948 and 1949, however, the Cuban Government did not agree with this interpretation and reclassified the two articles, making them dutiable (if products of the United States) at a basic rate of 35 cents per kilogram under tariff item 128–D. When it became apparent to the two Governments that they could not reach agreement on the proper tariff classification for these products in the light of the commitments made by Cuba in 1947, they undertook to negotiate new rates of duty that should be applicable to them.

Because the Cuban Government was anxious to resolve the continuing crisis in its domestic textile industry, it attached great importance to a prompt and satisfactory conclusion of the textile renegotiations. The two Governments had hoped that they could complete the renegotiations before the Torquay Conference began; it was possible, however, only to undertake initial discussions of the problems in Washington. The two countries agreed, therefore, to make the textile renegotiations the first order of business between their delegations at Torquay. The negotiations extended into March 1951, however, by which time it became necessary to merge them with the negotiations relating to Cuba's article XXVIII modifications.

During the period covered by this report the operation of Cuba's import quota on milled rice continued to cause troublesome problems related to the concession on rice, which was one of the most important that Cuba granted to the United States at Geneva. Notwithstanding these difficulties in the rice trade between the United States and Cuba, in 1950 the United States was the sole supplier of rice to the Cuban market and, in the first half of 1951, by far the principal supplier. In 1950 Cuban imports of rice from the United States amounted to about 648 million pounds. In the first 6 months of 1951 they were 166 million pounds, whereas imports from other countries were only 15 million pounds. United States exports of rice to Cuba were naturally affected by factors connected with the outbreak of hostilities in Korea in June 1950. More particularly, however, from July 1950 to June 1951 the normal pattern of trade was disturbed by difficulties and uncertainties resulting from the changes made by Cuba, on July 5, 1950, in its procedures for administering the tariff quota on rice. The new regulations again specified a quota year extending from July 1 through the following June 30, whereas the quota provision in Cuba's schedule of the General Agreement specifies a calendar year. This provision, moreover, stipulates in effect that the tariff-quota duties ($1.85 per 100 kilograms on United States rice and various higher rates on rice from other countries) will be applied in any calendar year to substantially all of Cuba's import requirements for rice—that is, to the difference between estimated Cuban production and total estimated Cuban consumption. In any event, this tariff quota was to be not less than about 330 million pounds. During the calendar year 1950, however, the Cuban regulations were so administered that the "inquota" rate was not applied to Cuban imports of United States rice during virtually the entire first 6 months of the year or during the last 3 months. As a result, the "overquota" rate of $3.70 per 100 kilograms was applied to a very substantial part of Cuba's rice imports from the United States. These developments resulted from the failure of the Cuban Government to make timely announcements regarding import requirements for rice and revisions of the tariff quota as well.

Related to the above-described difficulties is the uncertainty concerning the margin of preference for United States rice on the overquota duty basis. Another difference between the United States and Cuba concerning Cuba's concession on rice in schedule IX arose when it developed that the Cuban customs administration had been computing the amount of the tariff quota on the basis of gross weight. Although the note in schedule IX which defines the quota is not specific on this point, it refers nevertheless only to rice as such, and not to the weight of rice including packaging. Still another problem concerning the concession on rice has been the continued collection by Cuba of the 6-percent gross sales tax on imported rice, whereas locally produced rice has been exempt from this tax. Such discriminatory treatment with respect to internal taxes is contrary to the provisions of article III of the General Agreement.[20]

With a view to clarifying the problems relating to the concession on rice, the delegations of the United States and Cuba discussed them at Torquay. Inasmuch as no mutually satisfactory solution was reached by the time the Conference ended in April 1951, the two countries decided to continue the discussion later. Although further negotiations with respect to rice were held in Havana during May and June 1951, the Government of Cuba notified the Contracting Parties that the negotiations had not been completed as of July 1, 1951.

THE USE OF QUANTITATIVE RESTRICTIONS FOR PURPOSES OF ECONOMIC DEVELOPMENT

Actions of General Agreement countries under article XVIII of the agreement, which permits special measures of governmental assistance for economic development and reconstruction, were not so numerous in 1950 as in 1949. In 1949 eight countries had requested the Contracting Parties for permission to employ quantitative restrictions under the provisions of article XVIII.[21]

[20] A similar problem—that with respect to the gross sales tax on imported lumber—was reported in *Operation of the Trade Agreements Program* (third report), p. 137. Representatives of the United States and Cuban Governments have had repeated conversations on this problem, but they have not yet settled it satisfactorily.

[21] See *Operation of the Trade Agreements Program* (third report), pp. 149 ff.

Late in 1950 a working party of the Contracting Parties examined certain measures of which notice had been given by Denmark, Haiti, and Italy under article XVIII after those countries had become contracting parties to the General Agreement.

Under article XVIII individual contracting parties are obligated to notify the Contracting Parties of current or proposed quantitative restrictions for purposes of economic development and reconstruction, and to request permission to employ them. Other contracting parties then have an opportunity to indicate whether or not their interests would be materially affected by the measures. The General Agreement requires that the measures shall be nondiscriminatory in nature. After receiving a report and recommendation from the working party assigned to examine the application, the Contracting Parties decide whether or not to release the applicant from the general obligation not to use quantitative restrictions.

In June 1950 Denmark asked the Contracting Parties for permission to continue in force certain measures designed to protect and develop its sugar, potato-flour, and liquor industries. The Danish Government has controlled domestic production of these commodities since the early 1930's, and considers it essential to control imports that compete with the domestic products, if the industries are to be successfully developed. Since the Annecy Conference, when Denmark acceded to the General Agreement, imports of these products (together with many other products) have been subject to import licensing for balance-of-payments reasons. Because of Denmark's foreign-exchange situation, few if any imports that compete with sugar, potato flour, and liquor have been permitted. The working party to which the Danish request was referred concluded that since measures currently in force in Denmark for safeguarding the country's balance of payments applied to the same products for which notification had been made under article XVIII, it was not necessary to decide whether the measures could be maintained under the provisions of article XVIII. Denmark was asked to bring the matter to the attention of the Contracting Parties again, if and when the import-control measures cease to be applied for balance-of-payments reasons. The United States did not consider itself materially affected by the measures in question.

Haiti proposed for action under article XVIII a measure designed to promote the domestic production of tobacco. This measure established a state monopoly for the purchase and production of, and the trade in, practically all tobacco products. Under the Haitian law, importation of the tobacco products in question is subject to licenses issued by the Government. The working party assigned by the Contracting Parties to examine this measure found that it was nondiscriminatory and that it otherwise satisfied the requirements of article XVIII. It therefore recommended that Haiti be permitted, for a period of 5 years, to maintain the measure insofar as it requires importers to obtain an import permit. In exercising its right as a contracting party to comment on the proposed measure, the United States reported that its interests would be materially affected. Haiti imposes no restrictions on imports for balance-of-payments reasons.

The measures on which Italy gave notice under article XVIII related to seed oil, radio equipment, and dyestuffs. Subsequently, Italy withdrew its application for approval of these measures under article XVIII, but pointed out that the measures were currently being enforced for balance-of-payments reasons. Italy also indicated that it might later exercise its right to resubmit its application for approval of the measures under the terms of article XVIII. The United States had indicated that its interests would be materially affected by the proposed measures.

THE USE OF QUANTITATIVE RESTRICTIONS FOR PROTECTIVE AND OTHER COMMERCIAL PURPOSES

The Contracting Parties recognize that the use of quantitative restrictions—either on imports or on exports—for protective or other commercial purposes is inconsistent with the provisions of the General Agreement relating to such restrictions. No specific information has been published which identifies members of the General Agreement that have violated the spirit of the agreement in this way, but the Contracting Parties have shown considerable concern with the tendency of countries using import restrictions for balance-of-payments reasons to continue using them after the original reason for them has disappeared.

The policy of the Contracting Parties in matters of this kind is to leave it to individual contracting parties to file complaints if they consider that their trade has been harmed by the failure of another contracting party to relax its restrictions when improvement in its balance-of-payments situation seems to obligate it to do so. At the same time, the Contracting Parties have reviewed the entire problem, in order to clarify the several types of import and export restrictions which are being applied for protective, promotional, or other commercial purposes, and which appear not to be covered by the provisions of the General Agreement. The Contracting Parties have found that countries maintaining balance-of-payments restrictions misuse them in a variety of ways:[22]

1. By giving priority "to imports of particular products upon the basis of the competitiveness or noncompetitiveness of such imports with a domestic industry, or which favour particular sources of supply upon a similar basis."
2. By imposing "administrative obstacles to the full utilization of balance-

[22] Contracting Parties to the General Agreement on Tariffs and Trade, *The Use of Quantitative Restrictions for Protective and Other Commercial Purposes,* Sales No.: GATT/1950-3, Geneva, July 1950.

of-payment import quotas, e.g., by delaying the issuance of licences against such quotas or by establishing licence priorities for certain imports on the basis of the competitiveness or noncompetitiveness of such imports with the products of domestic industry."

3. By using "quantitative restrictions on imports imposed not on balance-of-payment grounds but as a means of retaliation against a country which has refused to conclude a bilateral trade agreement with the country concerned."

The Contracting Parties have listed several methods of minimizing the undesirable incidental protective effects of import restrictions imposed for balance-of-payments reasons. Methods suggested include (1) discouraging investment in enterprises that could not survive, after the removal of balance-of-payments restrictions, without other protection; (2) employing unallocated nondiscriminatory quotas or unrestricted general licenses and avoiding, as far as possible, allocation of quotas among supplying countries; and (3) permitting token imports (even though they could legitimately be excluded on balance-of-payments grounds), thus exposing domestic producers to at least some foreign competition pending the relaxation or complete removal of balance-of-payments restrictions. Particularly stressed is the importance of not permitting domestic producers to gain the impression that some form of quantitative restriction would be maintained after the balance-of-payments difficulty had disappeared.

It is difficult to determine at precisely what point a country is no longer justified in applying quantitative restrictions for balance-of-payments reasons, and at what point it is justified in adopting them for other reasons. This question may involve differences of opinion between the country employing the restrictions and the country that feels its trade is being harmed by what it regards as unnecessary balance-of-payments restrictions. It has been found that the most satisfactory way of resolving differences in views is for the two countries to deal with each other on a bilateral basis. If they should fail to reach a satisfactory settlement, the Contracting Parties may uphold the position of one party or the other.

Disagreement frequently arises over the essentiality or nonessentiality of goods the imports of which are subject to quantitative restriction. For example, a contracting party may observe the rule of nondiscrimination simply by placing items on a list of prohibited imports applicable to imports from all countries. If the products thus prohibited come principally from one country, however, that country is likely to regard the prohibition as being aimed primarily at it. Furthermore, the exporting country concerned may question whether such articles as butter, yeast, matches, and starch are prohibited from entry because they are luxuries, or because they compete with similar domestic products.

The Contracting Parties have made similar findings and suggestions on the use of quantitative restrictions on exports.[23] Export restrictions have been used by contracting parties for protective, promotional, or other commercial purposes that are not permitted by the provisions of the General Agreement relating to the elimination of quantitative restrictions. Specifically, they have been used in a retaliatory manner, or for bargaining purposes, to force other countries to relax their export or import restrictions. They have also been used to protect or promote domestic manufacturing industries, and to avoid price competition among domestic exporters. The General Agreement does, however, permit the use of export controls for some purposes, just as it permits the use of import controls under certain conditions. Exports may be temporarily controlled to prevent or relieve critical shortages of foodstuffs or other products essential to the economy of the exporting country. Export controls may also be applied in a discriminatory manner by countries in balance-of-payments difficulties, when they find it necessary to divert exports to markets that will yield needed hard currencies.

THE USE OF SUBSIDIES

Article XVI of the General Agreement provides that "if any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the Contracting Parties in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary."

At their Fourth Session the Contracting Parties had agreed that the various members of the General Agreement should notify the Contracting Parties of their existing subsidies not later than August 1, 1950, and that any modifications or new measures of subsidization after that date should be similarly notified as soon as possible after they were instituted.

For the period through the first quarter of 1951, the Contracting Parties received from 13 contracting parties statements that they were granting or maintaining no subsidies of the type defined in article XVI, and accordingly were making no report. These countries were Brazil, Ceylon, Chile, Czechoslovakia, the Dominican Republic, Greece, Haiti, Indonesia, Luxembourg, New Zealand, Norway, Pakistan, and Southern Rhodesia. Four countries—France, Italy, the Netherlands, and the United Kingdom—supplied explanatory statements on their use of subsidies, but maintained that none of them fell within the scope of article XVI. The Contracting Parties received no replies from Burma, Liberia, Nicaragua, and Syria.

[23] The Contracting Parties have requested members of the General Agreement to furnish information regarding their use of export controls, but such information is not yet available.

Ten contracting parties indicated that they were employing subsidies within the meaning of article XVI: Australia, Belgium, Canada, Cuba, Denmark, Finland, India, Sweden, the Union of South Africa, and the United States.[24] Some of these countries also reported other subsidies that they did not regard as falling within the scope of article XVI. Most of the subsidies granted by these 10 countries were on raw materials and foodstuffs; relatively few were on highly manufactured products.

Belgium was granting temporary subsidies to industries producing certain types of cheese, milk powders, and milk concentrates; it was also subsidizing its coal and gas industries and certain Congo woods. Denmark was subsidizing sugar for household uses, but reported that it was maintaining no other subsidy covered by article XVI. Finland was guaranteeing minimum prices for all kinds of domestic grass seed so as not to become dependent on seeds grown in more southern latitudes (which do not thrive in Finland); it was also subsidizing the wool-growing and cheese industries. Sweden was subsidizing agricultural products, such as sugar, pork, and bacon, when foreign prices were higher than domestic prices. In connection with the devaluation of the Swedish crown (September 1949) Sweden had introduced subsidies to offset the effect of price increases abroad on its domestic price level.

Australia was subsidizing the production of sulfate of ammonia, sodium nitrate,[25] tractors, sugar, wheat, dairy products, and flax; it was also subsidizing shipbuilding. Canada was maintaining subsidies on wheat and other grain and grain products, hogs, silver fox pelts, dairy products, apples, honey, coal, coke, steel, and iron ore. India was granting financial assistance for the production of major food grains, sugar, jute, cotton, soda ash, and aluminum. The Union of South Africa was granting subsidies on the production of peanuts and other oil-bearing seeds, bags and fertilizers, wheat, mealies, butter, and margarine, and on the exportation of tobacco, raisins, bacon, and potatoes. Cuba reported the use of subsidies only on its production of textiles.

Several countries commented that while it was difficult to assess the effects of their subsidies on either imports or exports, they believed that such effects were slight. Australia, for example, pointed out that in four postwar years it had imported 42,000 tractors, compared to the 2,000 domestically produced tractors on which a bounty had been paid, and that Australian imports of tractors would have been much larger but for the world shortage of these

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[24] Subsidies reported by the United States are discussed in ch. 7 of this report.

[25] Upon the complaint of Chile that the subsidy on sodium nitrate nullified the value of the concession Australia had granted on sodium nitrate in 1947, the matter was referred to a working party of the Contracting Parties; on the basis of recommendations made by the working party, Chile and Australia worked out a solution satisfactory to the two countries.

machines. Canada indicated that its export subsidy on coal was so small relative to the price of coal that the quantity of coal exported was very little larger than it would have been with no subsidy. Denmark pointed out that since Danish production costs for sugar were substantially below the world market price, its sugar subsidy could not have had serious effects on imports and exports of sugar. Similarly, Sweden stated that none of its subsidies acted as a stimulus to exports, since they were granted (as on sugar, pork, and bacon) only when foreign prices were higher than Swedish prices, and since exporters of commodities containing these products paid a fee corresponding to the amount of the subsidy.

Measures generally reported by contracting parties as not falling within the scope of article XVI were those for regulating the production and marketing of domestic products with a view to stabilizing returns to domestic producers of primary products, as distinct from subsidies which operate to maintain or increase exports and to reduce or prevent an increase in imports. This distinction was made by Australia with regard to its price-support measures on sugar and certain other farm products, and by South Africa with regard to measures on some of its agricultural products. Likewise, contracting parties felt that subsidies used to regulate the prices of consumer goods, or to facilitate the utilization of excess supplies (as of milk and other perishable commodities) in the peak-production season, do not have a significant effect on exports or imports.

Some subsidies, such as those employed by Canada, admittedly had stimulated exports and retarded imports. Canada's subsidy on wheat and other grains took the form of "freight assistance"; it covered practically all freight charges paid on western grains and millfeeds moved in carload lots from the producing areas to points in eastern Canada and to British Columbia. Wholesale receivers of these shipments were reimbursed the amount of the freight. Exported grains and feeds did not receive the subsidy. According to information supplied by Canada, this program had reduced imports of feeds by encouraging Canadian consumption of domestic feeds, and had decreased exports of feeds from western Canada. Canada also reported that its subsidies on silver fox pelts, cheese, and apples had maintained exports at a level higher than would have existed without the subsidies.

The subsidies which France, Italy, the Netherlands, and the United Kingdom regarded as not coming within the scope of article XVI (but which they nevertheless reported to the Contracting Parties as a matter of general interest) were substantially the same in character and coverage as most of those reported by other countries. Some of them undoubtedly had an effect on imports and exports, even though this was not their nominal purpose. France was applying a "guaranteed price system" to a number of agricultural products, including wheat, beetroot, chicory, oilseeds, and milk. It was also giving direct financial assistance to producers of flax, hemp, and silk, but it reported that the effects of these subsidies on exports and imports appeared negligible. Italy was granting subsidies to its coal and sulfur industries and was supporting the production of wheat and beetroot on a remunerative basis. According to Italy, these measures might have some effect on imports, but for protective purposes the country was depending primarily on import duties. The Netherlands was granting subsidies on a number of consumers' goods (bread, certain cereals, sugar, coffee, milk, margarine, and cooking fat) ; was maintaining a "price equalization" scheme for certain agricultural products and coal; and was subsidizing the production of peat. Netherlands authorities asserted that the effect of this assistance to exports and imports was nil or negligible. The United Kingdom informed the Contracting Parties that it was maintaining subsidies on basic foodstuffs mainly to stabilize the cost of living. The principal consumer commodities affected by the United Kingdom subsidies were bacon, bread, flour, shell eggs, meat, dairy products, cooking fats, potatoes, sugar, and tea. The United Kingdom was also granting direct subsidies or other forms of financial assistance to encourage the rearing of calves, the keeping of cattle and sheep on hill farms, the growing of flax, and the development of forestry and certain fisheries. It was also giving financial assistance to the watch and jewel-bearing industries, the film industry, and the operation of price-control schemes relating to finished and semifinished iron and steel and nonferrous metals. The United Kingdom reported that it did not grant or maintain any export subsidies, and that, in fact, the types of goods on which it was granting subsidies are those of which it was a large net importer.

Chapter 6

Changes in Quantitative Import Restrictions and Tariffs by Countries With Which the United States Has Bilateral Trade Agreements

At the beginning of the period covered by this report (July 1950–June 1951), the United States had 15 bilateral trade agreements still in force. Eleven of these agreements were with Latin American countries—Argentina, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay, and Venezuela; the other four were those with Iceland, Iran, Switzerland, and Turkey.[1] The 1943 trade agreement with Mexico was terminated December 31, 1950, and the 1936 agreement with Costa Rica was terminated on June 1, 1951.[2]

Most of the 15 countries with which the United States had bilateral trade agreements on July 1, 1950, have applied restrictions on imports of commodities from the United States and other countries on the ground of balance-of-payments difficulties similar to those encountered by General Agreement countries. Likewise they employed import restrictions to keep their purchases abroad more or less at the level dictated by the proceeds from their exports. After the outbreak of the conflict in Korea, however, their exports increased, and they relaxed their import restrictions. Rearmament and the stockpiling of strategic materials by the United States after the middle of 1950, particularly of materials supplied to a large extent by Latin American countries, resulted in an increase in the volume of exports from those countries to the United States. In many instances, because of rising export prices, there was a greater increase for those countries in their earnings of foreign exchange than in the quantity of their exports.

In a relatively short period the dollar position of most of the bilateral-agreement countries improved to such an extent that they relaxed their quantitative import restrictions. Other factors that contributed to the relaxation of import restrictions were the insistent pressure from business and consumer interests in those countries, and the growing desire of various governments to facilitate the importation of essential materials and equip-

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[1] Peru and Turkey became contracting parties to the General Agreement on Tariffs and Trade as a result of the negotiations at Torquay.

[2] The agreement with Colombia had been terminated before the beginning of the period covered by this report. See *Operation of the Trade Agreements Program* (third report), p. 122.

ment in view of impending world shortages, rising prices, and the export restrictions imposed by the United States and other supplying countries.

Recent Developments in Various Countries

Recent developments in the commercial policies of the bilateral-agreement countries center very largely on exchange regulations. In this report no attempt has been made to review the current practices of all these countries; however, the report gives special attention to the more significant developments. The countries thus separately treated are Iran and nine Latin American countries—Argentina, Costa Rica, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay, and Venezuela. All these countries, except Guatemala, Mexico, and Venezuela, have exchange-control systems; and all except Guatemala and Mexico employ multiple exchange rates. All except Argentina, Guatemala, and Mexico are members of the International Monetary Fund.

Countries employing multiple-exchange-rate systems usually require import permits for all or for specified lists of commodities as a condition of obtaining foreign exchange; often they establish import quotas or issue lists of "prohibited" imports. A country that employs multiple exchange rates usually has a free rate in addition to more than one fixed rate of exchange, each rate being applicable to different categories of import and export transactions. Differences in rates of exchange sometimes result from applying different exchange surcharges to the fixed basic rate.

The countries that use multiple exchange rates regard them as a convenient and flexible method of combating inflation; by giving more favorable rates to imported commodities that figure prominently in the cost of living, the rise in the prices of the commodities thus favored is minimized. The alternative to the multiple-exchange system—devaluing the currency, or allowing it to find its own level—is sometimes rejected on the ground that such a measure would result in an increase in the cost of imports. Multiple exchange rates are sometimes favored because they enable a country to apply more favorable rates to essential than to nonessential imports without resorting to the administrative controls that would be required to accomplish the same purpose under a single rate of exchange. Revenue also may be a consideration, since there is often a considerable profit to the government from the differential between the rates at which the government buys and sells exchange.

Of the five countries that are not separately discussed in this chapter—El Salvador, Honduras, Iceland, Switzerland, and Turkey—all except El Salvador and Honduras operate exchange-control systems.

Switzerland exercises exchange control over payments to and from countries with which it conducts trade under payments or clearing agreements; imports from these countries and certain imports from European

Payments Union (EPU) countries require import licenses. A member of EPU, but not of the International Monetary Fund, Switzerland has long been able, because of its strong international financial position, to carry on trade with other hard-currency countries, with practically no restrictions and without discrimination. Before Switzerland became a member of EPU only about 10 percent of its trade was subject to restrictive controls. When it became a member of EPU, however, it subjected to licensing imports representing 40 percent of its trade with EPU countries. This measure was adopted to assure for Switzerland a better bargaining position in future trade negotiations, in order to maintain its export markets. The new regulations were not designed to restrict imports immediately, and at present Switzerland freely grants licenses for imports from all countries.

Because of chronic shortages of dollar exchange, Iceland and Turkey, both of which are members of EPU and the Monetary Fund, have found it necessary to continue to restrict their imports from the dollar area to commodities they consider vital to their economies. As members of the EPU they have participated in the program of relaxing trade restrictions on intra-European trade.

Argentina

The outstanding features of Argentina's commercial policy during 1950 were as follows: (1) Severe import restrictions at the beginning of the year; (2) a boom in exports—especially of wool, hides, and quebracho—after the outbreak of hostilities in Korea, followed by a progressive relaxation of import controls as the country's balance-of-payments position improved; (3) a further devaluation of the peso, accompanied by a considerable modification of the system of multiple exchange rates; and (4) a revision of the country's tariff.

During 1948 and 1949 both exports from and imports into Argentina declined. The decline was greater for exports than for imports, and in both years imports exceeded exports. The heavy trade deficit led the Argentine Government to impose increasingly severe restrictions on imports, especially from the United States and other hard-currency countries. The large increase in exports in 1950, accompanied by only a moderate increase in imports, gave Argentina an excess of exports over imports that was much larger than in 1947, but still only a third as great as the corresponding excess in 1946. In 1950 the United States was Argentina's largest single export market, followed by Brazil, France, Italy, the Netherlands, and the Federal Republic of Germany. The United States was also the leading source of Argentine imports, followed by the United Kingdom, Brazil, and Italy.

The devaluation of the peso in October 1949 was an important factor in stimulating Argentina's exports and discouraging imports. Argentina continued to operate a multiple-exchange-rate system after devaluation took place; consequently, devaluation was not uniform for all rates, but ranged from 17 percent to 46 percent. The peso was again devalued in August 1950, when three new exchange rates replaced the nine rates that had previously been in use. Under the old system there had been four buying rates applicable to the proceeds from exports, four selling rates to importers, and a free-market rate for nontrade transactions.

During the period of Argentina's stringent exchange situation, permits for the importation of all commodities were restricted to periodic allocations of available exchange. As the exchange situation improved and shortages of many commodities developed in world markets, Argentina greatly simplified its complicated exchange system in order to facilitate imports, especially those of essential commodities. Under the modified exchange system adopted in August 1950 a basic buying rate of 5 pesos per dollar (replacing the former rate of 3.3582 pesos per dollar) was established for the proceeds from exports of such staples as grains, oils, wool, cotton, meat, and hides. For proceeds from exports of manufactured or semimanufactured products (those with a "labor content," such as preserved meat and quebracho extract), a rate of 7.50 pesos per dollar was established; this rate replaced two old preferential rates of 4.8321 and 5.7286 pesos per dollar. Finally, for proceeds from exports of fresh fruit, tungsten, beverages, and other commodities for which Argentina has difficulty in finding foreign markets, the free rate was applicable. This rate opened at 14.25 pesos per dollar, but has since fluctuated considerably above and below this figure.

These same three rates were established as the selling rates to importers. The selling rate of 7.50 pesos per dollar covers all essential imports except fuel; importers of fuel pay the more favorable rate of 5 pesos per dollar. Importers of luxuries and so-called nonessentials pay the official free-market rate. The bulk of Argentina's exports consists of staples that yield foreign exchange for which the Government pays 5 pesos to the dollar (or the equivalent in nondollar currencies). Inasmuch as fuels are the only imports paid for at this rate, the Government makes a profit on its foreign-exchange transactions.

Argentina requires permits for all imports, but permits are granted only for products listed as eligible for importation. As part of its program to facilitate importation of essential commodities, the Argentine Government extended its lists of permitted imports in July, August, and December 1950. These lists contain only a limited number of commodities imported from the dollar area. Under the new import regulations of July 1950 the Central Bank of Argentina allotted 2.4 billion pesos for purchase of foreign products in the immediate future. The amounts allotted for imports of essential and nonessential commodities were to be distributed by countries and monetary areas; pesos for purchase of nonessential merchandise were sold at a much higher rate than pesos for the purchase of essential commodities. Certain commodities may be imported from Peru and Paraguay without restriction; the treatment of imports from Brazil is covered by a "commodity exchange" agreement between the two countries.

In December 1950 the Central Bank announced that it would grant exchange freely to habitual importers and "end users" who had already contracted with suppliers in the dollar area for delivery of specified essential raw materials, including iron and steel scrap, tin plate, copper, lead, nickel, tin, pharmaceuticals, electrical wire, and parts for radio tubes. At the same time it was announced that exchange would be granted automatically for the purchase from continental Europe and certain other areas of coal, coke, iron and steel ingots and shapes, aluminum, vegetable fibers, cotton yarn, chemicals, and various other commodities. Early in 1951 certain commodities for which exchange had earlier been granted on an "automatic" basis were withdrawn from the list of eligible imports from the United States.

The new regulations that came into operation in August 1950, when Argentina modified its foreign-exchange system, provide that exchange permits may be issued for a wide variety of imports for which importers are not obliged to purchase foreign exchange immediately. Thus imported machinery and equipment may be paid for in installments extending over a period of at least 5 years, and raw materials and other goods in installments extending over 3 years.

By early 1950 Argentina's obligations to United States exporters had reached a high level, as evidenced by the credit of 125 million dollars that the Export-Import Bank extended to a group of Argentine banks to permit them to liquidate obligations due and unpaid on May 15, 1950. The Central Bank of Argentina committed itself to supply any additional dollars required to liquidate the eligible obligations. Arrears in remittances of earnings, interest, dividends, and obligations other than those arising from United States exports to Argentina are not eligible for payment out of the credit. The Argentine Minister of Finance announced in August 1950 that these arrears would be settled as soon as foreign exchange could be made available.

The Argentine tariff was extensively revised in 1950, the new schedules becoming effective on November 15. Higher duties were imposed on most imported commodities; the new duties, based on actual c.i.f.[3] values, range from 3 percent to 60 percent ad valorem. Assessments of duties under the old tariff had been based on arbitrary valuations that were to a large extent nominal. Commodities not specifically provided for in the new tariff schedule are subject to a duty of 42 percent ad valorem. Commodities that were free of duties and of surcharges under the old tariff remain free under the new tariff. Items on which the rates of duty have been fixed in trade

[3] Cost, insurance, and freight.

agreements, including the trade agreement with the United States, were not changed by the tariff revision.

Costa Rica

The termination on June 1, 1951, of the trade agreement of 1937 between the United States and Costa Rica was a direct outgrowth of Costa Rica's desire to take action to protect its balance-of-payments position with this country. No provision had been made for such action under the agreement.[4]

Since the late 1930's, Costa Rica's foreign trade has been characterized by an adverse balance of payments. By early 1950 the accumulated backlog of claims for official exchange to pay for imports exceeded 20 million dollars. Imports at that time were classified into four categories, ranging from most essential to least essential. Under this system, exchange for the first two categories was purchased at the official rate, with no surcharges; exchange purchased for the two least essential categories was subject to exchange surcharges of 50 percent and 70 percent, respectively.

Because the effective rates of exchange were not high enough to keep imports, particularly in the less essential categories, within limits that could be paid for from the proceeds of Costa Rican exports, the Government on April 1, 1950, placed in effect a revised system of exchange surcharges designed to be much more restrictive of imports than those previously in use. Exchange purchased for the importation of goods in five categories (ranging, as before, from most to least essential) was made subject to surcharges ranging up to 55, 75, and 100 percent for the three least essential categories.

The more restrictive import controls represented by the higher exchange surcharges were partly responsible for the very substantial improvement in Costa Rica's balance-of-payments position after April 1, 1950, and for the payment of the backlog of commercial claims, which was completed by April 1951. Notwithstanding this improvement, the new regulations were to be continued in force until September 30, 1951, in order to prevent a relapse to the great imbalance of 1949 and early 1950.

Ecuador

On December 1, 1950, Ecuador's Emergency Exchange-Control Decree of 1947 was replaced by a new Exchange-Control Law, approved by the International Monetary Fund. With a view to improving Ecuador's com-

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[4] Costa Rica had actually violated the agreement as early as 1948 by applying an exchange surcharge to items on which concessions had been granted to the United States. The United States later permitted Costa Rica to continue this treatment for a specified period. In 1949 Costa Rica levied discriminatory taxes on cigarettes, an action which the United States protested, without obtaining removal of the taxes. For a discussion of these violations, see *Operation of the Trade Agreements Program* (third report), pp. 122–123, 146.

petitive position in foreign markets, the Government changed the official par value of the currency from 13.50 to 15 sucres per United States dollar; in addition, it considerably simplified the multiple-rate exchange structure by eliminating a number of taxes and surcharges formerly applied to export and import permits and to exchange permits. The purpose for which these taxes and surcharges had been used, namely, to enable the Government to apply more favorable exchange rates to essential imports than to nonessential imports, and also to certain export commodities, was adhered to under the new regulations, but the procedure was simplified.

Under the changes of December 1, 1950, the effective selling rate of exchange for various categories of imports (essential, semiessential, and luxury items) is determined by the application of a 1-percent differential to the par value of the sucre when the exchange is to be used for essential imports, and by the application of the same differential plus a tax on the c.i.f. value of the goods when the exchange is to be used to pay for semiessential or luxury imports.

When exchange is sold for the purchase of essential imports, which constitute the largest import category, the 1-percent differential applied to the 15-sucre rate results in an effective selling rate of 15.15 sucres per dollar. For semiessential imports, the 1-percent differential is applied to the par value (15 sucres per dollar), and a tax of 33 percent of the par value is added, making the effective rate 20.10 sucres per dollar. The effective rate for imports of luxuries is the current free-market rate plus a tax of 44 percent computed on the par value. Late in 1950, with a current free-market rate of 18.50 sucres per dollar, the addition of the 44-percent tax to the par value of 15 sucres per dollar for imports of luxuries resulted in an effective rate of 25.10 sucres per dollar. These taxes of 33 and 44 percent, which are more restrictive of imports than the present tariff duties, are to remain in effect until they are consolidated with the regular import duties.

Under the new exchange law of December 1, 1950, Ecuador has continued to operate a special compensation system of trade for certain export and import commodities. "Compensation" dollars, derived from the sale of certain products the exports of which the Ecuadoran Government wishes to encourage (such as hardwoods, ivory nuts, balsa wood, and rugs) may be used only to import specified luxuries, including automobiles, wines and liquors, and cotton textiles. Imports of these commodities are subject to the 44-percent exchange tax previously mentioned. Automobiles are among the items on which Ecuador granted concessions to the United States in the trade agreement of 1938. Ecuador has made provision, however, for gradual removal of commodities from the compensation system.

To stimulate imports of commodities that are in short supply in the United States and are considered by Ecuador to be of critical importance, the Ecuadoran Government in March 1951 shifted numerous items from the luxury to the semiessential category, and from the semiessential to the essential category; each of these shifts resulted in lower exchange taxes.

Mexico

The 1943 trade agreement between the United States and Mexico ceased to be in force after December 31, 1950.[5] The series of events leading to its termination began in 1947, when Mexico, faced with a large imbalance in its trade with the United States and with increasing domestic pressure to make its tariffs more protective, took a number of steps to restrict imports.[6] It prohibited imports of a large number of commodities regarded as nonessential, including some on which Mexico had made trade-agreement concessions to the United States. It also increased the duties on some 5,000 tariff items not covered by the trade agreement, and later increased the duties on trade-agreement items.

Pending detailed negotiations between the two countries, the United States agreed to provisional increases in the Mexican duties on trade-agreement items. The negotiations began in April 1948. Attempts to reach a mutually satisfactory revision of the agreement were fruitless, however, and in June 1950 the two Governments decided to terminate the agreement, effective after December 31, 1950.

During the last 6 months of 1950, when the trade agreement with Mexico was still in force, that country continued to adhere to the terms of the agreement, as modified, insofar as the application of quantitative import restrictions was concerned. Immediately after the agreement expired, however, Mexico announced substantial revisions of its tariff and its import-control regulations; the changes became effective on January 20, 1951. On that date Mexico abolished all the import prohibitions it had established in 1947 and 1949 and published the import duties applicable to these items. Existing import duties were modified for a substantial number of items, including many items formerly covered by the trade agreement with the United States. All together, more than 1,100 tariff classifications were affected by the general tariff revision.

The announced objective of Mexican tariff policy under the revisions that went into effect on January 20, 1951, is to provide lower duties on machinery, raw materials, and essentials, and higher duties on luxury goods; to make the tariff more flexible by substituting a licensing system for outright prohibitions; and to protect Mexican industry. Mexico does not employ exchange control, and there has been no recent change in the exchange value

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[5] The effect of the termination on United States concessions to Mexico is discussed in ch. 7.

[6] See *Operation of the Trade Agreements Program* (second report), pp. 38–40, 69–70; and *Operation of the Trade Agreements Program* (third report), pp. 123–126, 147–148.

of the peso, which since June 1949 has been 8.65 pesos to the United States dollar.

Since the tariff revisions of January 20, 1951, became effective, Mexico has exempted from import-permit requirements about half of the approximately 500 tariff items for which it formerly required permits. It has also revised some import duties and official valuations.

In contrast to the substantial relaxation of Mexico's import controls during the first quarter of 1951, the country's export controls have been considerably tightened. Because of its fear that supplies of certain raw materials will not be sufficient for domestic needs, the Government has imposed restrictions on exports of lumber, sulfur, istle and henequen fibers, and various other commodities that the United States has traditionally imported from Mexico. Export permits are required for many products; the usual method of restricting exports is that the authorities either refuse to issue the necessary permits or cancel those already issued.

Paraguay

During the past year the commercial policy of Paraguay appears to have been affected more by internal political conditions than by the country's external financial position. The policies of the political party that recently came into office have been directed toward a rigid control of the domestic economy, and this control has been reflected in some drastic changes in the control of foreign trade. At the beginning of 1950 the National Economy Defense Act established a rigid price-control system, which resulted in an immediate severe curtailment of imports. Paraguay's foreign-exchange situation was precarious at the time, and import permits were issued for only the most essential commodities. The Bank of Paraguay controls all foreign exchange, and permits must be obtained for all imports and exports. At the same time that the Government was curbing imports, it was exerting pressure to assure that exports would go to such preferred markets as the dollar area. As a basis for export taxes, official valuations (that is, arbitrary valuations as distinguished from actual market values) are established for all exports of Paraguayan products. For a time in 1950 these valuations were so high that they discouraged exports; later in the year the valuations were reduced, and exports increased.

The exchange-control system in effect in Paraguay during 1950 and early 1951 involved the use of four rates of exchange. All exchange arising from exports was bought by the Bank of Paraguay at one of the four rates, which ranged from 3.059 guaranis to the United States dollar for domestic products that have a ready market abroad to 7.99 guaranis for products that are difficult to sell abroad.

The four selling rates to importers corresponded to four groups of articles arranged according to their essentiality to the Paraguayan economy. The rates were as follows: (1) 3.121 guaranis per dollar for articles considered essential (wheat, wheat flour, mineral oils, and gasoline); (2) 4.9821 guaranis per dollar, plus a 2-percent tax, making the actual dollar cost 5.081742, for articles considered necessary but not essential (raw materials and machinery); (3) 6.0821 guaranis per dollar, plus a 5-percent tax, which brought the actual rate to 6.386205, for consumers' goods classified as semi-luxuries; and (4) 8.0521 guaranis per dollar, plus a 10-percent tax, making the actual selling rate 8.85732, for luxury items. The exchange taxes just mentioned were added during the course of 1950, but did not apply to imports by the Government, which were effected at the rate of 4.9821 guaranis per dollar. For a considerable period, because of exchange shortages, the Government issued no import licenses for the luxury items (group 4). It has been reported, however, that large amounts of dollars, pounds sterling, and other foreign currencies were made available after September 1950 for the importation of luxury products. These funds were made available to a corporation created by the Government as part of its new system of import control, but not to private importers.

Considerable use had been made of the free-market rate for dollars to import articles by parcel post, but a decree in August 1950 put an end to this unlicensed trade. As a result, the demand for free-market dollars declined to such an extent that the selling rate fell from 32 guaranis to the dollar to 18 guaranis.

In March 1951 the guarani was devalued from 3.09 to 6 per United States dollar, and two official exchange rates were established to replace the four previously in use. Some essential imports, such as wheat, flour, gasoline, and oil, are now imported at the rate of 6 guaranis per dollar, and other essentials at the rate of 9 guaranis. No immediate provision was made for importing luxury goods at a higher rate, the Bank of Paraguay having committed itself to seek advice from the International Monetary Fund before taking further action. Exports of Paraguayan products that find a ready market abroad are financed at the 6-guarani rate, and products more difficult to sell abroad, at the 9-guarani rate. A "controlled" free market also was established for transactions not covered by either of the official rates. This action permitted resumption, on an extensive scale, of the import trade by parcel post. In May 1951 the Bank of Paraguay announced a foreign-exchange budget (the first in Paraguay's history), designed to place the country's foreign-exchange dealings on a more systematic basis.

Peru

During 1950, particularly in the second half of the year, Peru began to remove its import restrictions; by early 1951 it had eliminated them entirely. It also simplified its multiple surcharges on imports, and began to liquidate the backlog in its foreign commercial obligations.

Peru introduced quantitative import restrictions and exchange control early in 1945. In December 1948 it tightened its import controls still further, principally by prohibiting imports of commodities designated as nonessential or luxury. The restrictions applied to imports from the sterling area, as well as to those from the dollar area. Over half the items in the Peruvian tariff were soon affected by the prohibitions. These steps were taken principally because of Peru's inability to earn sufficient foreign exchange to meet the heavy import demands of the country after the end of World War II. The International Monetary Fund approved the import controls of 1948 as temporary measures. They were not in conflict with the trade agreement of 1942 between the United States and Peru, which provides that import restrictions may be imposed by either country to maintain the exchange value of its currency. The restrictions imposed by Peru were not discriminatory. Peru has not employed import licensing as a method of restricting imports, but until recently it required exchange permits.

Imports from the United States continued to be restricted quantitatively until late 1950, only "permitted" items being allowed to enter the country. The restrictions applied to a wide range of commodities from sources other than the sterling area and Argentina, all restrictions on sterling imports already having been suspended.[7] Commodities the imports of which from the United States and other hard-currency sources were prohibited included automobiles, tires and tubes, wearing apparel, wooden furniture, metal office furniture, office equipment, cosmetics, tobacco, fish products, refrigerators, household appliances, cameras, fats and oils, and miscellaneous prepared food products. In November 1950, Peru took the first important step in relaxing its restrictions on dollar imports by adding 531 tariff items to the official list of permitted imports; in December, 650 more items were added to the list. At the end of January 1951 the remaining quantitative restrictions that had been imposed on imports in December 1948 were abolished.

Despite the removal of import prohibitions on hard-currency commodities, and the unusually heavy demand for exchange, Peru's foreign-exchange assets continued to increase. A large part of the exchange released after the prohibitions were lifted was used to pay for formerly prohibited merchandise that had been detained in the Peruvian customs.

Another important step Peru took to improve its international credit position was to use exchange to pay the arrears in the country's foreign commercial obligations. These obligations dated from the period of severe exchange

[7] By a decree-law of August 5, 1949, all types of merchandise may be freely imported into Peru from countries whose currency has been declared to be in surplus in Peru. Sterling was declared to be in surplus in August 1949, and Argentine pesos, in July 1950. Actually, there had been no restrictions on imports into Peru from Argentina after sterling had been declared a surplus currency, inasmuch as Argentina accepted payment in sterling for its exports to Peru.

shortages in 1948, for the correction of which the import prohibitions of December 1948 had been established. In April 1951 the Peruvian Government announced that the governmental portion of the backlog of recognized commercial obligations would be liquidated over a period of 4 years.

In July 1950 Peru greatly facilitated the entry of goods into the country by abolishing about 45 national, regional, and customs surtaxes on imports (including consular fees, the National Education Tax, and the unemployment tax) and replacing them with a new unified tax or surcharge. The new surcharge, which varies from 8½ percent to 22½ percent of the c.i.f. value, depending on the commodity, is not materially different from the total of the various taxes that it replaced. Several tariff classifications are exempt from the surcharge, and items on which Peru has granted concessions to other countries in trade agreements continue to receive the same benefits they did under the system of multiple surcharges. A reduction of 4⅓ percent ad valorem from the specified rate of the new unified tax is provided for items on which Peru granted concessions to the United States in the trade agreement of 1942.

Exchange control in Peru has consisted principally of a requirement that exporters must deliver all, or a specified proportion, of their foreign-exchange holdings to the Central Reserve Bank. Indicative of the country's improved foreign-exchange position was a decree of March 21, 1951, which reduced from 100 percent to 75 percent the amount of foreign-exchange holdings that exporters are required to deliver to the bank. In May 1951 the bank was supporting the value of the sol through purchases at the rate of 14.95 soles per dollar.

Peru has followed the policy of negotiating trade agreements with other countries (including the United Kingdom, Yugoslavia, and the Federal Republic of Germany) in order to assure foreign outlets for its products. During 1950, because of the shortage of vegetable oils in Peru, the prohibition on exports of cottonseed (as well as cottonseed meal), first applied in 1947, was continued. An export duty on sugar molasses, established in 1949, was so high that exports of this product to the United States virtually ceased; in March 1951 the duty was reduced.

Uruguay

Uruguay negotiated for accession to the General Agreement on Tariffs and Trade at the Annecy Conference in 1949, and also negotiated at Torquay in 1950–51, but has not yet signed either the Annecy or the Torquay Protocol. The 1943 United States-Uruguay bilateral trade agreement, therefore, has continued in force.

Uruguay requires licenses for most imports; licenses are granted up to the limits of the exchange allocated for individual commodities. The Uruguayan peso has no par value, but in 1950 there were three official buying rates for exchange, three official selling rates, and a free-market rate. Such highly essential imports as newsprint and inks are financed by purchases of foreign exchange at the rate of 1.519 pesos per United States dollar, and less essential imports, at 1.90 pesos per dollar. The rate for nonessential imports, including some luxury items, is 2.45 pesos per dollar; certain "luxuries" (such as automobiles and refrigerators) have been temporarily subject to the 2.45 rate plus a surcharge of 0.80 peso, or a total of 3.25 pesos per dollar. Transactions involving capital transfers and payment for services and other invisibles are made at the free-market rate, which was 2.07 pesos per dollar at the end of 1950. Proceeds from the sale of Uruguay's basic exports (wool, meat, wheat, linseed, and skins) are sold to the Government at 1.519 pesos per United States dollar. Proceeds from other exports are sold at rates considerably higher than 1.519, the difference representing a premium to the exporters of commodities that are at a competitive disadvantage in foreign markets (shoes and leather, for example). All proceeds from exports are subject to an exchange tax of 1 percent. The Government also makes a considerable profit by selling foreign exchange at rates higher than the official purchase prices. The most lucrative source of profits is the differential between the basic export rate (1.519 pesos per dollar) and the general nonluxury import rate (1.90 pesos per dollar). The profits from these exchange transactions are utilized to meet subsidy payments on wheat, meat, milk, and other domestic commodities.

Uruguay's foreign-exchange position improved greatly in 1950, especially in the second half of the year. This improvement was attributable in part to the severe restrictions on imports, but chiefly to the very substantial increase in the value of exports of wool to the United States. Under a series of decrees issued from July to September 1950, Uruguay gradually eliminated its import controls on essential merchandise. As a first step it waived the requirement of prior permits for imports of specified essential products purchased with certain inconvertible currencies, including sterling and French francs; previously, prior permits had been required for all imports.[8] Subsequently it extended the waiver to cover specified machinery and raw materials imported from the United States; by the end of September 1950 all essential ("first category") imports, from practically all important supplying countries, had been exempted from the requirement of prior permits. In February 1951 Uruguay abolished the requirement of prior permits for a specified list of "second category" imports from the United States, Canada, and several European countries. Also from time to time Uruguay has opened new

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[8] Early in 1951 Uruguay again required permits for imports from the sterling area with a view to adjusting purchases from the sterling area to the availability of sterling in Uruguay, an amount which had been greatly reduced when shipments of meat to the United Kingdom ceased. It was anticipated that permits would no longer be required when exports of meats were resumed.

import (exchange) quotas for goods from the United States in lower or nonessential categories, including automobiles, refrigerators, foodstuffs, leather goods, shoes, hardware, and musical instruments. For the special exchange quota for automobiles, Uruguay added an exchange surcharge of 0.80 peso to the existing surcharge rate of 2.45 pesos per United States dollar, thus making the effective rate 3.25 pesos. By continuing to employ exchange quotas (although on a more liberal basis) and by retaining the requirement of prior import permits for goods in nonessential categories, the Government remained in a position to prevent the dissipation of dollar and other foreign exchange on luxury goods that had not been given special consideration (as automobiles had).

Two important measures involving the Uruguayan tariff were adopted in 1950. In November the Government imposed on all imports a new ad valorem tax equal to 1¼ percent of the c.i.f. value, plus 50 percent of the tax thus calculated. In December a decree provided for an increase of 30 percent in the official valuations [9] of most imports for tariff purposes, but the rates of duty were not changed. The commodities exempted from the 30-percent increase included prime necessities, medicinals and pharmaceutical specialties, articles specified in the raw-materials section of the tariff, and items on which the official valuations had already been adjusted since June 1943.

Venezuela

The commercial policy of Venezuela has become increasingly protectionist, particularly since 1949, when Venezuela embarked on a program of expansion for domestic industry. This policy has been reflected in increased rates of duty on various products, and in the use of quotas and import licensing. The Venezuelan Government has not, however, attempted to restrict imports of commodities it considers essential to the country's economy. The various controls over foreign trade were substantially the same in 1950 as in 1949, but in the interest of stockpiling certain essential commodities, some controls were relaxed. Venezuela has had no balance-of-payments difficulties that required restrictions on imports.

Although no restrictions on the sale of exchange are in effect in Venezuela, multiple exchange rates result from the application of differential rates to various classes of imports and exports. Different rates apply to the proceeds from exports of coffee and cacao, to exchange required by the Government for its imports, and to exchange purchased from the petroleum companies. Government imports are financed at 3.09 bolívares per United States dollar; all other imports are financed at the par value of 3.35 bolívares per dollar.

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[9] Official valuations are arbitrary valuations placed on goods, as distinguished from actual market values. The subject of Uruguayan official valuations was discussed at the Torquay Conference.

Venezuela requires import licenses for only about 20 commodities, most of which are of a type produced within the country. These include lard, butter, powdered milk, potatoes, rice, crackers, meat and poultry, various kinds of cloth, footwear, live cattle, unmanufactured tanned cattle hides, and specified rubber tires and tubes. Venezuela subjected imports of wheat flour from the United States to licensing on July 1, 1950, in order to comply with the import quota on flour established in the International Wheat Agreement. To obtain import licenses for certain products—including lard, butter, rice, cotton and woolen textiles, and powdered milk—importers must purchase specified quantities of similar domestic products. Import quotas continue to apply to lard, crackers, tanned cattle hides, cotton textiles, and automobile tires and tubes.[10] Recently, however, the Venezuelan Government has followed a policy of relaxing import restrictions on items which seem likely to become scarce. To enable importers to lay in heavy stocks of automobile tires, for example, all restrictions on their importation were lifted during the period August 26–November 30, 1950. The Government has also endeavored to stockpile certain other commodities, such as dried milk, machinery, spare parts, commercial fertilizers, and insecticides.

Venezuela requires export licenses for a considerable group of commodities, including machinery, vehicles, industrial equipment, chemicals, fertilizers, rubber tires, and alcohols; the group consists almost entirely of imported merchandise.

Iran

Iran prohibits the importation of commodities that it classifies as nonessential, and also certain other goods of a type produced within the country. Licenses are required for all permitted imports, and a number of commodities are subject to import quotas. Practically all foreign exchange resulting from exports must be surrendered to the authorities.

Iran's multiple-exchange system has undergone some modification since the middle of 1950. The official rate of 32 rials per United States dollar, which has been in effect for some time, was, until nationalization of the oil industry, virtually limited to the purchase of rials by the Anglo-Iranian Oil Company for its local expenses. A middle rate of 40 rials to the dollar is applicable to exchange obtained for purchasing essential imports, including industrial and agricultural machinery, pharmaceuticals, sugar, paper, cotton piece goods, and products that generally do not compete with domestic manufactures. In July 1950 the Iranian Government established a free-market

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[10] The United States in 1950 concurred in Venezuela's action in applying import quotas to certain trade-agreement concession items. (See *Operation of the Trade Agreements Program* (third report), pp. 148–149.) The use of such quotas continued in 1951. In June 1951 the Governments of the United States and Venezuela announced that the trade agreement of 1939 would be renegotiated as soon as possible.

rate of exchange. Under this arrangement, importers of a residual class of goods, consisting mostly of "nonessential" articles which could be made in Iran, were allowed to finance their imports with exchange purchased from exporters; the rate fluctuated at about 50 rials per dollar. In November 1950, however, the free rate was replaced by a fixed selling rate of 48.75 rials per dollar, which is applicable to the residual class of imports for which the free rate was formerly used. The addition of this fixed selling rate thus gave Iran three official rates—32, 40, and 48.75 rials per dollar. The open or black-market rate has been about 50 rials per dollar.

Toward the end of 1950, when it appeared that essential import items might become scarce, Iran freed a number of products from import-quota restrictions and in other ways facilitated the importation of goods of high priority. The lifting of quota restrictions was also designed in part as an anti-inflationary measure. As a result of this action the demand for foreign exchange increased to such an extent that in order to conserve its exchange resources the Government sharply curtailed credit facilities to importers.

The principal recent development in the Iranian tariff system was the consolidation of Iran's import duties with its other import charges in the latter part of 1950. Initially, the new rates did not apply to items on which trade-agreement concessions had been made to the United States. In March 1951, however, the United States Government approved the application of the consolidated rates to trade-agreement items, in accordance with the provision of the 1944 United States-Iran trade agreement that permits such action.

Matters at Issue Between the United States and Certain Countries With Which It Has Bilateral Trade Agreements

On a number of occasions when certain countries have failed to abide by the terms of their trade-agreement obligations, the United States Government has called this matter to their attention. Usually the violations have involved only a few items on which the countries have granted concessions to the United States. Many such violations are inadvertent and readily corrected, but there have been instances (sometimes, but not always, involving deliberate violations) where the response to complaints from the United States was unsatisfactory or long delayed. Sometimes the Foreign Offices concerned were unable to obtain action from their own governmental agencies, or corrective action was not taken promptly because of delays in legislation. There have also been instances where abuses were not corrected because of loss of continuity in administration resulting from rapid and sometimes violent changes of governments.

In some instances the violations involve broad issues, such as the determination of a country to pursue a particular course in its commercial policy even though this policy may result in substantial infraction of its commitments to the United States. The United States has temporarily waived its own rights in those instances where the action taken by the other country, although a violation of its obligations, has appeared to be necessary because of circumstances to which the United States could give sympathetic consideration. On the other hand, if the matters at issue are sufficiently serious and no solution acceptable to the United States can be reached after prolonged effort, the agreement may be terminated, as was the case, for example, with Mexico. In still other instances, a country becomes a contracting party to the General Agreement while matters at issue between it and the United States under a bilateral agreement are still unresolved.[11]

Argentina

A question long at issue between the United States and Argentina relates to Argentina's failure to fulfill its obligation, contained in the United States-Argentina trade agreement of 1941, to apply lower rates of duty on imports from the United States on which concessions were granted, "when Argentine customs receipts from import duties exceed 270 million pesos national currency, in any calendar year . . .."[12] Argentine customs collections exceeded the prescribed 270 million pesos in 1947 and have continued above this level in subsequent years, but despite repeated requests by the United States Government that Argentina place the schedule of reduced tariff duties in effect, it has taken no steps to do so.

Guatemala

For some years, particularly since 1949, Guatemala has followed a policy designed to make the country increasingly self-sufficient. Guatemala does not employ exchange controls and, for the most part, does not require import licenses. In pursuit of its protectionist policy, the Government relies principally on its tariff and on import prohibitions. Import duties are often increased by reclassifying commodities.

For the most part, the products included in Guatemala's schedule of concessions in the 1936 trade agreement with the United States have not been subjected to restrictive measures. In some instances, however, Guatemala

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[11] Such was the case when Haiti became a contracting party to the General Agreement on Tariffs and Trade on January 1, 1950, at which time its 1935 bilateral trade agreement with the United States was terminated. While this agreement was still in effect, the United States had protested to Haiti regarding a violation of the agreement (involving a special stamp tax on consular invoices affecting concession items), but Haiti took no corrective measures while the old agreement was in force. See *Operation of the Trade Agreements Program* (third report), p. 123.

[12] See *Operation of the Trade Agreements Program* (third report), p. 122.

has placed restrictions on the importation of trade-agreement items, in contravention of its commitments under that agreement.[13]

Since January 1949 Guatemala has continued to apply import restrictions on wheat flour—a trade-agreement item—in varying forms. The original prohibition on imports of flour was substantially modified in April of that year, after the United States had protested that this action violated the provisions of the trade agreement. The prohibition on imports of flour was replaced by a regulation permitting the importation of hard wheat flour if equal quantities of domestically milled flour were purchased. The actual requirements have been changed several times; the present practice apparently is to authorize the importation of flour upon evidence that domestic flour has been purchased in quantities equal to 50 percent of the proposed imports. The United States has repeatedly protested Guatemala's restrictions on imports of flour, but without results. It was hoped that the two countries would reach a mutually satisfactory solution to this problem at the Torquay Conference, but as Guatemala failed to participate in the Conference, the matter was still pending in the middle of 1951.

In June 1950 Guatemala placed another trade-agreement item—short hose—on its list of prohibited imports. During the past 2 or 3 years Guatemala has restricted or prohibited imports of a number of other articles, including matches, beer, certain printed matter, ice-cream cones, and shoes, none of which are trade-agreement items. The duties on certain alcoholic beverages, fabrics, woods, furniture, and numerous other articles were increased considerably in November 1950, but no trade-agreement items were among the articles to which the increases applied. In February 1951 Guatemala reclassified cheese (an agreement item), thus making it subject to a 100-percent increase in the import duty. When the United States Government called Guatemala's attention to this infraction of article I of the agreement, the Guatemalan Government indicated its intention to abide by the terms of the agreement.

Paraguay

Political disturbances and changes of government in Paraguay have made it difficult for the United States to obtain assurances that Paraguay will take measures to correct certain practices that are in conflict with that country's trade-agreement obligations to the United States. Article VII of the 1947 Paraguay-United States trade agreement exempts imports of concession items from the United States from customs duties and all other duties, taxes, fees, charges, or exactions in excess of those that were in effect

[13] See *Operation of the Trade Agreements Program* (third report), pp. 146–147. The third report erroneously stated that certain printed matter on which Guatemala had imposed import restrictions was included in the list of concessions granted to the United States.

at the time the agreement was signed. In the trade agreement, Paraguay reserved the right to consolidate these various charges, with the proviso that such consolidation would not impair the value of its concessions to the United States.

Soon after the agreement became effective, Paraguay established a new schedule of consular fees, including a fee of 5 percent ad valorem for the certification of consular invoices. Repeated protests by the United States, the latest in July 1950, have called the attention of the Paraguayan Government to this violation of article VII, but Paraguay has taken no corrective action. Early in 1951, however, Paraguay did remove a graduated tax on foreign-exchange transactions. The tax, imposed in April 1950, was removed after the United States Government complained that the tax, as applied to trade-agreement commodities, violated article VII of the 1947 trade agreement.

Uruguay

At the request of the United States, Uruguay has taken steps to correct an action it took in 1950 that would have violated provisions of the 1943 United States-Uruguay trade agreement. In November 1950 the Uruguayan Government imposed on all imports a new ad valorem tax of 1¼ percent of the c.i.f. value, plus 50 percent of the tax thus calculated. This tax was to apply to concession as well as nonconcesssion items. After the United States Government pointed out that application of the tax to items covered by trade-agreement concessions would violate the agreement,[14] Uruguay exempted such items.

Turkey

In August 1948 the city of Istanbul imposed a tax of 70 percent on the admission price to theaters that show imported films, and of 25 percent on tickets to those that show domestic films. Since United States films are affected by this discrimination, the United States Government called the attention of the Turkish Government to article III of the 1939 trade agreement. Article III provides that United States products will receive national treatment with respect to all internal taxes. Although Turkey took no action to remove this discrimination during 1950, it has more recently given evidence that it intends to introduce legislation designed to eliminate the discrimination.

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[14] This agreement, like many others, prohibits the application to concession items by either contracting party of customs duties, taxes, fees, or other charges in excess of those provided for in the agreement.

Chapter 7

United States Measures Relating to Imports of Trade-Agreement Items

ENTRY INTO FORCE OF TRADE-AGREEMENT CONCESSIONS

During 1950 the United States gave effect to the concessions it negotiated with Denmark, the Dominican Republic, Finland, Greece, Haiti, Italy, Liberia, Nicaragua, and Sweden at Annecy in 1949. During the first half of 1951 the United States placed in effect the concessions it granted to 6 of the 17 countries with which it negotiated at Torquay in 1950–51. The concessions granted to the Benelux Customs Union (Belgium, the Netherlands, and Luxembourg), Canada, the Dominican Republic, and France became effective June 6, 1951.[1] For technical and other reasons the United States also placed in effect on June 6, 1951, a few of the concessions it initially negotiated with the other 11 countries with which it had concluded agreements at Torquay. The remaining concessions granted to those countries, however, did not go into effect until the thirtieth day following the day on which each of the countries signed the Torquay Protocol.

The United States continued in effect during 1950 and the first half of 1951 all concessions it granted in schedule XX of the General Agreement, negotiated at Geneva and Annecy, and in bilateral trade agreements, except as follows: (1) Certain concessions made in the 1943 trade agreement with Mexico; (2) certain concessions granted to China at Geneva in 1947; (3) the concession on women's fur felt hats and hat bodies valued at more than $9 but not more than $24 per dozen, granted at Geneva in 1947; and (4) the concessions on three tariff items originally granted by the United States at Geneva in 1947 (stencil silk, onion powder, and women's and children's leather gloves not lined and not trimmed with fur, other than those entirely machine-seamed or entirely hand-seamed). During 1950 the United States placed in effect a temporary technical revision of the concession on Irish potatoes contained in schedule XX of the General Agreement. These actions are more fully set forth below.

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[1] For the dates on which other Torquay concessions became effective, see ch. 3.

WITHDRAWAL OR MODIFICATION OF TRADE-AGREEMENT CONCESSIONS

Termination of Trade Agreement With Mexico

By an exchange of notes on June 23, 1950, the United States and Mexico agreed that the 1943 trade agreement between the two countries would cease to be in force after December 31, 1950. Concessions granted by the United States to Mexico in the trade agreement thus ceased to be effective as of the agreed date.[2] Under the most-favored-nation principle, imports from Mexico became subject to the same tariff treatment as that accorded imports of the same products from other countries (except Cuba and the Philippines).

In the trade agreement with Mexico, the United States had granted concessions on commodities included in 96 paragraphs and subparagraphs of the Tariff Act of 1930 and in three sections of the Internal Revenue Code. The concessions included reductions in rates of duty, or bindings of the then existing rates, on commodities included in 65 of these paragraphs and subparagraphs and in two sections of the Internal Revenue Code, and binding on the free list of commodities included in 31 tariff paragraphs and subparagraphs and one section of the Internal Revenue Code. At the time the agreement was made, the concessions granted in it applied to commodities accounting for about three-fourths of the total value of United States imports from Mexico.

As a result of the termination of the trade agreement, United States import duties were changed on commodities included in 37 paragraphs and subparagraphs of the Tariff Act of 1930 and in one section of the Internal Revenue Code. On most of these commodities the rates of duty reverted to those specified in the Tariff Act of 1930. Among the products included in this group are turpentine, fluorspar, certain types of earthenware, lead-bearing ores, lead in various forms, fresh or frozen white sea bass, tuna canned in oil, hand-woven woolen blankets, and dressed or manufactured istle or Tampico fiber. On a few commodities, the duties reverted, not to the statutory rate, but to a rate specified in the General Agreement on Tariffs and Trade or in a bilateral trade agreement with some other country. Among the commodities in this group are certain floor and wall tiles, bentwood furniture, and pineapples in bulk. Also in this group are crude petroleum, topped crude, and fuel oil derived from petroleum. With the termination of the Mexican agreement, the tariff quota established on these products by the United States-Venezuela trade agreement once again became applicable.

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[2] See ch. 6. On September 6, 1950, the President issued a proclamation, giving effect to the termination of the agreement as of the agreed date.

In the Venezuelan agreement, the excise tax on imports of crude petroleum, topped crude, fuel oil, and gas oil was reduced from 21 to 10.5 cents a barrel, subject to an annual tariff quota—for the four commodities combined—equal for each year to 5 percent of the quantity of crude processed in domestic refineries during the preceding calendar year. There was no limitation on the quantity that could enter at the statutory rate of 21 cents per barrel. Under the Mexican agreement, the reduced rate of tax was not accompanied by quota limitation.

Upon the termination of the trade agreement with Mexico, the United States also withdrew duty-free bindings on products included in 31 paragraphs and subparagraphs of the Tariff Act of 1930. The United States has bound the duty-free treatment of most of these products in other bilateral trade agreements or in the General Agreement. On certain products included in 11 tariff paragraphs and subparagraphs, however, the United States has no trade-agreement commitments binding them on the free list; among these items are crude jalap, antimony ore, crude chicle, candelilla wax, and wood charcoal.

In the Torquay negotiations, the United States granted concessions on some of the commodities on which duties had been increased as a result of the termination of the trade agreement with Mexico. Products in 15 tariff paragraphs and subparagraphs are included in this group. Among them are fluorspar, certain types of earthenware and floor and wall tiles, lead-bearing ores, lead in various forms, and hand-woven woolen blankets. In general, the negotiations at Torquay established on these articles the same rates as those fixed in the trade agreement with Mexico, or lower rates.

Because of other commitments, both in bilateral trade agreements and in the General Agreement, the United States, on the termination of the trade agreement with Mexico, did not change the rates on dutiable commodities included in 44 tariff paragraphs and subparagraphs on which it had granted concessions in the Mexican agreement. Among these commodities were vanilla beans, zinc-bearing ores, zinc in various forms, pine lumber, honey, garlic, peppers, and sole or belting leather.

Termination of Trade Agreement With Costa Rica

The trade agreement between the United States and Costa Rica became effective August 2, 1937. In the agreement, Costa Rica reduced or bound its import duties on a wide range of agricultural and industrial products usually imported from the United States. The United States, on its part, reduced or bound its import duties on four tropical-fruit products (dried bananas, pineapples, preserved guavas, and mango and guava pastes). It also bound bananas and plantains, coffee, cocoa beans, deer and reptile skins, turtles, and balsa and cabinet woods on the free list.

In October 1948, Costa Rica imposed a 20-percent exchange surcharge on imports of products (appearing in two lists) which were considered to be less essential.[3] The stated purpose of this action was to improve the country's foreign-exchange position by curtailing imports, particularly from the United States. Since the two lists included most of the items on which Costa Rica had granted concessions to the United States in the trade agreement of 1937, the United States immediately protested the application of exchange surcharges as a violation of article I of the agreement.[4] During 1949 Costa Rica took no action to correct the violation.

New Costa Rican legislation, effective April 1, 1950, provided for an increase in the exchange surcharges imposed in 1948. In order to permit Costa Rica to find a solution to its emergency financial difficulties that would not conflict with its obligations under the trade agreement of 1937, the United States agreed to waive, for one year beginning April 1, 1950, the provisions of article I of the agreement. This waiver permitted Costa Rica to apply specified multiple exchange surcharges to scheduled trade-agreement items. The United States, however, reserved the right to revoke its waiver of article I upon 30 days' written notice, should Costa Rica use the multiple exchange surcharges for any purposes other than to solve its financial difficulties.

During subsequent conversations between representatives of the two governments, it became evident that special conditions in Costa Rica would not permit that country to apply the terms of the trade agreement in the foreseeable future. Attempts to agree on a solution having failed, on April 3, 1951, the two governments agreed to terminate the agreement, effective June 1, 1951. At the same time, the waiver of article I was extended to the date of termination.

The tariff status of the items on which the United States had granted concessions to Costa Rica in the trade agreement is not, however, affected by termination of the agreement. The dutiable items are included at the same or lower rates in other United States trade agreements, and the free-list items are bound free in other agreements. Costa Rica has not yet announced the import duties that it will apply to imports of products on which the United States originally obtained concessions from that country.

Escape Clause in Trade Agreement With Switzerland

The trade agreement between the United States and Switzerland, which became effective on February 15, 1936, was one of the most important of the bilateral agreements that did not contain an escape clause.[5] Because of the importance of the agreement, and because the escape-clause principle had been

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[3] See *Operation of the Trade Agreements Program* (second report), p. 41.

[4] This article provided that scheduled items should be exempt from all charges other or higher than those specified in the agreement.

[5] The escape clause was first used in the trade agreement with Mexico, effective January 30, 1943.

recognized in the General Agreement on Tariffs and Trade [6] and had been the subject of considerable attention by the United States Congress, the United States Government in 1949 and the first half of 1950 explored the possibility of amending the trade agreement with Switzerland by incorporating an escape clause therein.

In a note to Switzerland on August 10, 1950, the United States gave 6 months' notice of its intention to terminate the 1936 trade agreement. The note stated, however, that the United States would withdraw its formal notice of termination if at any time before October 15, 1950, the Government of Switzerland agreed to an exchange of notes amending the trade agreement of 1936 so as to include the standard escape-clause provision.

In a note of October 13, 1950, the Government of Switzerland accepted the inclusion of the escape clause in the agreement, and also expressed the hope that it would soon be possible for the two countries to agree to a revision of the existing trade agreement. The escape clause in the agreement became effective October 13, 1950; on the same day the United States withdrew its notice of intention to terminate the 1936 trade agreement.

Withdrawal of Concessions Granted to China at Geneva

On March 6, 1950, the Chinese Nationalist Government notified the Secretary-General of the United Nations that, effective 60 days after that date, the Republic of China would cease to be a contracting party to the General Agreement on Tariffs and Trade and that its Geneva schedule of tariff concessions (schedule VIII) would cease to be in force. China took this action under paragraph 5 of the Protocol of Provisional Application of the General Agreement.[7]

Article XXVII of the General Agreement provides that any contracting party may withdraw, in whole or in part, any concession that it initially negotiated with a government which has ceased to be a contracting party. It also provides that a government withdrawing concessions shall notify all other contracting parties and, upon request, consult with any contracting party having a substantial interest in those concessions.

In accordance with the provisions of article XXVII, the United States in the summer of 1950 notified the other contracting parties to the General Agreement that it intended to withdraw certain concessions it had negotiated with China at Geneva, and offered to consult with any contracting party, if requested. After sufficient time had elapsed for interested contracting parties to request consultation on specific items, the President, on October 12, 1950, issued a proclamation withdrawing from the United States schedule of the

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[6] Art. XIX.

[7] The actions of the Chinese Communist Government affecting the General Agreement are discussed in *Operation of the Trade Agreements Program* (third report), pp. 133–134.

General Agreement on Tariffs and Trade, as of December 11, 1950, certain of the concessions the United States had originally negotiated with China. Under the most-favored-nation principle, the new rates of duty resulting from the termination of these concessions apply to imports from all foreign countries except Cuba and the Republic of the Philippines.

As a result of the termination of certain of the concessions granted to China at Geneva, the rates of duty were increased on commodities included in 40 paragraphs and subparagraphs of the Tariff Act of 1930. Free-list bindings were withdrawn on commodities included in 14 paragraphs, and import-excise taxes were increased on products included in two sections of the Internal Revenue Code.[8] On most of the dutiable commodities, the rates of duty reverted to those specified in the Tariff Act of 1930; on a few, however, the rates remained unchanged or reverted only partially to the statutory rates because of other commitments by the United States in bilateral trade agreements or in the General Agreement.

The United States did not withdraw as of December 11, 1950, the concessions it negotiated initially with China on dutiable commodities included in 31 paragraphs and subparagraphs of the Tariff Act of 1930, on duty-free products included in 5 paragraphs and subparagraphs, or on commodities included in one section of the Internal Revenue Code. Some of these concessions apply to items in which other contracting parties to the General Agreement have a substantial interest. These were not terminated because of the multilateral nature of the General Agreement, whereby each contracting party obtains in its own right all the concessions granted by every other contracting party. The United States did not terminate certain other concessions it initially negotiated with China, because various contracting parties specifically asked to consult with the United States before withdrawal of those concessions. Such consultation was completed in large part at the Torquay Conference.

On several of the items on which it had negotiated with China at Geneva, the United States granted concessions to various other countries at Torquay. Of the items on which concessions to China were terminated in December 1950, the United States at Torquay granted duty reductions on products included in three tariff paragraphs and bound the duty-free treatment on products included in two tariff paragraphs. Of the items on which concessions to China have not been terminated, the United States at Torquay bound or reduced the duties on products included in six tariff paragraphs and subparagraphs and bound the duty-free treatment on a product in one tariff paragraph; it also bound the import-excise tax in one section of the Internal Revenue Code. Concessions which the United States granted at Torquay on these items specify rates of duty that are the same as, or lower than, those negotiated with China at Geneva.

[8] U. S. Department of State Press Release No. 942, Sept. 13, 1950.

Withdrawal of Concessions Granted to the Syro-Lebanese Customs Union

Syria and Lebanon, acting together as the Syro-Lebanese Customs Union, acceded to the General Agreement on Tariffs and Trade in July 1948, after the Geneva negotiations. In March 1950, however, the two countries dissolved their customs union. As a result of this action, Lebanon withdrew from the General Agreement, effective February 25, 1951. On June 7, 1951, Syria notified the Secretary-General of the United Nations that it intended to withdraw from the General Agreement, its withdrawal to be effective August 6, 1951. Both countries withdrew from the General Agreement in accordance with paragraph 5 of the Protocol of Provisional Application.

Inasmuch as all the concessions the United States had granted at Geneva in 1947 to the Syro-Lebanese Customs Union were of substantial interest to Syria, and some, to other contracting parties, the United States made no changes in its import duties or taxes as a result of Lebanon's withdrawal. Now that Syria has withdrawn from the General Agreement, however, the United States, pursuant to article XXVII of the general provisions, is considering the possibility of withdrawing all, or part, of the United States concessions initially negotiated with the Syro-Lebanese Customs Union. Other contracting parties having a substantial interest in the Syro-Lebanese concessions will be given an opportunity to consult with the United States before any items are withdrawn.

Withdrawal of Concession on Women's Fur Felt Hats and Hat Bodies

On October 30, 1950, the President issued a proclamation, effective December 1, 1950, withdrawing the United States trade-agreement concession on women's fur felt hats and hat bodies valued at more than $9 and not more than $24 per dozen. This concession, as well as other concessions on women's fur felt hats and hat bodies in other price brackets, was granted by the United States in the General Agreement on Tariffs and Trade at Geneva, and became effective on January 1, 1948. The effect of the withdrawal of the concession was to restore the rates of duty originally provided for by the Tariff Act of 1930, which were about 25 to 40 percent higher than the rates under the concession.

The afore-mentioned concession was withdrawn under the escape clause (art. XIX) of the General Agreement. This clause provides that a member country may modify or withdraw a concession on any article if, as a result of unforeseen developments and the concession, imports of the article occur in such increased quantities and under such conditions as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles. The President's proclamation was in accordance with recommendations made by the Tariff Commission, after it had completed an investigation of the trade in women's fur felt hats and hat bodies.[9]

Withdrawal or Modification of Certain Concessions After Renegotiation at Torquay

As a result of negotiations at Torquay, the United States increased the duties on three tariff items, effective July 6, 1951. The items are onion powder; women's and children's leather gloves seamed in part by hand and in part by machine, not lined, and not trimmed with fur; and stencil silk valued at more than $5.50 per pound. At the Geneva Conference the United States had granted concessions which included these articles.

As a result of a decision of the United States Court of Customs and Patent Appeals, onion powder became dutiable as a spice, n.s.p.f.,[10] at the rate of 12½ percent ad valorem under paragraph 781, Tariff Act of 1930, as modified, rather than as a vegetable, prepared, n.s.p.f., at the rate of 17½ percent under paragraph 775, as modified. At Torquay the United States negotiated the withdrawal of onion powder from the concession applicable to spices, n.s.p.f. On July 6, 1951, the rate of duty on onion powder was increased from 12½ percent to 25 percent ad valorem.

With respect to certain women's and children's leather gloves, dutiable under paragraph 1532(a) of the tariff act, the United States at Geneva granted concessions separately on such gloves when machine-seamed and when hand-seamed. As a result, machine-seamed gloves became dutiable at the minimum ad valorem rate of 40 or 35 percent, depending upon length, and the hand-seamed gloves, at the minimum ad valorem rate of 35 or 30 percent, depending upon length. In view of a decision of the United States Court of Customs and Patent Appeals to the effect that gloves which were seamed in part by machine and in part by hand were neither machine-seamed nor hand-seamed, such gloves were assessed at the lower 25-percent rate which had been established pursuant to a "basket" concession granted under paragraph 1532(a) at Geneva. At Torquay, the United States negotiated a modification of this "basket" concession which permitted the imposition of higher rates on the specified gloves seamed in part by machine and in part by hand. On July 6, 1951, the minimum ad valorem rate of duty on these gloves over 12 inches in length was increased from 25 percent to 30 percent and the minimum rate on those not over 12 inches in length, from 25 to 35 percent.

In January 1950 an escape-clause application was filed with the Tariff Commission, alleging that because of the reduction in duty to 25 percent ad

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9 For a more detailed discussion of the Tariff Commission's recommendations, see the section of this chapter on activities under the escape clause in trade agreements. See also U. S. Tariff Commission, *Women's Fur Felt Hats and Hat Bodies,* Rept. No. 170, 2d ser., 1951.

10 Not specially provided for.

valorem granted at Geneva on certain dyed silk fabrics, the third item—stencil silk, which is used for industrial purposes, and which traditionally had been imported and used in the undyed condition at the rates of 55 percent or 60 percent ad valorem (depending on the width)—was being imported in excessive quantities in dyed condition, thus taking advantage of the lower rate. At Torquay the United States negotiated the withdrawal of stencil silk from the Geneva concession. The Tariff Commission meantime held in abeyance its action on the escape-clause application with respect to stencil silk, pending the completion of the Torquay negotiations. The negotiations having been concluded, the Tariff Commission dismissed the escape-clause application on June 7, 1951. On July 6, 1951, all stencil silk of a kind chiefly used for stenciling purposes in screen-process printing, whether or not dyed, became dutiable at the rate of 55 percent or 60 percent ad valorem, depending on the width.

Technical Revision of United States Concession on Irish Potatoes

A proclamation by the President on September 6, 1950, placed in effect a temporary technical revision of the United States concession on Irish potatoes (par. 771), contained in schedule XX of the General Agreement on Tariffs and Trade. The revised concession, which was more restrictive than the original one, was made under a waiver requested by the United States at the Fourth Session of the Contracting Parties in April 1950, pursuant to paragraph 5(a) of article XXV of the General Agreement.

Under the original concession, made at Geneva in 1947, a so-called normal tariff quota of 1 million bushels of potatoes per marketing year was permitted to enter the United States at a rate of 37½ cents per 100 pounds; this rate represents a reduction from the rate of 75 cents per 100 pounds specified in the Tariff Act of 1930. In addition, the reduced rate was applicable to imports of potatoes in any marketing year equal in quantity to the number of bushels by which domestic production, as estimated by the Department of Agriculture on September 1, was less than 350 million bushels. Thus, for example, if a potato crop had been estimated at 340 million bushels, 10 million bushels would have been permitted to enter at the reduced rate, in addition to the 1 million bushels that could enter under the "normal" tariff quota. Potatoes imported into the United States in excess of such quantities remained dutiable at 75 cents per 100 pounds.

Besides the "normal" quota of 1 million bushels, the revised concession proclaimed on September 6, 1950, permitted importation, under the reduced duty, of as many bushels of potatoes as the estimated domestic production fell short of 335 million bushels (instead of 350 million bushels). The revised quota provision was to apply only during the marketing year beginning September 15, 1950. Inasmuch as domestic production of potatoes from

August 1950 to July 1951 was 439.5 million bushels, all imports in excess of 1 million bushels were dutiable at 75 cents per 100 pounds.

ACTIVITIES UNDER THE ESCAPE CLAUSE IN TRADE AGREEMENTS

A safeguarding clause, commonly known as the standard escape clause, was first included in the trade agreement between the United States and Mexico (1943). Subsequently, the clause was included in the trade agreement between the United States and Paraguay (1947), in the multilateral General Agreement on Tariffs and Trade (1948), and, effective October 13, 1950, in the 1936 trade agreement between the United States and Switzerland. The escape clause provides, in substance, that either party to an agreement may withdraw or modify any concession made therein, if, as a result of the concession, imports of the particular commodity enter in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles.

The Trade Agreements Extension Act of 1951 made it mandatory for an escape clause to be included in all trade agreements the United States may conclude in the future, and, as soon as practicable, in all trade agreements currently in force. The act also requires the Tariff Commission to conduct investigations on matters relating to the escape clause and, if it finds that sufficient reason exists for invoking the escape clause of a trade agreement, to recommend remedial action to the President.[11] Before passage of the extension act of 1951, procedure under the escape clause had been provided for by Executive order.[12]

Applications for Investigation

Between April 20, 1948, when the first application for investigation under the escape clause was made, and June 30, 1951, the Tariff Commission received a total of 23 applications. As of the latter date, 16 of these applications had been dismissed after preliminary investigations; 2 formal investigations had been ordered and completed, as described below; 4 formal investigations had been ordered but not completed; and action on one application had been deferred for study of further developments.[13] The nature and status of the individual applications that the Tariff Commission received during this period for investigation under the escape-clause procedure are set forth in the accompanying list.

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11 See ch. 2.

12 Executive Orders 9832, 10004, and 10082.

13 This application was withdrawn on July 5, 1951; the Commission accepted the withdrawal, without prejudice, on July 11, 1951.

Status of applications for investigations under escape-clause provisions of trade agreements, as of June 30, 1951

Commodity	Name and address of applicant	Date received	Status
1. Marrons	G. B. Raffeto, Inc., New York, N. Y.	Apr. 20, 1948	Dismissed after preliminary inquiry Aug. 27, 1948.
2. Whiskies and spirits	U. S. Distillers Tariff Committee, Washington, D. C. (application filed on behalf of 28 distilling companies).	Sept. 7, 1948	Dismissed after preliminary inquiry Jan. 3, 1949.
3. Spring clothespins	DeMeritt Co., Waterbury, Vt. (6 other producers).	Nov. 10, 1948	Investigation instituted Apr. 27, 1949; completed Dec. 20, 1949. No modification in concession recommended.
4. Knitted berets, wholly of wool.	American Basque Berets, Inc., New York, N. Y.	Feb. 11, 1949	Dismissed after preliminary inquiry July 8, 1949.
5. Crude petroleum and petroleum products.	Independent Petroleum Association of America, Washington, D. C.	Feb. 15, 1949	Dismissed after preliminary inquiry May 3, 1949.
6. Hops	United States Hop Growers Association, San Francisco, Calif.	Mar. 28, 1949	Dismissed after preliminary inquiry May 11, 1949.
7. Reeds, wrought or manufactured from rattan or reeds, cane wrought or manufactured from rattan, cane webbing, and split or partially manufactured rattan, n.s.p.f.	American Rattan & Reed Manufacturing Co., Brooklyn, N.Y.	May 20, 1949	Dismissed after preliminary inquiry Feb. 17, 1950.
8. Narcissus bulbs	Northwest Bulb Growers Association, Sumner, Wash.	June 9, 1949	Dismissed after preliminary inquiry Jan. 13, 1950.
9. Sponges, n.s.p.f.	Sponge Industry Welfare Committee, Chamber of Commerce, Board of City Commissioners, and Greek Community, all of Tarpon Springs, Fla.	June 14, 1949	Dismissed after preliminary inquiry July 22, 1949.

Status of applications for investigations under escape-clause provisions of trade agreements, as of June 30, 1951—Continued

Commodity	Name and address of applicant	Date received	Status
10. Knit gloves and knit mittens, finished or unfinished, wholly or in chief value of wool. Gloves and mittens, embroidered in any manner, wholly or in chief value of wool. Gloves and mittens, knit or crocheted, finished or unfinished, wholly or in chief value of cotton.	Association of Knitted Glove and Mitten Manufacturers, Gloversville, N. Y.	Aug. 5, 1949	Action deferred to study further developments Nov. 22, 1949.[1]
11. Knitted berets, wholly of wool (second application).	American Basque Berets, Inc., New York, N. Y.	Nov. 23, 1949	Dismissed after preliminary inquiry Jan. 13, 1950.
12. Woven fabrics in the piece, wholly of silk, bleached, printed, dyed, or colored, and valued at more than $5.50 per pound.	Textile Section of the Manufacturers Division of the Greater Paterson Chamber of Commerce, Paterson, N. J.	Jan. 5, 1950	Dismissed after preliminary inquiry Sept. 21, 1950.
13. Women's fur felt hats and hat bodies.	Hat Institute, Inc., and United Hatters, Cap & Millinery Workers International Union, New York, N. Y.	Jan. 24, 1950	Investigation instituted Apr. 7, 1950; completed Sept. 25, 1950. Certain concessions withdrawn by Presidential proclamation of Oct. 30, 1950.
14. Stencil silk, dyed or colored.	Albert Godde Bedin, Inc., New York, N. Y.	Jan. 30, 1950	Dismissed after preliminary inquiry June 7, 1951.
15. Beef and veal, fresh, chilled, or frozen.	Western States Meat Packers Association, San Francisco, Calif., and Washington, D. C.	Mar. 16, 1950	Dismissed after preliminary inquiry June 30, 1950.
16. Aluminum and alloys, in crude form (except scrap). Aluminum in coils, plates, bars, rods, etc.	Reynolds Metals Co., Louisville, Ky.	Mar. 24, 1950	Dismissed after preliminary inquiry Nov. 21, 1950.
17. Aluminum and alloys, in crude form (except scrap). Aluminum in coils, plates, bars, rods, etc.	Kaiser Aluminum & Chemical Corp., Washington, D. C.	Apr. 7, 1950	Dismissed after preliminary inquiry Nov. 21, 1950.

[1] Application withdrawn July 5, 1951; withdrawal accepted by Commission July 11, 1951.

Status of applications for investigations under escape-clause provisions of trade agreements, as of June 30, 1951—Continued

Commodity	Name and address of applicant	Date received	Status
18. Lead-bearing materials, lead, and lead scrap.	Emergency Lead Committee, New York, N. Y.	May 11, 1950	Dismissed after preliminary inquiry Jan. 25, 1951.
19. Lead-bearing materials, lead, and lead scrap.	New Mexico Miners and Prospectors Association on behalf of Lead Producers of New Mexico, Albuquerque, N. Mex.	May 16, 1950	Dismissed after preliminary inquiry Jan. 25, 1951.
20. Hatters' furs, or furs not on the skin, prepared for hatters' use, including fur skins carroted.	Hatters' Fur Cutters Association of the U.S.A., New York, N. Y.	June 22, 1950	Investigation instituted Jan. 5, 1951. Hearing held Feb. 6, 1951.
21. Jeweled watches and watch movements containing 7 but not more than 17 jewels, and parts therefor.	Elgin National Watch Co., Elgin, Ill. Hamilton Watch Co., Lancaster, Pa.	Feb. 13, 1951	Investigation instituted on all watches and watch movements and parts therefor, Mar. 23, 1951. Hearing held May 15–24, 1951.
22. Motorcycles.........	Harley-Davidson Motor Co., Milwaukee, Wis.	May 21, 1951	Investigation instituted June 29, 1951.
23. Blue-mold cheese....	National Cheese Institute, Inc., Chicago, Ill.	June 11, 1951	Investigation instituted June 29, 1951.

Investigations Completed

Spring clothespins

On December 20, 1949, the Tariff Commission submitted a report to the President on its investigation on spring clothespins, which had been instituted on April 27, 1949, under the escape clause in the trade agreement with Mexico. The purpose of the investigation was to determine whether, as a result of unforeseen developments and of the concession granted on spring clothespins in the trade agreement with Mexico, such clothespins were being imported in such relatively increased quantities and under such conditions as to cause or threaten serious injury to domestic producers.

Although the trade agreement between the United States and Mexico was terminated at the close of December 31, 1950, the rate of duty provided for spring clothespins in the agreement with Mexico (10 cents per dozen) was conditionally bound against increase by the Annecy Protocol to the

General Agreement on Tariffs and Trade. This binding, however, was made subject to any change that might be made pursuant to the escape-clause proceedings on spring clothespins instituted by the Tariff Commission on April 27, 1949, under the escape clause in the agreement with Mexico.

As a result of its investigation the Commission found that, in the period since the trade agreement with Mexico became effective, imports of spring clothespins had been much larger than before the agreement, both absolutely and in proportion to domestic production, and that a part, though not a large part, of this increase may have been attributable to the reduction in the duty made in that agreement. However, the Commission found (Commissioner Gregg dissenting) that imports of spring clothespins were not entering the United States in such increased quantities and under such conditions as to cause or threaten serious injury to the domestic producers of the like or similar article. The Commission, therefore, did not recommend that the President take action to restrict imports of spring clothespins. The President approved this finding.

Women's fur felt hats and hat bodies

An investigation on women's fur felt hats and hat bodies, under the escape clause of the General Agreement, was ordered by the Tariff Commission on April 7, 1950. The order was in response to an application filed with the Commission by organizations representing domestic producers of women's fur felt hat bodies and workers in that industry. A public hearing was held on May 9, 1950. The purpose of the investigation was to determine whether the United States would be warranted in invoking the escape clause to withdraw, in whole or in part, the reductions in duty granted on these hats and hat bodies at Geneva in 1947.

On September 25, 1950, the Commission submitted its report to the President. On the basis of its investigation, the Commission found that women's fur felt hats and hat bodies valued at more than $9 and not more than $24 per dozen were being imported into the United States in such increased quantities and under such conditions as to cause serious injury to the domestic industry producing like or directly competitive products, and as to threaten continuance of such injury. The Commission also found that serious injury was not caused or threatened by imports of such hats and hat bodies valued at not more than $9 per dozen or of those valued at more than $24 per dozen.

The Commission found that complete withdrawal of the tariff concession on women's fur felt hats and hat bodies valued at more than $9 and not more than $24 per dozen was necessary to prevent continuance of injury, and that such withdrawal would afford much greater relief to the domestic producers if it were made effective before December 1, 1950.

In view of its findings, the Tariff Commission recommended to the

President, for his consideration in the light of the public interest, withdrawal in whole of the tariff concessions granted in the General Agreement on women's fur felt hats and hat bodies valued at more than $9 and not more than $24 per dozen. It recommended further that the President consider making such withdrawal effective not later than December 1, 1950, and without time limit. On October 30 the President issued a proclamation, effective December 1, 1950, withdrawing the concession on these hats and hat bodies.

Withdrawal of the concessions on women's fur felt hats and hat bodies in the four value brackets between $9 and $24 per dozen restored the compound rates specified in the Tariff Act of 1930, thus increasing by approximately 25 to 40 percent the concession rates that had been in effect.[14]

PROHIBITIONS OF AND QUANTITATIVE RESTRICTIONS ON IMPORTS INTO THE UNITED STATES

Quantitative restrictions on imports into the United States are applied to the following important commodities: (1) Cotton and wheat and wheat flour, under section 22 of the Agricultural Adjustment Act, to prevent imports from interfering with domestic programs affecting the production or marketing of those commodities; (2) sugar, under the sugar act, to control the quantity of sugar supplied from both foreign and domestic sources; (3) certain fats and oils, and rice, under the Second War Powers Act, to facilitate the acquisition or distribution of products in world short supply or to permit the orderly liquidation of temporary surpluses of stocks owned or controlled by the Government; and (4) sugar, cordage, rice, cigars, scrap tobacco, coconut oil, and buttons of pearl or shell imported from the Republic of the Philippines, under the Philippine Trade Act of 1946, to assist in gradually eliminating tariff preferences in the United States for Philippine products.[15]

Imports of a wide range of other articles also are prohibited or restricted under various legislative acts, to protect public morals; to protect human, animal, or plant life or health; to control the importation of gold or silver; to facilitate customs enforcement; to protect patents and trade-marks; to prevent deceptive practices, misrepresentations, and unfair competition; and to prevent importation of the products of forced labor. Many of these prohibitions and restrictions have been in effect over a long period.

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[14] See also the section of ch. 3 on withdrawal of concession by the United States under the escape clause (art. XIX).

[15] Quantitative restrictions also apply to imports of books, in English, on which an American copyright is in effect. See the section of this chapter on restrictions under copyright legislation.

Restrictions Under Section 22 of the Agricultural Adjustment Act

During 1950 and the first half of 1951 the United States continued to apply quantitative restrictions (quotas [16]) on the importation of cotton and of wheat and wheat flour. These restrictions have been applied under the provisions of section 22 of the Agricultural Adjustment Act, as amended, which authorize the President to restrict importation of any commodity, either by the imposition of import fees or by quota limitations, whenever such imports render or tend to render ineffective or materially to interfere with programs of the Department of Agriculture relating to agricultural commodities. Before the President takes any action under section 22 he is required in ordinary circumstances to await an investigation (including a public hearing) and recommendations by the Tariff Commission.

Section 22 of the Agricultural Adjustment Act, as amended, provided that no action should be taken under it in contravention of any international obligation of the United States. Legislation enacted by the Congress in June 1950 continued this provision, but also specified that in the future the United States should enter into no international agreement, or amendment to an existing agreement, which would not permit enforcement of section 22 to the full extent permitted by the General Agreement on Tariffs and Trade. The Trade Agreements Extension Act of 1951, however, reverses the provision of section 22 mentioned above. Under section 8(b) of this extension act, no trade agreement or other international agreement entered into at any time by the United States may be applied in a manner inconsistent with the requirements of section 22.

The Trade Agreements Extension Act of 1951 also provides for imposition of import restrictions, under the provisions of section 22, in emergency conditions resulting from the perishability of any agricultural commodity. Upon report by the Secretary of Agriculture of such emergency conditions, the Tariff Commission must make an immediate investigation, under either section 22 of the Agricultural Adjustment Act, as amended, or the escape clause provided for in section 7 of the extension act of 1951, and make recommendations to the President. The report of the Commission to the President and the decision of the President must be made within 25 calendar days after the submission of the case to the Tariff Commission. The President, however, may take immediate action if he deems it necessary, without awaiting the recommendations of the Commission.

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[16] This discussion, as well as the following discussion on sugar, relates only to quotas that limit the total quantity of imports. Such "absolute" quotas are to be distinguished from "tariff" quotas, established for a number of individual articles in various trade agreements. Under such quotas specified quantities of the articles may enter the United States at reduced rates of duty; imports in excess of such quotas are subject to higher rates of duty, but they are permitted to enter in unlimited quantities.

Cotton

In 1939 the United States, to prevent interference with programs of the United States Department of Agriculture affecting the production or marketing of domestic cotton, established import quotas for cotton having a staple of less than $1\frac{1}{8}$ inches (except harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch); for long-staple cotton $1\frac{1}{8}$ inches or longer; and for certain cotton wastes, consisting of card strips and of comber, lap, sliver, and roving waste. In 1940 the quota restrictions were removed on imports of cotton having a staple of $1\frac{11}{16}$ inches or more, and in 1942 they were removed on imports of card strips made from cotton having a staple of $1\frac{3}{16}$ inches or more. In 1946, harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch was made subject to quantitative import restrictions.

Since their adoption, the quotas on the various types of cotton and cotton wastes have been based on imports in a representative period before the imposition of restrictions. No change has since been made in the basic quotas, although supplemental quotas on certain long-staple cottons have been granted from time to time. As with the basic quotas, the supplemental quotas have been established by Executive order upon the finding by the Tariff Commission of a need for such action. The quotas on cotton having a staple of less than $1\frac{1}{8}$ inches (except harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch) and on cotton wastes are allocated by country of origin. The quotas on other cottons are global: they are not allocated by country of origin.

The quotas on short-staple cotton (cotton having a staple of less than $1\frac{1}{8}$ inches) and on cotton wastes have regularly not been completely filled, although some countries have supplied their full allocations. Similarly, the global quota on harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch has regularly been incompletely filled. In recent years (although not in earlier years) the quotas on long-staple cottons have been filled, and in the last 4 years additional quantities have been imported under supplemental quotas.

The Bureau of Customs administers the quantitative restrictions on imports of cotton. Regular annual quotas are administered without licenses or permits, entries being permitted in the order of arrival until the quotas are filled. When the quantity offered for entry at the opening of a quota period exceeds the quantity permitted entry, the quota is prorated among importers in proportion to the ratio of the amount of quota to the amount awaiting entry. On two occasions, entries under supplemental quotas for long-staple cotton have been subject to import licenses issued by the Tariff Commission; on the other two occasions they have not been subject to licenses.

In recent years, under the provisions of section 22, the Tariff Commission has conducted a number of investigations on the necessity for supplemental quotas for certain types of long-staple cotton. During 1950 and the first half of 1951 the Commission made two such investigations relating to imports of harsh rough cotton of "ordinary long staple," and two relating to imports of "extra-long-staple" cotton.

In March 1950 the annual quota for imports of long-staple cotton in the quota year ending January 31, 1951 (45,656,420 pounds), became exhausted. On June 30, 1950, the Commission ordered an investigation on harsh or rough cotton $1\frac{1}{8}$ inches or more but less than $1\frac{3}{8}$ inches in staple length. This investigation was ordered to determine whether, to meet the special requirements for this type of cotton, an additional quantity should be allowed to enter during the quota year ending January 31, 1951. A public hearing was held on July 18, 1950. The Commission's report, sent to the President on August 14, recommended that he permit entry during the then quota year of an additional quantity of 1,500,000 pounds of harsh or rough cotton (except cotton of perished staple, grabbots, and cotton pickings), white in color, and having a staple of $1\frac{3}{16}$ inches or more but less than $1\frac{3}{8}$ inches in length. On October 4, 1950, the President issued a proclamation giving effect to this recommendation.

On September 20, 1950, the Tariff Commission ordered an investigation of extra-long-staple cotton. This investigation was ordered to determine whether an additional quantity of cotton having a staple of $1\frac{3}{8}$ inches or more but less than $1\frac{11}{16}$ inches in length should be permitted to enter before the opening of the new quota year on February 1, 1951, in order to meet domestic requirements for this cotton, including demands arising from the expanded defense program. A public hearing was held on September 29, 1950. On October 6 the Commission recommended to the President that a supplemental quota, the total not to exceed 7,500,000 pounds, be established on such cotton for the remainder of the quota year ending January 31, 1951; that imports under the supplemental quota be allowed only to concerns which showed real need for such cotton; and that such imports be allocated by the Tariff Commission directly to such concerns. On October 12, 1950, the President issued a proclamation giving effect to these recommendations.

The Tariff Commission ordered another investigation on extra-long-staple cotton on November 29, 1950. This investigation was undertaken because of reports that domestic producers of certain products were experiencing difficulties in securing adequate supplies of such cotton. A public hearing was held on December 11, 1950. The information that the Commission obtained in the hearing and from other sources indicated that a second supplemental quota for this cotton was not warranted during the quota year ending January 31, 1951. On January 24, 1951, therefore, the Commission announced that it was not recommending to the President that a second additional quota for imports of such cotton be established.

The Tariff Commission ordered still another investigation on harsh or rough cotton of ordinary long staple on May 28, 1951. A public hearing was held on June 13. This investigation was undertaken because the annual quota for long-staple cotton (45,656,420 pounds), applicable to all cotton having a staple of $1\frac{1}{8}$ inches or more but less than $1\frac{11}{16}$ inches in length, was filled—mostly by Egyptian cotton—on February 1, 1951, the opening date of the current quota year. Because of this and other circumstances, the stock in the United States of Tanguis cotton—the variety which comprises virtually all United States consumption of the long-staple cotton described—was extremely low. Tanguis, a specialty cotton grown in Peru, has the particular length, strength, toughness, and resilience needed for use as a binder in the spinning of fine asbestos yarn, for mixing with wool in the spinning of worsted yarn on the French system, and for use in the manufacture of several industrial fabrics. The Commission stated in its report that importation of an additional 1,500,000 pounds of this cotton during the remainder of the quota year would not interfere with any program of the Department of Agriculture regarding cotton. On June 29, 1951, the President signed a proclamation, effective after 5 days, permitting entry under a supplemental import quota of 1,500,000 pounds of harsh or rough cotton (except cotton of perished staple, grabbots, and cotton pickings), white in color and having a staple of $1\frac{3}{16}$ inches or more but less than $1\frac{3}{8}$ inches in length.

Wheat and wheat flour

Since May 1941, under the provisions of section 22 of the Agricultural Adjustment Act, the United States has restricted imports of wheat and wheat flour, semolina, crushed or cracked wheat, and similar wheat products in order to prevent interference with programs of the Department of Agriculture to control the production or marketing of domestic wheat. Imports in any quota year are limited to 800,000 bushels of wheat and to 4 million pounds of wheat flour, semolina, and similar products. The quotas are allocated by country on the basis of imports in the 12-year period 1929–40. Canada has been allocated 795,000 bushels of the quota on wheat, and 3,815,000 pounds of the quota on wheat flour, semolina, and similar products. Since their adoption in 1941, the quotas have not been changed, but exceptions have been granted on distress shipments, on seed wheat, on wheat for experimental purposes, and on wheat imported during the war by the War Food Administrator (virtually all of which was used for animal feed).

The annual quota on imports of wheat from Canada has regularly been filled, usually on the opening day or shortly thereafter; that on imports of flour from Canada has been filled in recent years, although it was not in most earlier years. Quotas on imports from countries other than Canada generally have not been filled, partly because these quotas are for less than commercial quantities. If the imports for which entry is sought on the opening date of the quota year exceed the quantities permissible for the entire year, the quotas are allocated among importers in proportion to the ratio of the amount of quota to the amount awaiting entry.

Restrictions Under the Sugar Act

Beginning with the Sugar Act of 1934 and continuing with the Sugar Acts of 1937 and 1948, all sugar for the United States market, whether domestic or imported, has been limited by absolute quotas, except during periods of emergency when the President exercised his authority to suspend the restrictions.

Under the system of restrictions employed, the Secretary of Agriculture determines the quantity of sugar needed each year to supply the requirements of consumers in continental United States. This quantity is then allocated, in the manner specified by law, among the producing areas in continental United States, its outlying territories and possessions, the Republic of the Philippines, Cuba, and other foreign countries as a group. In general, the allocations have been apportioned according to the shares of domestic consumption which were obtained from the respective sources before the controls were imposed. The allocations to Cuba, the Philippines, Puerto Rico, and Hawaii have been accompanied by a limitation on the quantity which may be supplied as refined (direct consumption) sugar.

Since passage of the original legislation in 1934, the principal changes have related to the disposition of any unfilled portion of the Philippine quota, and to the method of allocating the quota between domestic and foreign areas. Under the act of 1934 the unfilled portion of the Philippine quota was allocated among other suppliers on the basis of their respective quotas and ability to supply the deficiency. Under the act of 1937 it was allocated in its entirety to foreign countries other than Cuba. Under the act of 1948 it is allotted almost entirely (98.64 percent) to Cuba.

In the period before the war the Philippines did not provide the total quantities of sugar permissible under the sugar act. At that time, the Philippine absolute quota under the sugar act was larger than the Philippine quota for duty-free imports provided for by the Philippine Independence Act. The Philippines generally supplied only the quantity of sugar eligible for free entry. The Philippine Trade Act of 1946 provided for an absolute quota on imports of sugar from the Islands, as contrasted with the duty-free quota formerly provided under the Philippine Independence Act. The Sugar Act of 1948 provided for the same quota on imports of Philippine sugar as the Philippine Trade Act of 1946 had. Since the war the Philippines has failed to fill its quota under the sugar act because of wartime damage to the Philippine industry. Should the industry recover completely by 1952, as seems probable, the Philippines is likely to fill its quota.

The form of the domestic quotas (including those for insular territories and possessions) has been changed by the various sugar acts. Under earlier legislation the quotas for domestic as well as for foreign areas were determined on a percentage basis, so that all supplying areas shared proportionately in any changes in the total quota. Under the Sugar Act of 1948 the quotas for domestic areas and for the Philippines are absolute quantities; hence any increment resulting from the expansion of consumption is conferred almost in its entirety on Cuba, unless, of course, Cuba is unable to fill it.

The Sugar Branch of the Department of Agriculture administers the import quotas on sugar by certification to the collector of customs at the port of entry. Certification, which is in order of shipment, is required at all times for entry of sugar from foreign countries other than Cuba and the Philippines. Certification for imports from these two countries is necessary only after 80 percent of the respective quotas for the year have been filled.

Although the quotas on sugar have been restrictive in most years, they are hardly so at present, since the price of sugar in the United States (duty-paid) is less than the price f.o.b. Cuba for free-market sugar. In 1950, after the outbreak of hostilities in Korea, the quotas for all areas were increased from 7,500,000 tons to 8,700,000 tons. The result was that, after the reallocation of deficits, the quotas were not restrictive of deliveries from any major supplying area. The initial quota for 1951—8,000,000 tons—is not proving to be restrictive for any supplying area except Puerto Rico.

Restrictions Under the Second War Powers Act

During 1950 and the first half of 1951 the United States continued the practice of requiring licenses for imports of certain commodities, under the provisions of the Second War Powers Act of 1942.

The extensive authority conferred on the President during World War II to control imports, by means of licenses issued to importers for individual shipments, was continued after the end of the war from year to year for fats and oils (including oil-bearing materials, fatty acids, butter, soap, and soap powder, but excluding petroleum and petroleum products and coconuts and coconut products) and rice and rice products. These restrictions on imports have been maintained primarily as measures to aid in the equitable distribution of products which are in short supply in the world, or to assist in the orderly liquidation of temporary surpluses of stocks owned or controlled by the Government.

Since fats and oils were removed from international allocation in February 1949, the number of products to which the restrictions apply has been reduced considerably. Commodities subject to import licensing on February 1, 1951, were butter; butter oil; flaxseed; flaxseed screenings; linseed oil, and combinations and mixtures in chief value of such oil; peanuts, blanched, roasted, prepared, or preserved; peanut butter; peanut oil; peanuts, shelled or not shelled; paddy rice; uncleaned or brown rice; cleaned or milled rice; cleaned Patna rice for use in canned soup; rice meal, flour, polish and bran;

rice starch; and broken rice. (For imports of these products in 1950, see table 4.) The Department of Agriculture has programs relating to the production or marketing of all these commodities. The United States has granted duty reductions or duty bindings in the General Agreement on Tariffs and Trade or in bilateral trade agreements on all the commodities mentioned above, except the following: Linseed oil, and combinations and mixtures in chief value of such oil; blanched, roasted, prepared, or preserved peanuts; shelled peanuts; paddy rice; uncleaned or brown rice; and cleaned Patna rice for use in canned soups.

TABLE 4.—*Imports of the oil-bearing materials, fats and oils, rice, and rice products subject to quantitative import control, 1950*

Item	Import class No.	U. S. imports for consumption, 1950 [1]		
		Quantity		Value
		Unit	Amount	
Butter	0044.000	Pounds	10,054	$5,835
Butter oil	1423.200	do.	...	...
Flaxseed (linseed)	2233.000	Bushels	1,711	7,794
Flaxseed (screenings)	2945.000	Pounds	12,841,060	148,210
Linseed oil, and combinations and mixtures in chief value of such oil.	2254.000	do.	48,861	13,372
Peanuts, blanched, roasted, prepared or preserved.	1380.080	do.	...	...
Peanut butter	1380.090	do.	...	...
Peanut (groundnut) oil	1427.000	do.	...	...
Peanuts, shelled or not shelled	1367.000	do.	8,370	2,454
	1368.000	do.	3,480	1,099
Rice:				
Paddy	1051.000	do.	...	...
Uncleaned or brown rice	1051.100	do.	...	...
Cleaned or milled rice	1053.000	do.	33,187	4,862
Patna rice, cleaned, for use in canned soups.	1054.000	do.	...	...
Rice meal, flour, polish and bran.	1059.100	do.	180,107	42,243
Rice starch	2815.100	do.	155,165	15,554
Broken	1059.200	do.	4,711,400	222,323

[1] Preliminary.

Source: List of articles (as of Feb. 1, 1951), U. S. Department of Agriculture, Production and Marketing Administration; imports for consumption, U. S. Bureau of the Census.

Imports of commodities subject to the restrictions here considered are controlled by permits issued by the Department of Agriculture. Permits have been issued freely for imports of butter into Hawaii or Alaska, when deliveries from the United States were interrupted by transit strikes; for imports of brewers' rice, when the domestic crop resulted in a short supply; for imports of rice or rice products for ceremonial or festival use by Asiatics in the United States; and for imports of a type of ceramic printing ink (in chief value of linseed oil) not obtainable from domestic sources. In most other instances, however, applications for import permits have been denied.

Restrictions Under the Philippine Trade Act

Absolute quotas on imports from the Philippines of rice, cigars, scrap and filler tobacco, coconut oil, and buttons of pearl or shell were established by the Philippine Trade Act of 1946. That act continued with some modification the absolute quota on imports of sugar from the Philippines provided for in the Sugar Act of 1937. It also continued without change the absolute quota on imports of hard-fiber cordage provided for in the Philippine Independence Act of 1939. Besides the quotas specifically provided for, the Philippine Trade Act of 1946 authorizes the President to establish import quotas on other Philippine articles which he finds, after investigation by the Tariff Commission, are coming, or are likely to come, into substantial competition with like articles which are the product of the United States. Thus far no action has been taken under this provision.

TABLE 5.—*Commodities subject to quotas under the Philippine Trade Act of 1946: United States imports for consumption from the Philippine Republic, 1950*

Item	Unit of quantity	Established quota	Imports from the Philippine Republic[1]
Buttons, pearl or shell	Gross	850,000	743,303
Cigars	Number	200,000,000	793,558
Coconut oil	Pounds	448,000,000	133,310,303
Cordage	....do	6,000,000	4,415,942
Rice	....do	1,040,000	217
Sugar, refined Sugar, unrefined	....do ....do	1,904,000,000	923,910,927
Tobacco, scrap and filler	....do	6,500,000	541,475

[1] Preliminary.

Source: U. S. Bureau of Customs.

Absolute quotas on certain Philippine products are a part of extensive provisions of the Philippine Trade Act for the transition of Philippine products, upon entry into the United States, from their present duty-free status to full-duty status. Under the act those commodities which are subject to import quota, together with all other Philippine products, will become dutiable by gradual steps, beginning in 1954. In 1974, when the full duties will apply, the quotas will be removed. The quotas on imports of Philippine products, as well as the other provisions of the Philippine Trade Act, were accepted by the Philippine Government on July 3, 1946; in 1947 they were incorporated in an executive agreement between the United States and the Philippine Republic.

In some instances the quotas provided for in the Philippine Trade Act would have restricted imports in the period before the war, but none of them have been restrictive since the war. Imports under the quotas in 1950 are given in table 5.

Restrictions Under Copyright Legislation

For many years United States copyright legislation has prohibited the importation of any copies of books, in English, printed or bound abroad, on which an American copyright is effective. Copyrighted books which have been both printed in the United States, from type set or plates made in this country, and bound in the United States may be reimported. This legislation (title 17, U. S. code, secs. 16 and 107) was modified in 1949, however, to permit the importation, under interim copyright, of up to 1,500 copies of books or periodicals, in English, published abroad.

Other Prohibitions and Restrictions on Imports

In many of the prohibitions and restrictions on imports imposed by the United States, protection to domestic producers, if it results therefrom, is more or less incidental to other purposes. Such measures include certain prohibitions or restrictions on imports contained in the Tariff Act of 1930; in the Federal Food, Drug, and Cosmetic Act; in the Plant Quarantine Act; and in laws (especially those of 1890 and 1903) to prevent the introduction of animal diseases. As restriction or prohibition of imports is incidental to the enforcement of many legislative acts, the following discussion cites only the more important examples.

Tariff Act of 1930

The Tariff Act of 1930 authorizes the President to exclude imports into the United States of products from a country which persists in discriminating against products of the United States (sec. 338); the act also authorizes him to exclude imports which are in unfair competition with products of the United States (sec. 337). It prohibits the importation (except when the domestic supply is inadequate) of articles produced by forced labor (sec. 307). It prohibits the importation of articles bearing, without the authority of the owner, a trade-mark registered in the United States (sec. 526). It provides, in general, for withholding entry of articles not marked as required by the act (sec. 304), and it prohibits specifically the entry of watches (par. 367) and clocks (par. 368) not marked exactly as the law specifies for those articles. It prohibits the importation of lottery tickets, of articles for immoral purposes, and of publications or drawings containing threats to take life or inflict bodily harm, or advocating treason, insurrection, or resistance to law (sec. 305). It prohibits importation of the feathers (par. 1518) or eggs (par. 1671) of wild birds, and importation of wild mammals or birds in violation of foreign law (sec. 527). It prohibits the importation of meats unfit for human food and of fresh meat and livestock from countries where rinderpest or foot-and-mouth disease prevails (sec. 306). Finally, it prohibits the importation of pepper shells (par. 781) used for the adulteration of pepper. These prohibitions of or restrictions on imports are administered by the Treasury Department, although provision is made, in specified circumstances, for investigation by the Tariff Commission (as in secs. 337 and 338) or for certification or regulation by the Secretary of Agriculture (as in sec. 306).

Federal Food, Drug, and Cosmetic Act

Under the provisions of the Federal Food, Drug, and Cosmetic Act, certain imported articles are refused entry and the articles destroyed if the Federal Security Administrator finds them to be (1) prepared under unsanitary conditions; (2) articles the sale of which is forbidden or restricted in the country of origin; or (3) adulterated or misbranded.

Plant Quarantine Act

Under the Plant Quarantine Act, imports of nursery stock and other plants and plant products are subject to entry permit by the Department of Agriculture. The regulations issued under that act are designed to prevent the introduction of pests or diseases.

Law restricting entry of animals and animal products

A major trade restriction, already referred to, is the prohibition in the Tariff Act of 1930 of imports of cattle, sheep, or other domestic ruminants or swine, and fresh or frozen meat thereof, from any country where rinderpest or foot-and-mouth disease exists. Under this restriction, imports into the United States of most livestock and fresh or frozen meat are excluded from virtually all countries except Canada,[17] Iceland, Greenland, Ireland, Northern Ireland, the Channel Islands, Norway, Australia, and New Zealand. Other principal laws controlling the entry of animals and animal products are the acts of August 30, 1890, and of February 2, 1903.

The act of 1890 prohibits the importation of ruminants (cattle, sheep, goats, etc.) and swine which are affected with a communicable disease or which have been exposed to such disease within 60 days of shipment from the

[17] Early in 1952 there was an outbreak of foot-and-mouth disease in the area of Regina, Saskatchewan. Order 373, amendment 3, of the U. S. Bureau of Animal Industry, which became effective February 26, 1952, prohibited imports from Canada of all cloven-footed animals and the meat therefrom.

foreign country; provides for the inspection of all such animals imported; authorizes their retention in quarantine when necessary; and prescribes measures for the disposal of such animals as are found to be infected with or to have been exposed to communicable disease. The act of 1903 authorizes the Secretary of Agriculture to take such measures as may be deemed necessary to prevent introduction from a foreign country of any communicable disease of animals.

Under the acts of 1890 and 1903 the Bureau of Animal Industry exercises extensive general controls over the entry of animals and animal products. The more important of such controls are contained in Order 379, relating to imports of livestock and other animals; Order 371, relating to imports of animal byproducts, hay, and straw; Order 373, containing restrictions (in part under the Tariff Act of 1930) to prevent specifically the entry of rinderpest, foot-and-mouth, fowl pest, and Newcastle diseases; and part 96 of the Code of Federal Regulations, containing restrictions on the importation of animal casings.

MIXING REGULATIONS FOR RUBBER

During the latter part of 1950 and the first half of 1951, the character and purpose of the United States mixing regulations for rubber were changed materially. After World War II ended, the United States, to preserve a domestic synthetic-rubber industry for reasons of national security, continued its wartime practice of controlling the use of natural and synthetic rubber. The postwar controls required that specified minimum proportions of synthetic rubber be used in the manufacture of certain rubber products, principally tires and tubes for motor vehicles.

With the outbreak of hostilities in Korea, however, the conservation of the supply of rubber for national defense, and its equitable distribution, became the primary objectives of Government controls on rubber. As part of a broad program of controls that was developed over several months to achieve these objectives, the National Production Authority of the Department of Commerce on March 1, 1951, issued new mixing regulations for a comprehensive list of rubber manufactures. These regulations, which are in the form of so-called manufacturing specifications, fix the percentage of natural rubber that may be used in the manufacture of each rubber product.[18] Under the regulations, some rubber products may contain no natural rubber; others may contain only a specified percentage of natural rubber; and still others may be made entirely of natural rubber.

Until recently, the United States mixing regulations for rubber provided that rubber products imported into the United States could not contain

[18] U. S. Department of Commerce, National Production Authority, Order M–2, as amended Mar. 1, 1951.

more natural rubber than was permitted in the same product manufactured domestically. Effective on May 1, 1951, this provision was eliminated from the regulations.[19]

The regulations in force during most of 1950 were prescribed under the authority contained in the Rubber Act of 1948 (Pub. Law 469, 80th Cong.), which provides for Government ownership and control of production and consumption of synthetic rubber in the United States. This act, which became effective April 1, 1948, was, on June 24, 1950, extended unchanged until June 30, 1952 (Pub. Law 575, 81st Cong.).[20] Beginning on November 1, 1950, the mixing regulations for rubber were issued in conjunction with other controls on rubber pursuant to both the Rubber Act of 1948 and the Defense Production Act of 1950 (Pub. Law 774, 81st Cong.).

The rubber-mixing regulations of the United States do not conflict with any of its trade-agreement obligations. Article III of the General Agreement exempts from the prohibition against mixing regulations those which were in force on April 10, 1947, or similar regulations which are not more restrictive. The mixing regulations in effect in this country before March 1951 were not more restrictive as to the use of imported rubber than those in force in April 1947. In any event, the current regulations do not conflict with this country's trade-agreement obligations inasmuch as article XXI of the General Agreement permits a country to take such action as is necessary to protect its essential security interests.

During the last half of 1950 and the first half of 1951 the United States mixing regulations for rubber apparently had little or no hampering effect on imports of natural rubber. United States imports of rubber during that period, which were both for stockpiling and for current consumption, were limited primarily by the supply available.

SUBSIDIES

Article XVI of the General Agreement provides that "if any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the Contracting Parties in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary."

In accordance with this article, the United States on April 3, 1950, sub-

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[19] U. S. Department of Commerce, National Production Authority, Order M-2, as amended May 1, 1951.

[20] The provisions of the Rubber Act of 1948 were discussed in detail in *Operation of the Trade Agreements Program* (second report), pp. 77–78.

mitted its notification of subsidies in effect during the fiscal year 1949–50, and, on April 13, 1951, its notification of subsidies in effect during the fiscal year 1950–51.[21] The following discussion relates to United States subsidies in effect during the fiscal year 1950–51, the period covered by this report.

In its report to the Contracting Parties of April 13, 1951, which covered all subsidies that must be reported under article XVI of the General Agreement, the United States noted that its use of subsidies which operate directly or indirectly to increase exports or to reduce imports had been greatly curtailed during the year. This curtailment of the use of subsidies was attributable in part to the greatly changed international commodity situation after the outbreak of hostilities in Korea. To a great extent it resulted from the disposition of surplus commodities through domestic donation and diversion programs and through foreign donations or sales for relief purposes.[22]

The United States reported that the subsidies it maintained during the fiscal year 1950–51 fell into two categories: (1) Government support of agricultural prices and (2) export-subsidy programs.

During 1950–51, price-support operations by the United States were conducted entirely under the Agricultural Act of 1949. That act makes it mandatory to support prices of the following commodities: (a) The so-called basic commodities—corn, wheat, cotton, tobacco, rice, and peanuts—and (b) the so-called designated nonbasic commodities—wool (including mohair), tung nuts, honey, Irish potatoes (through the 1950 crop only), milk, and butterfat. Under the Agricultural Act of 1949, price-support operations are discretionary for a number of other commodities. During the fiscal year 1950–51, programs were announced covering the 1950 production of dry edible beans, gum naval stores, flaxseed, eggs, soybeans, grass seed, and winter-cover-crop seed.

Export-subsidy programs maintained by the United States during the fiscal year 1950–51 were conducted under section 32 of the Agricultural Adjustment Act, as amended, under section 407 of the Agricultural Act of 1949, and under section 2 of the International Wheat Agreement Act of 1949.

Section 32 of the Agricultural Adjustment Act, as amended, provides that certain funds shall be made available annually to the Secretary of Agriculture for a number of purposes, including the encouragement of the exportation of agricultural products by benefit payments in connection with exports.

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[21] Ten countries, including the United States, indicated that they employed subsidies within the meaning of art. XVI. The subsidies employed by countries other than the United States are discussed in ch. 5 of this report.

[22] These methods of disposition were considered by the United States as not subject to the provisions of art. XVI, since the commodities involved did not enter commercial channels. Details of these dispositions, however, were included by the United States in an appendix to its notification.

During the fiscal year 1950–51 the United States had in effect export subsidies under section 32 with respect to cotton, fresh apples and pears, dried prunes and raisins, honey, and citrus fruits and products.

Section 407 of the Agricultural Act of 1949 provides in effect that the Commodity Credit Corporation may sell for export, at a loss, any commodity owned or controlled by it. During the fiscal year 1950–51 export sales under section 407 (other than sales for relief purposes) consisted of sales based on the announced price lists of the Commodity Credit Corporation, and special government-to-government sales by the Corporation. Of the total value of sales from the Commodity Credit Corporation's "export price list," 6 percent was of a type which must be reported under article XVI of the General Agreement. During the fiscal year 1950–51 such sales were of dried whole eggs, nonfat dry milk solids, dry edible beans, dry edible peas, and white potatoes. During the year the Corporation also sold directly to other governments, at reduced prices, nonfat dry milk solids (to Denmark and Japan) and Cheddar cheese (to the United Kingdom).

In the special case of wheat, the Commodity Credit Corporation makes payments to exporters (on a reimbursable basis from congressional appropriations) of the difference between the domestic prices and the Wheat Agreement prices. In addition, wheat sold by the Commodity Credit Corporation to purchasing governments under the Wheat Agreement also receives the benefit of the export subsidy, but such subsidies are not of the type defined by article XVI of the General Agreement.

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