

UNITED STATES TARIFF COMMISSION

OPERATION OF THE
TRADE AGREEMENTS PROGRAM

18th Report
January-December 1966



TC Publication 252

UNITED STATES TARIFF COMMISSION

Stanley D. Metzger, Chairman

Glenn W. Sutton, Vice Chairman

Penelope H. Thunberg

Bruce E. Clubb

Donn N. Bent, Secretary

Address all communications to

United States Tariff Commission

Washington, D. C. 20436

UNITED STATES TARIFF COMMISSION

OPERATION OF THE TRADE AGREEMENTS PROGRAM

18th Report
January-December 1966

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

Washington
1968



Preface

This report, the 18th issued by the United States Tariff Commission on the operation of the trade agreements program, relates to the period from January 1, 1966, through December 31, 1966. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program. 1/

During the year covered by this report, the sixth (Kennedy) round of multilateral trade-agreement negotiations continued to be the principal concern of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT). The Contracting Parties held their 23rd Session in the spring of 1966. Also during the year, the members of the European Free Trade Association (EFTA), after having completed a 6 $\frac{1}{2}$ -year transition period, achieved their basic objective of establishing a free trade area for industrial commodities. In recognition of that achievement, the 18th report presents a comprehensive account of the development of the EFTA, as well as an analysis of the effect of this regional arrangement on the trade between its members and third countries (including the United States).

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

The 18th report also covers other important developments during 1966 respecting the trade agreements program. These include the actions of the United States relating to its trade agreements program; the major developments relating to the general provisions and administration of the GATT; and the major commercial policy developments in countries with which the United States has trade agreements.

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

This report was prepared principally by John F. Hennessey, Jr., Magdolna Kornis, and George C. Nichols.

C O N T E N T S

Chapter 1. U.S. Implementation of the Trade Agreements Program

	<u>Page</u>
Status of U.S. trade-agreement obligations-----	1
Trade-agreement negotiations-----	5
The sixth round of tariff negotiations under the GATT-----	5
Negotiations regarding the revised U.S. tariff schedules---	9
Implementation of the U.S.-Canadian Automotive Agreement-----	12
U.S.-Canadian production and trade in automotive products--	13
Action on petitions filed-----	15
Participation in the Long-Term Cotton Textile Arrangement-----	17
Government actions affecting trade-agreement items-----	22
The escape clause-----	23
National security investigations-----	25

Chapter 2. Operation of the General Agreement on Tariffs and Trade

Introduction-----	28
The Kennedy round of tariff negotiations-----	31
Exceptions lists-----	33
Nontariff trade barriers and the anti-dumping code-----	35
Tariff disparities-----	38
Offers of Concessions for Agricultural Products-----	39
Textiles sector-----	42
Iron and steel sector-----	43
Aluminum sector-----	44
Paper and pulp sector-----	45
Chemicals sector and the "American Selling Price" system of customs valuation-----	46
Activities in the interest of less-developed countries-----	48
Introduction of Part IV into the General Agreement-----	48
Trade of less-developed countries-----	51
Removal of trade barriers-----	52
Adjustment assistance measures-----	53
Expansion of trade among less-developed countries-----	54
Preferences by developed countries to less-developed countries-----	55
International commodity trade-----	55
Legal amendments to the General Agreement-----	56
Trade and aid studies-----	57

Chapter 2. Operation of the General Agreement on
Tariffs and Trade--Continued

	<u>Page</u>
Trade relationships between developed and less- developed countries-----	57
GATT international trade center-----	61
Regional economic arrangements-----	63
European Economic Community-----	64
The Agreement of Association with Greece-----	67
The Agreement of Association with Turkey-----	68
EEC-Association of African and Malagasy states-----	70
European Free Trade Association-----	72
Latin American Free Trade Association-----	75
Central American Common Market-----	77
Arab Common Market-----	80
Central African Economic and Customs Union-----	83
New Zealand-Australia Free Trade Agreement-----	84
United Kingdom-Ireland Free Trade Area Agreement-----	85
Actions relating to GATT obligations-----	86
Import restrictions applied contrary to GATT and not covered by waivers-----	87
Import restrictions for balance-of-payments purposes-----	89
Reports on consultations-----	90
Brazil-----	90
Ceylon-----	91
Finland-----	93
Ghana-----	94
Greece-----	96
Iceland-----	97
Israel-----	98
New Zealand-----	100
South Africa-----	101
Spain-----	102
Ceylon's temporary duty increases-----	103
Indonesia's request for waiver from special exchange agreement-----	105
Import restrictions on agricultural products-----	106
Luxembourg-----	106
The United States-----	108
Preferential tariff treatment-----	111
Australian request respecting imports from less-developed countries-----	111
Australian preferences for products of Papua and New Guinea-----	113
Italian preferences for products of Libya-----	113
Italian preferences for products of Somalia-----	114
United Kingdom preferences for products of dependent overseas territories-----	115
Escape-clause actions by various countries-----	116

Chapter 2. Operation of the General Agreement on
Tariffs and Trade--Continued

	<u>Page</u>
Modifications of tariff concessions-----	117
Renegotiation of tariff schedules-----	117
Negotiations to modify designated concessions-----	119
Other actions related to tariff schedules-----	121
Reduction of import duties and other trade restrictions-----	124
Representations and complaints-----	129
Other developments relating to the General Agreement-----	130
Commodity problems-----	130
Efforts to expand trade in primary products-----	130
Disposal of commodity surpluses-----	131
Implementation of the cotton textiles agreement-----	136
Changes in subsidies and state-trading measures-----	140
Nonapplication of the Agreement between particular contracting parties-----	141
The simplification of consular formalities-----	143

Chapter 3. Major Commercial Policy Developments in
Countries with which the United States has Trade
Agreements

Introduction-----	145
European Economic Community-----	147
Reduction of intra-Community customs duties-----	147
Common external tariff-----	148
Common agricultural policy-----	150
Regulations respecting olive oil-----	153
The European Agricultural Guidance and Guarantee Fund--	154
Association agreements and related activities-----	157
European Free Trade Association-----	160
Latin American Free Trade Association-----	160
Exchange of tariff concessions-----	162
Complementation agreements-----	164
Industrial sector meetings-----	164
Resolutions of the Permanent Executive Committee concerning commercial policy-----	165
Establishment of a multilateral clearing system-----	165
Water transport agreement-----	166
Escape clause actions-----	167
Miscellaneous developments-----	168
Development of rules of origin-----	168
Proposed mechanism to resolve tariff disputes-----	169
Uniform tariff nomenclature-----	169
Cooperation with the Central American Common Market----	169
New members-----	170

Chapter 3. Major Commercial Policy Developments in
Countries with which the United States has Trade
Agreements--Continued

	<u>Page</u>
Central American Common Market-----	171
Elimination of restrictions on intraregional trade-----	171
Common external tariff-----	172
Common industrial policy-----	173
Expansion of intraregional trade and trade with the United States-----	173
Central American-Mexican economic cooperation-----	174
Participation of Panama in Central American councils-----	175

Chapter 4. The European Free Trade Association

Introduction-----	179
EFTA in broad international context-----	181
The establishment and consolidation of EFTA-----	184
EFTA and the GATT-----	188
Elimination of intra-EFTA trade restrictions-----	192
Industrial commodities-----	192
Import duties-----	193
Quotas-----	196
Administrative and technical requirements-----	197
Rules of competition-----	198
Agricultural and marine products-----	201
Changes in the foreign trade patterns of EFTA countries-----	206
The foreign trade patterns of EFTA-----	207
Intra-EFTA trade-----	210
EFTA trade with the United States-----	213
The EFTA market for U.S. products-----	218
Prospects-----	223

Chapter I

U.S. Implementation of the Trade Agreements Program

In 1966, the United States had trade-agreement obligations in force with most countries of the world. Most of these obligations had been contracted as a result of U.S. participation in the General Agreement on Tariffs and Trade (GATT). Some had been contracted through bilateral agreements between the United States and certain individual countries.

This chapter discusses the implementation of the U.S. trade-agreement obligations during 1966. The major topics are treated in 5 separate sections, as follows: Status of U.S. trade-agreement obligations; trade-agreement negotiations during the year; implementation of the U.S.-Canadian automotive agreement; participation in the Long-Term Arrangement Concerning Trade in Cotton Textiles; and U.S. Government actions affecting trade-agreement items.

Status of U.S. Trade Agreement Obligations

U.S. trade-agreement obligations have been incurred through 2 basic types of agreements: Multilateral, resulting through U.S. participation as a contracting party to the General Agreement on Tariffs and Trade, and bilateral, resulting from various bilateral negotiations with individual countries. In recent years, commitments negotiated under multilateral arrangements have predominated; the once-numerous U.S. bilateral agreements have declined in number to a comparative few, owing principally to the accession to the GATT of former bilateral partners of the United States.

At the close of 1966, the United States had trade-agreement commitments in force with 76 countries. Trade-agreement obligations with 68 of these countries were the result of their common membership with the United States as full contracting parties to the GATT. Similar obligations were in effect with 4 provisional contracting parties to the GATT 1/ and with 4 non-members of the GATT through bilateral trade agreements. During 1966, 4 countries acceded to full membership in the GATT; the United States already had trade-agreement obligations in force with 2 of these countries. 2/

The countries with which the United States had trade-agreement commitments in force on December 31, 1966, were as follows:

GATT - Full Contracting Parties 3/

Australia	Central African	Cyprus	Germany, Fed.
Austria	Republic	Dahomey	Rep. of
Belgium	Ceylon	Denmark	Ghana
Brazil	Chad	Dominican Republic	Greece
Burma	Chile	Finland	Guyana <u>5/</u>
Burundi	Congo (Brazza-	France	Haiti
Cameroon	ville)	Gabon	India
Canada	Cuba <u>4/</u>	Gambia	Indonesia

1/ Obligations with 2 of these countries (Argentina and Iceland) resulted from both provisional GATT membership and bilateral trade agreements.

2/ Yugoslavia and Switzerland had been provisional contracting parties to the GATT; Switzerland also had a bilateral trade agreement in force with the United States.

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

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

5/ Acceded during 1966.

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

GATT - Provisional Contracting Parties

Argentina	Tunisia
Iceland	United Arab Republic

Bilateral Trade Agreements

Argentina <u>2/</u>	Iceland
El Salvador <u>3/</u>	Paraguay <u>3/</u>
Honduras <u>3/</u>	Venezuela

The accessions by the 4 countries to full membership in the General Agreement during 1966 did not result in a material increase in U.S. trade-agreement obligations. Two of the 4 countries that became full members of the GATT in 1966--Switzerland and Yugoslavia--acceded under Article XXXIII of the General Agreement, which provides for the customary procedure of becoming a contracting party. The 2 other new

1/ Acceded during 1966.

2/ By an exchange of notes, the governments of the United States and Argentina in August 1966 recognized that the trade agreement negotiated in 1941 had been rendered inoperative by the entry into force of new tariff schedules by both the United States and Argentina and provided for the termination of the agreement and related understandings upon the accession of Argentina to full membership in the GATT.

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

full members--Guyana and Rwanda--acceded under Article XXVI of the General Agreement, which permits a contracting party to sponsor the accession of a former territory on behalf of which it had previously accepted the rights and obligations of the General Agreement. 1/

The accession by Switzerland to full membership in the GATT did not result in any change in U.S. or Swiss import duties on commodities traded between the United States and that country. Switzerland had been a provisional member of the GATT for several years before 1966, and it had had a bilateral trade agreement in force with the United States since 1936. As a result, each country had been according most-favored-nation treatment to the other. The bilateral agreement was not terminated on Switzerland's accession to full membership, but suspended as long as both countries remain members of the GATT.

The United States had had no trade agreement commitments in force with Yugoslavia before that country acceded fully to the General Agreement in 1966. 2/ The United States, however, had applied trade-agreement rates of duty to goods imported from that country under its traditional policy of "generalizing" its trade-agreement concessions to all countries. The accession by Yugoslavia to full membership in the GATT did not, therefore, result in any change in the prevailing U.S. duties on commodities imported from that country.

1/ Before achieving its independence in 1966, Guyana had been a Crown Colony of the United Kingdom. Rwanda had been a United Nations trusteeship territory, administered by Belgium, before achieving its independence in 1962.

2/ Although Yugoslavia became a provisional member of the General Agreement in 1963, the United States did not accept the declaration of provisional accession for it.

During 1966, several countries participated in the activities sponsored under the General Agreement, either on a de facto basis 1/ or under special arrangements, thereby establishing limited trade-agreement relations with the United States. On December 31, 1966, 8 countries--Algeria, Botswana, Congo (Kinshasa), Lesotho, the Maldives Islands, Mali, Singapore, and Zambia--were applying the General Agreement on a de facto basis, while 2 countries--Cambodia and Poland--did so under special arrangements. 2/

Trade-Agreement Negotiations

During 1966, the United States continued to participate in the sixth (Kennedy) round of trade agreement negotiations sponsored under the General Agreement on Tariffs and Trade. The United States also negotiated with several countries concerning claims for compensation arising from its adoption in 1963 of revised tariff schedules.

The sixth round of tariff negotiations under the GATT

The sixth round of GATT tariff negotiations, which had begun in May 1964, was still in process at Geneva, Switzerland, throughout 1966.

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

2/ Cambodia had been participating in the work of the Contracting Parties since November 1958 under a special arrangement similar to a provisional accession; Poland had been participating since November 1959 on a more limited basis.

These negotiations were expected to terminate by June 1967. ^{1/}

During 1966, the Contracting Parties to the GATT continued to negotiate on the many problems involved in the Kennedy round. They discussed extensively various problems of mutual interest, including: Tariff disparities; nontariff barriers; the "American Selling Price" method of valuation for duty purposes; the establishment by the European Economic Community (EEC) of acceptable minimum prices for specific product groups, especially for grains and certain chemicals; and aid in the form of food (mainly grains) to the less-developed countries. By the end of the year under consideration, the participants reportedly had made considerable progress, but the major issues had yet to be resolved.

During 1966 the negotiators continued their discussions on the problems of tariff disparities and nontariff barriers. Tariff disparities were deemed to exist when the respective rates of duty within one country's tariff schedule differed more widely from one another than did those in the tariff schedules of other countries--even though the average rate of duty for all commodities might be approximately the same. As linear duty reductions would not eliminate such disparities, it was argued that special duty-reduction rules should be applied to them. Nontariff barriers to trade, on the other hand, were held to consist of a variety of direct quantitative restrictions, legal devices, and administrative regulations that discriminate against

^{1/} For a more detailed account of the procedures involved in the preparation for trade-agreement negotiations, as provided in the Trade Expansion Act of 1962, consult the Appendix to Operation of the Trade Agreements Program, 17th report, pp. 85-97. See also chapter 2 of this report.

imported commodities. The countries participating in these discussions made some progress toward mutual agreement during 1966; it appeared at the close of the year that some reconciliation of differences on the problem of tariff disparities might be achieved early in 1967, but that the prospects for the significant removal of nontariff barriers by the negotiating countries were slight.

At the negotiations, the Contracting Parties spent considerable time during 1966 discussing the "American Selling Price" system of valuation. Under this valuation system, the dutiable value of some U.S. imports of benzenoid chemicals and certain other products has been based on the "American Selling Price" (ASP) of similar domestic products rather than the export value or foreign value of the imported products. ^{1/} The European Economic Community and the United Kingdom sought the elimination of the ASP valuation system in return for reductions in their own tariff rates on imports of chemicals. The United States offered to eliminate the ASP system where applicable (ad referendum, since elimination would require approval by Congress), in

^{1/} The term "American Selling Price" (ASP) refers to the wholesale price in the United States of a domestically produced article like or similar to, or competitive with, an imported product. In the case of benzenoid chemicals, if no competitive domestic product is marketed in the United States, an imported chemical is dutiable on the basis of U.S. value, i.e., the wholesale market price in the United States of identical or similar imported merchandise, less the import duty, inter-country freight and insurance, related costs, and profits; if U.S. value cannot be established, the imported article is appraised on the basis of its export value in the country of origin or its constructed value.

return for significant tariff concessions from other countries, as well as substantial reductions of certain nontariff barriers. 1/

Only limited progress was made by the negotiators in 1966 in reaching agreement to reduce their respective import duties in various categories of products. The GATT members achieved some progress during the year toward agreement on the reduction of customs duties applicable to such products as steel, aluminum, and pulp and paper. Nevertheless, the final reductions of such duties were expected to be moderate, owing to the reluctance of the major producer-countries to eliminate protective barriers. The Contracting Parties made little progress during 1966 toward agreement to reduce duties on textiles. Textile interests in both the United States and other countries continued to be highly concerned about imports of competing textile products from foreign sources. The United States, on its part, favored an extension of the Long-Term Arrangement Concerning Trade in Cotton Textiles for more than the usual 1-year period. 2/

During 1966 the negotiators sought to establish acceptable maximum and minimum prices for wheat and other grains, through the International Wheat Agreement. The participants in the Agreement included the major world producers and exporters of grain. The United States, on its part, wanted a level of prices that would permit greater access to European

1/ The Tariff Commission held public hearings and prepared a list of foreign-value "equivalents" of the rates levied under the ASP valuation system. These "equivalent rates" were calculated on the assumption that they generally would yield the same amount of duty as did the prevailing rates levied on ASP valuations.

2/ For a detailed description of the U.S. participation in the LTA on cotton textiles, see p. 17.

markets for its grain. It also proposed that the major grain-producing and exporting countries set aside substantial quantities of grains to be distributed as food aid to undernourished people in developing countries. The quantities to be thus allocated were to be determined by the Contracting Parties and the necessary financing ^{1/} was to be provided jointly by the leading grain-exporting and grain-importing countries. By December 1966, the Contracting Parties had examined the U.S. food-aid proposal and appeared to be close to agreement on grain prices.

As indicated above, the Kennedy-round negotiations had yielded only a few substantive achievements by the end of 1966. Most participants in the negotiations, however, believed that the principal issues involved had been thoroughly explored and that most of them could be resolved before the conclusion of the Kennedy round scheduled for June 30, 1967.

Negotiations regarding the revised U.S. tariff schedules

During 1966, the United States continued to negotiate with its GATT trading partners with a view to bringing its schedule of concessions.

^{1/} The cost of providing grains to relieve urgent needs in developing countries was to be shared in varying proportions by the leading world exporters and importers of grains; these included the United States, Canada, Australis, the European Economic Community, the United Kingdom and other countries of the European Free Trade Association, and Japan. The exporting countries were to donate quantities of grain primarily, whereas the importing countries were to contribute monetary aid to finance added quantities of grain and to help defray the shipping costs. All participating nations having merchant fleets were to make shipping space available for transporting the food to its destinations.

under the GATT into conformity with the newly-adopted Tariff Schedules of the United States (TSUS). 1/ By the end of the year, these renegotiations were largely completed. During the year the United States successfully renegotiated its concessions with 2 GATT members--the United Kingdom and Japan; earlier, it had reached agreement with 25 other contracting parties 2/ and with one that was only provisionally so, Iceland.

The entry of the TSUS into force in 1963, and its amendment later by the Tariff Schedules Technical Amendments Act of 1965, had resulted in numerous incidental changes in U.S. rates of duty on imports. On the whole, reductions in duty had offset increases. Nevertheless, some countries claimed that such duty changes adversely affected the trade-agreement commitments that had been made by the United States to them. Accordingly, the United States undertook the aforementioned negotiations, and granted some of the countries new tariff concessions to compensate them for the impairment of previous U.S. concessions.

On April 5, 1966, the United States and the United Kingdom signed an interim agreement relating to the renegotiation of Schedule XX (United States) to the GATT. 3/ The United States agreed to: (a) reduce

1/ The TSUS became effective on August 31, 1963. The revised schedules replaced those originally set forth in the Tariff Act of 1930, as amended. For more background on the TSUS, see Operation of the Trade Agreements Program, 16th and 17th reports.

2/ Australia, Austria, Brazil, Canada, Ceylon, Chile, Denmark, Dominican Republic, Finland, Greece, Haiti, India, Indonesia, Israel, New Zealand, Nicaragua, Norway, Pakistan, Peru, Portugal, Rhodesia, Spain, Switzerland, Turkey, and Uruguay.

3/ The interim agreement also pertained to Hong Kong, for which the United Kingdom had accepted the GATT.

the rates of duty on 3 categories of imports of interest to the United Kingdom, in order to compensate for increases of duty on other commodities of U.K. origin; and (b) bind the duty on aircraft parts at the level that had been extended to Canada through a similar renegotiation agreement that had become effective on January 1, 1966. These duty reductions were to become effective in 5 annual steps, during the period 1966-70. The products, and both the former and reduced rates of duty (in parenthesis) affected by this agreement, were as follows: Bamboo, rattan, willow or chip articles (from 25 to 20 percent); porcelain articles (from 45 to 22.5 percent); and ivory articles (from 12 to 8 percent).

On September 6, 1966, the United States and Japan signed an interim agreement, also relating to the renegotiation of Schedule XX to the GATT. Under this agreement, the United States granted new tariff concessions to Japan in lieu of previous concessions that had been impaired by the implementation of the TSUS. These reductions in duty were to enter into force in 5 annual stages, during the period 1966-70. Specifically, the U.S. granted Japan concessions on 21 U.S. tariff items; it also bound to Japan duty reductions already provided for in similar U.S. agreements with Canada and the United Kingdom. The new U.S. concessions to Japan involved reduction in duties on such products as plastic articles, blinds and shutters, ceramic plumbing fixtures, therapeutic appliances, optical microscopes, slide projectors, imitation pearls, slide fasteners, pocket lighters, toys, and mechanical pencils.

On December 31, 1966, the remaining renegotiations between the United States and other GATT members concerning the new Tariff Schedules of the United States were in various stages of progress. The respective contracting parties involved were the European Economic Community, Sweden, and South Africa.

In other negotiations during 1966, the United States and Argentina mutually recognized that the entry into force of new tariff schedules by both countries had rendered inoperative their bilateral trade agreement that had been in force between them since 1941. Accordingly, the 2 countries agreed to terminate that agreement and related understandings between the 2 nations, upon the accession of Argentina to full membership in the GATT. 1/

Implementation of the U.S.-Canadian Automotive Agreement

By the end of 1966, the U.S.-Canadian automotive agreement had been in effect for 2 years. The limited free trade in motor vehicles and original equipment parts therefor provided by the Agreement had been inaugurated by Canada in January 1965 and by the United States in December 1965 (retroactive to January). In 1966, U.S.-Canadian trade in automotive products was substantially larger than in the immediately preceding years. The value of U.S. exports of automotive products to Canada in 1966 was nearly 50 percent larger than in 1965, and the value of U.S. imports of Canadian automotive products in 1966 was 4 times as large as that in 1965. The U.S. export balance of trade

1/ As of December 31, 1966, Argentina still had the status of a provisional contracting party to the GATT.

in automotive products with Canada was about 30 percent smaller in 1966 than in 1965.

In enacting the Automotive Products Trade Act of 1965 (which granted the President the authority needed to carry out the Agreement), the Congress had established procedures whereby firms or groups of workers could apply for adjustment assistance to offset dislocations resulting from the implementation of the Act. Five petitions for such adjustment assistance were filed in 1966--all by groups of workers. In the 4 instances in which decisions were reached before the close of the year, the groups of workers concerned were found to be eligible for assistance.

At the request of the United States, the Contracting Parties to the General Agreement on Tariffs and Trade granted the United States a waiver of its most-favored-nation obligation; such waiver permitted the United States to accord duty-free entry of automotive products only to Canada without violating its GATT obligations.

U.S. and Canadian production and trade in automotive products

In both Canada and the United States, the production of motor vehicles, and employment in the automotive industry as a whole, continued at high levels in 1966, stimulated largely by the prosperity that prevailed in both countries. In Canada, the production of motor vehicles reached record levels in 1966. In the United States, the output of motor vehicles in 1966 was surpassed only by the record level in 1965.

During 1966 the annual U.S. production of motor vehicles totaled 10.4 million units; the output in that year was below that in 1965

(11.1 million) but larger than that in 1964 (9.3 million). The annual Canadian production of motor vehicles in 1966 rose to 907,000 units, from 855,000 units in 1965 and 671,000 in 1964. Thus, Canada's share in the aggregate number of motor vehicles assembled in the two countries increased from 6.7 percent in 1964 to 7.1 percent in 1965 and to 8 percent in 1966. ^{1/} Canada's increased share in the combined output of motor vehicles in the 2 countries is attributable in considerable part to the implementation of the U.S.-Canadian automotive agreement. Another factor was the more rapid rate of growth of the consumer market for automotive products in Canada than in the United States.

Between June 1964 and June 1966, the average monthly employment in the U.S. motor vehicle and equipment industry increased from 766,000 to 894,000 workers, or by 17 percent. During the same 2-year period, the average monthly employment in the Canadian automotive industry rose from 72,000 to nearly 88,000 workers, or by 22 percent.

The total two-way trade in automotive products between the United States and Canada was valued at \$2.1 billion in 1966. The value of such trade totaled \$1.1 billion in 1965, the year in which the U.S.-Canadian automotive agreement became effective, and \$730 million in 1964. Both U.S. exports to Canada and Canadian exports to the United

^{1/} Canada's share of the value of the combined 2-nation output of motor vehicles was materially less than the percentages shown in the text, as Canadian-assembled vehicles incorporated a considerable proportion of parts made in the United States and U.S.-assembled vehicles only a negligible proportion of parts made in Canada. Canada's share of such aggregate annual value undoubtedly increased in 1964-66, but the Tariff Commission does not have data by which to qualify such increase.

States rose materially. In 1966, U.S. exports of automotive products to Canada were valued at \$1.3 billion, which was almost twice the value of such exports in 1964. Canadian exports to the United States were valued at US\$800 million in 1966, which was more than 10 times the value of such trade in 1964. The U.S. export balance in its automotive trade with Canada was \$486 million in 1966, compared with \$692 million in 1965 and \$578 million in 1964.

In 1966, Canada was the major foreign market for U.S. exports of automotive products and the chief supplier of U.S. imports of such products. Canada took 66 percent of U.S. exports of such products in 1966, compared with 42 percent in 1965 and 37 percent in 1964. Canada supplied 45 percent of U.S. imports of automotive products in 1966 (replacing West Germany as the principal supplier), compared with 23 percent in 1965 and 11 percent in 1964.

Action on petitions filed

In 1966, 1/ 5 groups of workers filed petitions under the Automotive Products Trade Act, requesting determination of the eligibility of the workers involved to apply for adjustment assistance. No firms filed petitions for assistance during the year.

The petitions filed in 1966 were as follows:

- (1) The United Automobile Workers' (UAW) International Union, on behalf of Local 918, for workers at the Ford Motor Company's Pennsauken, New Jersey, parts depot, in February 1966.

1/ Although the Automotive Products Trade Act of 1965 was enacted in October 1965, petitions for adjustment assistance could not under that law be filed until mid-January 1966.

- (2) The UAW International Union, on behalf of Local No. 1231, for workers at General Motors' soft-trim plant (Fisher Body plant No. 2), Grand Rapids, Michigan, in April 1966.
- (3) Shopmen's Local No. 539 of the International Association of Bridge, Structural and Ornamental Iron Workers for workers at the Fram Corporation's plant, Birmingham, Alabama, in June 1966.
- (4) Mr. Lawrence Weber, on behalf of workers formerly employed by the Maremont Corporation's Gabriel Division Plant, Cleveland, Ohio, in October 1966.
- (5) The UAW International Union, on behalf of Local No. 237, for workers at the Borg-Warner Corporation, Mechanics Universal Joint Division, Memphis, Tennessee, in December 1966.

These petitions were filed with the Automotive Agreement Adjustment Assistance Board; the Board, comprised of the Secretaries of Commerce, Labor, and Treasury, had been delegated by the President the function of determining the eligibility of petitioners for adjustment assistance. In accordance with the procedures established in the Act, the Board requested the Tariff Commission to conduct an investigation of the facts related to each petition and prepare a report to assist the Board in making its determination. By the end of 1966, the Board had made its determinations with respect to the first 4 petitions listed above; the Board determined in each case that the operation of the Agreement had been the primary factor causing the actual or threatened unemployment or underemployment of the petitioning workers. Accordingly, the Board certified that certain workers were eligible to apply for adjustment assistance; it was estimated that the workers covered by such certifications totaled 200 at the Ford depot, 400 at

the General Motors plant, 125 at the Fram plant, and 450 at the Maremont Corporation. By the end of 1966, therefore, the Board had determined that almost 1,200 workers were eligible for adjustment benefits.

Under the APTA, assistance to workers could consist of unemployment (trade readjustment) compensation, training, and relocation allowances. 1/ By December 31, 1966, nearly one million dollars had been paid by the Federal Government either directly to claimants under the APTA or to the States to cover the unemployment insurance drawn by workers determined to be eligible for adjustment assistance.

Participation in the Long-Term Cotton Textile Arrangement

During 1966, the United States continued to participate in the Long-Term Arrangement (LTA) Concerning Trade in Cotton Textiles. 2/ In connection therewith, it also continued to maintain bilateral agreements concerning cotton textiles with a number of countries that included both participants and non-participants in the LTA. Meanwhile, U.S. imports of cotton, yarn, and fabrics, primarily from LTA-participating countries, increased substantially.

By the end of the year, it was apparent that the developing countries, whose exports of cotton goods had expanded substantially in previous years, would be confronted with greater difficulty in attempting

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

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

to increase these exports because of (a) the increasing share gained by textiles produced from manmade fibers in the textile consumption of industrialized countries, and (b) the expansion of domestic textile production in developing countries that had previously imported textiles from other developing countries. The consumption of cotton goods was expected to increase more noticeably in the developing countries than in the developed countries.

The Long-Term Arrangement was negotiated under the sponsorship of the GATT; it entered into force for a period of 5 years, beginning October 1, 1962. ^{1/} It was designed to prevent market disruption in countries that import substantial quantities of cotton textiles and, at the same time, to facilitate economic expansion in the less-developed countries that produce cotton textiles.

On December 31, 1966, 30 countries were participating in the LTA. These countries are grouped below, as follows:

Group I - Industrialized countries

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

Group II - Developing countries

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

^{1/} In early 1967, the Arrangement was extended for 3 additional years.

Group III - Industrialized - Exporter country

Japan

Greece acceded to the LTA during 1966. Colombia, South Korea, Mexico, and the Republic of China, though participants in the LTA, were not contracting parties to the GATT.

Under Article 3 of the LTA, a participant whose market is experiencing, or is threatened with, disruption by imports of cotton textiles may request another participant to restrict its exports of such products to a designated level. 1/ If the exporting country does not comply with the request within 60 days, the importing country is authorized to restrict entry of the products concerned to the level requested-- such action being termed a "restraint." 2/ At the close of 1966, the United States was imposing 17 restraints under Article 3, involving imports from 3 countries (Brazil, Malaysia and Poland 3/). At the beginning of the year, 45 such restraints were being imposed, involving imports from 4 countries; the bulk of these were continued under Article 4 when the United States concluded a formal bilateral agreement with Hong Kong in August 1966. No restraints were imposed against U.S. exports of cotton textiles during 1966 under Article 3.

1/ The minimum annual level that may be requested is the equivalent of actual exports (or imports) of the products concerned during the year terminating 3 months before the month in which the request is made.

2/ A restraint is a restriction on imports of a specified category (or group of categories) from a single country. U.S. imports of cotton textiles have been subdivided into 64 categories for administrative purposes.

3/ Poland was not a participant in the LTA, as of December 31, 1966; Article 3 restraints, however, may be imposed against both participating and non-participating countries.

On several occasions during 1966, the United States made use of Article 4 of the LTA, which permitted LTA members to enter into bilateral agreements concerning cotton textiles. These agreements could be concluded either between LTA participants or between participants and non-participants, provided that the terms of the agreements were compatible with the basic aims of the multilateral arrangement. During 1966, the United States entered into bilateral agreements with Hong Kong, Pakistan, Poland, and Singapore; agreements with 17 other countries, negotiated in earlier years, were continued through the year. Such bilateral agreements were responsible for most of the restrictions imposed on U.S. imports of cotton textiles pursuant to the LTA during the year. At the close of 1966, the United States had bilateral agreements concerning cotton textiles in effect with the following countries:

Colombia <u>1/</u>	Japan	Republic of China <u>1/</u>
Greece	Korea <u>1/</u>	Ryukyu Islands <u>1/4/</u>
Hong Kong <u>2/3/</u>	Mexico <u>1/</u>	Singapore <u>2/4/</u>
India	Pakistan <u>2/</u>	Spain
Israel	Philippines <u>1/4/</u>	Turkey
Italy	Poland <u>2/4/</u>	United Arab Republic
Jamaica	Portugal <u>5/</u>	Yugoslavia <u>4/</u>

Most of these bilateral agreements provided for overall limitations affecting total U.S. imports of 64 categories of cotton textiles 6/

1/ Not a contracting party to the GATT.

2/ Agreement entered into force during 1966.

3/ Before August 1966, the Agreement with Hong Kong was not formally recognized as a bilateral agreement (although it was similar to bilateral agreements concluded with other countries). In August 1966, the United States and Hong Kong concluded a formal bilateral agreement concerning trade in cotton textiles, retroactive to October 1, 1965.

4/ Not a participant in the LTA.

5/ Expiration date of December 31, 1966, extended to March 31, 1967, in exchange of notes signed in Lisbon on December 19, 1966.

6/ The agreements with India, Italy, Mexico, Pakistan, and Poland limited only certain categories.

and established specific ceilings on U.S. imports of certain cotton textiles from the country concerned. The agreements generally authorized annual increases (usually 5 percent) in both the overall limits and the specific ceilings for certain categories; they were to be effective for periods ranging from 1 to 4 years.

In 1966, U.S. imports of cotton textiles of the type covered by the LTA were equivalent 1/ to 1.8 billion square yards of cloth, compared with 1.3 billion in 1965. The most noteworthy gain was in the imports of cotton yarn; these imports rose from an equivalent of about 100 million square yards in 1965 to more than 400 million square yards in 1966. U.S. imports of cotton fabrics increased to nearly 700 million square yards (equivalent basis) in 1966 from almost 600 million square yards in 1965. Imports of cotton apparel were only slightly greater in 1966 than in 1965, amounting to about 485 million square yards (equivalent basis).

Since 1962, when the LTA came into force, about 90 percent of U.S. imports of cotton textiles have come from participating nations. In 1964-65, about 60 percent of total U.S. imports of cotton textiles came from the developing countries and more than 30 percent from Japan. 2/

In 1966, approximately 50 percent of U.S. imports of cotton textiles were concentrated in 9 of 64 categories 3/; 6 of the 9 categories

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

2/ U.S. Department of Commerce.

3/ To assist in administering the LTA, a total of 64 categories of cotton textiles was specified in that agreement.

were in the apparel group. Apparel has been an attractive export item for foreign producers, because its manufacture requires considerably less initial capital investment than does the manufacture of fabric or yarn, and because its comparatively high unit value results in high dollar earnings.

Government Actions Affecting Trade-Agreement Items

Several U.S. legislative provisions authorized the imposition of import restrictions (1) to protect domestic industries that have been injured by increased imports resulting from trade agreement concessions, (2) to prevent interference with governmental agricultural programs, or (3) to prevent impairment of the national security. Other provisions permitted governmental assistance of various types to be extended to firms or groups of workers who established that they have been injured by increased imports resulting from trade-agreement concessions.

Although procedures varied with the relevant statute, an investigation by an agency of the Federal Government generally was necessary before imports could be restricted or assistance could be granted. A few such investigations were conducted during 1966. ^{1/} The circumstances relating to those investigations are discussed briefly in the following section of this chapter.

^{1/} During 1966, no firm or group of workers petitioned the Tariff Commission to determine whether it was eligible for adjustment assistance under the provision of the Trade Expansion Act of 1962. Also during the year, the Tariff Commission was not requested to undertake any investigation under section 22 of the Agricultural Adjustment Act.

The escape clause 1/

During 1966, no petitions were filed that would have required the Tariff Commission to conduct an investigation under the escape-clause provisions of trade-agreement legislation. In the course of its regular responsibilities, however, the Commission submitted 3 reports to the President in which it reviewed the economic status of domestic industries in whose interest escape-clause action had previously been taken. Formal procedure for the review of escape-clause actions, involving Tariff Commission investigations, had been established by the Trade Expansion Act (TEA) of 1962. Section 351(d)(1) of that Act requires the Commission to review annually developments relating to such escape actions and to report thereon to the President. Sections 351(d)(2) and (3) require the Commission, under specified circumstances, to advise the President of the probable economic effect on the industry concerned of a reduction or a termination of an escape action by him. 2/

During 1966, the Tariff Commission submitted to the President 3 annual reports under the provisions of section 351(d)(1), and one

1/ Since 1943, all trade agreements concluded by the United States have included a safeguarding provision commonly known as the standard escape clause. This clause provided, in essence, that either party to a trade agreement could modify or withdraw its concessions if increased imports resulting from the concessions caused or threatened injury to the domestic industry producing like or directly competitive articles. Escape-clause investigations are conducted under the provisions of section 301(b) of the Trade Expansion Act (TEA), a detailed account of which is contained in the Appendix to Operation of the Trade Agreements Program, 17th report, pp. 85-97.

2/ Most of the investigations which have been completed under the provisions of section 351(d)(2) had been initiated at the request of the President.

report under section 351(d)(2). The articles on which reports were submitted under section 351(d)(1) and the dates of submission were as follows:

Section 351(d)(1):

Wilton and velvet carpet and rugs-----Sept. 13, 1966
 Stainless-steel table flatware-----Nov. 1, 1966
 Cotton typewriter-ribbon cloth-----Dec. 5, 1966 1/

Section 351(d)(2):

Cotton typewriter-ribbon cloth-----Dec. 5, 1966 1/

By December 31, 1966, the President had taken no action on these 4 reports by the Tariff Commission. Early in the year, however, he took action to ease restrictions that had been imposed under the escape-clause provision on imports of 3 classes of commodities; these actions took the form of Presidential proclamations, issued as follows: 2/

- (a) Proclamation 3696, issued January 7, 1966, terminated the increased rate of duty that had been in effect continuously after 1958 on clinical thermometers and reinstated the concession rate of 42.5 percent ad valorem, effective immediately.
- (b) Proclamation 3697, also issued January 7, 1966, enlarged the quota that had been in effect continuously after 1959 on stainless steel flatware and decreased the rates of duty on imports in excess of the quota, effective with respect to articles entered on or before November 1, 1965.

1/ The Commission submitted one report which contained the information required under both sections 351(d)(1) and 351(d)(2).

2/ On January 11, 1967, the President proclaimed the termination of escape-clause rates of duty on imports of watch movements and parts thereof, and proclaimed the modification of the escape-clause action on cylinder, crown, and sheet glass which had been in effect since 1962.

- (c) Proclamation 3703, issued January 28, 1966, terminated the increased rate of duty that had been in effect continuously after 1957 on safety pins and reinstated the concession rate of 22.5 percent ad valorem, effective immediately.

National security investigations

During the year under consideration, the Office of Emergency Planning (OEP) terminated one investigation it had been conducting under the national security provisions of the Trade Expansion Act of 1962. 1/ It continued work on 3 others that had been initiated before 1966; two were still in progress at the end of that year. 2/ During 1966, the OEP received no requests or motions to initiate new investigations.

At the request of the petitioners, the OEP in November 1966 terminated an investigation initiated in October 1964 to determine whether imports of anti-friction bearings and parts were threatening to impair the national security. 3/

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

2/ One investigation on watches, movements and parts was actually concluded in November 1966, but the formal announcement was withheld until January 11, 1967, in deference to the Presidential Proclamation of that date concerning these products.

3/ Application made by the Anti-Friction Bearing Association, on behalf of 39 member companies. The petitioners informed the OEP that facilities which had been shut down were reactivated and the industry was prospering. Moreover, Japan, the principal foreign supplier, had imposed voluntary restrictions on exports of certain bearings to the United States.

The investigation to determine whether imports of watches, movements and parts were threatening to impair the national security was concluded in November 1966. The formal announcement of its termination, however, was not made until early 1967, at which time the President also took action in the escape-clause restrictions that had been imposed on imports of such products. 1/ The investigation had been initiated by the OEP in April 1965, at the request of the President.

One of 2 investigations that were still in progress at the end of 1966 concerned the quotas imposed by the United States on imports of crude petroleum, unfinished oils, and finished petroleum products. These quotas were the only restrictions that had ever been imposed under the national security provisions of trade agreements legislation. The OEP was required to keep the President informed of circumstances that might necessitate further action. 2/ Under this requirement, at the request of the Secretary of the Interior, the OEP had initiated in April 1965 an investigation to determine whether the restrictions on imports of residual fuel oil intended for use as fuel should be continued or eliminated.

An investigation concerning the effect of imports of textiles on the national security also was still in progress at the close of 1966. This investigation had been initiated in 1962 by the Director of Civil Defense Mobilization under the national security provisions of the Trade Agreements Extension Act of 1958.

1/ Details of the public announcement will be reported in the Commission's next (19th) report on the Operation of the Trade Agreements Program.

2/ 24 F.R. 1781.

Chapter 2

Operation of the General Agreement on Tariffs and Trade

INTRODUCTION

Developments relating to the General Agreement on Tariffs and Trade (GATT) during the 12-month period ending December 31, 1966, are summarized in this chapter under the following headings: (1) The Kennedy round of tariff negotiations; (2) activities in the interest of less-developed countries; (3) regional economic arrangements; (4) actions relating to GATT obligations; and (5) other developments relating to the General Agreement.

The Kennedy (sixth) round of tariff negotiations continued to be the principal concern of the Contracting Parties ^{1/} to the General Agreement in 1966. The pace of the negotiations was slowed considerably during the year by the inability of certain GATT members to participate actively in the deliberations. During the year, however, all of the major trading countries involved submitted to the Contracting Parties their "close-to-final" lists of proposed concessions on imports of agricultural products. Thus, by the close of the year, there were strong indications that agreement providing for significant reductions in import duties and the removal of other trade barriers would be forthcoming early in 1967.

The Contracting Parties continued during 1966 their efforts to cope with the trade problems of less-developed countries (LDC's).

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

In June, the Contracting Parties introduced new provisions into the General Agreement (Part IV) designed to improve the foreign trade potential and foreign exchange earnings of the LDC's. Throughout the year, acting through various Committees, the Contracting Parties considered several proposals calling for the adoption of additional measures to accelerate the exports from, and foster the economic development of, the less-developed countries.

In March 1966, the Contracting Parties held their 23d Session. The Contracting Parties usually meet in full session once a year, to review the many facets of the operation of the agreement and to take joint action on various problems. Between these annual sessions, the work of the Contracting Parties is carried on by a Council of Representatives and by several working parties, committees, and groups especially assigned to study and report on specific subjects related to the overall objectives of the General Agreement. At the 23d Session the Contracting Parties took the following major actions:

Reviewed the quantitative restrictions maintained by GATT members;

Considered proposals to expand international trade in primary products;

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

Surveyed the status of subsidies and state-trading measures maintained by members;

Approved Indonesia's request for a waiver of its obligations under the Special Exchange Agreement adopted by the Contracting Parties in 1949;

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

Reviewed annual reports submitted by members of established and proposed regional arrangements;

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

The General Agreement is probably the most comprehensive commercial agreement ever concluded among sovereign nations. It embodies a set of rules of conduct to be observed by the contracting parties in their trade relations with one another. The rules embody a general prohibition of the use of quantitative restrictions and proscribe the use of discriminatory trade practices by the contracting parties. Acting under the auspices of the GATT, the Contracting Parties have sponsored a series of multilateral tariff negotiations with a view to achieving greater freedom of world trade by lowering the general level of import duties imposed by member countries. Thus, the Agreement consists of (a) a series of articles delineating the aforementioned set of rules for conducting trade between contracting parties and (b) schedules of tariff concessions granted by each member country as a result of the negotiations between contracting parties.

The General Agreement also provides the contracting parties with a forum wherein they review the actions of individual members and appraise whether their respective obligations have been met. Although founded on the principle of nondiscriminatory multilateralism, the Agreement provides that individual member countries, under specified conditions, may be granted temporary waivers of rules to permit them to apply discriminatory trade restrictions.

On January 1, 1966, the full membership of the GATT consisted of 66 contracting parties; by the end of the year, four additional countries--Guyana, Rwanda, Switzerland, and Yugoslavia--had acceded to the agreement. Thus, on December 31, 1966, the following 70 countries were full contracting parties to the General Agreement:

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

At the close of 1966, four other countries--Argentina, Iceland, Tunisia, and the United Arab Republic--were provisional GATT members. Moreover, two countries--Cambodia and Poland--participated in the work of the contracting parties under special arrangements. Eight others--Algeria, Botswana, Congo (Leopoldville), Lesotho, Maldive Islands, Mali, Singapore, and Zambia--to which the GATT had previously applied when

they had been dependent areas of member states, now benefitted, as independent states, from a de facto application of the agreement pending the formulation of their future commercial policies.

THE KENNEDY ROUND OF TARIFF NEGOTIATIONS

During the year, the contracting parties continued their efforts to reduce barriers to world trade. At trade-agreement negotiations, widely known as the Kennedy round, 1/ they collaborated in a variety of endeavors to promote the foreign trade of both industrialized and less developed countries. The negotiations were oriented principally to the following objectives:

The exchange of linear tariff reductions, particularly on chemicals, textiles, pulp and paper, iron and steel, and aluminum;

The minimization of disparities between the tariff structures of the negotiating contracting parties;

The exchange of tariff concessions on a number of agricultural products, particularly grains, meat, and dairy products;

The reduction of nontariff trade barriers and the conclusion of an international agreement on anti-dumping practices;

The extension of the long-term cotton-textile arrangement; 2/

The negotiation of a world agreement on grains, guaranteeing higher minimum trading prices and establishing a multilateral food aid program; and

1/ The Kennedy round--so called because it was made possible by the U.S. Trade Expansion Act of 1962--was the sixth major round of tariff negotiations conducted under the auspices of the GATT. The previous tariff negotiations were held at Geneva, Switzerland, in 1947; at Annecy, France, in 1949; at Torquay, England, in 1950-51; at Geneva in 1956; and again at Geneva in 1960-62.

2/ For more detail on this subject, see pp. 17-22 and pp. 136-40 of this report; also Operation of the Trade Agreements Program, 17th Report, pp. 53-54.

The adoption of procedures to expand exports and export earnings by the less-developed countries. 1/

The long discussions held by the contracting parties during 1966 did not appear to have resolved any of the issues basic to meeting the aforementioned objectives. Agreement on proposed solutions was greatly hampered throughout the year by the inability of the EEC Commission to negotiate on behalf of its six members, because of an internal dispute in the Common Market about its common agricultural policy. 2/ The settlement of this dispute in July 1966 paved the way for a resumption of the multilateral negotiations in September. During the closing months of the year, the contracting parties narrowed their differences on the basic issues, and the major trading countries submitted their "close-to-final" lists of proposed concessions on agricultural products. At the end of the year, moreover, there was general optimism among the GATT members that the Kennedy round would be successfully concluded by the spring of 1967.

The Kennedy round of tariff negotiations, officially opened on May 4, 1964, was still in progress at the end of the year under review. This conference called for negotiations of much greater magnitude than any of the previous five rounds of negotiations conducted under the auspices of the General Agreement. To accomplish the broad objectives

1/ The several aspects of this item are discussed separately in a later section entitled "Activities in the Interest of Less-Developed Countries," pp. 48-62; see also Operation of the Trade Agreements Program, 17th report, pp. 27-32.

2/ The EEC bargained as a unit at the Kennedy round, but each decision required the approval of all six member-countries.

of the Kennedy round, several committees of the participating contracting parties held many meetings at which they discussed a large variety of problems. Of principal concern was the problem of deriving a formula for balancing the concessions to be exchanged by the principal participants. Many issues related to the international trade in designated categories of products.

Exceptions Lists

During 1966, the principal trading countries continued their bilateral talks at the Kennedy round aimed at providing justification for tariff items on which they were not offering concessions at the negotiations. The EEC countries, for example, decided to retain the existing customs duties on a large number of items imported from third countries. These items, consequently, had been placed on the EEC's "exceptions list" and were not the subject of linear negotiations. The EEC's negotiating partners continued to regard the EEC's exceptions list as being too large in relation to the lists submitted by the other principal negotiating countries. As the participating countries did not expect the EEC to modify its exceptions list significantly, they feared that several major trading countries might withdraw important segments of their original offers of concessions.

Originally the GATT Ministers had called for a linear tariff reduction at the Kennedy round negotiations equal to 50 percent of the existing duties with a minimum of exceptions. The "exceptions lists" were lists of designated articles for which the contracting parties

wished to withhold the stipulated percentage reduction in duty; articles were to be excepted from the linear reduction on the basis of overriding national interests. Several countries, however, particularly the EEC, had submitted exceptions lists which the negotiating countries deemed excessive.

On November 16, 1964, 15 GATT members had indicated that they were prepared to negotiate on a linear tariff-reduction basis. Ten of the 15 countries--the United States, the United Kingdom, the members of the European Economic Community, Japan, and Finland--had exchanged exceptions lists on industrial products; five countries--Austria, Denmark, Norway, Sweden, and Switzerland--had stated that they would claim no exceptions provided they were accorded full reciprocity by their negotiating partners. Four other countries--Canada, Australia, New Zealand, and South Africa--and the less-developed GATT members had been authorized to participate in the negotiations under special conditions. The four countries enumerated were not required to adhere to the linear reduction commitment, because of their special economic or trade structures; the LDC's were not required to accord full reciprocal concessions for those accorded them by developed countries. ^{1/}

The "confrontation and justification" of the exceptions lists, i.e., the exchange of views among the ten "linear" countries that were excepting certain items from a linear reduction, began in January 1965, and continued throughout 1966 in the form of bilateral talks. Each participating country identified the respective items excepted from the

^{1/} For more detail on this subject, see the Operation of the Trade Agreements Program, 17th report, pp. 22-23.

negotiations and set forth the overriding national interests that it deemed to warrant such exceptions.

The decision by the EEC countries to retain the existing duties on a large number of items identified in its exceptions list reflected a compromise solution of a controversy that had continued within the Community through most of 1965 and early 1966. Several years earlier, the EEC Ministers, in anticipation of the Kennedy round negotiations, had decided that by December 1965, the EEC countries would adjust their duties on the above items to the respective duties in the common external tariff (CXT) less 20 percent. ^{1/} The failure of the principal negotiating countries at the Kennedy round to agree to any duty reductions by the end of 1965 led the EEC Ministers to consent to a compromise solution, whereby the import duties on those items would be held temporarily at the existing level and eventually adjusted to the CXT rates.

Nontariff Trade Barriers and the Anti-Dumping Code

As mentioned earlier, the reduction or elimination of nontariff barriers to trade was one of the major objectives of the Kennedy round negotiations. ^{2/} During the year under review, a number of working groups continued their discussions of complaints concerning the use of such barriers. By the end of 1966, the discussions had not produced tangible results, but agreement among the participants appeared to be imminent on two important items: the drafting of an international code

^{1/} See pp. 4-6 of this report; also Operation of the Trade Agreements Program, 16th and 17th reports, pp. 55-56 and pp. 62-63, respectively.

^{2/} See Operation of Trade Agreements Program, 17th report, pp. 24-25.

on anti-dumping practices, and the elimination of the American selling price (ASP) ^{1/} system of customs valuation by the United States in return for certain concessions in chemicals, primarily by the United Kingdom and the EEC. Negotiations respecting the ASP system of valuation during 1966 are discussed later in this chapter.

Nontariff barriers consist of a variety of direct quantitative restrictions as well as legal and administrative regulations that discriminate against imported products. The General Agreement prohibits the use of such restrictions, since their application could impair or nullify tariff concessions granted by contracting parties. Under certain circumstances, however, the Agreement provides that individual contracting parties may be granted waivers of the GATT rules permitting them to apply nontariff barriers only as long as they were warranted.

The Contracting Parties had established working groups in July 1964 to examine the problems arising from the application of nontariff barriers in the following fields: Customs valuation (including the American selling price system); technical and administrative regulations; government procurement practices; quantitative restrictions; internal taxation; and antidumping measures. Discussions on the nontariff barriers being employed by individual contracting parties began immediately and were continued through 1966, but no concrete results had been announced by the end of

^{1/} Inasmuch as the ASP system was characterized as a "nontariff barrier" at the Kennedy-Round negotiations, it is discussed in that concept in this report; the appropriateness of such characterization, however, is in question. For definition of ASP and further details, see pp. 46-48 of this chapter.

the year.

In one important field, however--anti-dumping measures--the participants had made significant progress. At the Kennedy round, anti-dumping procedures were a matter of negotiation primarily between the major trading countries--the United States, the United Kingdom, the members of the EEC, Japan, and Canada. Other countries had indicated that they would abide by any rules that the principal participants might adopt. After exchanging viewpoints in the spring of 1966, the negotiating countries considered specific questions of substance and procedure. They included the following: Should a uniform anti-dumping duty be applied to all products subject to a given anti-dumping action? How great should the "price differential" be before anti-dumping action is warranted? Should the relevant price comparison be made against the exporter's home market price, the price of comparable goods exported from third countries, or the price of goods produced in the importing country? Should anti-dumping action be initiated automatically by Government agencies or should action begin only after formal complaint of injury has been filed? These and other important questions were still being considered by the participants at the close of the year under review. Nevertheless, there were strong indications that a formal agreement establishing an international code on anti-dumping practices and procedure would be concluded early in 1967. Agreement on such a code was deemed essential in some quarters to prevent contracting parties from using anti-dumping actions to offset the effect of concessions made at the Kennedy round.

Tariff Disparities

The issue of tariff disparities remained dormant throughout most of 1966. Most of the contracting parties, moreover, expected the issue to be greatly minimized by the time that the Kennedy round negotiations ended. Earlier the issue had loomed large in the discussions at Geneva, particularly those between the United States and the EEC. Representatives of the Community argued that most of the rates in its common external tariff ranged between 10 and 20 percent ad valorem, while many "peak" rates in the U.S. tariff exceeded 50 percent. Accordingly, the EEC maintained that, inasmuch as linear duty reductions would not eliminate such disparities, special duty-reduction rules should be applied to them. In effect, this position would require that the United States would have to reduce many of its import rates by larger percentages than the EEC.

The EEC proposal delayed the Kennedy round negotiations, since there was little harmony among the tariffs of GATT members. If one or more countries were required to reduce their "peak" rates by a greater than average percentage, moreover, the overall balancing of concessions between countries could be affected and some contracting parties might be induced to withdraw some of their original offers of concessions in order to achieve a new multilateral balance of concessions. Most of the contracting parties, however, believed that the dispute over disparities would be dropped once the participants had agreed on reductions and other concessions for the principal categories of products.

Offers of Concessions for Agricultural Products

During the last half of 1966, the contracting parties approached agreement on concessions respecting agricultural products. Progress had been delayed until the EEC had settled its internal differences concerning the financing of its common agricultural policy. ^{1/} Before the EEC submitted its offers of concessions to the contracting parties, the EEC Council had established market regulations and common prices for several agricultural products and had agreed, within the framework of the GATT, on world prices for grains. ^{2/}

The difficulties concerning the financing of the EEC's common agricultural policy were resolved by the EEC Council by July 1966. In August, the EEC submitted to the contracting parties its initial offers of concessions respecting agricultural products, other than those it might be prepared to make on sugar, tobacco, fruits and vegetables, and poultry. Soon thereafter, the other participants submitted their offers of concessions on agricultural products of interest primarily to the EEC countries; they had submitted their lists of concessions on other agricultural products earlier, in September 1965.

Multilateral negotiations on farm products began in September 1966; these were followed by discussions on both a bilateral and

^{1/} See Operation of the Trade Agreements Program, 17th report, p. 26 and p. 75.

^{2/} Ultimately, the EEC formulated its proposal for an international grains agreement--one of the key issues at the Kennedy round; see Operation of the Trade Agreements Program, 16th and 17th reports, pp. 57-58, and pp. 72-73, respectively.

commodity-group basis. The United States and various other countries deemed that EEC's initial offers of concessions were inadequate; accordingly, they indicated that they might be compelled to withdraw concessions initially offered on imports of industrial products.

On November 30, 1966, all major countries participating in the discussions, except those of the EEC, exchanged "evaluation lists"; such lists identified their "close-to-final" offers of concessions, each country indicating the agricultural commodities on which it was prepared to reduce duties as well as the offers that it intended to withdraw if other participants, notably the EEC, failed to improve their offers. Just before the close of the year, the EEC submitted a supplemental list of offers composed of reductions in duties that the Common Market countries were prepared to make on imports of sugar, tobacco, fruits and vegetables, and poultry. The EEC offered no concessions on imports of vegetable oils; it indicated that it would announce in January its offers on imports of fish, which were of primary interest to Norway and Denmark.

The final bargaining respecting concessions on agricultural products was scheduled to take place around mid-January 1967. It was expected that consideration would again be given to an international agreement on grains--a matter on which little progress was made during 1966. Such an agreement was expected to settle in part

complaints that had been made by the United States, Canada, Australia, and Argentina when the EEC adopted its common agricultural policy on grains. At that time, the EEC was seeking to become highly self-sufficient in grains by: (a) establishing prices that would encourage increased production of grains within the Community; and (b) controlling the importation of grain through a system of variable import levies to assure that imports would not sell within the EEC at prices below the established internal prices. The United States and other grain-exporting countries realized that if the EEC should succeed in this endeavor, they would become residual suppliers. Accordingly, the United States urged the principal grain-importing and exporting countries to agree to a world grains arrangement that would:

Guarantee greater access by third countries to the markets of the Community than would be provided by EEC's common agricultural policy;

establish higher minimum export prices for grains than the prices provided for under the existing International Wheat Agreement; and

establish a food aid program under which all industrial nations, whether importers or exporters of grains, would share in the burden of supplying food aid to the undernourished people of the less-developed countries.

By the close of 1966, the prospects appeared to be favorable that the issues would be resolved satisfactorily by the spring of 1967--i.e., a world grains arrangement would be concluded and agreement would be reached on concessions for agricultural products.

Textile Sector

The discussions in the textiles sector involved principally the prospects of negotiating concessions on cotton, man-made, and wool textiles. During 1966, these discussions were materially delayed by the failure of the EEC to submit its offer of concessions on textiles to the contracting parties. As a result, the contracting parties had made little progress by the end of the year toward an agreement to reduce import duties on such products. Both the industrialized and the less-developed countries participating in the discussions, however, were highly interested in the world cotton textile situation; they continued their efforts to extend the Long-Term Cotton Textile Arrangement (LTA) for another three years. 1/

The LTA had been scheduled to expire in October 1967; the cotton-textile importing countries (chiefly industrialized countries) were interested in having it extended because, under its provisions, imports of cotton textiles were limited to specified quantities. These countries had^{indicated} that they would not consider reducing import duties on cotton textiles unless the exporting countries (mostly less-developed countries) agreed to an extension of the LTA. The cotton-producing countries, on the other hand, wanted materially increased access to the markets of the industrialized countries. By the end of the year, the participants agreed to a compromise agreement which provided for: (a) an extension of the the LTA for another 5 years; (b) a 50-percent reduction of import duties imposed by industrialized countries on cotton textiles; and (c) a

1/ For more detail on the LTA see chapter 1 of this report, pp.17-22; also Operation of the Trade Agreements Program, 17th report, pp. 53-54.

commitment by the industrialized countries to discuss bilaterally with cotton-exporting countries the possibility of the former increasing their import quotas of cotton textiles.

Iron and Steel Sector

No appreciable progress appeared to be made during 1966 in the negotiations involving concessions on imports of iron and steel products. At about the middle of the year, the EEC submitted its list of concessions for these products, but the concessions were unacceptable to the other participants in the discussions. Accordingly, the discussions remained at a standstill until the end of the year.

The EEC's proposal to reduce its rates of duty on iron and steel imports to an average of 7 percent ad valorem was rejected by the other participants as inadequate. The EEC indicated that the proposed average rate of duty represented a 50-percent reduction from the 14-percent average rate of duty maintained in 1952, when the European Coal and Steel Community was established. This offer was contingent upon the EEC being accorded a reduction of similar magnitude in the corresponding rates of duty of the other countries participating in the discussions. The other participants, however, held that the EEC offer actually effected only a 22 percent reduction from the average rate of 9 percent ad valorem that had been in force since 1964.

In spite of this impasse, most of the participants felt that the EEC would ultimately improve its proffered concessions on iron and

steel products. An agreement that would include reductions in U.S. rates of duty on such products would provide the EEC with greater access to the U.S. market, which had become important to European producers of steel. No further developments occurred by the end of 1966.

Aluminum Sector

Discussions respecting concessions on aluminum products got underway in mid-June 1966, after the EEC submitted a new list of offers. Although the new list fell short of the expectations of the other participants, it formed the basis for further discussions. The participants failed to reach an accord by the end of the year.

Little progress was made in the negotiations during the first half of 1966, largely because the EEC was unwilling to alter its current quota and duty on imports of aluminum ingot. In June, the EEC offered to reduce its import duty from 9 percent to 5 percent ad valorem. The new rate, however, was to apply to an annual aggregate fixed quota for imports into the six EEC countries of 100,000 tons of aluminum. Other countries participating in the discussions held that the proposed quota was so small that it virtually excepted aluminum from the EEC offer list; the proposed consolidated quota was lower than the sum of the individual quotas that the EEC members had previously imposed. Final agreement on this matter awaited agreement on the size of the individual (unconsolidated) quotas that the respective EEC members would allocate to imports from third countries over and above the 100,000 ton consolidated quota. Such imports would also be permitted entry at 5 percent ad valorem. No further developments on this matter took place by the end of 1966.

Paper and Pulp Sector

During the year, the EEC continued discussions with the Scandinavian countries 1/ on concessions for pulp and paper imports. In June 1966, the EEC offered to reduce its import duties on pulp and paper and establish a duty-free quota on imports of newsprint. The Scandinavian countries considered these offers to be inadequate and threatened to withdraw certain concessions they had offered on products imported primarily from the EEC countries. No significant changes occurred in their respective positions between June and the close of the year.

The EEC offers announced in June 1966 embraced proposals to (a) reduce EEC import duties on pulp and paper from 6 percent to 3 percent ad valorem, and possibly eliminate the duties entirely in the future; and (b) establish a consolidated, duty-free import quota of 420,000 metric tons in newsprint, with the possibility of additional quotas established by each of the EEC members. The United States and Canada were pleased that the EEC proposal would pave the way for further negotiations in the pulp and paper sector. The Scandinavian countries, on the other hand, expressed disappointment. They held that the EEC proposal meant "a continuation of the status quo," 2/ and indicated that they might be compelled to withdraw the offers of concessions they had made on various products of interest primarily to the Common Market.

1/ Denmark, Finland, Norway, and Sweden. On November 21, 1966, these countries announced that, henceforth, they would negotiate as a single unit.

2/ Journal of Commerce, June 21, 1966.

Earlier, in their bilateral negotiations, the two groups of countries had failed to reach an understanding on prices and other delivery terms concerning pulp and paper imports. This difficulty and the EEC Commission's lack of authority to make binding commitments on behalf of the EEC member countries contributed to the impasse between the Common Market and the four Scandinavian countries. The impasse had not been resolved by the end of the year under review.

Chemicals Sector and the American Selling Price System of Customs Valuation

During 1966, discussions to reduce import duties on chemicals proved to be more critical than those involving any other group of industrial products. A key consideration in the discussions involved the American Selling Price (ASP) system of customs valuation used by the U.S. in assessing the import duties on certain chemicals. ^{1/} The countries participating in the discussions (especially the members of the EEC and the United Kingdom) and Japan objected strongly to the use of the ASP and indicated that they would offer no significant concessions on chemicals unless the ASP were removed.

The American selling price system of customs valuation applied to U.S. imports of benzenoid chemicals, rubber-soled footwear having canvas uppers, canned clams, and knit woolen gloves. Under the ASP system, the dutiable value of an import was calculated on the basis of the wholesale price of a like or similar competitive American product, rather

^{1/} See the Operation of the Trade Agreements Program, 17th report, p. 25.

than the foreign price of the imported product. As a result, the dutiable value was often substantially higher than it would have been if the more customary basis of determining dutiable value (export value) were employed.

Early in 1966, the United States agreed to negotiate the ASP on an ad referendum basis. ^{1/} In May and June 1966, the United States suggested that it might agree to substitute ad valorem rates for the ASP in assessing customs duties on chemicals and then reduce those rates by 50 percent, provided the EEC and Japan made meaningful counter offers that included provisions to modify certain nontariff barriers. The ASP system was adopted by the United States after World War I in order to protect the chemical industry from the widely fluctuating prices of German chemicals. Several countries, including the members of the EEC, Switzerland, the United Kingdom, and Japan, complained that the ASP system placed a heavy burden on their exports of the respective products to the United States. These countries contended that the use of the ASP system thwarted their extensive potential of expanding sales of chemicals in the U.S. market. The U.S. proposal was made on the basis of the findings published in a report that had just been completed by the Tariff Commission. The report contained a list of suggested ad valorem rates to be substituted for the ASP for some 60 organic (benzenoid) chemical tariff items. In October, the Tariff Commission completed a second, confidential report in which it analyzed

^{1/} Any changes in the ASP negotiated by the U.S. representatives were not binding until approved by the U.S. Congress.

what it considered would be the effect of abolishing the ASP and then reducing the duty rates by up to 50 percent. In exchange for dropping the ASP, the United States expected to obtain both significant concessions in chemicals and substantial modification of some nontariff barriers, such as the EEC's restrictions on imports of American coal. The countries participating in the GATT discussions, particularly the European countries, however, continued to insist that they could not make any counter offers on chemicals until the United States converted its ASP system to an ad valorem basis. As a result, no further progress was reported in these discussions by the close of the year under review.

ACTIVITIES IN THE INTEREST OF LESS-DEVELOPED COUNTRIES

During 1966, the Contracting Parties continued their efforts to develop programs that would enhance the world-trade position of the less-developed countries (LDC's). In June 1966, the Contracting Parties formally incorporated a Part IV--"Trade and Development"--into the General Agreement. They also examined several proposals for increasing the trade potential and export earnings of LDC's, gave special attention to the LDC's trade problems during the Kennedy round, and expanded the functions of the international trade center operated under the auspices of the GATT.

Introduction of Part IV into the General Agreement

In mid-1966, a new major section--Part IV, Trade and Development--was formally added to the general provisions of the General Agreement on Tariffs and Trade. The new Part IV comprised three new articles--

Articles XXXVI, XXXVII, and XXXVIII. These articles provided a contractual and legal basis for action by the contracting parties to expand the foreign trade and stimulate the economic development of less-developed member countries. 1/

In May 1963, at a Ministerial Meeting, the Contracting Parties to the General Agreement had adopted an eight-point Action Program designed to accelerate the expansion of exports from the less-developed GATT countries to the more developed members. In February 1965, as one of the steps taken to implement this program, a Protocol to add Part IV to the text of the General Agreement was opened for signature. On January 17, 1966, the Contracting Parties agreed to extend the closing date for acceptance of the Protocol until the end of the 24th Session of the Contracting Parties, which was expected to be held in the spring of 1967. 2/ By June 27, 1966, however, two thirds of the GATT members had accepted the Protocol; five additional members did so by the close of the year. Accordingly, on December 31, 1966, the amendments set forth in the Protocol became effective for the 50 countries that had accepted it:

Australia	Central African	Cyprus
Brazil	Republic	Czechoslovakia
Burundi	Ceylon	Dahomey
Cameroon	Chad	Denmark
Canada	Congo (Brazzaville)	Finland
	Cuba	

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

2/ Initially, the Protocol was opened for signature until the end of 1965.

Gambia	New Zealand	Turkey
Ghana	Niger	Uganda
Guyana	Nigeria	United Kingdom
India	Norway	United States
Indonesia	Pakistan	Yugoslavia
Israel	Peru	
Ivory Coast	Rhodesia	
Jamaica	Rwanda	
Japan	Sierra Leone	
Kenya	Spain	
Kuwait	Sweden	
Madagascar	Switzerland	
Malawi	Tanzania	
Malta	Togo	
Mauritania	Trinidad and Tobago	

Meanwhile, eleven other contracting parties had declared their intention to implement the amendments on a de facto basis: ^{1/}

Argentina	Germany, Federal	Luxemburg
Austria	Republic of	Netherlands
Belgium	Greece	Portugal
Chile	Italy	Uruguay

For the remaining contracting parties, the new Part IV of the General Agreement was to become effective for each on the date it accepted the Protocol. For five countries, which at that time were provisional members of the GATT and had accepted the Protocol (Iceland, Switzerland, Tunisia, UAR, and Yugoslavia), Part IV became effective between such a country and any contracting party that had accepted both the Protocol and the relevant Declaration on provisional accession.

^{1/} On February 8, 1965, the Contracting Parties adopted a Declaration which provided for the de facto implementation of the new articles pending their de jure entry into force. The Declaration was to be binding only for those contracting parties that signed it after it had been adopted by the Contracting Parties. Signature was to be construed as evidence of intent to implement the new Part IV on a de facto basis but only to the extent not inconsistent with the laws of the signatory and only until December 31, 1965 (later extended to the close of the 24th Session), or until the new Part IV entered into force de jure, whichever date was the earlier. See Basic Instruments and Selected Documents, 13th supp., 1965, pp. 10-11.

Trade of Less-Developed Countries

In March 1966, the Committee on Trade and Development submitted its first report to the Contracting Parties for consideration at the 23d Session. The report described the Committee's work and recommendations on: the removal of trade barriers; adjustment assistance measures; expansion of trade among less-developed countries; preferences by developed countries to less-developed countries; international commodity trade; legal amendments; and trade and aid. The Committee on Trade and Development had been created by the Contracting Parties in February 1965 to administer the provisions of Part IV. It took over the functions of Committee III 1/ and the Action Committee, 2/ which had earlier been concerned with the trade problems of the less-developed countries. The Committee on Trade and Development was directed to review periodically the progress attained by the contracting parties in removing barriers to the trade of the less-developed GATT members, and to examine proposals for new procedures to alleviate the trade problems of those countries. To meet these responsibilities, the Committee established several subsidiary committees (generally termed groups), 3/ each of

1/ Committee III was established by the Contracting Parties in 1958 for the express purpose of dealing with the trade problems of the LDC's. Its work was thereafter expanded materially, particularly in December 1961, when the Contracting Parties adopted the Declaration on Promotion of the Trade of Less-Developed Countries and designated Committee III as the appropriate subsidiary body to make recommendations for specific programs. For information on the activities of Committee from 1958 to 1965 see Operations of the Trade Agreements Program, 16th report, pp. 6-9, and 17th report, p. 28.

2/ For information on the activities of the Action Committee, which was established in 1963, see Operation of the Trade Agreements Program, 16th report, pp. 9-11, and 17th report, pp. 27-28.

3/ Operation of the Trade Agreements Program, 17th report, pp. 31-32.

which was assigned a specific set of problems or issues to examine.

The Committee's major conclusions and recommendations in its first report were as follows:

Removal of trade barriers.--In accordance with reporting procedures that had been adopted by the Contracting Parties at their 22d Session, twenty-five contracting parties, a group which included almost all of the developed GATT members and a number of the less-developed members, submitted to the Committee on Trade and Development written or oral notifications of actions they had recently taken that would affect the trade of the less-developed countries. On the basis of these notifications, the Committee concluded that a number of developed countries had reduced or removed some trade barriers affecting the exports of the LDC's; it noted that some of the developed countries had increased significantly their imports of cocoa, tropical fruits, and certain manufactured and semi-manufactured products from developing countries. The Committee also reported that many of the developed countries had indicated that they intended to initiate measures within the context of agreements reached in the Kennedy round to enlarge the access to their markets for the products of developing countries. Notwithstanding these developments, the Committee concluded that the progress made in the implementation of Part IV of the General Agreement had fallen short of expectations.

The Committee reported that the contracting parties had made only moderate progress in the removal of quantitative restrictions affecting the trade of less-developed countries. In their notifications to

the Committee, a number of contracting parties had indicated that they would be unable to eliminate by the end of 1965 quantitative restrictions imposed by them on certain products of interest to LDC's. Accordingly, the Committee recommended that the Contracting Parties consider what further steps ought to be taken on this matter. The Committee also reported that the Group on Residual Restrictions ^{1/} had discussed with twelve developed countries the reasons they continued to maintain import restrictions on products of interest to LDC's. All of these import restrictions applied to products that had been included in a list of about 250 items submitted earlier to Committee III by developing countries as being of export interest to them. The Group found that a considerable number of these products were still subject to quantitative restrictions in one or more developed countries and that these countries had set no target dates for the removal of the restrictions. The Committee recommended that the Contracting Parties, at their 23d Session, should consider how to eliminate the quantitative restrictions maintained by developed countries that affected the trade of the LDC's and that were contrary to the provisions of the General Agreement.

Adjustment assistance measures.--During the year under review, the Committee on Trade and Development continued to study the use of governmental adjustment assistance by the developed countries to help establish liberal trade policies toward imports from the less-developed countries. The Committee concluded that adjustment assistance could be used

^{1/} Residual import restrictions were quantitative restrictions that had been originally imposed for balance-of-payments purposes and kept in force after the balance-of-payments difficulties had passed.

effectively to ease the problems of individual firms and groups of workers that resulted from exports from developing countries. The Committee noted, however, that the developed countries had used adjustment assistance in only a few minor cases to deal with difficulties that had arisen from increased imports from less-developed countries. It recommended that developed countries be requested to submit information on the character and use of their adjustment assistance measures.

Expansion of trade among less-developed countries.--In its report, the Committee expressed the view that trade preferences exchanged between two or more less-developed countries could appropriately be used to encourage the expansion of trade among such countries, provided the preferences were subject to certain safeguards and were properly administered. The Committee noted that such preferences should be applied on a non-discriminatory basis, i.e., that they should not be extended by a developing country only to other LDC's that were joint members of a regional arrangement. Moreover, the Committee felt, that, in negotiating an exchange of preferences, the developing countries should consider (1) the different stages of economic development of the participating countries; (2) the extent to which the exchange of those preferences among the LDC's involved would be likely to increase productivity and enlarge the markets for the products concerned; and (3) the possible effects that the extension of these preferences might have on the trade of other contracting parties. The Committee suggested that before the LDC's begin negotiating among themselves for the exchange of mutual concessions, they should identify the products

that seemed to have the greatest potential for exportation to other developing countries.

Preferences by developed countries to less-developed countries--

During the year, a Working Group on Preferences, which had been appointed by the Committee on Trade and Development, continued to examine proposals that developed countries should grant preferential treatment to products of the LDC's. Pending completion of the study by the Working Group, the Committee did not undertake a detailed discussion of the proposals. During the year under review, however, the Contracting Parties actively considered a request by Australia to be permitted to accord preferential treatment to imports of selected goods from less-developed countries. ^{1/}

International commodity trade.--The Committee on Trade and Development, during the year under review, continued to examine the problems affecting international trade in products of interest to the less-developed countries, particularly cocoa, cotton, and tropical products. After study, the Committee urged a GATT Special Group on Trade in Tropical Products to seek to accelerate the removal of barriers affecting world trade in, and consumption of, cocoa. The Committee submitted its views on measures to expand world trade in cotton to the International Cotton Advisory Committee; it noted that many GATT members had not eased their restrictions on imports of tropical products from the less-developed countries. Finally, a working group established by the Committee prepared detailed studies of international trade flows and trade

^{1/} See the section of this chapter on pp. 111-15.

control measures respecting some 80 commodities that had been selected by the less-developed GATT members. The Committee agreed to undertake similar studies of other products of interest to LDC's if requested to do so.

Legal amendments to the General Agreement.--The Committee on Trade and Development reported on the status of two proposals for the amendment of articles of the General Agreement to meet the special trade and development needs of the LDC's. One proposal, submitted by the delegations of Brazil and Uruguay, would amend article XXIII to take account of alleged difficulties experienced by the LDC's in making use of the provisions of that article. Article XXIII deals with the procedures for settling disputes between contracting parties. A member of the less-developed countries claimed that the LDC's had an inherently unequal bargaining position vis-a-vis the developed countries in proceedings under that article. On the basis of discussions, a draft decision was submitted to the Contracting Parties by the Committee, to modify the complaint procedure under article XXIII. The decision was approved by the Contracting Parties on April 5, 1966. ^{1/} Under the new procedures, the Director-General of GATT was formally involved in seeking settlement of complaints, and deadlines for action were established. The Committee also indicated, however, that the delegations of both the developed and the less-developed countries involved in preparing the draft Decision agreed that the provisions of article XXIII needed further study to establish complaint procedures acceptable to all concerned.

^{1/} Basic Instruments and Selected Documents, 14th supp., pp. 18-20.

The second proposal would amend article XVIII to permit an LDC to use an import surcharge for balance-of-payments reasons. The representatives of the contracting parties involved agreed that this proposal had proved to be more complex than originally envisaged. The Ad Hoc Group studying it decided to retain the item on its agenda and reconsider it after specific proposals had been submitted to it by interested contracting parties.

Trade and aid studies.--During the year, the Committees's Expert Group on Trade and Aid Studies completed its discussions of the development plans of Nigeria and Uganda and reported its findings and recommendations to the Committee. The Committee noted that the Group had paid special attention to specific problems affecting economic diversification and export marketing in the two countries and that some of the recommendations made were equally important to other less-developed countries. The Committee recommended that the Contracting Parties consider the reduction or abolition of import duties and other trade barriers during the Kennedy round on a number of commodities of special interest to Nigeria and Uganda and support those two countries in their efforts to develop their regional trade.

Trade Relationships Between Developed and Less-Developed Countries

During 1966, issues involved in achieving increased trade between the developed and less-developed countries occupied an important place in the deliberations of the Contracting Parties at the Kennedy round of GATT trade-agreement negotiations. These issues were discussed

extensively during the year at the meetings of the Subcommittee on Participation of Less-Developed Countries of the GATT Trade Negotiations Committee as well as in bilateral negotiations between less-developed and developed countries. Late in the year the Subcommittee proposed special negotiating procedures intended to expedite agreements between the developed and less-developed countries at the Kennedy round.

At a meeting held by the aforementioned Subcommittee in December 1965, the participants identified five objectives which, if achieved during the Kennedy round, would be of major importance to the further development of the foreign trade of the less-developed countries. The objectives were as follows:

- (1) The implementation of duty reductions by the developed countries on products of particular export interest to the less-developed countries earlier than those on other products;
- (2) the maximization of reductions of tariff and nontariff barriers to trade in tropical products;
- (3) the reduction of duties on products of interest to LDC's by a greater proportion than the reductions provided for under the agreed-upon linear rule (i.e., by more than 50 percent);
- (4) the formulation of specific procedures for granting compensation to less-developed countries for the loss of preferential treatment of their exports; and
- (5) the elimination from the exceptions lists 1/ of developed countries of products of special interest to the LDC's.

1/ Lists of articles on which countries would not grant concessions in the Kennedy round.

At their meeting in July 1966, the members of the Subcommittee reviewed the progress of the Kennedy-round negotiators towards the above objectives. The participants agreed to intensify their bilateral negotiations preparatory to any multilateral action that the Subcommittee might propose to achieve these goals. They also agreed that, during the course of these negotiations, the LDC's should indicate clearly the priority they attached to both of the five objectives mentioned above, and should submit their requests for specific concessions in writing to the developed countries. Representatives of developed countries said they would consider any concrete requests made to them by the LDC's. The Subcommittee agreed to consider the formulation of ground rules to assure the early implementation of duty reductions; the Committee postponed to later meetings, however, discussion of the proposals relating to tropical products and to rules for compensation for the loss of preferential trade treatment.

At both its July and October meetings, the Subcommittee discussed a proposal made by India relating to the problem of excluding items of interest to the LDC's from the exceptions lists of the developed countries. Earlier the delegation from India had claimed that the structure of existing tariff classifications and duties in the developed countries was such that any benefits that might accrue from duty reductions at the Kennedy round would go primarily to developed countries. In essence, India claimed that the customs tariffs of most developed countries separately identified the unprocessed primary products exported by the developing countries, and that these items were generally

subject to low or no import duties. India alleged, however, that such tariff schedules did not list separately numerous manufactured products offering good possibilities for expanding the foreign trade of the developing countries, and that these articles were generally subject to duties higher than those on raw materials. According to India, developed countries, for example, generally imposed no duty on tea imported in bulk, but did so on tea in consumer packets; coir fiber and yarn were generally admitted duty free, but simple coir mattings and manufactures were not. Generally, handmade products, such as handloomed fabrics and handmade footwear, were not separately classified; hence, the LDC's found it difficult to obtain concessions on these special products. The Indian representative held, therefore, that the tariff structures of the highly-developed countries should be modified to permit (a) the identification of semi-processed and processed products that were of export interest to LDC's and (b) the elimination or substantial reduction of duties on products of especial interest to less-developed countries (including the elimination or reduction of any differential between the duties on these products in their primary and semiprocessed or processed forms).

At its October meeting the Subcommittee reviewed the progress of the bilateral negotiations at the Kennedy round that involved the less-developed countries, and considered actions that it might take to expedite such negotiations. During the discussions, representatives of less-developed countries said that their needs should receive priority in the trade negotiations. They also urged that products of actual or

potential interest to LDC's should be removed from the exceptions lists of developed countries or should not be included in the withdrawal lists of those countries. ^{1/} A number of LDC's suggested that items of special interest to them should be accorded duty-free treatment as soon as possible and without staging. Representatives of several industrialized countries said that their Governments were giving serious consideration to the trade interests of the less-developed countries and described the specific actions that their countries were prepared to initiate in this respect.

The Subcommittee agreed that: (a) all requests from either developed or less-developed countries for concessions on products of interest to LDC's should be submitted to the GATT Secretariat; and (b) the character of these requests should determine the type of multilateral action that the Subcommittee would recommend to the Trade Negotiations Committee for the contracting parties to undertake.

GATT International Trade Center

The Expert Group on Trade Information and Trade Promotion Advisory Services in the GATT held its meeting in March 1966 to review the work of the International Trade Center. The Group reviewed the activities of the Center during the past year and discussed the manner in which the services of the Center could be better adapted to the needs of exporters of developing countries.

^{1/} The withdrawal lists included the products that each developed country said it would withdraw from its original offer of concessions if it failed to obtain satisfactory concessions from the other major exporting countries.

The report of the Expert Group indicated that 40 developing countries, including 11 that were not members of the GATT, had availed themselves of the services of the Center during the preceding year. The latter had provided three main types of services--market information, publications, and training. The Group proposed the creation of a new service--Trade Promotion Advisory Service--to provide advice on the setting up of national export promotion bureaus and on marketing techniques for specific products.

The Group made the following major recommendations:

- (a) The market information service, should be expanded, undertaking more market surveys in developing countries;
- (b) abstracts of market surveys and special studies should be published by the Center's Market Research Staff;
- (c) the training program should be expanded, adding to the number of courses offered and the number of students attending, enlarging the facilities of trade promotion agencies of member countries offering training, and planning export promotion training to conform better to the needs of developing countries;
- (d) a Trade Promotion Advisory Service should be established to provide assistance in the setting up or improvement of export promotion services in member countries.

The report of the Expert Group was discussed by the Contracting Parties at their 23d Session. There was unanimous agreement that the Center had made a valuable contribution in promoting the exports of developing countries and the report of the Expert Group was adopted.

REGIONAL ECONOMIC ARRANGEMENTS

GATT members participating in a customs union or a free-trade area are required to report annually to the Contracting Parties on pertinent developments related thereto. ^{1/} During 1966, the Contracting Parties received reports from GATT countries that were members of the following regional economic arrangements: The European Economic Community (EEC) and its associate members--Greece, Turkey, and the African and Malagasy States; the European Free Trade Association and its associate member--Finland; the Latin American Free Trade Association; the Central American Common Market; the Arab Common Market; and the Central African Economic and Customs Union. The Contracting Parties also received reports submitted by two of their working parties on the New Zealand-Australia Free Trade Agreement and the United Kingdom-Ireland Free Trade Area Agreement. This section summarizes the principal features of the reports and the actions taken by the Contracting Parties. Details of the major developments concerning commercial policy in the various regional economic groups are discussed in Chapter 3.

^{1/} Article XIV:4 of the General Agreement permits the formation of a customs union or a free-trade area embracing the territories of two or more contracting parties, provided that the trade barriers imposed by the new trading entity on commerce with third countries are not generally more restrictive than those of the former trading areas. Both customs unions and free-trade areas aim to abolish import duties and other restrictions on substantially all trade between the participating countries. Countries participating in a customs union, however, also maintain, or plan eventually to maintain, a common tariff and other restrictions on trade with third countries, whereas the participants in a free-trade area continue to maintain their own external tariffs and other restrictions on commerce with nonmember countries.

European Economic Community

The representative of the European Economic Community (EEC) reported to the Contracting Parties at their 23d Session on the recent progress made by the Community toward its goal of economic integration of its members.

The EEC representative said that the time schedule for establishing a customs union among the EEC members had been maintained despite difficulties that had prevented the Community from making formal decisions during the latter half of 1965. 1/ In accordance with the provisions of the Treaty of Rome, which had established the European Economic Community, the EEC on January 1, 1966, entered the final stage of its transition period. On that date customs duties on commodities traded between member states were lowered by an additional 10 percent. This action reduced the rates on most industrial products to 20 percent and on agricultural products to either 35 or 40 percent of the rates that had been in force on the base date--January 1, 1957. 2/

No further alinement of the tariff schedules of the EEC members with the Community's common external tariff (CET) had been effected during the period covered by the report. 3/ New items, i.e., items in addition to those that had been so designated in 1965, were accorded temporary duty-free status in the common external tariff. A total of more

1/ Because of the absence of French representation at Community meetings during the period from July 1, 1965, to January 31, 1966, the EEC Council was unable to take action on any proposals.

2/ For certain agricultural products including beef and veal, the new 10 percent reduction was effective April 1, 1966.

3/ Developments that occurred during 1966 are reported in Chapter 3.

than 60 tariff items were thus affected, including various chemical products, spirits of turpentine, rosin, tea, and tropical woods.

The EEC reported that the Community had made steady progress since the last Session of the Contracting Parties in harmonizing the national policies of its members on legal, financial, fiscal, and economic matters and in developing common policies respecting competition, transportation, various social and regional problems, commercial practices, and trade with third countries.

Turning to major developments in the Community's common agricultural policy (CAP), the EEC representative reported that the members had set July 1, 1967, as the target date for complete elimination of customs duties on intra-Community trade in both industrial and agricultural products. Moreover, the Community had pursued its work toward improving agriculture in the member states and achieving parity between incomes in agriculture and in the other sectors of the economy.

In evaluating its trade, the EEC representative emphasized that the Community was becoming increasingly open to trade with the rest of the world and that this trend would continue. The substantial increase in intra-Community trade had generated an increased demand for products from third countries--i.e., from the countries of the European Free Trade Association (EFTA), the United States, the non-associated African countries, and the Central and Latin American countries.

The Community continued to be the principal customer in the world for the products of developing countries. Its imports from those countries wer

greater in 1965 than in 1964. The EEC associated countries accounted for a smaller percentage of EEC trade with developing countries in 1965 than in 1958 when the Common Market was established. Contrary to expectations in some quarters, the African and Malagasy countries, which are associate members of the EEC, had not been the principal beneficiaries among developing countries in the expansion of EEC imports.

As the EEC report was being discussed by the Contracting Parties, representatives of the developing countries expressed concern about the effect on their respective economies of certain developments within the Community. These developments and the problems they posed for developing countries were identified as follows:

- (a) The preferences that the Community had accorded to imports from its associated states were beginning to affect adversely the trade of non-associated developing countries.
- (b) The application by the Community of the common external tariff threatened to make certain products of the developing countries non-competitive in EEC markets.
- (c) The implementation of the common external tariff was likely to cause a diversion of trade from established to new channels that would be detrimental to non-associated developing countries.
- (d) It appeared likely that the target prices ^{1/} and other measures adopted by the EEC in the implementation of its common agricultural policy on bovine meat would likely require the Community to

^{1/} A target (or guide) price is a goal which the CAP endeavors to achieve by the end of the transition period within the EEC for the respective agricultural product. The target price established for bovine meat was designed to assure adequate returns to producers and encourage increased meat production in the Community.

maintain variable import levies 1/ on this product on a permanent basis, and thereby weaken the access to its markets by exporters in third countries.

- (e) Contrary to the spirit of Part IV of the General Agreement, 2/ EEC imports, particularly those of processed and semi-processed products, from developing countries had been increasing at a slower rate than those from developed countries.
- (f) Inasmuch as EEC's progress in achieving economic integration in the agricultural sector had been somewhat erratic, exporters in third countries encountered problems in forecasting conditions of trade with the Community. The Community's agricultural price and production policies, moreover, served to close its markets to efficient competitors in third countries.

The Contracting Parties took note of the report submitted by the European Economic Community, but did not indicate that formal action thereon was required.

The Agreement of Association with Greece

The representative of Greece reported that during 1965 his country had fully complied with its obligations as an Associate member of the EEC and a member of the GATT. The elimination of customs duties and other trade barriers between Greece and its EEC partners had proceeded in accordance with a schedule that had been laid down in the Agreement of Association. 3/ Trade between Greece and the Community, as well as

1/ The EEC regulation on beef and veal provided that import levies would be used to supplement customs duties whenever the price of beef and veal imported from outside the Community together with the customs duty was lower than the target price of the importing member state.

2/ According to the provisions of Part IV of the General Agreement, importing (mostly developed) countries were expected to accord preference to the products of developing countries as a means of bolstering the export earnings of these countries. For more detail on the various provisions of Part IV, see Operation of the Trade Agreements Program, 17th report, pp. 29-32.

3/ Operation of the Trade Agreements Program, 17th report, p. 34.

between Greece and third countries, had increased substantially. Exports of industrial and agricultural products from Greece to the EEC had benefited from the duty reductions that had been granted on products traded among Community members.

Industrial products imported into the EEC from Greece had become free from quantitative restrictions after the Agreement of Association entered into force in November 1962; moreover, Greece's principal agricultural exports--raisins, tobacco, and wines--had enjoyed preferential treatment in the Community. By the time that the report was submitted, customs duties on industrial goods imported into Greece from EEC countries had been reduced preferentially by 30 percent (only 10 percent for articles that were competitive with products manufactured in Greece); duties on agricultural products had been reduced by margins ranging from 10 to 30 percent. In addition, Greece and the Community had agreed on a program to harmonize their respective agricultural policies.

The first step in a series of actions to align the Greek customs tariff with the common external tariff of the Community was effected in November 1965. Before that date, in compliance with article XXIV:6 of the General Agreement, Greece had notified the Contracting Parties that it implemented the first stage of such alignment with the common external tariff, and was prepared to enter into negotiations with respect thereto with interested governments. The negotiations with interested countries began in October 1965 but had not been completed when the EEC report was made. The first stage of the alignment

effected a general reduction in the level of Greek customs duties. Duties on about 1,850 items in the Greek tariff schedule were reduced and those on nearly 850 increased. The second stage of alinement, which was scheduled to become effective in May 1970, was expected to bring about a further substantial reduction of Greece's customs duties; special provisions would require the reduction of duties on industrial products of a type manufactured in Greece that were accorded high protective duties.

The Agreement of Association with Turkey

The representative of Turkey reported that during 1965 the implementation of the Agreement of Association between the EEC and his country (Ankara Agreement) had proceeded smoothly and in conformity with the provisions of the General Agreement. ^{1/} By the close of 1965, the Agreement had been in force for only about a year. The 1965 import quotas that the EEC had accorded Turkey on four of its principal products had been largely filled. New quotas for 1966--assuring Turkey a market in the EEC for various tobacco products, dried raisins, and dried figs--were fixed at levels some 10 percent higher than those for 1965. In addition, the EEC customs duties on tobacco products and dried raisins imported under the aforementioned quotas were reduced further by 10 percent. By the close of 1965, the EEC duties on imports of tobacco products from Turkey were 70 percent lower, and those on imports of dried raisins were 90 percent lower, than the rates in existence in January 1957.

^{1/} Operation of the Trade Agreements Program, 17th report, p. 34.

EEC-Association of African and Malagasy States

At their 22d Session, the Contracting Parties of GATT had established a Working Party to examine the Yaounde Convention, which provided for the association of the African and Malagasy states with the EEC. ^{1/} At the 23d Session, the report of the Working Party was inconclusive. The Working Party did not recommend that the Contracting Parties take any action, because the members held divergent opinions respecting the merits of the Association and its compatibility with the GATT. A discussion of the pertinent views that were expressed follows.

The representative of Togo (one of the 18 associated states) said that the Convention both strengthened the economic position of the associated states and contributed to the expansion of world trade. He called attention to the fact that the creation of free-trade areas was consistent with the provisions of the GATT. The Convention provided for the elimination of customs duties and other restrictive regulations on products traded within the associated area and refrained from imposing higher duties or more restrictive regulations on trade with third countries. The associated states would, of course, benefit from the progressive elimination of customs duties within the Community itself. EEC members, in turn, would benefit from the non-discriminatory policy and the global quotas maintained by the associated states. The states utilizing global quotas had agreed not only to increase them annually but also to eliminate them completely by May 31, 1968. He pointed out, moreover, that the Convention allowed the associated states to conduct

^{1/} For a listing of the 18 African and Malagasy states, see footnote 1 on p. 157 of this report.

their commercial policy with third countries in accordance with their international obligations, and that the trade of third countries had not been adversely affected by the Convention.

The representative of Belgium, speaking on behalf of the Community, concurred with those observations and pointed out that the association of the Community and the overseas territories had established a free-trade area in which restrictions were eliminated on trade both between the Community and those countries and territories and among the associated countries and territories.

The representative of Ghana observed that the report of the Working Party had failed to examine important issues, such as the effect of the Convention on trade of other developing countries. He held that the Convention was a preferential arrangement that was contrary to the spirit of the GATT since it did not promote multilateral trade that would benefit all countries. Whereas the contracting parties under the GATT had worked to dismantle preferential arrangements, especially those that discriminated against the developing countries, the Convention allowed the associated countries to grant preferential treatment to products from developed countries at the expense of products from the other developing countries. Hence, the advantages of the Convention did not accrue equally to the associated and other developing states. This position was supported by the representative of Brazil, who pointed out that his country had supported the policy of regional economic integration as a means of enhancing the economic position of developing countries. Brazil also recognized that developing

countries, because of the nature of their economies, might have to adopt less "orthodox models" of economic integration. He held, however, that the provisions of the Yaounde Convention were inconsistent with GATT's principle of non-discriminatory preferences for developing countries.

The representative of the United States also felt that the Convention did not meet fully the requirements of article XXIV of the GATT, since it did not contain "a plan and a schedule" for terminating the special privileges granted the associated states. Furthermore, the convention permitted the associated states, under certain circumstances, to impose customs duties on imports from EEC members. While the United States favored non-discriminatory access to world markets for all developing countries, it recognized that existing preferences could not be abolished abruptly. It was, therefore, hoped that the Convention would be of limited duration; it was also hoped that the five countries of the Central African Economic and Customs Union (all associate members of the EEC) would continue to accord nondiscriminatory treatment and refrain from their plan to introduce a discriminatory common external tariff.

The Contracting Parties adopted the report of the Working Party and agreed to place the item on the agenda for the 24th Session.

European Free Trade Association

The countries of the European Free Trade Association (EFTA) reported that shortly they would attain their original objectives-- the creation of a large European market and the expansion

of world trade. ^{1/} Meanwhile, the EFTA countries gave an accounting of their progress during 1965 toward the establishment of a free-trade area among the seven member states and Finland (an associate-member).

They reported that on December 31, 1965, EFTA had reduced import duties on almost all industrial products traded between its members to 20 percent of the rates that prevailed in the base year, 1960. Moreover, EFTA expected to eliminate these import duties completely within the year. As in previous years, the EFTA countries during 1965 had abolished a number of quantitative restrictions on industrial products imported from third countries; they had also increased by at least 20 percent the import quotas on the remaining products.

The EFTA representative stated that a number of other developments had occurred since the Association had submitted its report to the 22d Session of the Contracting Parties. Among these were: (a) the conclusion in February 1965 of a bilateral agreement between Denmark and Portugal concerning trade in certain agricultural products; (b) the addition in July 1965 of a third codicil to the Portuguese-Swiss Protocol of February 1962 designed to increase Swiss imports of red wines and certain horticultural and fish products from Portugal and Portuguese imports of processed cheese from Switzerland; (c) the announcement by the United Kingdom of its decision to reduce on April 26, 1965, by 5 percent (from 15 to 10 percent) the import surcharge that it had imposed temporarily for balance-of-payments reasons in October 1964.

^{1/} See chapter 3 of this report, p. 160.

The EFTA countries reported that the implementation of their Agreement of Association with Finland had moved according to schedule. ^{1/} In March and again in December 1965, Finland had reduced its import duties by a total of 20 percent on a large number of industrial products of EFTA origin. These reductions brought Finland's tariff into line with the tariffs of the other EFTA countries. Finland planned to eliminate the duties on these products by December 1967. Finland effected comparable reductions in duties on many of the remaining industrial products of EFTA origin; duties on these products, however, were scheduled to be abolished between 1966 and 1969 through four additional annual reductions of 10 percent. In August 1965 and January 1966, Finland eliminated the import quotas on a number of products and increased by at least 20 percent those on all other products subject to quotas.

In the discussion that followed the presentation of the EFTA reports, the representative of Argentina noted that the expansion in the Association's trade with third countries had occurred primarily with the developed countries and that EFTA imports from such countries had increased much more than those from the developing countries, particularly the Latin American countries. He urged: (a) that EFTA's next report to the Contracting Parties include more detailed data on its trade in agricultural products; (b) that the Working Party assigned to study the export subsidies maintained by EFTA countries analyze their

^{1/} See Operation of the Trade Agreements Program, 17th report, pp. 34-35.

effect on the trade of both the Association members and third countries, especially the developing countries; and (c) that the Secretariat of GATT appoint a Working Party to examine EFTA's bilateral agreements on agricultural products with a view to assessing their impact on the trade of both member and third countries. It was agreed that the Secretariat would prepare such a study and that the question of procedures would be discussed at the 24th Session of the Contracting Parties.

Latin American Free Trade Association

The members of the Latin American Free Trade Association (LAFTA) reported that the first meeting of the Ministers of Foreign Affairs of the Contracting Parties to the Association had been held at Montevideo on November 3-6, 1965.^{1/} There the members agreed that the process of regional integration would continue to receive the support of the respective governments. Several resolutions were approved including those authorizing: (a) the creation of a Council of Ministers to meet at least once a year during the term of the annual conference of LAFTA members; (b) the establishment of a Technical Committee to speed up the process of regional integration; (c) the harmonization of domestic legislation in member states on matters concerning LAFTA; (d) the establishment of procedures for settling disputes arising between the Contracting Parties in the implementation of the Treaty; (e) the establishment of a regional fund to finance studies on investment projects proposed by the Association; and (f) an agreement for action in the international field.

^{1/} For a listing of the members of the LAFTA, see footnote 1 on p.161 of this report.

IAFTA's report to the GATT also indicated that the Fifth Annual Session of IAFTA members had been held in Montevideo during November-December 1965. Bilateral tariff negotiations among the Contracting Parties yielded more than 750 concessions; nearly 600 of them were entirely new concessions and the remainder consisted of renegotiated concessions. More than 70 percent of the new concessions were either on chemical and related products or on electrical machinery, apparatus, and equipment. The total number of concessions exchanged by the member countries after the Treaty of Montevideo went into effect in 1961 now exceeded 9,000. These concessions had contributed materially to a steady increase in intra-LAFTA trade.

The LAFTA report contained information on the work of its advisory committees. The Committee on Commercial Policy had recommended, and the LAFTA countries had adopted, the Brussels definition of value as a means of standardizing the customs valuation practices of the member countries. Moreover, it had initiated a program to standardize the definitions of customs terms and the documents used in foreign trade transactions. It had also drafted a uniform customs tariff for Latin America. During 1966, the Committee expected to complete a study of the various changes and restrictions imposed on imports by member countries. This study would enable the Committee to make recommendations for the harmonization of import policy among the member countries.

The Committee on Industrial Development had (a) examined the proposals by the study groups for the iron and steel, petro-chemical, and paper and cellulose industries; (b) recommended the establishment of a

new study group for the chemical industries; and, (c) prepared reports on the possibility of establishing new industries in the relatively less-developed member countries--Paraguay and Ecuador. The Committee on Agriculture, which was responsible for coordinating the policies of the member countries on trade in agricultural products, drew up a work program for 1966. The Committee on Transport continued its work on problems involving road, rail, and air transport.

During the Fifth Annual Session of LAFTA members, the representative of Venezuela had announced that his country had decided to accede to the Treaty of Montevideo. The Contracting Parties agreed to assist Venezuela in coping with any problems that its membership in LAFTA might entail.

Central American Common Market

The annual report of the Central American Common Market (CACM) was submitted to the Contracting Parties of GATT by Nicaragua--the only members of CACM that was also a member of the General Agreement. The report covered the principal activities of the CACM during 1965.

According to the report, the Central American Economic Council had held its fourth and fifth regular sessions at San Salvador in February and November 1965, respectively. A special agreement was signed at the fourth session providing for the equalization of import duties and charges on imported fabrics made of rayon and other synthetic fibers. At the fifth session the Council approved: (a) a Protocol identifying the plate and sheet glass industry as an "integration industry" and authorizing the establishment of a glass plant in Honduras; (b) a Protocol providing for equalizing import duties and charges on intra-CACM trade; and (c)

regulations implementing the Central American Uniform Customs Code. During the same session, the Council developed further plans for the operations of the Central American Institute of Industrial Research and Technology; it also agreed to establish committees to study means of increasing trade between Mexico and the CACM and to draw up an agreement on technical assistance. The Council decided to hold a special meeting in January 1966 to explore means of providing incentives to industrial development within the region.

CACM reported that in March 1965, the governors of the Central American Bank had met in Antigua, Guatemala, to further the establishment of an Economic Integration Fund. An initial fund of \$42 million, contributed to by the CACM members and the United States, was created; it was to be administered by the Central American Bank. The proceeds of the Fund were to be used on projects designed to develop the general economy of the region.

The CACM Ministers of Economy and Finance also met in March 1965 at Antigua, Guatemala, where they dealt primarily with the policies of member countries concerning industrial and agricultural development. In October 1965, these Ministers met jointly with the CACM Ministers of Agriculture at Puerto Limon, Costa Rica, where they: (a) recommended measures respecting food policy, farm workers' wages; the financing of agricultural activities, the production of essential grains, cattle-raising, and the promotion of exports; (b) signed the Limon Protocol--under which the CACM countries agreed to regulate intra-regional trade in corn, rice, beans, and millet and to coordinate

their production policies in respect to these products.

Nicaragua also reported to the GATT members on the activities of the Executive Council of the General Treaty and the Permanent Secretariat (SIECA). The council had held nine meetings during 1965 at which it (a) endeavored to develop increased trade between Honduras and Nicaragua, by eliminating trade restrictions on certain products; (b) fixed prices for tires to ensure adequate supply for the CACM market; (c) adopted measures providing for free trade in grains within CACM; (d) set up schedules and quotas for the importation of powdered milk; and (e) examined the possibility of Panama's joining the CACM.

Nicaragua reported on various other developments within the Market during 1965, including the following:

- (a) In February, the Uniform Central American Customs Code went into effect in Costa Rica, Guatemala, and Nicaragua,
- (b) In the same month Nicaragua ratified the Agreement on Fiscal Incentives for Industrial Development. Guatemala, Costa Rica, and El Salvador had previously ratified the Agreement.
- (c) In March, Nicaragua ratified the Protocol to the Agreement on the Equalization of Import Duties and Charges, signed at San Jose in July 1962. The Protocol had been ratified previously by the other 4 members of the CACM.
- (d) In August, Honduras ratified the two Protocols to the Agreement on the Equalization of Import Duties and Charges, signed in Managua in December 1960, and in San Salvador in January 1963.
- (e) In August, Nicaragua ratified the Protocol to the Agreement on the Regime of Central American Integration Industries and the Protocol to the Agreement on the Equalization of Import Duties and Charges, signed in San Salvador in January 1963. With this ratification, the San Salvador Protocol became effective in all the countries of the CACM.

- (f) In October, Nicaragua ratified the Protocol to the Agreement on the Equalization of Import Duties and Charges, signed in Guatemala in August 1964.
- (g) In November, Guatemala ratified the Special Agreement on Equalization of Import Duties and Charges on Fabrics of Rayon and Other Artificial and Synthetic Fibres.

Arab Common Market 1/

In July 1965 the Council of the GATT had established a Working Party to examine the compatibility of the Agreement for Economic Unity among Arab League States with the relevant provisions of the General Agreement. The report of the Working Party was presented to the Contracting Parties at their 23d Session. It noted that the Agreement for Economic Unity among the Arab League States provided for the establishment of a customs union having a unified customs administration and a common tariff for the entire region. The contracting parties, however, decided to defer discussion on this item since arrangements for a common external tariff and common trade regulations had not yet been developed by the member states.

The Working Party generally supported the aspirations of the Arab nations to establish an Arab Common Market and shared their interest in fostering the economic development of the area through regional integration. The Working Party, however, inquired about the measures that the countries of the proposed Common Market intended to use to achieve their goals. Spokesmen for the new Common Market indicated

1/ For additional information on the Arab Common Market, see Operation of the Trade Agreements Program, 17th report, pp. 36-37.

that the decisions of its Council were binding on all members and that the conclusion of any trade and payments agreements by member states would require the approval by the Council. Consideration of the fact that some of the parties to the agreement were not contracting parties to the GATT was deferred to a later date.

The members of the Working Party next examined the schedule proposed for abolishing barriers to trade within the Arab Common Market as stipulated in the Decision of the Council of Arab Economic Unity of August 1964. They sought information respecting the extent of intra-area trade covered by the Decision and the items to be excluded from duty reductions and the removal of other restrictions. In response, the Secretary-General of the Council said that a limited number of exceptions to intra-area free trade would be maintained during a transition period in order to protect selected domestic industries or important sources of foreign exchange. He also reported that these exceptions would be reduced progressively as greater coordination among the economies of the member nations was achieved and that they were scheduled to be eliminated by January 1969 for agricultural products and in January 1974 for industrial products.

Responding to other questions raised by the Working Party, the Secretary-General said that foreign exchange would be made available to importers to facilitate trade between third countries and the member countries, as trade restrictions were being reduced. The representative of the United Arab Republic pointed out that the 1964 Decision of the Council had provided for the addition of new items to the list of

products subject to accelerated duty reductions. The UAR representative also indicated that his Government would submit to the Contracting Parties regular progress reports on developments in the Arab Common Market.

The various texts establishing the Arab Common Market were further discussed at the 23d Session of the Contracting Parties. At this meeting, spokesmen for the Arab Common Market called attention to the following developments that had occurred after the report of the Working Party had been issued:

- (a) On January 1, 1966, the second stage of duty reductions on trade between member countries had been implemented. Customs duties on agricultural and animal products and on raw materials were generally lowered by an additional 20 percent (i.e., a total of 40 percent) and those on industrial products by an additional 10 percent (i.e., a total of 20 percent) from the rates in force in April 1964. In addition, a number of taxes and other restrictive measures affecting intra-area trade had been removed in accordance with the provisions of the Agreement and the number of items excepted from such treatment had been reduced to only 16.
- (b) A plan was under study to harmonize customs and economic legislation among the member countries as well as to coordinate their policies respecting trade, transportation, agriculture, industry, and finance.
- (c) A regional economic planning study had been initiated to coordinate the development plans of the member countries. In connection therewith, special studies were being conducted respecting the coordination of important industries, such as textiles, fertilizers, sugar, paper, and petro-chemicals. It was expected that the coordination of development plans would lead to a reduction of trade barriers and further expansion of trade, particularly that with other developing countries.

After hearing the report, the Contracting Parties expressed their support for the aim of the Arab League to establish a free-trade area

consistent with article XXIV of the GATT to be followed by the formation of a customs union. They also adopted the report of the Working Party, but deferred consideration of the proposed customs union until after the Arab League nations completed the drafting of a common external tariff and common trade regulations.

Central African Economic and Customs Union

The Contracting Parties also reviewed the activities of the Central African Economic and Customs Union (CAECU) at the 23d GATT Session. The Union, established in October 1964, consisted of the four members of the former Equatorial Customs Union 1/ and Cameroon. The Treaty establishing the Union, which had been submitted to the Contracting Parties at their 22d Session, was ratified by the CAECU members during 1965. 2/ It did not provide for any change in the common external tariff that had been adopted by the five member states in 1962. The main provisions of the Treaty, which provided for the creation of a single customs territory applying a common tariff and common trade regulations to trade with third countries, became effective in January 1, 1966. Other provisions respecting economic cooperation among the member countries were to become effective later. Plans were under way to allocate industrial projects in a manner that would lead to an integrated development of the member states.

One GATT member suggested that future reports of the Union might include data on imports by its members of temperate agricultural

1/ The Central African Republic, Congo (Brazzaville), Gabon, and Chad.

2/ See Operation of Trade Agreements Program, 16th report, pp. 14-15, for a discussion of the Customs Union. All members of the CAECU were Associate members of the EEC, being among the 18 states that had signed the Yaounde Convention in July 1963, as well as full members of the GATT.

products that were accorded preferential (discriminatory) tariff treatment. The representative of the Union agreed to this request.

The Contracting Parties took note of the information furnished without further discussion.

New Zealand-Australia Free Trade Agreement

In the fall of 1965, the Council of GATT had appointed a Working Party to examine the New Zealand-Australia Free Trade Agreement in the light of the provisions of the General Agreement. The Working Party presented its report to the Contracting Parties at their 23d Session. The Free Trade Agreement had been concluded in August 1965 and became effective in January 1966. It was regarded as an interim arrangement that applied to a list of commodities (schedule A) accounting for some 50 percent of the trade between the two countries; nevertheless, it contained provisions to expand this list progressively until substantially all the trade between the two countries was included. The two countries gave assurances that in developing the free-trade area they would comply with the provisions of the GATT.

Responding to several questions by members of the Working Party, the representative of New Zealand and Australia indicated that: (a) the schedule for the elimination of duties or other barriers to intra-regional trade, including quantitative restrictions, would apply equally to all commodities in schedule A and other items added thereto; (b) duties on products added to schedule A would be increased only in exceptional circumstances; (c) the parties to the Agreement would adopt

procedures to expand schedule A by January 1, 1968--when the first review of the schedule would be made by the Contracting Parties; and (d) the interim agreement would be judged on the basis of its performance (i.e., its consistency with the objectives of the General Agreement and, in particular, its effect on the development of world trade) rather than on preconceived theoretical considerations.

In its report the Working Party invited the countries to develop, as soon as possible, a comprehensive plan for the development of the free-trade area and report such to the Contracting Parties.

The Contracting Parties adopted the report of the Working Party without change.

United Kingdom-Ireland Free Trade Area Agreement

In December 1965 the United Kingdom and Ireland had concluded the United Kingdom-Ireland Free Trade Area Agreement, providing for the formation of a free-trade area between the two countries by July 1, 1975. The GATT Council was notified of the Agreement in January 1966, whereupon it appointed a Working Party to examine the Agreement in the light of the relevant provisions of the General Agreement. The Working Party presented its findings at the 23d Session of the Contracting Parties.

The report of the Working Party pointed out that: (a) trade arrangements between the two countries required special consideration since the United Kingdom supplied a market for nearly three-fourths of the total

value of Irish exports; (b) the Agreement updated and extended trade arrangements that had long existed between the two countries; (c) a major portion of Ireland's exports entered the United Kingdom duty-free and that the reverse was true for a substantial portion of the exports of the United Kingdom; (d) the Agreement would help expand the Irish economy and improve opportunities for imports into Ireland; (e) Ireland had already applied for accession to the GATT; and (f) in drafting the Agreement, both countries had adhered to the provisions of the General Agreement regarding the establishment of free-trade areas.

At their 23d Session, the Contracting Parties adopted the report of the Working Party, following a brief discussion in which a number of contracting parties expressed their support for the Agreement. The principal reservation was that contracting parties might wish to re-examine the Agreement in the light of pending negotiations regarding Ireland's accession to the GATT.

ACTIONS RELATING TO GATT OBLIGATIONS


During 1966, several contracting parties invoked certain provisions of the General Agreement as they coped with individual trade problems. Actions were undertaken primarily: (a) to impose import restrictions, either to alleviate balance-of-payments difficulties or to afford protection to domestic producers; (b) to effect changes in their tariff schedules; and (c) to grant preferential tariff treatment to imports from designated countries.

The basic objectives of the GATT have been identified as the reduction of customs duties, the lowering of other trade barriers, and

the elimination of discriminatory practices in international trade. Under certain circumstances, however, the General Agreement permits contracting parties to act in a manner inconsistent with these objectives. Article XII, for example, allows a contracting party to impose quantitative import restrictions in order to safeguard its external financial position and its balance of payments. A contracting party that has imposed such restrictions is required to consult annually with the Contracting Parties. Article XVIII includes several provisions that permit developing countries to adopt protective duties and other measures to facilitate their development programs. Such countries are required to consult with the Contracting Parties every two years. Articles XIX and XXVIII authorize the withdrawal or modification of tariff concessions under certain conditions, while article XXV permits the Contracting Parties "in exceptional circumstances not elsewhere provided for" in the Agreement to grant, by two-thirds vote, a waiver to any obligation imposed on a member country by the Agreement. Such waivers and authorizations have generally been granted for a limited period of time, but have been extended frequently, if requested by the recipient country.

**Import Restrictions Applied Contrary to GATT
and Not Covered by Waivers**

In January 1966, in response to a recommendation made by the Contracting Parties at their 22d Session, the Director-General of the GATT requested all member countries to submit reports on quantitative import



restrictions they maintained that were contrary to the provisions of the General Agreement and without authorization of the Contracting Parties. The request suggested that newly independent countries that had not determined whether to invoke the provisions of article XVIII as justification for some or all the restrictions they applied might wish to submit reports describing their entire import control system, without prejudice to the consistency of measures maintained with their obligations under the GATT.

At the 23d Session of the Contracting Parties the Director-General reported that 55 countries had responded to his request. Those responding were grouped in 3 categories as follows:

I. Countries that maintained restrictions inconsistent with the General Agreement and not authorized by the Contracting Parties:

Australia	Germany, Fed. Republic	Portugal
Austria	Italy	Sweden
Belgium	Japan	United Kingdom
Canada	Luxembourg	United States
Denmark	Netherlands	
France	Norway	

II. Countries that maintained no restrictions inconsistent with the General Agreement and not authorized by the Contracting Parties:

Brazil	Ghana	New Zealand	Switzerland
Burma	Greece	Nicaragua	Turkey
Ceylon	India	Nigeria	Uruguay
Chile	Indonesia	Pakistan	Yugoslavia
Cuba	Israel	Peru	
Czechoslovakia	Kuwait	South Africa	
Finland	Malaysia	Spain	

III. Newly independent countries that reported their entire system of quantitative restrictions without reference to the question of

consistency:

Burundi	Gabon	Sierra Leone
Cambodia	Madagascar	Tanzania
Chad	Malawi	Togo
Congo (Brazzaville)	Malta	Uganda
Cyprus	Niger	

The Director-General indicated that fewer countries in category I than expected had responded, whereas, most from the newly-independent countries (category III) had reported. He indicated that some of the newly-independent countries had previously identified their entire system of quantitative restrictions as "residual import restrictions" but this term did not seem to be appropriate. Under the GATT rules, residual import restrictions were quantitative restrictions that had been originally imposed for balance-of-payments purposes and kept in force after the balance-of-payments difficulties had passed.

Most of the countries that had not submitted reports in response to the request of the Director-General were less developed members of GATT. The Director-General expressed hope that these countries would comply with his request promptly. Complete documentation of the import restrictions maintained by the contracting parties would contribute significantly to the success of numerous GATT activities, including the effort to expand trade among the less-developed countries, the functioning of the trade center, and the conduct of the Kennedy round negotiations.

Import Restrictions for Balance-of-Payments Purposes

During 1966 the Committee on Balance-of-Payments Restrictions held consultations with 10 contracting parties (including a provisional member of the GATT) that maintained restrictions on imports under either article XII: 4(b) or article XVIII: 12(b) of the General Agreement. The

contracting parties thus involved, the dates of consultations, and the authority under which the consultations were conducted are given below. The Committee's reports on the consultations were submitted to and approved by the Contracting Parties at their 23d Session.

<u>Country</u>	<u>GATT Authority</u> (article No.)	<u>Date Consultation was</u> <u>held or completed</u>
Brazil	XVIII:12(b)	March 26, 1966
Ceylon	XVIII:12(b)	November 29, 1966
Finland	XII:4(b)	November 30, 1966
Ghana	XVIII:12(b)	December 7, 1966
Greece	XVIII:12(b)	December 5, 1966
Iceland <u>1/</u>	XII:4(b)	November 28, 1966
Israel <u>2/</u>	<u>2/</u>	December 6, 1966
New Zealand	XII:4(b)	July 19, 1966
South Africa	XII:4(b)	December 13, 1966
Spain	<u>2/</u>	March 28, 1966

1/ Provisional member.

2/ Authority not clear.

Reports on consultations

The reports on the consultations with the 10 contracting parties are summarized below.

Brazil.--The Committee's consultation with Brazil concerned its system of multiple exchange rates and related restrictions on payments for current international transactions. During 1965 Brazil's balance-of-payments position improved significantly; it reported a net surplus of exchange earnings of \$137 million for the year. This improvement was attributable primarily to the combined effect of a record level of exports and a low level of imports. During the same year, Brazil obtained \$450 million in credits, which, together with the aforementioned net surplus in the balance-of-payments accounts, enabled the country to increase

its net foreign-exchange reserves by \$300 million, after repaying part of its commercial obligations then in arrears. During 1965, Brazil had also adopted several policies designed to increase its exports, neutralize inflationary pressures at home, and stimulate domestic economic development. These measures had contributed to the improvement of Brazil's balance-of-payments position in that year. In addition, Brazil had liberalized its import policy; by the end of 1965 nearly 600 items had been transferred from the special to the general category of commodities, with the result that they were no longer subject to quantitative restrictions. This action was expected to increase imports sufficiently to eliminate the prospect of ending the year with a net earnings surplus in the 1966 balance-of-payments.

During the year, Brazil's import restrictions were also examined by the International Monetary Fund, as required by the provisions of Article XV of the General Agreement. In its report, the IMF welcomed Brazil's efforts to simplify its exchange-control system and reduce restrictions and discrimination in foreign payments. The Fund urged further simplification of exchange practices. It thought that Brazil's policies to reduce trade restrictions would benefit its economy and did not object to Brazil's maintenance, on a temporary basis, of multiple-currency practices and restrictions on payments for current international transactions.

Ceylon.--The representative of Ceylon reported that a series of corrective measures undertaken by his government to stem the drain in the country's foreign exchange reserves had been only partially

successful. Accordingly, his government had decided to continue applying temporary import and exchange restrictions. The Committee's report indicated that deficits in Ceylon's balance of payments had been a continuing feature after 1957. By March 1965 the foreign-exchange reserves of the country were almost exhausted. By the end of 1965, however, its balance-of-payments position had been reversed as a result of three developments: (a) a reduction in the country's imports; (b) an increase in its exports of tea, rubber, and coconut; and (c) the adoption of various measures to curtail domestic monetary expansion. Pressure on Ceylon's foreign exchange reserves developed during the last quarter of 1965. Adverse weather conditions during 1965 had limited the production of paddy rice; the exchange control authorities were forced to increase the number of import licenses granted for foodstuffs and reduce those for other consumer goods. Shortages of consumer goods became more acute during the first half of 1966; prices of Ceylon's exports, particularly tea, declined substantially and began to cause further depletion of Ceylon's foreign-exchange reserves.

In addition to adopting various measures to curtail domestic monetary expansion, the Ceylonese government reduced its 1965/66 and 1966/67 budgets. The 1965/66 budget provided for capital expenditures only on projects that were already under way. The budget for 1966/67 reflected the Government's new policies, which emphasized investments in the more productive sectors in industry and agriculture and restraint on

welfare expenditures. Because of these conditions, Ceylon did not anticipate that it would be able to relax its import and exchange restrictions unless there was a significant improvement in its terms of trade.

The IMF report indicated that Ceylon's foreign-exchange reserves had declined sharply after 1965 and that the general level of its import restrictions and the temporary increases in its import duties had been limited to measures necessary to stop a serious decline in its monetary reserves.

Finland.--Consultation with Finland was necessitated by that country's decision not to reduce the general level of its trade restrictions. The Committee reported that during 1966 Finland continued to face the serious balance-of-payments crisis it had encountered during the previous two years. Between January 1965 and the end of October 1966 Finland lost more than half of its net reserves of foreign exchange. To stem this drain on its reserves, the Government planned to put into effect during 1967 an austerity program to be implemented by a restricted but balanced budget, severe tax increases, and a tight monetary policy. The Government had decided to follow this course of action rather than increase import restrictions.

Despite its balance-of-payments difficulties, Finland made continued progress in the reduction and elimination of import restrictions. At the beginning of 1966, Finland removed 15 quotas embracing 174 tariff items and planned to remove, at the beginning of 1967, 13 more quotas covering 144 tariff items. In addition, Finland had

increased the quotas on products under the global quota system ^{1/} and expected to have only a few residual quotas in force after the beginning of 1968. Meanwhile, in a further move toward multilateral trading, Finland terminated its bilateral payments agreements with Greece and Turkey and planned to terminate, within a year's time, a similar agreement with Colombia--the last remaining agreement of that type between Finland and another country outside those with state-trading nations.

The IMF confirmed the content of the Committee's report on its consultation with Finland and indicated that the country's general level of restrictions did not go beyond the extent necessary to stop a serious decline in its monetary reserves.

Ghana.--During 1966, Ghana initiated a long-term program designed to improve the country's economy. The new program called for the continuation of trade and exchange controls to avert a further deterioration in the country's balance-of-payments position. The Committee reported that during 1965 Ghana's balance-of-payments position had deteriorated even more than it had in 1964. By the end of the year, Ghana's deficit on the current account increased to a total of \$222 million--more than twice as high as in 1964. Its net foreign-exchange assets had dwindled to \$14 million and its foreign debt had risen to \$678 million. The country was on the verge of economic collapse.

^{1/} Under this system, licenses are issued, up to certain value quotas, for specified commodity groups. The products may be imported from almost any country with which Finland does not have a bilateral payments agreement.

In the spring of 1966, Ghana embarked on a three-phase, comprehensive program designed to put the economy on a sound basis. During the first phase of the program, which was completed in July 1966, Ghana consulted with the IMF, concluded a number of loan agreements, and received assistance from abroad in the form of food and other items.

The second phase of the program, which was scheduled to be completed by June 1968, called for a reduction in Government expenditures, full support to productive activities in the private sector, emphasis on labor-intensive investments in the public sector, an increase in agricultural production, improvement in methods of food distribution, and relinquishing to the private sector all enterprises deemed unsuitable for Government operation. This phase also called for rescheduling the funding of the foreign debt to alleviate the heavy servicing burden, a vigorous campaign to stimulate exports, a review of all bilateral agreements, and encouragement of foreign private investment. As soon as the situation permitted, Ghana expected to add new items to the list of commodities that could be imported under an open general import license. Licenses to import such articles are freely issued regardless of country of origin. Ghana also hoped that an international agreement on cocoa would be negotiated soon, to help stabilize the country's earnings from exports.

The third phase of the program was to cover the period June 1968 to June 1970 during which a new development plan would be introduced.

The IMF approved Ghana's program designed to strengthen its economy, improve its government finances, reconsider its bilateral payments

agreements, and eventually eliminate its trade and exchange controls. Successful implementation of the appropriate measures would make it more likely that Ghana could obtain more external assistance for the development of its productive capacity.

Greece.--The Committee consulted with Greece because that country continued to apply a number of import restrictions after 1965. The Committee's report indicated that during 1965 and the early months of 1966 the trade deficit of Greece continued to increase rapidly. Meanwhile, net earnings from services and the capital account of the balance of payments did not rise sufficiently to offset the larger trade deficit; hence, the country's foreign-exchange reserves declined to a dangerously low level. Invisible earnings, which for Greece were highly unstable and sensitive elements, had made a greater contribution to the balance of payments of Greece than had exports.

Greece continued its efforts to diversify production and increase its exports, particularly of manufactures. The limited number of import restrictions that Greece still maintained were utilized to assure that foreign exchange would be available to purchase essential capital goods--i.e., goods necessary to achieve the objectives of a five-year economic development plan (1966-1970) that aimed at increasing the country's gross national product by 7.5 percent annually.

The IMF urged Greece (a) to reduce its heavy reliance on bilateral payments agreements because they affected adversely the expansion of its exports to more competitive markets; and (b) to expand its

current account earnings by concentrating on items likely to yield an early return.

Iceland.--Iceland advised the contracting parties that its foreign-exchange reserves were critically low and that it planned to continue to apply certain import restrictions. The Committee reported that the 5-year period 1961-1965 had been one of rapid economic growth for Iceland. During that period the national income increased by more than 8 percent annually; such growth had been stimulated by an exceptionally favorable change in the country's terms of trade, which was brought about by a sharp rise in the prices of its principal exports. The value of Iceland's annual exports had risen by 81 percent and that of its imports by 83 percent. The strong growth of the economy was accompanied by a strengthening of the country's balance-of-payments position as manifested by a sizable inflow of investment capital, gold, and foreign-exchange holdings.

By 1966, the rapid economic expansion of 1961-65 had also created a number of problems that were becoming increasingly difficult to resolve. During the period of expansion, excessive increases in wages and prices had been absorbed by the economy; stimulated by the growth in exports, production and prices also rose sharply. Wage and price increases continued during the first 9 months of 1966, even as the favorable conditions of 1961-65 changed abruptly. During 1966, the prices of fish and fish products, which generally account for more than 50 percent of the country's total income from exports, dropped sharply, thus reversing Iceland's favorable terms of trade.

Meanwhile, imports continued to enter at a rapid rate, spurred by the expansion during the previous 5 years and the additional relaxation in import restrictions that became effective in January 1966. It is estimated that after that date only about 15 percent of the country's imports (in terms of value) was subject to import restrictions. These restrictions were retained not to protect domestic industries, but as a means of limiting the sources of supply to certain countries. In spite of the strong fiscal and monetary measures that the government had taken to restrain the inflationary pressures, Iceland's foreign-exchange reserves during 1966 were rapidly approaching a critical point. In view of growing discrimination on the part of the European marketing organizations, the deterioration in the country's balance-of-payments position was expected to continue.

The IMF report noted the substantial progress made by Iceland's economy by the end of 1965. It stressed the country's need to restrain the rise of wages to a level commensurate with the increases in productivity and urged that the remaining import restrictions be further relaxed.

Israel.--The representative of Israel reported that during 1965, the foreign-exchange reserves of his country had been seriously depleted, while its foreign indebtedness had increased substantially. As a result his government had decided to retain its existing import restrictions, notwithstanding that in the previous consultation with the Committee, Israel had indicated that it planned to free from quantitative restrictions more than 80 percent of its imports of

industrial products by November 1965. In 1962, in preparation for its accession to the GATT, Israel had agreed to relax its trade restrictions and reduce discrimination. ^{1/} The Committee reported that during 1965, the value of Israel's exports had increased by nearly 16 percent, while that of its imports had remained almost unchanged. Despite this improvement in its trade balance, the country continued to be confronted with a substantial deficit in the current account of its balance of payments, primarily because of a deterioration in its services account. This deficit had been met, in large part, by further long- and medium-term borrowing that increased Israel's indebtedness by an additional \$200 million during the year, to a total of \$1,226 million.

Toward the end of 1965, Israel undertook several measures designed to (a) curb inflationary pressures by curtailing public spending, and (b) induce a shift of internal investment from projects largely serving the domestic economy to export-oriented industries. These measures, however, led to a general slow-down in economic activity during 1966. They raised the level of domestic unemployment to 5 percent of the labor force and further depleted the country's foreign exchange reserves, notwithstanding that the value of Israel's exports continued to grow at an annual rate of 15 percent and that of imports remained virtually the same as in 1965. Structural economic changes of the

^{1/} See Operation of the Trade Agreements Program, 15th, 16th, and 17th reports, p. 49, p. 21, and p. 41, respectively.

type undertaken by Israel required considerable time to have a significant effect on a country's balance of payments.

Israel anticipated that increased export opportunities would be afforded by the general reduction in tariff rates and trade barriers being negotiated at the Kennedy round. On its part, Israel in November 1966, reduced its tariff rates by amounts ranging from 5 to 10 percent on more than 300 items and reported that in May 1967 it would take similar action on about 60 additional products.

In the statement submitted to the Contracting Parties, the IMF welcomed Israel's efforts to improve the productivity of its industry and its decision to make staged reductions of its customs duties. It urged Israel to reduce its reliance on bilateral payments agreements and stressed the beneficial effects that competition from abroad could have on its domestic industry.

New Zealand.--New Zealand's newly adopted import licensing schedule had provided for a small reduction in imports during the fiscal year 1966/67. This action had been initiated because the country's reserves of foreign exchange had declined seriously and because the country was experiencing difficulty in obtaining funds abroad. The Committee's report indicated that New Zealand's balance-of-payments position, already unfavorable when that country reported to the Committee at the last consultation in October 1965, deteriorated even further during the first half of 1966. During the year ending in March 1966, receipts from exports began to level off while import payments, which continued to rise, were 14 percent higher than in the previous

year. This deterioration in the trade balance, together with an increase in the deficit in the "invisibles" account, resulted in a deficit in the current account of £NZ 59 million--an amount nearly 6 times as high as the payments deficit in the previous year. New Zealand made up this deficit through external borrowing--i.e., by obtaining a loan from the World Bank and by exercising its drawing rights on the IMF--and by drawing on its overseas reserves.

New Zealand wished to avoid reducing the level of essential imports or disrupting the implementation of its development plans. The dangerously low level of its foreign reserves, however, and the increasing difficulty of acquiring additional foreign exchange, compelled it to reduce somewhat the amount of imports authorized in the 1966/67 Import Licensing Schedule. New Zealand also adopted several internal measures designed to restrain both consumer and development demand.

The report of the IMF said that the general level of New Zealand's import restrictions were sufficient to prevent a serious decline in its monetary reserves.

South Africa.--The South African representative reported the country's foreign-exchange reserves had dropped to such a low level, that further relaxation of its import restrictions in 1966 were precluded. In its report, the Committee indicated that during the period following its last consultation with South Africa in May 1964, the country continued to enjoy the benefits of rapid economic growth that had begun about the middle of 1961. This upswing in economic activity was reflected in significant increases in the country's gross national product, employment,

exports, inflow of private capital, and a consequent improvement of its balance of payments on current account.

The rise in economic activity began to level off during the latter half of 1966, primarily because of a decline in private and public investment in the first two quarters of the year and the application of more restrictive credit and import policies. The monetary and fiscal controls were further tightened in July 1966, while the import controls, affecting primarily raw materials and capital equipment, were relaxed in August and again in December. The country's gold and foreign exchange reserves began to decline; by November they had dropped to a level sufficient to cover the value of only 4 months' imports. South Africa felt that this level of reserves did not warrant further relaxation of import restrictions. The IMF report had not yet been submitted to the Contracting Parties by the time that their consultation with South Africa was completed.

Spain.--Spain reported that it expected its balance-of-payments position to deteriorate materially in 1966; it had experienced increasing deficits in its trade account between 1961 and 1965. The Committee reported that during the 18-month period between Spain's consultations with the Committee, the world conditions for its exports of agricultural products did not materially improve. Spain relied heavily on such exports. During 1964 and 1965 the value of its imports continued to rise while that of its exports remained unchanged or declined. The country's trade deficit increased significantly; in 1965 it amounted to about \$2 billion compared with \$294 million in 1961. In previous years the

deficit was counter-balanced by earnings from tourism, remittances from emigrants, and long-term investments of foreign capital; but in 1965, Spain did not expect the income from these sources to be sufficiently high to cover the imbalance in its trade account, so it anticipated a payments deficit of about \$145 million.

The IMF stated in its report that it welcomed the progress that Spain had made in reducing import restrictions and trade discrimination, as well as its determination not to increase its restrictive measures in order to reduce the deficit in its balance of payments. The Fund encouraged Spain to continue its efforts toward complete elimination of import restrictions and reliance on bilateralism.

Ceylon's Temporary Duty Increases

In November 1966, Ceylon requested the contracting parties to: (a) extend a waiver permitting it to apply temporarily certain increases in its customs duties, and (b) authorize two additional increases in duties that it had ordered in the meantime. The Committee on Balance of Payments recommended that Ceylon's request be granted. In March 1966 Ceylon had submitted its first report under a waiver that had been granted in April 1961. It had been permitted to maintain, as an emergency measure until December 31, 1966, temporary increases in customs duties on a number of items. The increased customs duties were expected to help alleviate the country's balance-of-payments difficulties. In August 1965, faced by continued difficulties in its balance of payments, Ceylon had increased a number of these duties beyond the rates authorized by the waiver.

Ceylon's report stated that, in its view, circumstances justified the continuation of the higher rates. Accordingly, it requested a waiver authorizing the increases until the Contracting Parties could examine its balance-of-payments situation, or at least until the end of 1966. During 1965 Ceylon had recourse to drastic monetary, fiscal, and other measures to ease the pressure on its balance of payments. The improvement in its foreign-exchange position that followed the application of these measures, however, had been accomplished at a cost of lower employment, and reduced industrial investment and activity. The general curtailment of economic activity had been reflected in lower living standards.

At their 23d Session, the Contracting Parties agreed to refer Ceylon's request to the Committee on Balance-of-Payments Restrictions, which would submit its recommendations to the GATT Council. Meanwhile, on April 6, 1966, the Contracting Parties authorized Ceylon to maintain until December 31, 1966 the duty increases made in August 1965, pending their action on any recommendation made by the Council.

In November 1966, before the consultation with the Committee on Balance-of-Payments Restrictions had occurred, Ceylon notified the Contracting Parties that its balance-of-payments position had deteriorated even more than anticipated during the first half of 1966 and had forced it again to increase, effective July 29, 1966, the import duties on several items, some of which were bound in the GATT. Ceylon, therefore,

found itself compelled to request that its waiver be extended to December 31, 1968 and amended to cover the latest duty increases. Toward the end of November 1966, the Committee on Balance-of-Payments Restrictions consulted with Ceylon. Its report indicated that the balance-of-payments situation of Ceylon justified the restrictive measures taken, but questioned the necessity of maintaining the temporary duty increases in addition to quantitative restrictions; it expressed the hope that the latter would be removed soon. The Committee recommended amendment of the waiver to include the duty increases.

Indonesia's Request for Waiver
from Special Exchange Agreement

On August 30, 1965, Indonesia, having withdrawn its membership in the International Monetary Fund, had requested the Contracting Parties to grant it a waiver from article XV:6 of the General Agreement, which requires that parties withdrawing from the IMF must sign a Special Exchange Agreement. This requirement is designed to assure that the Agreement will not be frustrated by exchange-control actions initiated by a contracting party. Indonesia held that application of these provisions would impose legal and practical difficulties on the country. It also assured the Contracting Parties that any exchange measure it might adopt would be compatible with both the principles of the Special Exchange Agreement and the objectives of the GATT.

In February 1966 Indonesia was granted a waiver of indefinite duration, with the proviso, however, that the country would (a) satisfy the Contracting Parties that its actions in exchange matters were consistent

with the principles of the Special Exchange Agreement and in accordance with the intent of the General Agreement; (b) notify the Contracting Parties of any action taken that would have required Indonesia to report it to the Contracting Parties had the country signed the Special Exchange Agreement; and (c) consult with the Contracting Parties within 30 days following a request submitted by any contracting party that considered any action in exchange matters taken by Indonesia to be inconsistent with the provisions of the GATT or the principles of the Special Exchange Agreement.

Import Restrictions on Agricultural Products

Member countries that maintain import restrictions on agricultural products are expected to submit annual reports to the Contracting Parties. During 1966, Luxembourg and the United States submitted such reports in which they explained the need for continuing to impose such restrictions. Details of those two reports and the actions of the Contracting Parties are given below:

Luxembourg.--In 1955 the Contracting Parties had granted Luxembourg a waiver from article XI of the General Agreement. The waiver, which permitted that country to continue applying its import restrictions on agricultural and forestry products, was extended in 1960 for 5 years and was scheduled to be reviewed again by the Contracting Parties by the end of 1965.

In October 1965 Luxembourg reported to the Contracting Parties on the implementation of the waiver; it requested that the review of the waiver be delayed until the 23d Session of the Contracting Parties and

that the validity of the waiver be extended until 1970. Luxembourg said it needed the additional time to complete the adjustment of its agriculture; it reported that its difficulties arose chiefly from the new economic conditions created by the adoption of EEC's common agricultural policy and the integration of the markets of EEC member countries. Luxembourg's agriculture was undergoing structural rationalization and transformation that only gradually would permit it to face competition from foreign products. Luxembourg also said that (a) it was prepared to withdraw one more product--apples--from the list of products covered by the waiver, and (b) it had been granted a waiver within the EEC similar to and covering the same products as that granted under the GATT.

In December 1965, the GATT Council agreed to defer the review of the waiver until the 23d Session of the Contracting Parties. In March 1966 it appointed a Working Party to review the waiver and report to the Contracting Parties at that Session. In its report, the Working Party recognized the fundamental nature of the problems faced by Luxembourg's agriculture and the need for additional adjustment period; it expressed hope that by 1970 Luxembourg would have abolished all trade restrictions permitted by the waiver. Members of the Working Party were critical of the fact that since 1955 Luxembourg had removed only 3 items from the list covered by the waiver. These members said that Luxembourg's report did not indicate the progress made in agriculture as a result of the Government's reforms in that sector and that the maintenance of the waiver raised problems of principle rather than of material damage to world trade.

The Working Party recommended that the waiver be extended to 1970. It expressed its disappointment at Luxembourg's inability to indicate which of the restrictions under the waiver might be removed before the time of the next review, but hoped that by that time all remaining restrictions would have been either eliminated or relaxed.

At their 23d Session, the Contracting Parties adopted the report of the Working Party.

The United States.--The United States submitted its 11th annual report to the Contracting Parties under a waiver granted in March 1955. The waiver had released the United States from the obligations of article II and article XI of the General Agreement, thereby permitting it to continue its import restrictions on certain agricultural products 1/ under Section 22 of the Agricultural Adjustment Act, as amended.

The U.S. report indicated that during the period under review the United States continued to: (a) apply the import regulations under Section 22 without any major change, and (b) take actions designed to bring about a better balance between the demand and supply conditions of the commodities concerned. These actions, which the report described in detail, included acreage allotments and marketing quotas, operations under the soil bank conservation reserve program, several food assistance programs at home and abroad designed to increase the consumption of these commodities, and market research and development for farm products.

1/ The import restrictions applied to the following four groups of commodities: wheat and wheat products; cotton of certain specified staple lengths, cotton waste and cotton picker lap; peanuts; and certain processed dairy products.

The report of the Working Party indicated that a number of members were concerned about the open-end character of the waiver and the fact that the United States had been unable after 11 years to relinquish the waiver entirely. Other members expressed their appreciation of the efforts made by the United States to remedy the marketing conditions of the commodities under consideration, but were disappointed that no further relaxation in the import restrictions had been made for some time and none was contemplated for the near future. Some members said that "import restrictions covered by the waiver had had serious effects on world trade in temperate agricultural products and had contributed to the imbalance that had been developing in the benefits derived from the General Agreement between exporters of agricultural products and the industrialized countries." ^{1/} A number of members requested that the restrictions on dairy products be removed or relaxed in view of the improved market situation for these products. Another member of the Working Party made a similar request regarding the U.S. import restrictions on peanuts; it was argued that such action would improve the export opportunities and increase the foreign-exchange earnings of developing countries producing this product. Other members raised similar questions respecting wheat, cotton, and other commodities covered by the waiver.

The U.S. representative responded that the United States was ready to negotiate on all relevant aspects of its agricultural support policy. He reported that the possibility of modifying or relaxing the import

^{1/} GATT L/2631, p. 1.

restrictions on dairy products under Section 22 of the Agricultural Adjustment Act were under intensive study by the Government. He indicated, also, that the various disposal programs, production controls, and acreage restrictions undertaken by the U.S. government were ameliorating the conditions that had necessitated import restrictions on wheat and dairy products. The U.S. Government had also announced a new program for cotton, under which the national acreage was expected to be reduced by at least 4.6 million acres. The United States reported that it did not intend to expand the production of either wheat or the other commodities under discussion, but would follow a flexible policy that would permit it to call diverted acreage back into production if required to meet the objectives of its new Food for Freedom Act, then under consideration by the Congress. The United States also announced its intention to terminate or modify promptly any of the restrictions imposed whenever the circumstances warranted such action.

Subsequent to the meeting of the Working Party, the U.S. representative informed the Contracting Parties that effective April 1, 1966, the United States had (a) initiated action to increase indefinitely its Cheddar cheese quota by 1-1/4 million pounds, and (b) raised the price support level for manufacturing milk by 26¢ per cwt. to assure that supplies of dried milk that might be needed for the Food for Freedom Program would be available. The U.S. representative said that these two actions indicated the desire of the United States to relax its import restrictions "to the extent consistent with its production control and

marketing programs." 1/

The Contracting Parties adopted the report of the Working Party without any change.

Preferential Tariff Treatment

At their 23d Session, the Contracting Parties considered 4 requests for extensions of waivers of most-favored-nation obligations under article I that permitted the recipient countries to accord preferential tariff treatment to imports from designated countries. These waivers had been granted under the authority of article XXV:5.

Australian request respecting imports from less-developed countries.--In January 1966, the Working Party that had examined the Australian request for a waiver under article XXV:5 of the General Agreement submitted its report to the GATT Council, together with a draft waiver. The Working Party had been appointed several months earlier after Australia had requested a waiver that would permit it to introduce preferential rates of duty on imports of manufactured and semi-manufactured commodities produced in less-developed countries.

During 1965 the Working Party had held three meetings during which the significance and effects of the Australian request were discussed at length. The views expressed at those meetings by the members of the Working Party were reflected in the report and the draft waiver submitted to the Council. The draft waiver was later amended at the request of Australia before it was submitted to the Contracting Parties

1/ GATT L/2631, addendum 1, p. 1.

for their consideration.

The report of the Working Party and the draft waiver were again discussed extensively at the 23d Session of the Contracting Parties. A number of countries supported the Australian application for the waiver by pointing out that the request was a pioneer step in alleviating the trade problems of the developing countries. They urged that it be emulated by other developed countries and expressed the hope that it marked the beginning of a general system of preferences to be formulated by the Contracting Parties for developing countries. Several countries, including the United States, however, were critical of the request. They said that the preferences to be granted to the developing countries under the Australian scheme were not part of a multilateral system of preferences extended by the industrialized countries as a whole; to the contrary, the scheme had been tailored to Australia's particular economic situation and should be abolished, along with all other existing preferential systems, as soon as the Contracting Parties could work out a general, non-discriminatory preferential scheme. They held that the Australian scheme applied to a small range of products and would therefore lead to a negligible expansion of exports by the developing countries. They noted, moreover, that the proposed preferences would be limited by quotas, most of which were quite small. In addition, they criticized the proposal because the draft waiver had no time limit, had no provision for compensation to third countries suffering injury from the implementation of the scheme, and permitted Australia to change, at any time, the products listed, rates of duty, and size of quotas.

The Contracting Parties adopted the report of the Working Party and granted Australia the requested waiver. They indicated that their decision was not to prejudice the formulation of a general, non-discriminatory solution to the problem of preferences for developing countries.

Australian preferences for products of Papua and New Guinea.--At their 23d Session, the Contracting Parties accepted without discussion Australia's 12th Annual Report respecting its preferential treatment of products imported from Papua and New Guinea. The report indicated that no new measures had been introduced under the waiver since the previous annual report and described the products from the two countries that enjoyed free entry into Australia.

Italian preferences for products of Libya.--In November 1965 and in March 1966, Italy and Libya, respectively, submitted their 13th annual reports under a waiver that had been granted in October 1952 permitting Italy to apply preferential customs treatment to certain products 1/ imported from Libya--a country with which Italy had had special relations before World War II. The validity of this waiver had been renewed, with amendments, in November of 1955, 1958, and 1961 and again in January 1965--the last extension to apply through December 1967.

Italy's report described the development of its imports from Libya--as well as those from other countries--not only of products accorded preferential customs treatment but also those admitted duty free with no distinction as to origin. The report indicated that Italy's imports of Libyan products under special customs treatment constituted a small

1/ Peanuts, hides and skins, castor oil, wool and other animal hair.

percentage (a little more than 2 percent) of its imports of such products from all sources. These products continued to be important in Libya's export trade with Italy. Italy had also been importing considerable quantities of crude oil from Libya--a fact that had contributed favorably to the country's economic development. The report concluded that maintenance of the special treatment accorded by Italy to the Libyan products was essential to that country's program of strengthening its general export position and enhancing the economic development of the country, and that the special customs treatment accorded the Libyan products had not affected Italy's trade with other countries.

Italian preferences for products of Somalia.--In January 1966 the GATT Council granted Italy an extension to a 1960 waiver that had authorized the country to accord preferential treatment to imports of certain products from Somalia. The extension was to be valid until the end of the 23d Session of the Contracting Parties. The Council also appointed a Working Party to examine Italy's request for a two-year extension of the waiver to the end of December 1967.

A Working Party to which the matter had been referred submitted its report to the Contracting Parties at their 23d Session. It indicated that Italy planned to: (a) reduce the number of products covered by the waiver from the original nine to only three--viz., bananas, prepared or preserved meat, and prepared or preserved fish; (b) reduce the height of its consumption tax on Somali bananas from 90 to 60 lire per kilogram; the reduced rate was to apply to a maximum volume of 1 million quintals annually and be effective throughout 1966 and 1967; and (c)

replace the previous separate import quotas for bananas from third countries by a single global quota of 3 million quintals--thus imports of bananas from all sources were to be put on a non-discriminatory basis.

The report of the Working Party also pointed out that granting Italy's request for an extension and an amendment of the waiver would contribute materially to Somalia's economic development. Several members of the Working Party said that while Somalia merited such support, discrimination between less developed countries was not in the spirit of the General Agreement. The Working Party recommended that the validity of the waiver be extended to the end of December 1967 since the proposed special customs treatment of the designated Somali products was not likely to result in a substantial injury to the trade of the contracting parties.

At their 23d Session, the Contracting Parties adopted the report of the Working Party. A number of the contracting parties expressed the hope that there would be no need for a further extension of the waiver after 1967.

United Kingdom Preferences for Products of Dependent Overseas Territories.--The United Kingdom submitted to the Contracting Parties its 11th annual report on actions taken during 1965 under a waiver that had been granted in 1955. ^{1/} The waiver had permitted preferential treatment of imports from dependent overseas territories of the United Kingdom. The report indicated that the waiver had not been invoked since the submission of the tenth report.

^{1/} Operation of the Trade Agreements Program, 17th report, p. 48.

Escape-Clause Actions by Various Countries

During 1966, three contracting parties used article XIX to withdraw or modify tariff concessions in their GATT schedules. Under the provisions of article XIX, the so-called escape clause, a contracting party may suspend an obligation in whole or in part, or withdraw or modify a concession, if as a result of unforeseen developments and of the effect of obligations incurred by a contracting party under the General Agreement, any product is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or directly competitive products. Action under the escape clause may remain in effect for such time and to the extent that they are necessary to prevent or remedy such injury. When a contracting party takes action under article XIX, it is required to notify the Contracting Parties and to consult with any adversely affected contracting party with a view to granting compensatory concessions for those withdrawn or modified, or to permit the adversely affected party to withdraw concessions of interest to the party that took action under article XIX.

In a communication dated June 30, 1966, Spain notified the Contracting Parties that it had decided to discontinue further imports of certain types of cheese. The Government had taken this action in order to alleviate the serious situation then confronting the domestic cheese industry. By the end of March 1966, Spanish manufacturers were holding large stocks of unsold cheese, primarily as a result of heavy imports. The Government intended to abolish the restrictions on the importation

of cheese as soon as it could adopt a system of subsidies and other aids designed to safeguard the interests of its cheese industry. In the meantime, Spain was prepared to consult with other contracting parties having an interest in this trade.

The High Authority of the European Coal and Steel Community (ECSC) notified the GATT members that on November 30, 1966, it had: (a) extended to December 31, 1968, the specific duty on imports of foundry pig iron into the Community; and (b) reduced the duty from \$7 to \$5 per ton. The specific duty on foundry pig iron had first been imposed in February 1964; it was levied in addition to the regular import duty of 5 percent applied by all the members of the Community. The High Authority indicated that it was prepared to enter into consultation with contracting parties principally concerned about this action.

Modifications of Tariff Concessions

During the year, nine contracting parties either negotiated or continued to negotiate with other interested parties respecting changes in their tariff schedules that involved concessions granted under the General Agreement. In addition, a number of contracting parties initiated action that affected rates in their tariff schedules that had been bound in the GATT. Article XXVIII of the General Agreement provides that a contracting party may enter into negotiations with other interested contracting parties to modify or withdraw certain concessions in its tariff schedule.

Renegotiation of tariff schedules.--During 1966, Peru and Turkey continued to renegotiate their GATT tariff concessions with interested

contracting parties under the provisions of article XXVIII of the GATT. These countries had been granted waivers from their obligations under article II that had permitted them to apply revised tariff schedules incorporating changes in duties that had been bound in the GATT before the renegotiations were completed. Both countries requested and received further extensions of their waivers, which were to expire on December 31, 1966, for Peru and on September 30, 1966, for Turkey.

The new extension permitted Peru to continue in force the higher rates of duty provided in its new tariff, pending completion of negotiations for the modification or withdrawal of concessions that it had granted earlier to other GATT members.

The extension of Turkey's waiver enabled the country to pursue its negotiations concerning the modification or withdrawal of concessions that it had granted in GATT negotiations (Schedule XXXV). In September, Turkey and Sweden agreed to continue their negotiations and meanwhile to substitute, under specified conditions, designated concessions in the new Turkish tariff for those previously granted by Turkey.

In March 1965 the Contracting Parties further extended Chile's authorization, originally granted in May 1959, to continue applying a number of surcharges on imports. The extension was to be valid either until the new customs tariff entered into force or until the end of 1966, whichever was earlier. During 1966 Chile informed the Contracting Parties that it was implementing a tariff reform that involved: (a) the adoption of the Brussels Tariff Nomenclature, and (b) the incorporation into its customs duties of all charges and surcharges theretofore

imposed on imports. The new tariff, which was to be introduced on January 1, 1967, might involve increases of a number of rates of duty on which Chile had granted concessions in GATT (Schedule VII). Chile requested the Contracting Parties to waive its obligations under article II, thus permitting it to put the new tariff into effect and complete its negotiations which were expected to continue beyond the end of 1966. The Working Party that examined Chile's request recommended that the waiver be granted and that the negotiations be completed before December 31, 1967. The Contracting Parties had not acted on this recommendation by the end of the year under review.

Negotiations to modify designated concessions.--During 1966, six GATT members notified the Contracting Parties that they had initiated, or proposed to initiate, new tariff schedules or modifications of their current schedules of concessions. In March 1966, Rwanda notified the Contracting Parties that it would be prepared to engage in tariff negotiations with interested members of the GATT toward the end of 1966. These negotiations were necessitated by the fact that Rwanda during the period following its de facto accession to the General Agreement had, on several occasions, modified its schedule of concessions. Moreover, it was believed that a program of currency reform undertaken by the Government might require additional changes in the schedule of concessions.

In May 1966, Israel submitted to the Contracting Parties a consolidated schedule of duty concessions to replace those that had been negotiated by Israel at the time of its accession to the GATT (Schedule XLII). The new Israel tariff used the Brussels Tariff Nomenclature as a basis of its import classification.

In June 1966 the United Kingdom submitted to the Contracting Parties a list of alterations of its concessions (Schedule XIX), providing for various mixtures of fruit. The alterations had become necessary because of the recent growth of trade in such products. The United Kingdom had consulted with the United States and certain other contracting parties deemed to have a significant interest in the new headings and had obtained their approval to the proposed changes.

In July 1966 Japan informed the Contracting Parties that on April 1, 1966, it had introduced a new customs tariff in anticipation of its adoption of the Brussels Tariff Nomenclature in October of the same year. Japan's new consolidated schedule of duty concessions (Schedule XXXVIII) incorporated a number of revisions in its concessions under the GATT.

Switzerland acceded to full membership in the General Agreement in August 1966. In reports dated October and December of that year, Switzerland informed the Contracting Parties that all schedules of tariff concessions previously annexed to the Declaration of the Provisional Accession of the Swiss Confederation, except the schedule of concessions to Spain, had become GATT schedules.

In December 1966 Australia notified the Contracting Parties that following its adoption of the Brussels Tariff Nomenclature in July 1965, it wished to reserve the right during the 3-year period beginning January 1, 1967 to modify its schedule of concessions so that the commitments described therein might be expressed in terms of the new nomenclature. Australia assured the Contracting Parties that it intended to

maintain a general level of concessions that was not less favorable to trade than that included in its schedule (Schedule I) on December 31, 1966.

Other actions related to tariff schedules

During the year, five contracting parties initiated various measures that affected their import trade policies. In March 1966 Ireland informed the Contracting Parties of its decision to extend to June 30, 1966, the temporary levy it had imposed in November 1965 on imports of finished consumer goods. The levy, which had been initiated to relieve the pressure on the country's balance-of-payments, was scheduled to expire on March 31, 1966. In July 1966, Ireland notified the Contracting Parties that it had decided to continue the levy until September 30, 1966. Although Ireland was not a member of the GATT, it had applied for accession to the General Agreement.

In April 1966, Rwanda simultaneously revalued its currency and eased its import restrictions. Under new import regulations, which were worked out in collaboration with the International Monetary Fund, all quantitative restrictions on imports were abolished and import licenses were to be required much less frequently than formerly. The new regulations, however, imposed increased rates of duty on several imported products, including meats, fish, confectionery items, woven fabrics, knitted goods, footwear, glassware, and musical instruments. Nevertheless, duties on certain other products were reduced, such as the rates on tobacco, plastic raw materials, pipe fittings, certain metal articles, weighing instruments, miscellaneous electrical machines,

insulators, and electric bulbs.

Also in April 1966, New Zealand tightened the import restrictions provided for under its Import Licensing Schedule. The new Licensing Schedule effected reductions, from the 1965/66 schedule, in the quantities that would be licensed for importation during 1966/67. These reductions, which varied in amount from 15 to 33-1/3 percent, affected a wide variety of products, including raw materials, iron and steel, woolen piece goods, plastic molding powders, motor vehicles, and major industrial plant equipment and machinery. New Zealand deemed that the new import allocations would be sufficient to sustain production and commercial activity in 1966/67 at a level somewhat below that of 1965/66, but higher than that of any other year.

In May 1966, the representative of the United Kingdom announced that on November 30, 1966, his Government would abolish the temporary surcharge it had imposed on all imports in October 1964. The surcharge had initially amounted to 15 percent ad valorem; it had been put in effect in order to safeguard the foreign exchange position of the country. In April 1965 it had been reduced to 10 percent ad valorem. The decision to remove the surcharge entirely was taken in view of the constant improvement made by the United Kingdom in its balance-of-payments situation.

In August 1966, the United States advised the Contracting Parties that, effective July 13, 1966, it had placed limitations on imports of mixtures containing sugar and butterfat or flour. ^{1/} During 1966,

^{1/} Action on this item was initiated by the United States under sec. 206 of the Sugar Act of 1962, as modified in 1965.

imports of these items became successively higher each month. During the first 5 months of 1966 they exceeded the total imported in the six years preceding 1966. Imports during the year were to be limited either to the quantity imported (including the quantity in transit) before the effective date, or the quantity of mixture containing 100 short tons raw value of sugar from each country, whichever larger, except such imports from Australia and Denmark for which the limitation was 2,240,000 and 350,000 pounds, respectively. Limitations were to be placed on imports of butterfat-sugar mixtures in future years.

In December 1966, Brazil submitted to the Contracting Parties details of a tariff reform that it intended to put into effect on March 1, 1967, as part of its continuing effort to assure that its foreign trade would be governed largely by the market mechanism. The tariff reform would eliminate various high rates of duty that had been in effect after 1957 and provide lower duties for a considerable number of products in order to benefit consumers and importers of raw materials. Nevertheless, the new tariff extended protection to certain new production activities that had developed after 1957. The tariff reform, moreover, called for dismantling, effective March 1, 1967, of all restrictions imposed on imports of products classified in the "Special Category," and for abolishing the Customs Clearance Tax, beginning January 1,

1968. 1/ Brazil, therefore, requested the Contracting Parties to grant

1/ The "Special Category" included all commodities, except raw materials, spare parts, and some essential goods not produced in sufficient quantities in Brazil. Commodities included in the Special Category are subject to overall quotas that apply to imports from all countries. These commodities accounted for a small share of the total imports in 1966.

it a waiver from its obligations under article II to enable it to apply the new tariff without previous renegotiation of its concessions under the GATT (Schedule III). Brazil also indicated its readiness to enter into negotiations with interested contracting parties and to complete such negotiations by March 1, 1968.

Reduction of import duties and other trade restrictions

During the year eleven contracting parties adopted measures designed to reduce import duties and other restrictions imposed on specific commodities. Among those taking such action were the United States, France, the Netherlands, and Denmark.

The Government of Finland announced that beginning January 1, 1966, the global import quotas applicable to certain products had been expanded and the trade restrictions on certain others eliminated. These measures applied to imports originating in countries belonging to Finland's "multilateral" area. 1/

During January 1966, the United States announced that it had taken three separate actions under article XIX of the GATT that liberalized its restrictions on imports of stainless steel flatware, clinical thermometers and safety pins. All three actions altered U.S. import restrictions that had been taken under the "escape-clause" and thereby brought U.S. policy more in accord with commitments that had been negotiated earlier with the Contracting Parties. The first action, which

1/ The multilateral area includes nearly all countries with which Finland does not have bilateral payments agreements. No import licenses are required for goods imported from that area.

was retroactive to November 1, 1965, increased the annual tariff quota on U.S. imports of stainless steel flatware from 69 million to 84 million pieces and reduced the overquota rates by an average of 50 percent. The second action, which became effective January 7, 1966, lowered the rate of duty on imports of clinical thermometers from 85 percent ad valorem to 42.5 percent--the rate initially bound in Schedule XX. The third action, which became effective on January 28, 1966, replaced the rate of duty of 35 percent ad valorem on imports of safety pins by the rate of duty of 22.5 percent--the rate initially bound in Schedule XX.

Iceland, a provisional contracting party, advised that on January 21, 1966, a number of products had been added to its list of commodities that could be imported without license. These commodities accounted for 87 percent of Iceland's imports in 1966. 1/ The remaining commodities 2/ were being admitted under overall quotas that applied to imports from countries with which Iceland did not maintain bilateral-payments agreements. The global quotas for imports in 1966 had been increased to IKr. 133 million compared with IKr. 8.3 million in 1965.

In a communication dated February 10, 1966, the Government of Denmark notified the Contracting Parties that, effective January 1, 1966,

1/ Exchange Restrictions; International Monetary Fund, 18th Annual Report, p. 286.

2/ Gasoline, gas oil, and fuel oil, which were imported mainly from Rumania and the U.S.S.R.

the item "food and feeding stuffs" had been added to the Danish "Free List Area" commodities. 1/ Most nonindustrial commodities may be imported from countries in that area license-free. Other commodities may be imported from the Free List Area under licenses issued on the basis of global quotas applicable to imports from all countries.

In March 1966 Spain notified the Contracting Parties of its eleventh liberalization list, which identified several commodities that were to be allowed duty-free entry. For a number of these commodities duty-free entry had been in effect from January 1966.

Also in March 1966, Turkey submitted, to the Contracting Parties, two "liberalization" lists 2/ that were to be in effect during 1966. Commodities included on List I required a 70 percent guarantee deposit before exchange for their importation would be granted, whereas those on List II required a 100 percent deposit. 3/

In two separate communications dated May and July 1966, South Africa informed the Contracting Parties of its decision to increase its import quotas for several groups of products. The new quotas,

1/ The "Free List Area" comprises most countries outside the Soviet bloc. Countries not included in this area are: Albania, Brazil, Bulgaria, Mainland China, Republic of China, Colombia, Czechoslovakia, East Germany, Hungary, Japan, North Korea, Republic of Korea, Mongolia, Paraguay, Poland, Rhodesia, Rumania, Syria, U.S.S.R., United Arab Republic, and North Vietnam.

2/ All commodities imported into Turkey required licenses, which were valid for six months. Imports were classified in two categories: (1) "liberalized" goods (lists I and II), for which import licenses were issued freely; and (2) goods subject to global quotas. Both categories of commodities applied to imports from countries with which Turkey had no bilateral-payments agreements.

3/ The Central Bank allocated an overall amount of foreign exchange for imports of goods on the "liberalization" list.

originally announced before the close of 1965, were expressed as percentages of an importer's 1964 entries and embraced the following groups of products:

		Percent of an Importer's 1964 Imports	
		<u>May Decision</u>	<u>July Decision</u>
Consumer goods	(Group A-----	50	55
	(Group B-----	75	100
Capital equipment-----		75	<u>1/</u>
Office equipment-----		75	75
Textile piece goods-----		100 <u>2/</u>	100 <u>2/</u>
Raw materials-----		75	100

1/ Applications were to be reviewed on an end-user basis.

2/ 100 percent of an importer's 1965 level of imports.

In November 1966 South Africa submitted to the Contracting Parties a statement describing the extent to which imports probably could be authorized during 1967. The statement said that South Africa's foreign exchange reserves had increased substantially but not sufficiently to warrant a general relaxation of import restrictions. Reserves of foreign exchange were to be used for the most essential import requirements, which were expected to be considerably larger than in 1966. Because of these considerations, the initial 1967 allocations of exchange for raw materials, textile goods, rice, agricultural implements, office equipment, and both of the above categories of consumer goods would be identical to those made available by the initial 1966 permits. No initial allocations were to be made for imports of timber and fertilizer, which were to be subject to special applications for exchange. Allocations

for imports of capital equipment were to be made after discussions with representatives of the trade.

During the year, France submitted to the Contracting Parties two lists of products, for which import restrictions had been eliminated if originating in GATT countries. Such removal of restrictions became effective on June 26, 1966, for a substantial list of products, including: olives and capers, tomatoes, peas and beans, dates, figs, dried fruit, flour, sausages, offals of horses, macaroni, mushrooms, orange juice, and various extracts. On November 8, 1966, restrictions applying to a second list of products were eliminated, including those on onions, cucumbers, polymerization and copolymerization products, terry toweling, stockings, statuettes, sewing machines and parts, primary cells and batteries, fishing rods and reels, and cigaret lighters.

The Netherlands advised the Contracting Parties that on July 1, 1966, it had removed quantitative restrictions on imports of edible offals of horses from member countries; it reported also that the government intended to take similar action with regard to imports of shrimps other than those of the variety "penacidae," effective January 1, 1967.

In November 1966 Indonesia advised the Contracting Parties that, on December 21, 1965, it had effected a widespread reduction of import duties for the purpose of encouraging imports of the following: raw materials, transportation and communication equipment, pharmaceuticals, health and sanitation equipment, medical supplies, and semi-finished goods and equipment for industries whose products would earn or save foreign exchange. The new rates of duty on many items were

lower than those bound in the GATT. The Secretariat of the GATT had not been previously informed of this tariff reform.

In December 1966 Nigeria submitted to the GATT a list of products on which substantial reductions in import duties had been effected, beginning with November 24, 1966. The list included: pharmaceuticals, cushion mattresses and pillows, tires and tubes of motor vehicles, crude sugar, passenger cars, woven fabrics, meat and fish, cameras, wood manufactures, vegetables and fruits, machinery spare parts, plastic tiles, and steel bars.

Representations and Complaints

During 1966 two contracting parties requested that consultations be held with GATT members under the provisions of article XXII for the purpose of resolving specific trade problems. Article XXII, which provides the basic consultation procedure of the General Agreement, requires a contracting party to enter into consultations whenever requested by another respecting any matter affecting the operation of the Agreement.

In July 1966 the United States requested that consultations be held between it and Norway, under article XXII, concerning Norway's maintenance of quantitative import restrictions on certain food products. In August, Australia informed Norway that it wished to join the United States in the consultations, which by then were scheduled to begin in September 1966. As a result of these consultations, Norway announced that on January 1, 1967 it would abolish the import restrictions it had imposed on seven products.

OTHER DEVELOPMENTS RELATING TO THE GENERAL AGREEMENT

During 1966, GATT members initiated a variety of actions designed to reduce certain obstacles to international trade. Such actions related to: efforts to expand trade in primary products; the disposal of surplus commodities; the implementation of the cotton textiles agreement; changes in subsidies and state-trading measures; the non-application of the provisions of the General Agreement between certain members; and simplification of consular formalities.

Commodity Problems

During 1966 various commodity problems engrossed the attention of the Contracting Parties, particularly problems relating to efforts to expand trade in primary products, to dispose of surplus commodities, and to implement the cotton textiles agreement. A solution of commodity problems acceptable to both importing and exporting countries would contribute significantly to the expansion of world trade by enhancing the prospects of further reductions or eliminations of trade restrictions.

Efforts to expand trade in primary products

At the 23d Session of the Contracting Parties, the GATT Secretariat submitted its report on intergovernmental activities respecting the international trade in primary products. ^{1/} In the report, the

^{1/} Similar reports in previous years had been submitted by the Interim Coordinating Committee for International Commodity Arrangements (ICCICA), which had been replaced in 1965 by the Advisory Committee to the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD).

Secretariat reviewed: (a) trends in production, consumption, prices, and trade, as well as market outlook for these products; (b) efforts by principal intergovernmental organizations to promote international trade in these commodities; (c) developments in existing international agreements on primary products; and (d) proposals for establishing international arrangements for other commodities. ^{1/}

During the discussion of the report, a number of developing countries expressed disappointment in the lack of progress in expanding the international trade of primary products. They were particularly concerned that: fluctuations in the prices of primary products in world markets had disrupted the development programs of several LDC's; the prices of the primary products exported by developing countries had declined more than had prices of products exported by the developed countries; and exports of primary products by the developed countries had increased faster than those by developing countries. Various members voiced their continuing support to the study of international commodity problems. The Contracting Parties agreed to discuss the item again at their 24th Session.

Disposal of commodity surpluses

In 1966, five countries reported to the Contracting Parties on their activities regarding the disposal of commodity surpluses, the liquidation of strategic stocks, and the disposal of stocks otherwise

^{1/} The Secretariat reported on the following primary products: cocoa; coffee; olive oil; sugar; tin; wheat; citrus fruit; jute, kenaf, and allied fibers; oilseeds, oils, and fats; rice; tea; and cotton.

held by government agencies. Two other countries--the Netherlands and Switzerland--advised that they had nothing to report on this item. 1/

Australia reported that, although it did not maintain a regular program for the disposal of surplus commodities, occasionally, the Government had made gifts of commodities under its Colombo Plan. Under this plan, the Government of Australia provided assistance to less developed countries, primarily in the form of technical aid and equipment; nevertheless, gifts of wheat, flour, and skimmed milk had also been made under certain circumstances. Australia had participated in the 1965 international program of aid to India by making a contribution in the form of wheat. Another substantial gift of wheat to India was planned for 1966.

Canada's report noted that its Agricultural Stabilization Board had no formal plan for the disposal of commodities. It reported that its surplus stocks consisted of commodities that it had acquired as a result of its price support operations. During the fiscal year ending March 31, 1965, the Board sold commodities valued at \$79 million. The commodities thus disposed of included 133 million pounds of butter and 56 million pounds of butter oil. Most of these stocks had been sold at competitive market prices. The Board also had sold abroad about 530,000 pounds of canned hams.

The United Kingdom reported that through commercial sales it had disposed of the following industrial raw materials from its strategic

1/ After reviewing these issues at their 22d Session, the Contracting Parties had agreed to renew their discussions of the disposal of commodity surpluses at their 23d Session.

stockpiles: lead, 200 tons; pyrites, 2,300 tons; quartz crystals, $2\frac{1}{4}$ tons; tungsten ore, 2,700 tons; and mica, 66 tons. The report indicated that the United Kingdom maintained strategic stockpiles of several essential foodstuffs but had no intention of liquidating them.

The report submitted by the United States described various U.S. disposal programs and the respective quantities that had been liquidated thereunder during the reporting year. Commodities thus disposed of included both agricultural products and strategic materials. The value of U.S. surplus strategic and industrial materials liquidated during 1965 totaled nearly \$700 million. The disposal of such materials had been accelerated during the year by both the increased industrial activity at home and the demands imposed by military operations. The liquidation of these stocks did not appear to have unduly depressed domestic market prices. To the contrary, their disposal had afforded a means of avoiding a severe shortage in some commodities, e.g., tin and mercury.

The strategic and industrial materials and the quantities liquidated were as follows:

Rubber: During 1965 commercial sales and releases of rubber for government uses approximated 122,000 tons. In September 1965, Congress authorized a further release of 620,000 long tons of rubber that had been declared surplus.

Tin: A total of approximately 21,000 tons was released during 1965. The U.S. Government had consulted with the International Tin Council and interested governments concerning the disposal of this material.

Copper: In November 1965, the U.S. Government announced that it would release at least 200,000 tons of copper from its stockpile, as part of a program designed to ease shortages and price pressures on the market.

Lead: Between April 1965 and March 1966, nearly 47,000 tons of lead were sold from a total of 200,000 tons authorized for disposal. In March 1966, 90,000 more tons were offered for sale. The U.S. Government had consulted with interested governments both bilaterally and through the International Lead and Zinc Study Group on the disposal plans for this product.

Zinc: During 1965, 219,175 tons of zinc were sold. In February 1966, the U.S. General Services Administration resumed sales of the 129,000 tons remaining from the quantity originally authorized for sale by the Congress.

Tungsten: Between January and March 1966, a total of $6\frac{1}{2}$ million pounds of tungsten were offered for sale. The disposal program for this material was under discussion between the U.S. Government and the United Nations Tungsten Committee.

Columbium: In January 1966, the Government made its first offer for the sale of 200,000 pounds of columbium. This offer was greatly oversubscribed and led to a second offer of 400,000 pounds in February for sale to domestic users only.

Sisal: A program, initiated in October 1964, to dispose of 9.5 million pounds of surplus sisal was completed in January 1966. In March 1966, Congress was requested to approve the release of an additional 100 million pounds. In initiating both programs, the U.S. Government had consulted with interested governments.

Extra-long-staple cotton: Between August 1, 1965, and the end of February 1966, a total of 8,200 bales $\frac{1}{2}$ of extra-long-staple cotton in surplus was sold at competitive international prices. By the latter date, nearly three-fourths of the original stockpile quantity had been sold.

The agricultural commodities disposed of by the United States during fiscal year 1965 under the Agricultural Trade Development and Assistance Act (Public Law No. 480) had a value of \$1,463 million. The disposal of surplus agricultural commodities under the

$\frac{1}{2}$ "Equivalent" basis--one bale = 500 pounds.

various titles of Public Law 480 were as follows: 1/

Title I (sales for local currencies): Commodities disposed of under this title had an export market value of approximately \$580 million, excluding ocean transportation costs.

Title II (foreign donations and grants of commodities held in stock by the Commodity Credit Corporation): commodities thus disposed of were valued at \$226 million, including \$52 million for ocean freight costs for overseas shipments by voluntary agencies.

Title III (surplus foodstuffs distributed abroad to needy persons through U.S. voluntary relief agencies and inter-governmental organizations, such as the U.N. Children's Fund): Commodities disposed of under this title were valued at \$268 million.

Title IV (long-term dollar credit sales to assist in the economic development of recipient countries): the value of such commodities totaled \$186 million, excluding ocean transportation costs.

The U.S. report also included a detailed description of the new Food for Freedom Act that the President had recommended to the Congress in February 1966 as a substitute for Public Law 480. The report described the principal features of the proposed legislation and emphasized that the U.S. Government intended to ensure that food shipments would neither disrupt world prices of agricultural commodities nor interfere with normal patterns of commercial trade. Moreover, the Government planned to continue the practice of consulting before the release of the surplus commodities with exporting countries whose normal commercial sales might be affected by food aid programs.

1/ The amounts given in the report under each of the individual titles do not add up to the total of \$1,463 million, probably because the ocean freight costs were not included in some of these amounts.

The U.S. report was discussed extensively at the 23d Session.

A number of GATT members noted that the disposal of agricultural surpluses was in the interest of human welfare; others held that food aid programs should not be dependent on the temporary availability of surpluses. Several contracting parties were concerned about the tendency to include "tied sales" provisions in U.S. agreements. ^{1/} Such provisions were contrary to the policy of free access to commercial markets. Other GATT members urged the United States to continue to consult with interested third countries, whenever it contemplated the disposal of significant quantities of agricultural and other products. The Contracting Parties placed this item on the agenda for the 24th Session.

Implementation of the cotton textiles agreement

During 1966 the Cotton Textiles Committee of the GATT conducted its fourth annual review of the operation of the Long-Term Arrangement on Cotton Textiles (LTA); it also initiated a discussion of the future of that arrangement. ^{2/} Article 8(c) of the Long-Term Arrangement requires the Cotton Textiles Committee to review annually the operation of the Arrangement and report to the Contracting Parties. Article 8(d) requires the Committee to consider the desirability of extending, modifying, or discontinuing the application of the LTA.

At the discussion concerning the operation of the Arrangement, the representative of Japan complained that the manner in which it had been

^{1/} These provisions required the recipient country to purchase on commercial terms a quantity of the same or other commodities from the United States.

^{2/} Chapter 1 of this report presents a more complete account of the Long-Term Arrangement and of the actions taken thereunder by the United States.

administered by the principal importing countries had not been satisfactory to his country. The relaxation of restrictions effected by some of the EEC members, for example, covered only a limited number of products of interest to Japan. He expressed hope that the United Kingdom would soon abolish its system governing imports of cotton textiles and that the United States would open its market fully in the near future.

The representative of the United Arab Republic said that his country's exports of cotton to the participating countries had declined during the fourth year of operation of the Arrangement. He reported, nevertheless, that most of the importing countries continued to maintain import quotas on cotton that were unduly restrictive, because they were computed on the basis of 1962 trade.

The delegate of India complained that the 1965 and 1966 import quotas designated for cotton textiles by some of the EEC members did not permit a progressive improvement of the trading opportunities for the less developed countries and that the import procedures of developed countries continued to be restrictive. He added that the United Kingdom had invoked the special provisions of the LTA 1/ to impose restrictions on nearly all of its cotton textile imports.

1/ Article 3 of the LTA provides that a participating country experiencing or threatened by market disruption caused by imports of cotton textiles may request another participating country to curtail its exports of the particular products to a specified level. If the exporting country fails within 60 days to agree to the request, the importing country may then limit entry of the specified products to the level requested.

The spokesman for Hong Kong said that importing countries should not implement the LTA in a rigid manner and should refrain from imposing restrictions by invoking the special provisions of article 3 of the Arrangement whenever these countries fail to reach agreement with their trading partners.

The delegate of Canada said that his Government had used the provisions of article 3 in only a few cases. He felt that, contrary to expectations, the Arrangement had failed to reduce the disruptive impact of imports on the few markets that were relatively open to cotton textiles; he held, moreover, that the situation in those markets that were restricted had not improved. He urged the importing countries to dismantle their import quotas on cotton textiles and replace them by negotiated export restraints on the part of exporting countries.

The spokesman for the European Economic Community said that despite the decline in the consumption of cotton textiles in the Community and the increased difficulties encountered by the EEC textile industries during the year, the members of the Community had implemented the LTA quite liberally. They had increased their quotas for cotton textiles coming from four exporting countries, while France and West Germany had maintained open quotas for such products from three other exporting countries. In addition, France had relaxed its restrictions on two items. He added that only the Benelux countries had invoked article 3, and then only to introduce one restraint, while Italy had removed the restrictions it had previously imposed on gray and bleached fabrics and West Germany had renewed an existing restraint.

The representative of the United States said that during the fourth year of its operation, the LTA had permitted a substantial increase in the exports of cotton textiles to the United States, particularly from developing countries. The United States had imposed restraints under article 3 of the arrangement with respect to 4 countries, only one of which was a participant. Moreover, the United States had concluded several new bilateral agreements involving its imports of cotton textiles and had modified existing agreements.

The discussion concerning the future of the LTA was confined to a preliminary exchange of views among the participants. The discussion was to be followed by bilateral consultations between governments for the purpose of ascertaining the conditions under which the Arrangement would be continued. The discussion indicated that all participants favored a continuation of the LTA for another three to five years. Only a few members, however, wanted the Arrangement to continue to be applied without change. Most of the delegates proposed specific modifications, which, in their view, would render the administration of the LTA more effective.

A representative of one developing country said that an extension of the Arrangement for a further period would not be in the interests of the less developed countries unless they could have a formal guarantee that the objectives set forth in the preamble 1/ would be observed and

1/ The objectives of the LTA, as stated in its preamble are: (a) to develop the world trade of cotton textiles through cooperative action; (b) to facilitate the economic development of less-developed countries possessing the necessary resources for the production of cotton textiles by providing greater opportunities for the sale of their products in world markets; and (c) to avoid disruptive effects in individual markets and on individual lines of production in both importing and exporting countries of cotton textiles.

that the LTA would be administered much more liberally. He suggested that restraints imposed under article 3 be limited to fully justified cases. Another LDC participant said that his country would support an extension of the LTA if assured that it would be applied in a reasonably liberal manner and that the existing restrictions imposed by importing countries could be progressively reduced.

Most of the representatives of developed countries said that the LTA provided an excellent opportunity for expanding world trade in cotton textiles in an orderly manner. They suggested that bilateral discussions be undertaken between importing and exporting countries to resolve mutual difficulties and to clarify the nature of amendments or adjustments that should be made to the existing Arrangement. The discussion on the future of the LTA was to be continued at a later meeting of the Cotton Textiles Committee.

Changes in Subsidies and State Trading Measures

During the year, 13 countries submitted to the Contracting Parties reports on the nature and extent of export subsidies that they maintained, and twelve countries submitted reports on the status of their state-trading enterprises. Article XVI of the General Agreement requires members to report to the Contracting Parties on the types of subsidies they maintain, while article XVII contains comparable provisions relating to state-trading enterprises. New reporting procedures had been adopted at the 20th Session of the Contracting Parties in 1963; thereafter, members were required to submit a full report on the status of

these operations every three years and to report every year any changes that had occurred therein. The GATT Secretariat did not indicate how many countries that maintained subsidies or state-trading enterprises had failed to report. The aforementioned reports were accepted by the Contracting Parties without discussion. The countries that submitted reports were as follows:

<u>Reports on types of subsidies</u>		<u>Reports on state-trading enterprises</u>	
Australia	South Africa	Australia	Norway
Austria	Spain	Austria	South Africa
Canada	Sweden	Canada	Spain
Czechoslovakia	Switzerland	Czechoslovakia	Sweden
Denmark	United Kingdom	Finland	United Kingdom
Finland	United States	Japan	
Japan		Kenya	

Nonapplication of the Agreement between Particular Contracting Parties

During 1966 several contracting parties continued to invoke the provisions of article XXXV against other members of the GATT, particularly Japan. Article XXXV provides that the agreement or, alternatively, article II of the agreement, shall not apply between any two contracting parties if either of them, at the time that it accedes to the General Agreement, does not consent to such application. Article II incorporates into the General Agreement the tariff and other concessions that apply to GATT members.

At the 23d Session of the Contracting Parties the representative of Japan noted regretfully that more than 30 contracting parties, most of them developing countries, were still invoking article XXXV against his country. He indicated that if such discrimination continued, Japan

might find it difficult to extend to such contracting parties the concessions that Japan had offered at the Kennedy round as well as those that could be derived from Japan's implementation of Part IV of the General Agreement.

The delegates of several GATT member countries expressed their regret that so many countries continued to apply article XXXV against Japan and urged such countries to take "disinvocation" action as soon as possible. One delegate suggested that the countries still invoking article XXXV should enter into tariff negotiations with Japan. Another delegate said that his country, which had been among the first GATT members to accord full GATT treatment to imports from Japan, had not experienced, as a result of that action, any difficulties in the trade of its domestic industries, or any serious disruption of its economy. He further noted that, since developing countries confronted with balance-of-payments difficulties were permitted by the General Agreement to maintain quantitative restrictions on a non-discriminatory basis, there was no need to apply such restrictions against any particular contracting party.

In June 1966, Trinidad and Tobago and in July 1966, Guyana advised the contracting parties that they had ceased to invoke the provisions of article XXXV against Japan.

In January 1966 the representative of the United Arab Republic informed the contracting parties that his Government's initial offer of concessions at the Kennedy round, during which the UAR would negotiate for accession to the General Agreement, was not being transmitted

to South Africa.

The Simplification of Consular Formalities

A decision by the Contracting Parties at their 22d Session required that members still maintaining consular formalities as a requisite to the clearance of imports and exports must report annually on the progress made toward removing them. Such formalities frequently involve burdensome procedures such as unnecessary documentation and fees in connection with the importation and exportation of commodities. In March 1966, the Secretariat requested ten countries, which were believed to require consular formalities regularly, to submit reports in time to be considered at the 23d Session of the Contracting Parties. Seven of these countries either submitted formal reports or reported orally at the Session. Three countries--Haiti, Nicaragua, and the Dominican Republic--did not submit reports.

Both Argentina and Spain reported that the formalities they maintained were of minor character and did not constitute barriers to trade. Turkey reported that it had introduced legislation designed to eliminate the requirement of fees for issuing certificates of origin and to simplify certain provisions pertaining to import procedures. Peru reported that it was preparing a new customs code that would simplify the consular documents required and eliminate certain consular formalities. Uruguay reported that its Government was continuing to study the possibility of further simplification of consular formalities. Brazil reported that the progressive elimination of its consular formalities was being

reviewed as part of the Government's liberalization policy. Portugal also indicated that its Government was examining its consular formalities and that it would inform the Contracting Parties as soon as the new legislation on this matter became effective.

The Contracting Parties agreed to discuss the problem again at the 24th Session; they urged members that still maintained consular formalities to take steps toward their elimination and report at the next Session.

Chapter 3

Major Commercial Policy Developments in Countries With Which the United States Has Trade Agreements

INTRODUCTION

Most of the significant developments that occurred during 1966 in the commercial policies of the principal U.S. trading partners were associated with their participation in regional economic groups--the European Economic Community, the European Free Trade Association, the Latin American Free Trade Association, and the Central American Common Market. ^{1/} The commercial policy actions taken by the members of these regional organizations during the year are reviewed in the sections that follow. Such actions are of interest in this report on the U.S. trade agreements program because they affect U.S. commercial policy objectives, as well as U.S. foreign trade, balance of payments, and trade commitments.

The Kennedy round of trade-agreement negotiations that were being conducted in Geneva, Switzerland, within the framework of the General Agreement on Tariffs and Trade (GATT) was one of the most important developments in international commercial policy in 1966, as it had been in 1965. Many of the major trading countries negotiating at the Kennedy round were members of regional economic groups; their roles in the

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

regional organizations had an important bearing on the trade-agreement obligations they were prepared to assume in the negotiations. The negotiations at the Kennedy round during 1966 were reviewed in chapter 2.

The principal accomplishments of the European Economic Community during 1966 included a further reduction in customs duties applicable to intra-Community trade in industrial commodities; agreement on the price support and marketing mechanisms needed to implement its common agricultural policy; and signature of an agreement of association with Nigeria. The members of the European Free Trade Association took the final step establishing a free-trade area for industrial commodities; they also agreed to reduce certain nontariff barriers, expand intra-regional trade in agricultural products, and achieve closer cooperation with the countries of the EEC.

During the year under review, the countries of the Latin American Free Trade Association took further steps to establish free trade by the exchange of tariff concessions with each other; they also continued their efforts to harmonize the tariff treatment accorded imports from third countries, and established a multilateral clearing system among the central banks of the region. The countries of the Central American Common Market advanced further toward achieving their main objectives--the creation of a common market and a common industrial policy. They strengthened their economic ties with Mexico and Panama and granted preferential customs and tax treatment to Honduras.

EUROPEAN ECONOMIC COMMUNITY

In February 1966, the European Economic Community (EEC) resolved a seven-month crisis that had been precipitated by France's withdrawal from Community affairs in July 1965. Throughout most of the year under review, therefore, the EEC conducted its operations largely in accordance with its regular administrative procedures. ^{1/} The EEC's principal achievements during 1966 were as follows: (a) intra-Community customs duties applicable to industrial products were further reduced; (b) the common agricultural policy, which was intended to establish an intraregional market in agricultural products, was largely implemented; (c) an agreement of association with Nigeria was signed; (d) an agreement of association with 18 African and Malagasy states was continued; and (e) negotiations for association with a number of countries were conducted.

Reduction of Intra-Community Customs Duties

On January 1, 1966, the EEC countries effected their eighth reduction of customs duties on imports of commodities originating within the Community. This action lowered such rates by 10 percent of the base rates (i.e., those in force on January 1, 1957); together with similar actions taken earlier, this eighth reduction brought

^{1/} The disagreement between France and its EEC partners appeared to concern the means of financing the common agricultural policy of the Community. Subsequent statements by French leaders revealed, however, that the withdrawal of France from Community affairs was also for reasons of a political nature. At a special session of the EEC Council in January 1966, the ministers adopted certain French proposals pertaining to the Council's voting procedure and to its relations with the EEC Commission; France then agreed to participate again in Community affairs.

the duties on most industrial commodities to 20 percent of the base rates. Concurrently, the duties on certain liberalized 1/ agricultural products were reduced to 40 percent of their base rates, and those on all other agricultural products to 35 percent.

In July 1966, the EEC Council decided to reduce the duties on industrial commodities by an additional 5 percent of the base rates on July 1, 1967, instead of the full 20 percent that the EEC Commission had recommended earlier. 2/ The Council also agreed that all customs duties applicable to intra-Community trade in industrial products were to be completely abolished on July 1, 1968. Such action would establish intra-area free trade in industrial products one and a half years ahead of the date initially provided for in the Treaty of Rome. The reduction of all customs duties applicable to intraregional trade in agricultural products was scheduled to be completed by December 31, 1969.

Common External Tariff

In May 1966, the EEC Council agreed that the third and final alignment of the tariff schedules of the respective EEC members with the Community's common external tariff would be completed on July 1, 1968, to coincide with the establishment of free-trade in industrial products.

1/ "Liberalized" products are those for which a systematic program is in effect among the EEC countries to free the imports of the respective product from quantitative restrictions. The farm products subject to the 40-percent rate included some covered by the common agricultural policy regulations, as well as certain others; they all were excluded from a May 15, 1962, decision to accelerate reductions in duties.

2/ The Commission's proposal of January 1965. See Operation of the Trade Agreements Program, 17th Report, p. 62.

within the EEC. Earlier alinements had eliminated 60 percent of the difference (for industrial products only) between the rates of duty in the EEC members' individual tariff schedules that were in force in 1957 and those provided in the common external tariff. Thus, the third alinement in July 1968 would involve the elimination of the remaining 40-percent difference, and would place into effect the same rates of duty throughout the Community on imports of industrial products from third countries. 1/ For most agricultural products subject to EEC's common agricultural policy, 2/ the common external tariff was to become applicable at various dates from November 1966 to July 1968, depending on the product; 3/ for non-CAP agricultural products, the date of the final alinement of the national tariffs to the common external tariff had not been determined by the end of 1966.

For the most part, the rates of duty in the common external tariff were based on a modified arithmetic average of the national duties in existence on January 1, 1957. In the process of alining their tariff rates, some member countries, therefore, had to reduce their duties, while others had to raise theirs. In preparation for the trade negotiations under the GATT in 1960-62 (Dillon Round), the Community had

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

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

3/ See next section in this chapter on common agricultural policy.

unilaterally reduced the common external tariff on industrial products by 20 percent, pending the outcome of the Dillon Round negotiations. ^{1/} Although the EEC did not commit itself in the Dillon Round to reduce by 20-percent all its common rates of duty on industrial products, it nevertheless chose to continue the 20-percent reductions in effect. The formal authority for this reduction had expired on December 1, 1965; in April 1966, the EEC Council decided that the 20-percent reduction in the common external tariff would remain in force.

Common Agricultural Policy

The implementation of the EEC's common agricultural policy proceeded in 1966. During the year, the EEC agreed to common marketing regulations for virtually all of the remaining agricultural products that were to be subject to its common agricultural policy. These regulations specified the price and marketing mechanisms, customs duties, and other protective measures under which the production, importation, and marketing of agricultural products subject to the CAP would take place within the Community. ^{2/} The EEC also adopted a timetable indicating the date--between November 1966 and July 1968--on which the marketing regulations for each of the designated groups of agricultural products were to become operative.

The development of a common agricultural policy within the EEC was deemed necessary for the establishment of a single, community-wide market for agricultural products. Unlike industrial products, agricultural

^{1/} See Operation of the Trade Agreements Program, 14th report, pp. 84-85; 15th report, p. 79, footnote 6; and 16th report, p. 56.

^{2/} See Operation of the Trade Agreements Program, 17th report pp. 64-74.

commodities were subject to various price support and protective controls in the six-member countries, so that the elimination of customs duties and quotas on such products would not have accomplished the desired end.

The implementation of the EEC's common agricultural policy was scheduled to be completed by January 1, 1970. The marketing regulations pertaining to each category of agricultural products were to be developed in the intervening or transition period. The regulations generally followed a common pattern: First, they provided a common "target price," which was essentially a price "goal" which the member states agreed to try to attain. The target price was intended to assure an adequate standard of living and employment to EEC producers of the product involved. If the member states had individual target prices in effect for the product concerned, such prices were to be aligned with the common target price by the end of the transition period. Second, the regulations sought to support the market prices for these products through a combination of price support mechanisms--intervention prices, variable import levies, and direct subsidies. The intervention prices were prices which the governments of the member states stood ready to pay to assure that the domestic prices for the products involved remained near the target level. The variable import levies were employed to assure that imported products did not enter at prices that interfered with the attainment of the target prices.

By the end of 1965, the EEC Council had developed and put into force market regulations for cereals, pork, eggs, poultry, fruits,

and vegetables, wine, rice, dairy products, and beef and veal. 1/ It had also agreed on target prices for grains, to become applicable on July 1, 1967. 2/

In May 1966, the Council adopted the following timetable for putting into effect target prices and marketing regulations for most of the remaining products that were to come under the EEC's common agricultural policy:

<u>Date</u>	<u>Type of action planned</u>
November 1, 1966	Marketing regulations and target price for olive oil.
January 1, 1967	Completion of marketing regulations for fruits and vegetables; application of quality standards for fruits and vegetables sold within the producing country.
July 1, 1967	Target prices for grains and oil seeds. Free intra-EEC movement of poultry, pork, and eggs. Marketing regulations for sugar, fats, and oils.
September 1, 1967	Target price for rice.
April 1, 1968	Target prices for milk, dairy products, beef and veal.
July 1, 1968	Target price for sugar.

The marketing regulations for tobacco, wines, and certain other products, although not indicated in the timetable, were also to be effected by the end of 1969, but the Council had not yet fully agreed on their terms.

1/ For a detailed description of the EEC's marketing regulations for milk and dairy products, beef and veal, and rice, see Operation of the Trade Agreements Program, 17th Report, pp. 67-72.

2/ See Operation of the Trade Agreements Program, 17th Report, pp. 72-73.

In July 1966, the EEC Council took steps to complete the establishment of the Community's common agricultural policy. It adopted marketing regulations for vegetable oils and fats, and supplementary provisions in the marketing regulations for fruits and vegetables. ^{1/} The Council also adopted market regulations and established a target price for sugar. Further, it established target prices for milk and dairy products, beef and veal, rice, oil seeds, and olive oil.

Regulations respecting olive oil

In November 1966, adhering to the timetable adopted in May, the EEC abolished the customs duties and quotas applicable to intra-area trade in olive oil and established marketing regulations respecting that product. The marketing regulations were substantially the same as those developed for the other products that were subject to the EEC's common agricultural policy. The EEC Council was to establish a production target price, a market target price, an intervention price, and a threshold price for olive oil. The production target price was the price that EEC producers were expected to obtain; it was set at a level intended to assure a volume of production that was deemed desirable for the Community. The market target price was to be established at a level that ensured the sale of the EEC output of olive oil during the marketing year. In setting this price, the Council was to take into account the prices of competitive products. If the market target price was set below the production target price, a subsidy equal to the difference

^{1/} See Operation of the Trade Agreements Program, 17th Report, pp. 73-74.

between the two prices was to be paid to the producers of olive oil. The intervention price was to be established at a level somewhat below the market target price; designated intervention agencies in the EEC member states were to purchase all quantities of olive oil offered to them at the intervention price, thus supporting the domestic prices for olive oil. The threshold price was to be fixed at the level of the market target price, but with adjustments for transportation costs from the wholesale market to the point of entry of the member state. The threshold price, together with a variable import levy, was to provide protection against competition from lower-priced imports of olive oil from third countries. Thus, for example, if the c.i.f. price of imported olive oil at a members' port of entry was lower than the established threshold price, the EEC was to impose a levy equal to the difference between these two prices.

Finally, the regulations included provisions designed to encourage exports of olive oil. Whenever the world price of the product was lower than its domestic price, the difference was to be offset by a subsidy in order to make the exportation possible. Such subsidies were to be paid from the European Agricultural Guidance and Guarantee Fund.

The European Agricultural Guidance and Guarantee Fund

In May 1966, the EEC Council adopted a new plan for financing price-support operations under the Community's common agricultural policy to the end of the transition period for agricultural products; i.e., through December 31, 1969. ^{1/} This decision by the Council had been delayed by

^{1/} See Operation of the Trade Agreements Program, 17th Report, pp. 74-75.

almost a year, following the withdrawal of French representation from Community meetings from June 1965 to the end of January 1966.

The European Agricultural Guidance and Guarantee Fund had been established for a three-year period in July 1962, to finance the Community's price-support operations, encourage the sale of farm products to third countries, and improve agricultural productivity in all member states. It had obtained its working capital from the EEC members through contributions (80 percent) and assessments (20 percent)--the former according to a scale provided for in the Treaty of Rome and the latter in proportion to the net value of the member's agricultural imports from third countries. During the marketing years 1962-63, 1963-64, and 1964-65, the Fund had paid one-sixth, two sixths, and one-half, respectively, of the costs incurred by the Community in price-support operations under its common agricultural policy. The member states had contributed the remaining amount directly.

The new plan adopted by the Council in May 1966, provided for the financing of the EEC's common agricultural policy from July 1, 1965, to December 31, 1969. ^{1/} During the period from July 1, 1965, to June 30, 1967, the Fund was to continue to pay only part (although a larger part than that paid in previous years) of the eligible expenditures incurred by the member states. The member states themselves were to reimburse the other part directly. On July 1, 1967, the financing of the EEC's common agricultural policy was to become entirely a Community responsibility

^{1/} The Fund makes payments retroactively, since it reimburses for expenditures under the common agricultural policy incurred in a previous year.

for those products for which marketing regulations were in effect, and for other products on the date that their respective marketing regulations were put in force. During the period from July 1, 1967, to December 31, 1969, the Fund was to obtain its working capital from monies to be collected from the imposition of the EEC's variable import levies on agricultural products and contributions to be made by the member states directly to the Fund. Member states were to turn over to the Fund 90 percent of their proceeds from levies on imports of agricultural products. These were estimated to cover about 45 percent of the Fund's expenditures. The rest of the expenditures were to be shared by the member states according to the following scale (in percent): Belgium, 8.1; France, 32.0; Germany, 31.2; Italy, 20.3; Luxembourg, 0.2; and the Netherlands 8.2. After the end of the transition period, i.e., beginning with January 1970, all proceeds from levies on agricultural products were to go to the Fund.

The new plan agreed upon in 1966 also provided that the Fund would continue to cover the costs of market intervention (i.e., price-support operations), export subsidies, and agricultural modernization programs. Expenditures on modernization programs were expected to equal about one-third of the combined expenditures on market intervention and export subsidies. The amount to be allocated to modernization, however, was not to exceed \$285 million annually.

Association Agreements and Related Activities

In 1966, the EEC continued to develop closer economic ties with its associate members and with a number of third countries that sought some form of formal association with the Community. It held two meetings with its associate members--the 18 African and Malagasy States--during which a number of issues of importance to the economic development of those states were resolved. In July, the EEC signed an agreement of association with Nigeria--the first English-speaking country to join the Community.

The EEC and the 18 African and Malagasy States 1/ took steps to implement their second Convention of Association that had gone into operation in June 1964. 2/ Representatives of the Community and the 18 countries met in May and again in October 1966 to consider various problems related to their association. Most of the discussion at the May meeting concerned the type of projects for which \$730 million in economic development aid should be allocated. The EEC had pledged this aid to its associated members for the period 1964-69. Some of the associate members--those least developed--wanted to use these funds for projects that would improve the basic structure of their economies, i.e., the construction of roads, schools, hospitals, water installations, and

1/ The 18 African and Malagasy States, formerly colonial and trust dependencies of France, Belgium, and Italy, were: Burundi, Cameroon, the Central African Republic, Chad, Congo (Brazzaville); Congo (Leopoldville), Dahomey, Gabon, the Ivory Coast, Malagasy, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, and Upper Volta.

2/ At a convention held in Yaounde, Cameroon, in July 1963, the EEC and the African and Malagasy states had agreed to renew an earlier agreement for five years.

others. Other members wished to use the funds for projects that would directly further the industrial diversification of their economies. After deliberation, the associates agreed to allocate financial aid on the basis of a pattern that would ensure "the harmonious and balanced development of the associated states."

In July 1966, the EEC and Nigeria signed a separate agreement of association. The agreement was to become operative sometime in 1967 and remain in force until May 31, 1969--the day the Convention of Association with the African and Malagasy states was due to expire. The principal provisions of the agreement were that: (a) Nigeria was permitted to maintain its membership in the British Commonwealth; (b) all Nigerian exports to the Community, except cocoa beans, peanut oil, palm oil, and plywood, were to be subject to the same rates of duty that were applicable to similar commodities traded within the EEC; (c) the four excepted commodities were to enter the Community duty-free, but continue to be subject to import quotas that were to be increased in size annually 1/; (d) Nigeria was to grant customs preference to 26 products imported from the Community, but was to remain free to impose quantitative restrictions on these products should they be required as a result of balance-of-payments difficulties, economic development considerations, or revenue needs; and (e) Nigeria was not to discriminate against EEC companies or nationals in Nigeria in the establishment of companies or in capital movements.

1/ These products were excepted in order to protect the interests of the African and Malagasy states that also were major exporters of these products.

In November 1966, the EEC and three East African members of the British Commonwealth--Kenya, Tanzania, and Uganda--resumed their negotiations for an agreement of association. Like Nigeria, the three East African countries wanted to conclude separate agreements with the EEC, rather than accede to the Yaounde Convention of Association between the EEC and 18 African and Malagasy States. Like Nigeria, moreover, the three East African countries were seeking trade preferences for their exports (among which coffee and cloves were the most important), but were not requesting financial aid for economic development.

Negotiations to establish some form of association between the EEC and Austria were continued in 1966. ^{1/} Among the items discussed were (a) the institutional links between Austria and the Community; (b) the elimination of customs duties on industrial products traded between the two areas; (c) the harmonization of their respective agricultural policies; and (d) Austria's trade with East European countries. Agreement between the EEC and Austria had not been reached by the end of 1966.

In October 1966, Israel indicated its wish to begin exploratory talks with the EEC with a view of concluding an agreement of association with the Community. The EEC Council authorized the Commission to initiate such talks.

^{1/} Austria was the only member of the EFTA that had continued its negotiations with the EEC for some form of membership in the Community after the United Kingdom had been refused such membership in 1963. See Operation of the Trade Agreements Program, 17th Report, p. 76.

EUROPEAN FREE TRADE ASSOCIATION

During 1966, the members of the European Free Trade Association (EFTA) achieved one of their basic objectives--creation of a free-trade area for industrial commodities. They took the final step to eliminate their remaining customs duties and quantitative import restrictions on such commodities traded within the EFTA region. The members also (a) agreed to implement two so-called rules of competition among EFTA members; (b) took steps to expand intraregional trade in certain agricultural products; and (c) reaffirmed their interest in achieving closer cooperation with the members of the European Economic Community.

The developments in the EFTA in 1966, as well as in earlier years, are reviewed in chapter 4 of this report. They are not, therefore, discussed here.

LATIN AMERICAN FREE TRADE ASSOCIATION

During 1966 the member countries of the Latin American Free Trade Association (LAFTA) continued their progress toward the establishment of a free-trade area within their region. The LAFTA members held their Sixth Annual Conference to exchange concessions on commodities traded within the LAFTA, and continued action to harmonize the treatment accorded imports from third countries by the individual members. The LAFTA countries also signed an agreement respecting the water transportation of commodities traded between LAFTA countries; established a multilateral clearing system among the central banks of the member countries; approved Venezuela as the 10th member of LAFTA and agreed to accord

Bolivia the status of a "less-developed" member country when it accedes to the Treaty of Montevideo; and took steps to establish a mechanism to resolve tariff disputes arising between members.

Intraregional trade among the members 1/ of the LAFTA rose in value from \$1,403 million in 1965 to \$1,441 million in 1966, or by only 2.5 percent--the smallest annual increase in intraregional trade during the first 5 years of the LAFTA. By contrast, the value of LAFTA's trade with the rest of the world was almost 10 percent higher in 1966 than in 1965. The stagnation of intraregional trade in 1966 resulted principally from a decline in trade between Argentina and Brazil, which together had accounted during LAFTA's existence for about 60 percent of the annual value of the intraregional commerce. Intra-LAFTA trade in 1966 accounted for about 10 percent of the value of the region's total world trade--about the same percentage as in 1965.

In 1966, as in the years from 1962 on, nearly all of the intra-LAFTA trade was in items on which the LAFTA members had granted reciprocal concessions in the negotiations looking toward the establishment of the free-trade area. Concession items, however, consisted almost entirely of commodities--agricultural products, foodstuffs, and raw materials--that had been regularly traded among the LAFTA countries before the Association had come into being. The amount of manufactured and processed goods, such as transport equipment, accounting and calculating machines, agricultural machinery, electric generators,

1/ Totals are for the following nine countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay. Venezuela, the only other LAFTA member, acceded to the Treaty of Montevideo in September 1966.

household appliances, and pharmaceuticals, that entered into intra-LAFTA trade appeared to be gradually increasing. This trend reflected the progress that the LAFTA countries were making toward diversification of production and exportation.

Exchange of Tariff Concessions

During October-December 1966, at their Sixth Annual Conference, the LAFTA countries exchanged more than 500 tariff concessions. About three-fourths of the concessions represented commitments on products for which no concessions had been granted theretofore; the remainder, however, represented renegotiated concessions, i.e., a withdrawal of part or all of commitments made earlier. Under the Montivideo treaty, the LAFTA countries were committed to effect an annual reduction of 8 percent in the weighted average of their import duties and charges applicable to intra-regional trade; the reductions were to be achieved through annual tariff negotiations at which the LAFTA members exchanged concessions. ^{1/} By the end of 1966, the total number of concessions

^{1/} The LAFTA seeks, during a transitional period, 1962-73, to gradually eliminate tariff and other barriers to intraregional trade. Three principal approaches to this objective were provided for by the Treaty of Montevideo:

(1) National lists: Each member of the LAFTA has a "national list" of import-duty concessions which have been granted to other member countries. The concessions to be incorporated in each national list are negotiated at the Annual Conferences of the Association. For each member of the LAFTA, the annual weighted average of duties and charges on intraregional imports must be at least 8 percent less than the annual weighted average of duties and charges on imports from third countries, multiplied by the number of years during which the Treaty of Montevideo has been in force. All intraregional duties and charges are to be completely eliminated by the end of the 12-year transitional period. The concessions on the national lists may be withdrawn on 90-days notice, but adequate compensation in the form of other concessions must be

granted by the member countries exceeded 9,400; about 5,000 of this total consisted of concessions granted by 3 of the 9 participating countries--Argentina, Brazil, and Ecuador. By the end of the year under review, the LAFTA members appeared to be a little ahead of the schedule they had set for themselves to eliminate import duties applicable to intra-regional trade.

In earlier years, most of the duty reductions granted on intra-area trade by LAFTA members had been on items not produced by the country granting the concession. By 1966, however, an increasing number of concessions were being granted on: (1) products produced in the grantor nation; (2) products of growing importance in the intraregional trade; (3) finished products, either manufactured or processed, as opposed to raw materials; (4) products dutiable at comparatively high rates. The LAFTA countries reported that important concessions granted at the 1966

granted.

(2) The Common List: The Common List is to be drawn up at four triennial meetings during the 1962-73 period; none was scheduled for 1966. Intraregional duties on commodities placed on this list are completely abolished. At each of the meetings, commodities accounting for at least 25 percent of the total value of all products traded within LAFTA during the preceding three-year period were to be added to the Common List so that, by the end of the twelve-year period, all duties and other barriers to intraregional trade would be eliminated. Commodities that have remained on a national list for three consecutive years are added automatically to the Common List. Once a product has been placed on the Common List, it may not be withdrawn from it.

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

Conference included those on drugs, household machinery and apparatus, and electronic and communication equipment.

In granting concessions, LAFTA members have adhered to the principle of reciprocity. The larger countries have been reluctant to make tariff concessions to fellow members not in a position to reciprocate with concessions of approximately equal value. The smaller members, on the other hand, have been reluctant to make concessions that would open their limited markets to commodities produced by their larger and more industrialized neighbors.

Complementation agreements

During 1966, 2 new "complementation agreements" were concluded within the LAFTA, both of them between Brazil and Uruguay. One of the agreements concerned certain types of equipment of the electronics and communications industries; the other dealt with certain types of heating equipment and household electrical appliances. Only 2 other complementation agreements had been concluded earlier. 1/

Industrial sector meetings

In 1966, the LAFTA sponsored a series of meetings to obtain from the business community recommendations respecting future action that would affect 21 different industrial sectors; 2/ the meetings were

1/ See Operation of the Trade Agreements Program, 17th Report, p. 83.

2/ Meetings related to the following industrial sectors: Machine tools; agricultural machinery; road-building, mining, and petroleum-drilling equipment; industrial transport equipment; tractors; industrial valves; industrial chemicals; abrasives; refractory materials; plastic molders; building materials; copper; heavy electrical equipment; electronics and electrical communications equipment; sewing machines; jewelry, silverware, and mechanical pens and pencils; household appliances; drugs and pharmaceuticals; canned foods; preserved fruits and vegetables; and seafood.

attended by representatives of firms, trade associations, and governments. The participants recommended more than 400 items to be considered in future negotiations for "complementation" agreements, and more than 550 items to be considered for tariff concessions at LAFTA's next annual conference. Most of the concessions negotiated at the sixth and earlier LAFTA conferences had been made on items that had been recommended at similar meetings held previously.

Resolutions of the Permanent Executive Committee Concerning Commercial Policy

During 1966, LAFTA's Permanent Executive Committee (PEC) continued its efforts to harmonize the treatment accorded by the member states to imports from third countries. The Committee was responsible for the preparation of a projected common external tariff; LAFTA was scheduled to put such a tariff into effect at the end of the transition period in 1973.

During the year, the Committee examined the import regulations in effect in the member countries, including provisions imposing internal taxes on imported commodities, commercial-policy instruments utilized to promote industrial development, and measures designed to safeguard balance of payments. The PEC also continued to study the customs systems of the member countries, in part to establish a glossary of Latin American customs terminology and a uniform import control procedure.

Establishment of a Multilateral Clearing System

Effective July 1, 1966, the LAFTA countries, by agreement among the central banks of the member nations, established a multilateral

clearing system for the region. The clearing system was to operate through (a) reciprocal credit agreements between the participating bank, and (b) a multilateral balancing of their foreign exchange accounts in dollars.

The Central Reserve Bank of Peru was designated as banking agent for the LAFTA. It was to settle balances multilaterally, i.e., determine the net balance for each central bank and clear such balances by arranging for transfers between the dollar holdings of such central banks in the Federal Reserve Bank of New York.

During the last half of 1966, six of the LAFTA members (Argentina, Chile, Colombia, Mexico, Paraguay, and Peru) participated in this clearing arrangement; only a small portion of the respective claims of these countries, however, was presented for settlement through the clearing system. 1/

Water Transport Agreement

During 1966, the LAFTA members concluded an agreement concerning the transportation by water of commodities traded within the region. By the end of the year all LAFTA countries had signed the agreement but none had yet ratified it. The agreement was to become effective 60 days after it was ratified by the last of five LAFTA members.

Under the agreement, cargo resulting from intra-LAFTA trade was to be reserved chiefly to flag vessels of the LAFTA nations; vessels of non-LAFTA countries would be permitted to carry such cargo if

1/ In 1965, the central banks of these six countries had entered into a series of bilateral agreements among themselves which arranged for reciprocal credits in dollars.

needed to supplement LAFTA vessels. The provisions of the agreement were to apply to all LAFTA trade, not just to the government-sponsored portion thereof as had been provided for in earlier agreements. The agreement also called for the creation of a LAFTA shipping conference with broad powers to establish freight rates. Membership in the conference was to be mandatory for all carriers engaged in intra-LAFTA trade.

Escape Clause Actions

During 1966, Argentina, Colombia, Ecuador, and Uruguay invoked article 25 of the Treaty of Montevideo, which permits a member to escape from its commitments, either to protect its balance-of-payments position or to prevent serious repercussions on industries deemed important to its economy. In such circumstances, the member was permitted to withdraw its concessions on products on its national list; it must give 90-day notice and furnish adequate compensation (i.e., concessions, or other commodities). Argentina's escape clause action applied to only one product--watermarked paper; it was terminated on December 31, 1966. The actions taken by the other three countries involved the imposition of a variety of nontariff restrictions such as exchange controls, prepayment requirements for imports, and partial or total prohibition of imports of products on the country's national list, rather than changes in the rates of import duties. These restrictions were applicable to imports from all countries on a nondiscriminatory basis.

Miscellaneous Developments

During 1966, the countries of the LAFTA cooperated on a number of projects related to the ultimate establishment of a common market.

Development of rules of origin

At their Sixth Annual Conference in May 1966, the LAFTA members agreed on certain "rules of origin"; only commodities which were determined to be of LAFTA origin were to benefit from concessions and other privileges granted by LAFTA countries to each other's products. The following products were to be considered of LAFTA origin:

- (a) Products that were produced in a LAFTA country and made exclusively of materials originating in LAFTA countries;
- (b) Products that were manufactured in a LAFTA country and made in whole or in part of materials imported from third countries, provided the manufacturing process in the LAFTA country increased their "value added" by at least 50 percent and changed their character so that they would be included under a different category in the LAFTA uniform tariff classification 1/ from the one that applied upon their entry into the region.
- (c) Products that were assembled in a LAFTA country, provided the c.i.f. value of components imported from third countries was equivalent to no more than 50 percent of the value of the finished product.

The LAFTA countries agreed to reexamine periodically the rules of origin; they anticipated that the LAFTA-content requirements might be made more rigorous as intra-LAFTA trade developed.

1/ See p. 169 of this report.

Proposed mechanism to resolve tariff disputes

At their Conference in December 1966, the LAFTA Foreign Ministers signed a Protocol which would provide for the arbitration of disputes arising between members. The terms of the Protocol had been negotiated by the legal advisers of the LAFTA governments at a meeting held at Montevideo in May 1966. Under the Protocol, which was to become effective on ratification by the member-countries, an arbitration board would be established, consisting of three members appointed by a two-thirds vote of the LAFTA countries. Each member of the board was to have veto power. The Treaty of Montevideo had not provided for either voluntary or compulsory arbitration of disputes arising between LAFTA members.

Uniform tariff nomenclature

During 1966, a uniform tariff nomenclature based on the Brussels model but adapted to the requirements of the LAFTA became effective throughout the area. ^{1/} The new nomenclature was to be used as both a tariff schedule and a statistical classification. The adoption of a common tariff nomenclature was an essential part of the development of LAFTA's common external tariff.

Cooperation with the Central American Common Market

In December 1966, the LAFTA Council of Foreign Ministers directed the Permanent Executive Committee to establish regular channels of communication with the Central American Common Market. The Foreign Ministers

^{1/} Resolution 88 of the Executive Committee of the LAFTA, May 26, 1966.

suggested that information on developments within the 2 regional organizations, as well as views respecting measures to attain eventually the economic integration of all Latin America, should be exchanged. The Executive Committee was directed to report on the progress made in this respect at the Council meeting in 1967.

New Members

On September 1, 1966, Venezuela became the tenth member of the IAFITA, following its ratification of the Treaty of Montevideo. 1/ Venezuela attended IAFITA's Sixth Annual Conference during October-December 1966, but was unable to participate with the other members in the tariff negotiations. Accordingly, IAFITA scheduled a special session to be held in mid-1967, at which time Venezuela was expected to present its list of tariff concessions to be exchanged for the concessions already made by the other IAFITA members. 2/

At the Conference of IAFITA Foreign Ministers held in December 1966, Bolivia formally indicated its intention to become the eleventh member of the IAFITA. At their Sixth Annual Conference in 1966, the IAFITA members had agreed to accord Bolivia the status of a "less-developed" member country as they had done for Paraguay and Ecuador.

1/ Venezuela assumed all obligations of IAFITA membership one month after this ratification.

2/ Venezuela could not avail itself of the existing IAFITA concessions until its concessions had been accepted and put into effect.

CENTRAL AMERICAN COMMON MARKET

During 1966, the Central American Common Market (CACM) ^{1/} moved closer to the attainment of its basic goals: virtual free trade within the region, a common external tariff, and a common industrial policy. Trade restrictions on a number of important products, however, were still being maintained at the end of the year. Both intra- and extra-regional trade was substantially larger in 1966 than in 1965. During the year, the CACM countries took steps to improve their economic ties with Mexico and Panama and agreed to grant preferential treatment to a fellow-member--Honduras.

Elimination of Restrictions on Intraregional Trade

Restrictions on intraregional trade among the five countries of the Central American Common Market (CACM) were further reduced during 1966. At the end of the year, nearly 95 percent of the products in the common tariff schedule were free of intra-area trade restrictions; it was expected, moreover, that the restrictions on nearly half of the remaining products would be removed shortly.

On June 4, 1966, the treaty that established the Central American Common Market had been in force for five years. That date also marked the end of CACM's transition period during which the members had achieved a substantial degree of freedom in intra-regional trade. The CACM members had abolished trade restrictions on intra-area trade in more than 1,200 of some 1,300 items in the Uniform Central American

^{1/} The Central American Common Market is composed of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. It became operative in June 1961.

Customs Nomenclature (NAUCA) 1/; they planned to remove shortly the trade restrictions applicable to about half of the remaining items. 2/

In spite of CACM's marked achievements, intraregional trade in items on which restrictions were yet to be removed accounted for about 20 percent of aggregate intra-area imports in 1966; duty collections on such trade provided about 25 percent of the members' total customs revenues. The articles still subject to duty included several important products such as sugar, coffee, cheese, alcoholic beverages, matches, wheat flour, cotton, tobacco products, live animals, paper goods, and rubber tires and tubes. By the end of 1966, moreover, it appeared that the elimination of intraregional trade restrictions on a few of these products (e.g., coffee, sugar, rum, and ethyl alcohol) could not be expected to occur before 1970, when all intraregional trade was to be free of restrictions.

Common External Tariff

By the end of 1966, nearly 85 percent of the items listed in the NAUCA were subject to CACM's common external tariff, i.e., the members applied uniform duties on imports of such items from third countries. The CACM countries, moreover, had agreed on common rates of duty for a large number of the remaining items; all articles were to be subject to uniform duties by 1970. The tariff items to which the common external tariff did not apply at the close of 1966 accounted for more than a fourth of the value of CACM's imports and customs revenues; articles remaining

1/ Nomenclatura Arancelaria Uniforme Centro America.

2/ The trade restrictions removed included customs duties, import quotas, and export controls.

subject to duty included transportation equipment, electrical appliances, crude and refined petroleum, and certain agricultural products.

Common Industrial Policy

During 1966, the CACM countries made little progress in regional industrial integration. Although they had adopted a Convention on Fiscal Incentives for Industrial Development, they had made little use of its provisions. In September 1966, however, they granted preferential treatment to Honduras under the terms of the Convention.

The protocol benefiting Honduras permitted special financial and technical assistance to be made available to new industries established in that country. New Honduran industries were to be exempt from duties on imports of essential raw materials and manufacturing equipment; they also were to be exempt from taxation on income for a longer period than similar industries in other CACM countries. This preferential treatment was approved as a means of helping to raise the level of industrial development in Honduras to that of the other CACM countries.

Expansion of Intraregional Trade and Trade with the United States

The elimination of intraregional trade restrictions by the CACM countries during the transition period contributed materially to the expansion of trade between its member countries. This growth in intra-area trade continued through 1966. During the period 1961-66, annual intraregional trade increased nearly 4 times in value, while exports to the United States rose by a half.

Annual trade among the 5 CACM countries rose in value from \$37 million in 1961 to \$176 million in 1966. 1/ In 1966, the value of intraregional trade exceeded that of 1965 by \$40 million. The share of CACM's total trade accounted for by intraregional trade increased from about 7 percent in 1961 to 18 percent in 1966.

Exports from the CACM countries to the United States increased in value during each year of the transition period. The same was true of imports from the United States. Exports to the United States were valued at \$300 million in 1966 compared with approximately \$200 million in 1961. 2/ Imports from the United States increased from about \$200 million in 1961 to \$350 million in 1966.

In 1966, the CACM countries incurred a trade deficit in their extraregional trade, as they had done in several previous years. The deficit resulted primarily from the heavy importation of raw materials and capital goods required for implementation of the region's programs of industrial diversification and economic development. The CACM countries planned to continue these programs; they expected the trade deficit to persist after 1966.

Central American-Mexican Economic Cooperation

During 1966, proposals were made to strengthen CACM's economic ties with Mexico--a leading member of the IAFSA. Early in the year, CACM and Mexico established two joint commissions to study ways to increase

1/ Total imports of the five countries.

2/ Principal CACM exports to the United States are coffee, cotton, bananas, and sugar.

economic cooperation between the two areas, but particularly to assist the governments of the respective countries in drawing up trade and investment agreements.

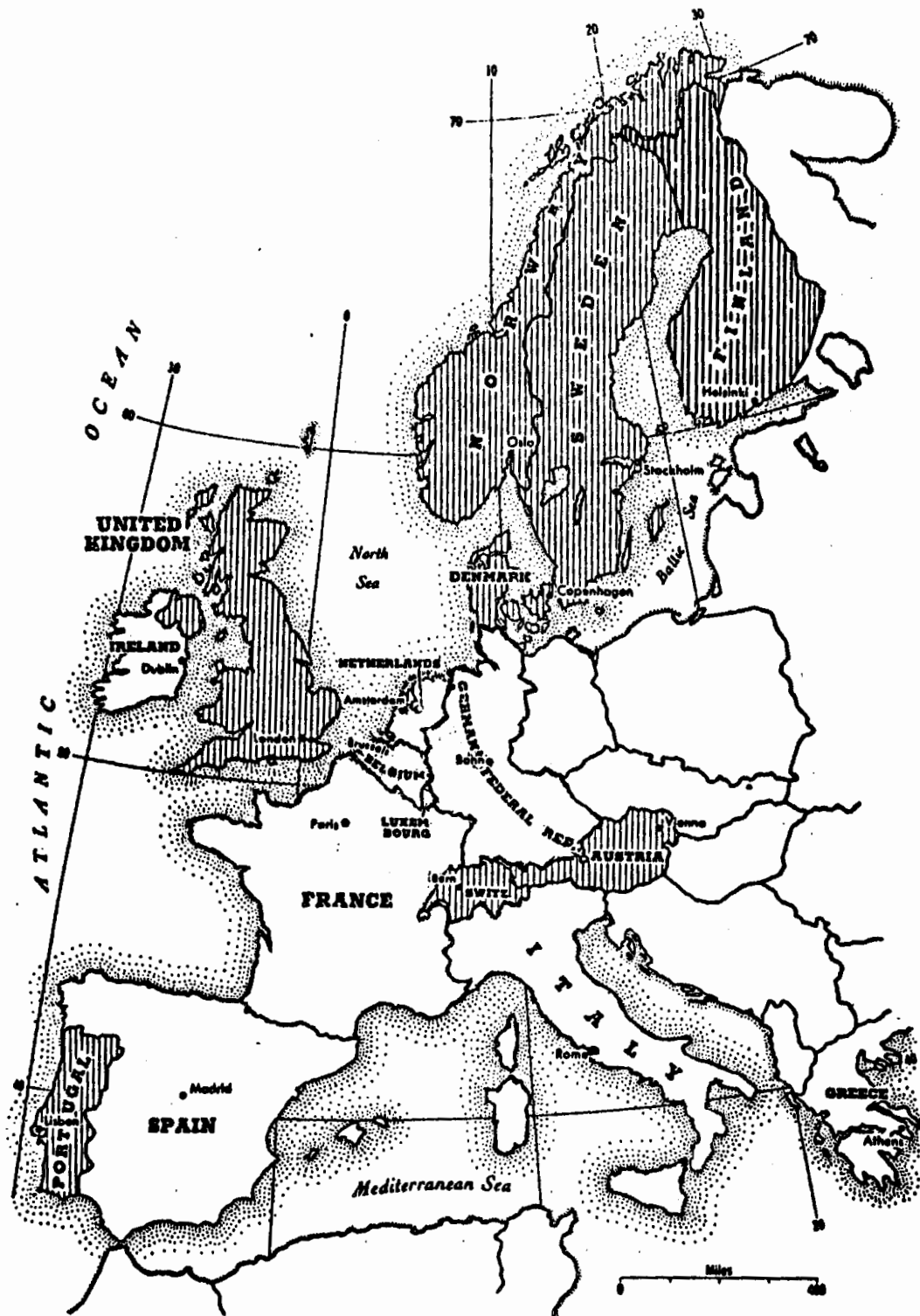
The joint commissions recommended closer collaboration between both the private and the public sectors of the two areas. They urged Mexico to participate with the CACM countries in making joint investments in industries to be established within the CACM. Commodities produced by such industries were to be admitted into Mexico either duty-free or at preferential duty rates. The commissions further recommended that (a) Mexico should establish industries that would utilize CACM raw materials or semi-processed products; (b) Mexico should permit the duty-free entry of such products, while CACM should grant preferential rates of duty to the finished products exported from Mexico; and (c) Mexico should reduce its import duties on most CACM products, while CACM should continue to apply to most Mexican products the same duties levied on imports from all third countries.

Participation of Panama in Central American Councils

On June 17, 1966, the Foreign Ministers of the CACM signed a special Protocol approving Panama's participation in the work of three subsidiary agencies of the Organization of American States (ODECA)--the Central American Councils for: Labor and Social Welfare; Public Health; and Tourism. By the end of the year two CACM countries had ratified the special Protocol and the other 3 were expected to do so in 1967.

In September 1966, Panama established a special commission to study whether Panama should seek accession to the CACM. Later in the month the commission recommended that Panama join the Central American Common Market and participate fully in its program of economic integration. Panama did not initiate further action by the close of the year.

The Members of the European Free Trade Association





Chapter 4

The European Free Trade Association

INTRODUCTION

On January 1, 1967, the members of the European Free Trade Association (EFTA) 1/ achieved virtually complete freedom of trade among themselves in industrial products. The attainment of such free trade marked the completion of a transitional period which had been initiated in May 1960. The Tariff Commission's reports on the Operation of the Trade Agreements Program published in the 1960's 2/ provide a record of the deliberations and actions by the EFTA members during the transitional period. The reports also describe the continuing, but unsuccessful, efforts by these countries to attain an even broader measure of European economic integration through affiliation with the European Economic Community (EEC). Inasmuch as the Commission's reports have been annual in character, they each provide an account of only part of the Association's operations and achievements. Since EFTA virtually attained its objectives on January 1, 1967, the following chapter in this report presents an integrated review of its development.

One of the most significant developments in international trade since World War II has been the establishment of regional economic arrangements, first in Europe and, soon thereafter, elsewhere. The European Economic Community (1958), the European Free Trade Association (1960), the Latin American Free Trade Association (1960), and the Central American Common Market (1961) have materially influenced

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

2/ Operation of the Trade Agreements Program, 13th through 17th reports.

the commercial policies and foreign trade of their member countries. The movement toward such economic cooperation and integration continues to be strong. The participants generally expect that a substantial relaxation (or the complete elimination) of restrictions on trade within the regional area will not only foster a wider exchange of commodities among the member countries, but also enhance their ability to trade competitively with the rest of the world.

Most countries with which the United States has trade agreements--either through their membership in the General Agreement on Tariffs and Trade (GATT) or on a bilateral basis--are members of a regional economic arrangement. The U.S. foreign trade has become increasingly affected by the commercial policies adopted by these regional groups and by the impact of these policies on international trade.

On January 1, 1967, one of these regional groups--the European Free Trade Association--reached a milestone in its development. On that date the seven full members of the Association--Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom--took the final step to abolish their remaining duties and quantitative restrictions on trade among themselves in industrial goods. 1/ The EFTA thus became the first free-trade area, 2/ formally organized as such, to have achieved its goal.

1/ Finland, the eighth and only member in associate status, was scheduled to abolish most of its industrial duties one year later.

2/ A free-trade area comprises two or more customs territories which eliminate import duties and other trade restrictions on substantially all trade between themselves in products originating within the territories. Each participant, however, retains its own tariff on imports originating in nonparticipating territories.

During a transitional period, 1960-66, EFTA functioned as a preferential trading system. Intra-area trade grew steadily during those interim years; the trade of the EFTA members with third countries, including the United States, as indicated later, was materially altered. The changes in international trade resulting from EFTA's establishment were expected to become more extensive with the emergence of the free trade area.

The Association is discussed herein in three main sections as follows: EFTA in broad international context; the elimination of intra-EFTA trade restrictions; and changes in the trade patterns of EFTA countries. The discussion that follows covers the activities of EFTA during 1960-66, generally referred to as the "transitional period," which ended with the creation of the free trade area.

EFTA IN BROAD INTERNATIONAL CONTEXT

EFTA has been a part of the postwar movement in Western Europe toward political and economic integration. After World War II, the first major step toward the economic integration of Western Europe was the establishment of the Organization for European Economic Cooperation (OEEC). The OEEC was created in 1948 to implement the Marshall Plan, which was designed to promote the economic recovery of Europe after the War. Through cooperative effort, the 18 OEEC members ^{1/} removed two major barriers to Western European trade--the lack of a

^{1/} Austria, Belgium, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and the Anglo-American Zone of the Free Territory of Trieste.

multilateral payments system, 1/ and the prevalence of quantitative trade restrictions.

Import duties constituted a third important obstacle to the post-war expansion of European trade. To cope with this obstacle, the European Customs Union Study Group had been established in 1947, even before the OEEC was organized. 2/ The Study Group and later the OEEC undertook to study the possibility of creating one or more European customs unions. The OEEC countries, however, were unable to agree on the scope and purpose of European integration. Six OEEC countries adjacent to one another--Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands (the Six)--sought a degree of economic cooperation surpassing that acceptable to the other OEEC members. In 1951, these countries joined together to form the European Coal and Steel Community--a customs union confined to trade in iron ore, scrap, coal, and steel, within their combined territories. 3/ Four years later (1955), the same participants agreed to remove gradually all barriers on trade among themselves and to establish a common external tariff on all imports from third countries. Their ultimate goal, however, was to integrate the six countries into a full economic

1/ In 1950, the OEEC resolved this problem by creating the European Payments Union (EPU).

2/ A noteworthy achievement of this group was the Brussels Nomenclature, which currently is used as a basis of the customs tariffs of more than 115 countries.

3/ A customs union comprises two or more customs territories which (1) eliminate import duties and other trade restrictions on substantially all trade between themselves in products originating in the territories, and (2) apply a common external tariff on imports from nonparticipating territories.

union 1/ in which labor and capital, in addition to commodities, would move freely. The economic, financial and social policies of the member countries, moreover, would be coordinated by supra-national institutions; these common undertakings were intended eventually to result in political as well as economic integration.

The rest of the OEEC countries did not wish to go as far as the Six in integrating their economies. They were concerned, however, about the possible emergence of a "little Europe"; they feared that the Community would become an "inward-looking" organization seeking to achieve economic self-sufficiency. The OEEC countries for which the markets of the Six were significant were particularly concerned that the prospective tariff discrimination by the customs union would adversely affect their exports to the six countries. They sought, therefore, to participate in that part of EEC's program which would result in the removal of restrictions on trade among the participants.

At a meeting of the OEEC Council in 1956, the United Kingdom advocated that a European free-trade area be created to embrace all OEEC countries. The proposal envisaged the gradual abolition of all tariff and other restrictions to trade (at least in industrial goods) among the member states; each state, however, would retain the authority to determine its tariff levels and trade policies applicable to imports from third countries. In the view of several OEEC members, this

1/ An economic union not only incorporates the attributes of a customs union, but it also provides for the elimination of restrictions on the movement of labor and capital between the participating customs territories and for the harmonization of designated national economic policies and institutions (e.g., common labor laws, common agricultural policies, common banking institutions, etc.)

proposal did not conflict with the plans of the Six for a more ambitious form of integration. The proposal by the United Kingdom was discussed by an inter-governmental committee sponsored by the OEEC (the so-called Maudling Committee), but it soon became apparent that the Six (particularly France) did not wish to participate in the suggested free-trade area. In part, the Six apparently feared that the more extensive form of integration, which they favored, might be weakened if their Community participated in a broader free-trade association.

The European Economic Community (EEC) ^{1/} was formally established on January 1, 1958, while the negotiations on the United Kingdom's proposal were still in progress; eventually, in December 1958, the negotiations regarding the establishment of an OEEC-wide free-trade area were discontinued.

The Establishment and Consolidation of EFTA

Soon after the establishment of the European Economic Community, a group of seven countries--Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom (often referred to as the "Seven") --decided to explore the possibility of forming a free-trade area among themselves. Their discussions, concluded in January 1960, resulted in the signing of the Stockholm Convention--the constitutional document of the new organization. The Convention provided for the establishment among the Seven of a free-trade area for industrial

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

products to be known as the European Free Trade Association (EFTA). The Association came into being in May 1960, about 2-1/2 years after the EEC had begun its operations. In June 1961, Finland joined the Seven as an associate member. 1/

The establishment of EFTA signified the appearance of a second major trade bloc on the Western European scene. The characteristics of the two blocs, however, differed materially from one another. The EEC was created by adjoining countries that had had extensive commercial ties with one another before their association. The EFTA countries, on the other hand, were geographically scattered; only the four Scandinavian countries formed a physical region. Moreover, before the establishment of their association, the EFTA countries had materially weaker commercial ties with one another than did the EEC countries; in fact, they had closer ties with the EEC members than with one another. 2/

One of the principal cohesive factors among the EFTA countries was the manner in which their foreign trade was likely to be affected by the creation of the EEC. In varying degree, they each feared that their trade was threatened by the EEC's existence, but they had differing reasons for not wishing to participate in the Community on terms acceptable to the latter. The United Kingdom was determined to

1/ Finland enjoyed the same rights as the full members. By July 1964, it had assumed most of the obligations of the Association. It was allowed, however, to follow a slower timetable for removing its import barriers against the products of other EFTA members.

2/ As late as 1966, EFTA's trade with the EEC exceeded intra-EFTA trade both in value and percentage; see pp. 209.

retain its system of preferences with the countries of the Commonwealth and was reluctant to adjust its agricultural policy to the common agricultural policy envisaged by the EEC. Switzerland and Sweden, traditionally neutral countries, were apprehensive of the supra-national character of the EEC's institutions and the projected economic and political integration of its members. Austria's commitment with the U.S.S.R. in 1955 to maintain a status of neutrality precluded it from joining the EEC. ^{1/} Norway and Denmark, while less opposed to EEC membership than most other EFTA members, were heavily influenced by the position of Sweden with which they were intermittently discussing the possibility of establishing a "Nordic Customs Union." Moreover, the flexibility afforded by a free-trade arrangement, especially in trade with third countries, appealed to all the EFTA countries; the system would not require the members of the Association to adjust their schedules of import duties to a tariff schedule common to all. Each member would be free to retain its own level of tariff protection.

An important motivating factor in the creation of EFTA was that of enhancing the bargaining power of its members in negotiations for the establishment of a European trading system that would include both the EEC and EFTA. In all likelihood, EFTA members hoped to exert pressure on the EEC by confronting it with the possibility of trade discrimination by another European regional group. With Western Europe divided into two such blocs, the trade advantages that an EEC member expected to enjoy in the markets of its partners might be offset, at least partly, by disadvantages in the markets of EFTA

^{1/} The State Treaty of Austria prohibited both direct and indirect political or economic union with Germany and, therefore, stood in the way of full membership for Austria in the European Economic Community.

countries. EFTA thus hoped to influence the EEC to give favorable consideration to the creation of an association encompassing all Western European countries.

EFTA did not hold out much promise, therefore, of enduring in its original form. Various of its proclamations revealed that the Association considered its duration to be temporary--that it was designed specifically to further the establishment of an overall European trading system. Moreover, during 1961 and 1962, with the full approval of EFTA, each member country (except Finland), despite an initial reluctance respecting affiliation with the EEC, applied for either full or associate membership. Only limited work was devoted to intra-EFTA matters during this phase of the Association's existence, especially after October 1961, when the negotiations for British entry into the EEC began in Brussels.

The breakdown of the British-EEC negotiations in January 1963, stemming from the French veto of the British petition, marked a turning point in EFTA's development. The United Kingdom's failure to enter the EEC caused the other EFTA countries to suspend their negotiations to join the Community. ^{1/} There followed a period of internal consolidation, which made EFTA assume its permanent character. In May 1963, the EFTA Council ^{2/} met in Lisbon, to review the major

^{1/} Austria was the only EFTA country that continued its negotiations with the EEC; it did so apparently because of its close links with the Community.

^{2/} The Council is the only institution of EFTA that was formally established by the Stockholm Convention. It is essentially a forum in which the representatives of the member states, each having one vote, consult and act together. The Council created a Secretariat, several standing committees, and ad hoc working groups to provide assistance in its work.

provisions of the Stockholm Convention. During that meeting, the ministers of the member countries agreed on a number of important issues regarding the implementation of the Convention; they agreed, among other matters, to accelerate the timetable for the elimination of trade restrictions. Although the imposition of a British surcharge on imports of industrial goods in October 1964 ^{1/} was a setback in EFTA's development, the member countries proceeded toward their objective according to plan and became a free-trade area on January 1, 1967.

In 1965 the EFTA ministers decided to take the initiative again to "build a bridge" between the two organizations. At a ministerial meeting held in Copenhagen, EFTA invited the EEC to discuss various matters concerning their mutual trade; this effort, however, produced no tangible results. By the end of 1966, the United Kingdom had decided to make another attempt at joining the EEC. At the close of 1967 (January 1968) the renewed bids of the United Kingdom, Denmark, Norway and Sweden were being considered by the EEC. The desire of EFTA countries to establish links with the EEC, however, varied considerably from member to member. Finland, Portugal, and Switzerland showed distinctly less interest than the rest of the EFTA members.

EFTA and the GATT

All of the EFTA countries are markedly dependent on foreign trade. ^{2/} This dependence was one of the chief factors prompting the establishment of the Association, and encouraging the EFTA countries

^{1/} See pp. 194-95.

^{2/} See pp. 206-07.

to try to expand their trade system to encompass the countries of the European Economic Community. The formation of a broader, regional arrangement that would incorporate all countries of Western Europe appeared to be the most effective way to safeguard EFTA's trade with these countries. The EFTA countries, however, were also greatly interested in developing their trade with other potential trading partners. They tried to accomplish this by participating actively in the trade-development programs sponsored under the General Agreement on Tariffs and Trade (GATT).

The commercial policies inherent in regional economic arrangements, such as the EFTA, were not altogether consistent with those on which the General Agreement on Tariffs and Trade (GATT) was based. GATT's approach to trade expansion was based on principles of multilateralism and non-discrimination, whereas that of regional arrangements was discriminatory toward third (extra-regional) countries. Nonetheless, the GATT permitted the formation of regional systems--customs unions and free-trade areas--on the premise that the operation of such systems would be beneficial to world trade. The Contracting Parties to the GATT believed that, in addition to the significant expansion in intra-area trade, commerce with third countries would also increase by virtue of properly organized free-trade arrangements; such regional arrangements were expected to generate additional demand for commodities as a result of the improved economic performance of the member countries. It was believed that this new demand for the products of countries outside the region would more than offset the effect of the

newly authorized discrimination. To prevent this discrimination from becoming excessive, the GATT provided, in effect, that the discriminatory customs treatment applied by a regional arrangement must be the result of either a reduction or elimination of import duties in intra-area trade, rather than the imposition of higher duties on products imported from outside the region. ^{1/}

To receive formal recognition by the GATT, EFTA had to satisfy the Contracting Parties that its objectives and program were compatible with the provisions of the General Agreement. For this purpose, the Association had been required to meet the criteria specified above, which were set forth in article XXIV of the General Agreement. The Contracting Parties appointed a working party to examine and report back on the provisions of the EFTA Convention. Thereupon, the Contracting Parties at their 17th Session, in November 1960, adopted draft conclusions which, in essence, endorsed the intention of the signatories of the Stockholm Convention to form a free-trade area within the meaning of article XXIV. At the same time the Contracting Parties reserved their right to take whatever action was permitted by designated procedures of the General Agreement against the trade of the EFTA countries, if measures taken by the EFTA should conflict with the Agreement. Since the adoption of the draft conclusions, EFTA has kept the Contracting Parties informed on its activities by submitting annual reports.

^{1/} More specifically, the import duties and other trade controls imposed by the regional system on imports from third countries were not to be higher or more restrictive than the import duties and trade controls that had prevailed before the formation of the group.

Because of its dependence on foreign trade, the EFTA was anxious to reconcile its regional activities with the provisions of the GATT and to cooperate with the members of that organization in efforts to expand world trade. Among the major objectives provided in the Stockholm Convention was that the EFTA should "contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it." 1/ During the course of numerous negotiations under the GATT, EFTA members had individually acted in accordance with their declared objective. They participated in the Kennedy round, and supported its main objective--a 50 percent across-the-board (linear) reduction in import duties, with a minimum of exceptions thereto. 2/ Early during the Kennedy-round negotiations, five EFTA members--Austria, Denmark, Norway, Sweden, and Switzerland--announced that they would ask for no exceptions from the stipulated tariff reductions, provided they were accorded reciprocal treatment. Finland and the United Kingdom, moreover, submitted only short lists of exceptions. 3/ In general, during the course of the Kennedy round, the EFTA countries were more willing than most GATT members to reduce their tariff barriers to imported goods.

1/ The European Free Trade Association, Convention Establishing the European Free Trade Association, December 1963, Article 2.

2/ The EFTA countries participated in the Kennedy round of negotiations individually, since each of them had a separate tariff system. The four Nordic countries, however, chose to be represented by a common delegation in the last months of the negotiations.

3/ Portugal was in a special category and was not required to submit a list.

ELIMINATION OF INTRA-EFTA TRADE RESTRICTIONS

The Stockholm Convention laid down, among others, two general goals for the European Free Trade Association: 1/

To promote in the area of the Association and in each member state a sustained expansion of economic activity, full employment, increased productivity and the rational use of resources, financial stability and continuous improvement in living standards;

To assure that trade between the member states takes place under conditions of fair competition on terms as nearly equal as possible.

To attain these objectives, the EFTA chose to establish a free-trade area, rather than a customs union. The EFTA members did not envisage the formation of a common external tariff schedule--one of the main features of a customs union and, thereby, of the EEC. Thus, the basic feature of the Association was its plan for the progressive elimination of obstacles to the free flow of commodities within its territory.

Industrial Commodities

For various reasons that are explained later, the EFTA countries decided to exclude agricultural and marine products from the broad range of commodities for which the free trade area was to be created. Accordingly, the application of the envisaged free-trade provisions was to be limited to products which were considered "industrial." 2/

The EFTA members concerned themselves with the elimination of both import duties and nontariff restrictions on trade in industrial

1/ Convention, op. cit., Article 2.

2/ By EFTA definition, all goods are considered to be industrial, except those specifically designated in annexes D and E, respectively, of the Stockholm Convention as "agricultural" or "fish and other marine" products.

products among themselves. In this report, the nontariff barriers are discussed in terms of (1) quotas, (2) administrative and technical requirements (3) rules of competition--a group of provisions designed to assure "conditions of fair competition."

Import duties

EFTA was founded by countries having differing levels of tariff protection. 1/ To attain a free-trade area, the EFTA members agreed to remove gradually all import duties on industrial products traded within the region. They decided to achieve this goal by means of successive, across-the-board reductions in import duties to be effected on given dates. The Stockholm Convention established a timetable by scheduling the dates after which import duties were not to exceed a stated percentage of the "basic duties." 2/ The original timetable paralleled that of the EEC, thus making it easier for the two organizations to negotiate an agreement any time later. It called for complete removal of import duties on products of EFTA origin by 1970, i.e., within a decade. At an EFTA ministerial meeting in Lisbon in May 1963, however, the member countries agreed to shorten the schedule to accord with action taken by the EEC earlier. The new EFTA timetable advanced the date by which customs duties on intra-EFTA trade would be eliminated to January 1, 1967, 3 years ahead of the original target date.

1/ The tariffs of Austria, Finland, Portugal and the United Kingdom were generally considered to be relatively high, while those of Norway, Denmark, Sweden and Switzerland relatively low.

2/ Basic import duties were those in effect in member countries on January 1, 1960.

and 1-1/2 years ahead of the EEC objective. The EFTA largely achieved its goal on that date;^{1/} it thereby became the first regional economic group to have succeeded in establishing a free-trade area for most industrial products.

Because EFTA members retained their own customs duties on imports from third countries, appropriate safeguards were adopted to prevent the entry of merchandise from third countries into a "low-duty" member country and then the reshipment of it free of duty to a "higher-duty" member country. The Stockholm Convention set forth "rules of origin" to ensure that the privilege of free entry would apply only to goods originating in EFTA countries. Under those rules, the "EFTA origin" of imported goods could be established on the basis of either of two criteria. First, under a so-called percentage criterion, a commodity is considered to be of EFTA origin if the value of materials contained therein which originated outside the area is equivalent to less than

^{1/} The free-trade commitments did not yet apply completely to some EFTA countries and to certain industrial products. Portugal, for example, still maintained import duties on specific industrial commodities accounting for over 50 percent of its imports from other EFTA countries. Duties on these items amounted to 60 percent of their basic rates and were scheduled to be removed by 1980. Finland's duties on intra-EFTA trade generally were 10 percent of the basic rates; for certain specific products, such as textiles, footwear and certain iron and steel products, its duties were 30 percent of the basic rates. Norway was given permission to proceed more slowly than required by the timetable with the reduction of its duties on a selected list of products; these articles accounted for about 3 percent of its total imports from EFTA countries. Austria and Switzerland were authorized to maintain customs duties on a few processed foodstuffs for a limited period of time. The above exceptions did not, however, significantly affect the scope of the free trade arrangement that came into being on Jan. 1, 1967; the trade involved amounted altogether to not more than a few percent of total intra-EFTA trade. EFTA had also permitted the retention of a number of "revenue duties."

50 percent of the export price of such commodities. 1/ Second, under a so-called process criterion, a commodity is considered to be of EFTA origin, irrespective of the sources of the materials contained therein, if produced in one of the EFTA countries by one of a specified group of processes 2/ such as "alloying" or "manufacture by chemical transformation." EFTA's "rules of origin" appear to have worked effectively. Although member states were permitted to petition the EFTA Council for relief if they deemed that injury had resulted from the operation of the origin system, no member state had done so by the end of 1967.

In October 1964, EFTA's program of eliminating intra-area customs duties suffered a serious setback when the United Kingdom, confronted with balance-of-payment difficulties, unilaterally imposed a customs surcharge of 15 percent ad valorem on all imports, except entries of basic raw materials, foodstuffs, and unmanufactured tobacco. The surcharge applied to such U.K. imports regardless of their origin; it applied to about a third of the imports in the United Kingdom from the other EFTA members. The EFTA countries were particularly concerned because (a) the surcharge in many instances more than offset all duty reductions that had been implemented by the United Kingdom pursuant to the EFTA program and (b) it affected most items covered by the tariff-dismantling provisions of the Stockholm Convention. EFTA members were

1/ Certain basic materials, even if the latter are imported from third countries, are regarded as being of EFTA origin. The materials concerned are those listed in the basic materials list of the Stockholm Convention, Annex B, Schedule III.

2/ The processes concerned are those listed in the list of qualifying processes of the Stockholm Convention, Annex B, Schedules I and II.

sharply critical of the United Kingdom for not having consulted with them before the surcharge was introduced. At their meeting of November 1964, in an attempt to prevent similar actions by a member in the future, the EFTA members established a permanent Economic Committee, which they charged with the task of considering balance-of-payments difficulties of member states and proposing means of dealing with these difficulties.

In response to criticism from the EFTA countries, the British Government explained that the import surcharge had been imposed as an emergency measure and that it would be removed as soon as circumstances warranted. In April 1965, the surcharge was reduced from 15 to 10 percent and in November 1966, it was removed altogether. Hence, the imposition of the surcharge by the United Kingdom did not delay the virtual establishment of free trade throughout the EFTA area by January 1967.

Quotas

Before EFTA was established, every state that subsequently became a member maintained some import quotas on industrial goods; such quotas, however, affected only a small part of the aggregate trade in industrial products between such states. As in the case of import duties, the Stockholm Convention provided for the progressive elimination by 1970 of all quotas on imports of industrial products from the member states. At their meeting in Lisbon in May 1963 the EFTA members agreed to advance the date for the attainment of this objective to January 1967

to coincide with that of the abolition of customs duties in intra-member trade.

The Convention provided that the member states would increase the "initial quotas" 1/ by a minimum of 20 percent annually. By so enlarging them, it was expected that, by the time of the target date, the quotas would no longer be restrictive and could be abolished. The change of the original target date from 1970 to 1967 did not require the formal rescheduling of the original timetable; the EFTA members had already expanded their initial quotas by more than the required minimum and had abolished many of their quotas applying to intra-EFTA trade. In fact, by the middle of 1965, quotas no longer significantly restricted intra-EFTA trade in industrial products, and by 1967 nearly all of the quotas on intra-EFTA trade had been removed.

Administrative and technical requirements

Import restrictions other than tariffs and quotas caused the EFTA members growing concern during the transitional period. This miscellaneous category of trade barriers included a number of national practices, which by their very diversity within the EFTA area, materially hindered intra-EFTA trade in many types of commodities. The multiplicity of patent laws and industrial standards within EFTA, for example, hampered trade in some products; the expensive and time-consuming process of filing separate applications for patents in each country, and of obtaining separate approval from the appropriate authorities to

1/ Initial quotas were those applied by member states in July 1960.

market the products in the respective countries constituted significant obstacles to intra-EFTA trade. The EFTA members sought, therefore, to develop uniform patent regulations and uniform industrial standards in the EFTA area. The Association preferred, however, to pursue this objective in cooperation with third countries--i.e., to seek uniform patent regulations and uniform industrial standards through the media of broad international agreements that would encompass more than the EFTA membership. EFTA working parties, therefore, undertook to investigate the possibility of EFTA's participation in an EFTA-EEC (or an even broader international) system of patents, and of an EFTA-EEC collaboration in developing uniform industrial standards, in addition to the possibility of purely intra-member cooperation in these two fields. The working parties identified the possible forms of such cooperation. A more detailed survey of these is presently under way.

Rules of competition

The Stockholm Convention recognized that the attainment of a free-trade area would require not only the removal of intra-area customs duties and other restrictions, but also the establishment of "conditions of fair competition." ^{1/} In the Convention, the members agreed to a series of principles--the so-called "rules of competition" ^{2/}; they left the specific provisions for their implementation, however, to be worked out later in the light of EFTA experience. Consistent with the general concept of a free-trade area, the "rules of

^{1/} Convention, op. cit., article 2(b).

^{2/} Ibid., articles 13-17.

competition" did not aim at harmonizing the conditions under which the production and marketing of products occurred in the member states. The rules endeavored to abolish the distortions of competition that had resulted from the use of protective or discriminatory measures by member governments and private organizations.

The "rules of competition" specified in the Convention were the following:

Government aid to exporters.--The Convention forbade the granting to exporters of certain types of government aid, such as direct subsidies and the remission of direct taxes. Such aid was deemed to be incompatible with fair competition within the EFTA area.

Discriminatory procurement by government enterprises.--The Convention prohibited the use of discriminatory procurement and trading practices by government bodies and state-owned enterprises that accorded nationals preference over producers in other EFTA countries; they too were regarded as significant barriers to trade and incompatible with fair competition. Instead, the Convention required that all products of EFTA origin be accorded equal treatment by all public organizations ^{1/} in the EFTA area. Public organizations accounted for a significant part of the value of intra-EFTA trade.

Restrictive business practices.--Restrictive business practices were defined in the Convention as agreements between enterprises that serve to prevent or restrict competition within the EFTA area, as

^{1/} Central, regional, or local government authorities and public enterprises.

well as actions by enterprises which took unfair advantage of their dominant position in the commerce of the area. ^{1/} The EFTA members agreed to forbid such practices to the extent that they frustrated the benefits that could be gained from the removal of customs duties and quantitative restrictions. At the time that the Convention was being drafted, all EFTA countries except Portugal were administering some kind of national antitrust legislation.

Establishment rights.--The Convention provided that member countries would assure non-discriminatory treatment to nationals of EFTA countries that established or operated enterprises in another member country. The guarantee of non-discriminatory treatment applied only to enterprises engaged directly in intra-EFTA trade; it did not apply to enterprises providing services, such as banks insurance companies, and transportation concerns.

Dumping.--Under the terms of the Convention, member states are assured the right to protect themselves against dumped or subsidized exports from other EFTA countries by applying appropriate measures. ^{2/}

During the EFTA's transitional period, the importance of the "rules of competition" increased concurrently with the increasing freedom of movement of commodities between the EFTA members. Meanwhile, the Association established working parties with mandates to work out the proper interpretation of the rules of competition, as

^{1/} For the definition of restrictive business practices see: Convention, op. cit., article 15, 1(a) and 1(b).

^{2/} This provision applies to non-industrial as well as industrial products.

well as to examine the means available to member states for implementing these rules. The reports of the working parties, submitted to the Association during 1965-66, described the pertinent legislation and practices in member countries and recommended steps to be taken by the respective governments to make such legislation and practices compatible with the EFTA's rules. By the end of 1967, the EFTA countries had completed the groundwork for action that would ultimately result in the elimination of unfair competitive practices. Continuation of this project was regarded by the EFTA members as one of the Association's principal tasks.

Agricultural and Marine Products

The provisions of the EFTA Convention discussed thus far applied only to industrial commodities. A number of special provisions applied to agricultural and marine products and to the promotion of intra-area trade therein. 1/

EFTA made a fundamental distinction between agricultural and industrial products respecting the extent to which free area-wide competition in such trade was desirable. In the case of industrial products, free trade and competition was expected to channel the resources of member countries to the most effective uses. It was deemed that the free play of prices and income incentives would benefit the EFTA economy as a whole as well as that of each member. The EFTA countries anticipated, however, that area-wide free trade in agricultural products would

1/ The products considered by EFTA as agricultural or marine products are identified in annexes D and E of the Stockholm Convention, respectively.

present grave problems to the Association. The EFTA countries, like the EEC members, had followed differing national agricultural policies that placed varying emphasis on a number of objectives, including: fair living standards for farmers, ^{1/} adequate supplies to consumers at reasonable prices, and, in the traditionally "neutral" countries (Switzerland and Sweden), a high degree of self-sufficiency. The inclusion of agricultural products among the items subject to the free-trade provisions would have required the replacement of the national agricultural schemes by a common agricultural policy for the entire EFTA region. Such integration was considered to be beyond the scope of a free-trade area. By contrast, the EEC had extended its free-trade provisions to agricultural goods and undertaken the task of formulating a common agricultural policy as part of developing an economic union within its area.

Certain characteristics of EFTA's agriculture differed materially from that of the EEC. The agricultural resources in the EFTA countries, unlike those in the EEC, did not add up to a fairly balanced whole. In the EEC, the development of a common agricultural policy afforded reciprocal advantages to all participants and ensured the attainment of a certain degree of regional self-sufficiency. In contrast, for most EFTA countries, the removal of intra-area trade barriers on agricultural products would not have afforded sufficient benefits to compensate for relinquishing their national agricultural

^{1/} The term "fair" generally meant that the incomes of efficient farmers were reasonably comparable with those prevailing in the industrial sector.

schemes. Only Denmark and Portugal of the EFTA countries had been heavily dependent on agricultural exports. Furthermore, even with greatly increased efficiency in production, EFTA as a whole would have remained heavily dependent on agricultural supplies from third countries.

It was apparent, therefore, that most EFTA countries were not interested in giving up their national agricultural policies. Nonetheless, EFTA had obligations toward those of its members that depended heavily on agricultural exports. 1/ EFTA exporters of agricultural products demanded that, in exchange for opening up their own markets to industrial products of EFTA origin, they receive reciprocal advantages in the form of improved access to EFTA markets for their products. The predominantly industrial members of EFTA, however, desired to meet these obligations by methods other than by extending the free-trade privileges to all agricultural products. They desired to grant trade concessions to agricultural imports from their EFTA partners, but to retain authority over their national agricultural policies.

EFTA, therefore, adopted two methods to achieve wider markets for its members that were important exporters of agricultural products:

(1) certain products were removed from the reserved list of agricultural commodities, 2/ thus becoming subject ultimately to the free-trade privileges accorded industrial products; and (2) bilateral

1/ In Article 22, paragraph 2, the Convention states that an objective of the Association is "to facilitate an expansion of trade which will provide reasonable reciprocity to Member States whose economies depend to a great extent on exports of agricultural goods."

2/ Listed as such in Annex D of the Convention.

agreements to expand trade in agricultural products were promoted between the EFTA members.

Under the provisions of the Stockholm Convention, the EFTA Council could, by unanimous decision of the members, remove items from the list of agricultural products, thus making them subject to intra-EFTA preferential treatment. During the 1960's, Denmark and Portugal made numerous proposals that designated products be deleted, but the required unanimous agreement for such action was rarely obtained. By 1967, only about a dozen agricultural products had been transferred from the agricultural to the industrial sector. In view of these difficulties, a new approach was tried. In 1966, the EFTA countries agreed that they individually should abolish customs duties wherever possible on intra-regional imports of certain agricultural commodities. ^{1/} Such action would enable EFTA members that were important exporters of agricultural products to enjoy preferential treatment for their products in some EFTA countries, even if it was impossible to free the trade of the respective commodities in the entire EFTA area.

The conclusion between EFTA members of bilateral trade agreements that covered agricultural products proved to be a more successful way of opening EFTA markets to the products of Denmark and Portugal. Nine agreements involving agricultural products had been concluded among EFTA countries. Seven of these were between Denmark and other EFTA countries; the two others were negotiated by Portugal with Sweden and

^{1/} The commodities here concerned were specified for each EFTA member separately in an 1966 decision of the EFTA Council. (See: EFTA Bulletin, June 1967, Vol. VIII, No. 4, pp. 15-16.)

Switzerland. Most of these agreements provided for either a one-step or a gradual elimination of customs duties for selected agricultural products. A number of them also provided for the establishment of increased import quotas. In terms of the volume of agricultural products affected, the agreement between the United Kingdom and Denmark was the most important. Under that agreement, the United Kingdom abolished its duties on imports of bacon, canned cream; and other products from EFTA members. Most important, it suspended its duties on imports of butter from the same countries.

The approaches adopted by the EFTA members to promote trade among themselves in agricultural products did not meet the expectations of Denmark and Portugal. The expansion of intra-EFTA trade in agricultural commodities did not keep pace with the growth of intra-EFTA trade as a whole. ^{1/} Denmark and Portugal continued to press for further import concessions on the part of their partners. At the EFTA meeting in May 1966, the members recognized the need for new negotiations to achieve further reductions of barriers to intra-EFTA agricultural trade. Most of the members also agreed that intra-EFTA cooperation in the agricultural field would have to be increased if the Association remained an independent organization during the next few years.

EFTA's objective respecting trade in fish and other marine products was the same as that for agricultural commodities--i.e., to

^{1/} Between 1961 and 1965, EFTA annual trade in agricultural goods increased by 37 percent compared with 53 percent in non-agricultural trade. The increase in Denmark's agricultural exports during this period was only 33 percent. (Source: European Free Trade Association, Annual Review of Trade in Agricultural Goods, 1966, p. 39.)

facilitate its expansion within the area by providing import concessions for member states whose economies depended significantly on exports of such products. Norway, Portugal, and to a lesser extent, Denmark had an interest in this trade.

By the end of 1967, EFTA, however, had initiated few measures to promote trade in these products. Only a few items had been deleted from the list of fish and other marine products 1/ not being accorded free movement in intra-EFTA trade. This lack of progress reflected in part the fact that the countries concerned did not press as strongly for intra-EFTA import concessions for these items as they did for agricultural products. Unlike the situation with the latter, additional import concessions on fish and other marine products were not expected to lead to a material expansion of intra-EFTA trade in these items; only limited possibilities existed for increasing their production. 2/

CHANGES IN THE FOREIGN TRADE PATTERNS OF EFTA COUNTRIES

The establishment of regional economic arrangements after World War II was encouraged primarily by the belief that such arrangements, in the long run, would greatly benefit their members. The creation of a free trade area or customs union was expected to stimulate intra-area trade. Greater competition, specialization, and economies of scale were expected to follow the removal of intra-area trade restrictions--leading to a more productive allocation of the area's resources. Accelerated economic development and increased prosperity were expected

1/ Listed in Annex E of the Convention.

2/ The scarcity of fish in the North Sea and the northeastern Atlantic restricted the sea-fishing in Western Europe.

to result.

Although the changes in the volume and direction of the foreign trade of countries associated in a regional economic arrangement may be measured, the causes of those changes generally cannot be precisely assessed. An increase in intra-area trade and the consequent enhancement of economic development and prosperity in the member countries of a regional arrangement may be, and usually are, induced by a combination of factors, only one of which is the elimination of trade restrictions. Moreover, the economic expansion that might have occurred in the member countries had the economic union not been in operation cannot be fully appraised. Further, the evaluation of the effects of a regional economic arrangement upon the economies of its members should cover a period sufficiently long to permit all the economic forces to work themselves out; consequently, the time span covered by the transition years of an economic arrangement may be too short to permit satisfactory evaluation.

In the rest of this chapter, changes in the foreign trade of the EFTA members during the transitional period will be examined.

The Foreign Trade Patterns of EFTA

The EFTA countries are heavily dependent on foreign trade. In 1966 the aggregate value of EFTA's exports of goods and services was equal to about 25 percent of EFTA's gross national product; the corresponding share was 22 percent for the EEC and 6 percent for the United States. ^{1/} While EFTA's population represented only 3 percent of the

^{1/} European Free Trade Association, EFTA Trade 1959-66, Geneva, 1968.

world's population and EFTA's national income only 7 percent of the world's income, EFTA countries combined accounted for 15 percent of total world trade. Taken as a region, the EFTA constituted the largest market in the world for imported food. The EFTA countries were also highly dependent on imports for most basic industrial raw materials 1/; they had few natural resources, except for the coal supplies of the United Kingdom and the abundant timber resources of the Nordic countries.

To compensate for inadequate domestic sources of food and raw materials, various EFTA countries had developed industries which converted imported commodities into manufactured products, adding substantial value to them. One EFTA country--Denmark--had developed a highly specialized agriculture that was competitive on the world market. The EFTA countries, therefore, both as importers of food and raw materials and as exporters of food and manufactured products, depend heavily on foreign trade. Hence, these countries are strong advocates of freer world trade.

Although intra-area trade increased following the creation of EFTA's preferential trade system, 2/ the dependence of the EFTA members on trade with third countries was not materially reduced. In 1966, for example, trade with non-EFTA countries accounted for about three-fourths of the aggregate value of foreign trade by EFTA members, compared with about four-fifths in 1959. In 1966, moreover, the per

1/ In 1965, food and raw materials accounted for 45 percent of the value of all imports by EFTA countries (table 1).

2/ See the next section.

capita value of the EFTA's trade with the rest of the world exceeded significantly the per capita value of the foreign trade of either the EEC or the United States: 1/

	<u>Exports</u>	<u>Imports</u>
EFTA-----	\$ 223	\$ 277
EEC-----	161	168
United States-----	152	129

The distribution of EFTA's foreign trade by major trade areas in 1959 and 1966 is shown in the tabulation below: 2/

<u>Area</u>	<u>Million dollars : Percent of total</u>			
	<u>1959</u>	<u>: 1966</u>	<u>: 1959</u>	<u>: 1966</u>
	<u>Exports (f.o.b.)</u>			
	:	:	:	:
Intra-EFTA-----	3,521	: 7,411	: 19.7	: 25.2
EEC-----	4,180	: 7,523	: 23.4	: 25.6
United States-----	1,767	: 2,885	: 9.8	: 9.8
Eastern Europe-----	772	: 1,382	: 4.3	: 4.7
Rest of the world---	7,604	: 10,176	: 42.8	: 34.7
EFTA total-----	17,844	: 29,377	: 100.0	: 100.0
	<u>Imports (c.i.f.)</u>			
	:	:	:	:
Intra-EFTA-----	3,661	: 7,812	: 17.6	: 22.3
EEC-----	5,861	: 10,942	: 28.1	: 31.2
United States-----	1,886	: 3,492	: 9.0	: 10.0
Eastern Europe-----	931	: 1,684	: 4.5	: 4.8
Rest of the world---	8,515	: 11,114	: 40.8	: 31.7
EFTA total-----	20,854	: 35,044	: 100.0	: 100.0

In 1966, total exports from EFTA countries, including intra-area exports, were valued at \$30 billion, and total imports into EFTA countries including intra-area imports, at \$35 billion. EFTA trade with

1/ European Free Trade Association, EFTA Trade 1959-66, Geneva, 1968, p. 8.

2/ Ibid, Statistical Appendix, tables 3, 5, 12, 16, 51, 57, 67, 70, 73, 74.

the EEC ranked first--followed by intra-EFTA trade. The Community accounted for 26 percent of the value of EFTA's exports and 31 percent of the value of its imports. The corresponding figures for 1959--the year before the creation of EFTA--were 23 and 28 percent, respectively. Trade with the EEC, therefore, became slightly more important to the EFTA countries after the establishment of the Association. Trade with the United States accounted for around 10 percent of the total value of both EFTA's exports and imports. The shares of other trade areas, such as East Europe, were much smaller. A large part of EFTA's trade with the area identified in the tabulation as the "rest of the world" was with developing countries, predominantly the non-European territories of the United Kingdom and, to a much smaller extent, of Portugal.

Intra-EFTA Trade

During EFTA's transitional period, trade among the eight member countries expanded at a faster rate than that of the eight countries with the rest of the world. Between 1959 and 1966, the value of annual intra-EFTA trade more than doubled, whereas the total annual foreign trade of the EFTA countries with nonmembers increased in value by about 56 percent. The trade of each EFTA member with its EFTA partners increased more rapidly than its trade with third countries.

The value of intra-EFTA trade and its share of EFTA's total exports and imports in selected years of the period 1953-66 are indicated below: 1/

1/ European Free Trade Association, EFTA Trade 1959-1966, Geneva, 1968, Statistical Appendix, tables 3, 5, 8, and 10.

Year	Intra-area		Intra-area	
	exports (f.o.b.)		imports (c.i.f.)	
	Million	Percent	Million	Percent
	dollars	of total EFTA exports	dollars	of total EFTA imports
	:	:	:	:
1953-----	2,544	19.7	2,681	17.4
1959-----	3,521	19.7	3,661	17.6
1965-----	6,781	24.7	7,133	21.4
1966-----	7,411	25.2	7,812	22.3
	:	:	:	:

In 1966 intra-area exports accounted for 25 percent of the total exports of the EFTA countries, compared with 20 percent in 1959. Correspondingly, intra-area imports accounted for 22 percent of the total imports of the EFTA countries in 1966, compared with 17 percent in 1959.

During the period immediately preceding the formation of the Association (1953-59), the share of the total trade of the EFTA countries accounted for by trade between themselves had been stable. The expectation of those advocating regional trade systems that the removal of barriers on trade among the partners would lead to a rapid expansion in intra-regional trade appears to have been borne out by the experience of the EFTA countries.

Although a significant change in the commodity composition of EFTA's intra-area trade occurred during the transitional period (1959-66), it appears to have resulted from factors other than the elimination of tariffs and other barriers to such trade. In terms of value, the share of food and raw materials in annual intra-area imports decreased from 38 percent to 30 percent between 1959 and 1965 (table 1).

Table 1.--Value of EFTA imports: from all countries, from intra-area countries, and from the United States--by principal commodity groups, 1959 and 1965 ^{1/}

Commodity Group	Imports in millions of dollars						Percent of total					
	1959			1965			From all countries		From EFTA area		From U.S.	
	From all countries	From EFTA area	From U.S.	From all countries	From EFTA area	From U.S.	1959	1965	1959	1965	1959	1965
	1959	1965	1959	1965	1959	1965	1959	1965	1959	1965	1959	1965
Food, beverages, and tobacco-----	5,578	542	634	6,816	855	620	27.9	21.1	17.3	14.0	34.4	19.5
Raw materials-----	5,845	663	366	7,771	993	439	29.2	24.1	21.1	16.3	19.9	13.8
Subtotal-----	11,423	1,205	1,000	14,587	1,848	1,059	57.1	45.2	38.4	30.3	54.3	33.3
Chemicals-----	1,084	226	177	2,156	469	342	5.4	6.7	7.2	7.7	9.6	10.8
Semi-manufactures-----	3,582	740	213	6,719	1,562	443	17.9	20.8	23.6	25.6	11.6	13.9
Machinery and transport equipment-----	2,990	785	362	6,320	1,655	990	14.9	19.6	25.0	27.1	19.7	31.2
Misc. manufactured articles-----	899	181	86	2,191	524	257	4.5	6.8	5.8	8.6	4.7	8.1
Subtotal ^{2/} -----	8,601	1,935	842	17,641	4,249	2,117	43.0	54.8	61.6	69.7	45.7	66.7
Total Trade-----	20,024	3,140	1,842	32,228	6,097	3,176	100.0	100.0	100.0	100.0	100.0	100.0

^{1/} For technical reasons, the trade data of Finland were not included in this table. Inclusion of the data would have raised the total value of EFTA imports by 4.2 and 3.5 percent in 1959 and 1965, respectively.

^{2/} Includes the data for "Commodities and Transactions not classified according to kind" in addition to those in the four commodity groups shown above.

Source: OECD Series B, Analytical Abstracts, Jan.-Dec. 1960, Book 6;
 OECD Series C, Commodity Trade: Imports Jan.-Dec. 1965.

Conversely, other commodities, predominantly manufactured products, accounted for 70 percent of the value of intra-area imports in 1965, compared with 62 percent in 1959. As noted earlier, manufactured commodities had benefited most from the duty reductions effected on intra-area trade. Among the various manufactured commodities, the growth of intra-area trade was greatest in the case of "miscellaneous manufactured products," i.e., the commodities on which intra-EFTA import duties had been highest (table 2). ^{1/} Similar changes, however, occurred in the commodity structure of EFTA imports from third countries; the share of EFTA's imports from third countries accounted for by manufactured products increased, even though the import duties on such products had remained substantially the same (table 2).

EFTA Trade with the United States

Trade between the United States and the countries that later formed the European Free Trade Association had been substantial before 1960. When the Stockholm Convention was signed in that year, some interests in the United States feared that the gradual removal of import duties on intra-EFTA trade and the consequent expansion of intra-regional trade would affect adversely trade between the two areas. During the EFTA's transitional period (1960-66), however, the annual trade between the United States and the EFTA countries expanded materially; the United States, moreover, accounted for about the same share

^{1/} EFTA found a positive correlation between the initial level of customs duties levied on specific commodities and the increase in intra-EFTA trade of the same commodities. (See: EFTA Trade, 1959-65, Geneva, 1967, pp. 62, 86, 87.)

Table 2.--Changes in EFTA imports: From all countries, from intra-area countries, and the United States--by principal commodity groups, between 1959 and 1965 1/

Commodity Group	: Ratio of EFTA imports in 1965 : to those in 1959		
	: From all	: From EFTA	: From U.S.
	: countries	: area	
Food, beverages and tobacco-----	122	158	98
Raw materials-----	133	150	120
Subtotal-----	128	153	106
Chemicals-----	199	208	193
Semi-manufactures-----	188	211	208
Machinery and transport equipment---	211	211	274
Misc. manufactured articles-----	244	289	300
Subtotal <u>2/</u> -----	205	220	251
Total trade-----	161	194	172

1/ Trade data of Finland excluded.

2/ Includes the data for "Commodities and Transactions not classified according to kind" in addition to those in the four commodity groups shown above.

Source: OECD Series B, Analytical Abstracts, Jan.-Dec. 1960, Book 6;
OECD Series C, Commodity Trade: Imports Jan.-Dec. 1965.

Table 3.--Area shares of EFTA imports by principal commodity groups,
1959 and 1965 ^{1/}

Commodity Group	Percent of total EFTA imports supplied by--			
	EFTA countries		United States	
	1959	1965	1959	1965
Food, beverages and tobacco-----	9.7	12.5	11.4	9.1
Raw materials-----	11.3	12.8	6.3	5.6
Subtotal-----	10.5	12.7	8.8	7.3
Chemicals-----	20.8	21.8	16.3	15.9
Semi-manufactures-----	20.7	23.2	5.9	6.6
Machinery and transport equip- ment-----	26.3	26.2	12.1	15.7
Misc. manufactured articles-----	20.1	23.9	9.5	11.7
Subtotal ^{2/} -----	22.5	24.1	9.8	12.0
Total trade-----	15.7	18.9	9.2	9.9

^{1/} Trade data of Finland excluded.

^{2/} Includes the data for "Commodities and Transactions not classified according to kind" in addition to those in the four commodity groups shown above.

Source: OECD Series B, Analytical Abstracts, Jan.-Dec. 1960, Book 6;
OECD Series C, Commodity Trade: Imports Jan.-Dec. 1965.

of EFTA's imports and exports in 1966 as in 1959.

Between 1959 and 1966, the value of EFTA's exports to the United States increased from \$1.8 billion to \$2.9 billion, or by 61 percent (table 4); meanwhile the value of EFTA's imports from the United States increased from \$1.9 billion to \$3.5 billion, or by 84 percent. Both EFTA's exports to, and its imports from, the United States were larger in value in 1966 than in any previous year. In 1966, trade with the United States accounted for about 10 percent of the total value both of the area's exports and of its imports. Between 1959 and 1966, the relative importance of the United States as a market for the exports of the EFTA countries (i.e., the ratio of the value of EFTA's annual exports to the United States to the value of its total exports) ranged from about 7 percent to 10 percent. Meanwhile, the ratio of the value of EFTA's annual imports from the United States to the value of EFTA's total imports was between 9 percent and 10 percent in most years of the transitional period; in no year between 1959 and 1966 did the percentage drop below that for 1959. On the whole, therefore, the gradual removal of intra-area import duties during EFTA's transitional period does not appear to have affected adversely the trade between the EFTA countries and the United States.

Throughout EFTA's transitional period, the trends of the aggregate trade between the EFTA countries and the United States was dominated by trade between the United States and the United Kingdom. In 1966, for example, the United Kingdom accounted for 58 percent of the value of

Table 4.--EFTA trade with the United States and the U.S. share in total EFTA trade, 1959-1966

Year	Exports (f.o.b.) to the United States		Imports (c.i.f.) from the United States		Trade deficit with the United States
	Million dollars	Percent of total EFTA exports	Million dollars	Percent of total EFTA imports	Million dollars
1959-----	1,767.4	9.9	1,885.6	9.0	118.2
1960-----	1,614.1	8.3	2,709.5	11.2	1,095.4
1961-----	1,492.4	7.3	2,435.6	9.9	943.2
1962-----	1,740.6	8.1	2,452.4	9.5	711.8
1963-----	1,805.7	7.8	2,542.6	9.2	736.9
1964-----	1,948.9	7.7	3,134.7	9.9	1,185.8
1965-----	2,343.4	8.5	3,262.1	9.8	918.7
1966-----	2,885.0	9.8	3,491.7	10.0	606.7

Source: EFTA Trade, 1968, op. cit., tables 3, 5, 73, and 74.

EFTA's exports to the United States (table 5); the United Kingdom was primarily responsible for the significant rise in the area's exports to the United States in that year. In 1966, the United Kingdom also accounted for 58 percent of EFTA's imports from the United States. EFTA's balance of trade with the United States, therefore, reflected in substantial measure the United Kingdom-United States trade balance. EFTA's marked import trade balances with the United States in 1960 and 1964 are attributable primarily to the large deficits that the United Kingdom incurred in its trade with the United States. EFTA had an import balance of trade with the United States every year from 1960 to 1966; the balance was smallest in 1966, however, because of a sharp increase in EFTA's exports to the United States during that year.

The EFTA Market for U.S. Products

Since 1959 the trade between the United States and the EFTA countries has undergone significant changes in composition. Although the value of EFTA's annual imports of food and raw materials from the United States has remained about the same as in the year preceding the establishment of the Association, its annual imports of manufactured commodities from the United States have increased materially. In 1965, for example, the value of EFTA's imports of semi-manufactured and manufactured products from the United States was two and a half times that in 1959; the value of EFTA's imports of food and raw materials from the United States was only 6 percent larger in 1965 than in 1959 (table 2).

Table 5.--Exports and imports of EFTA countries with the United States, 1966

EFTA member	Exports		Imports	
	Million dollars	Percent	Million dollars	Percent
Austria-----	77	2.7	101	2.9
Denmark-----	195	6.8	237	6.8
Finland-----	96	3.3	97	2.8
Norway-----	139	4.8	180	5.1
Portugal-----	71	2.5	79	2.3
Sweden-----	294	10.2	427	12.2
Switzerland-----	355	12.3	355	10.2
United Kingdom-----	1,658	57.5	2,016	57.7
Total EFTA*----	2,885	100.0	3,492	100.0

Source: EFTA Trade, 1968, op. cit., tables 12, 16.

* Figures for individual countries do not necessarily add up to the total because of rounding.

The rapid expansion of the EFTA countries as a market for the U.S. manufactured products was contrary to general expectations. EFTA was established as a preferential trading area largely in manufactured products; as such, the member countries necessarily discriminated against imports of manufactured products from third countries. Nevertheless, during the transitional period, the annual imports of semimanufactured and manufactured goods into the EFTA countries from the United States increased by a greater proportion (150 percent) than intra-EFTA trade did in these goods (120 percent)(table 2). Significantly, the annual imports of manufactured goods in the EFTA countries from all sources increased markedly between 1959 and 1965.

During EFTA's transitional period, annual imports of machinery and "miscellaneous" manufactured products into the EFTA countries from the United States increased more than imports of other manufactured products (table 2). The percentage growth in imports from the United States of commodities in these two groups exceeded the growth in the intra-regional trade in these products. EFTA imports of semimanufactures and chemical products from the United States, on the other hand, increased less, proportionately, than did intra-EFTA trade in these products.

Table 6 lists four commodity groups in which the U.S. share of EFTA's total imports increased considerably between 1959 and 1965, whereas the corresponding share accounted for by intra-EFTA trade remained substantially the same or decreased. It also lists four commodity groups for which the reverse was true. These groups were

Table 6.--EFTA imports from intra-region countries and from the United States, as a percent of total EFTA imports, by selected commodity groups, 1959 and 1965 ^{1/}

Commodity group	EFTA imports from the United States, 1965		Percent of total EFTA imports supplied by--			
	Million dollars ^{2/}	Percent of manufactured imports from U.S. ^{3/}	EFTA countries		United States	
			1959	1965	1959	1965
<u>U.S. trade position improved</u>						
Machinery, other than electrical, of which:						
Aircraft incl. jet propulsion engines----	581.0	27.4	27.5	25.3	18.5	20.0
Office machinery-----	36.7	1.7	10.2	8.5	33.9	36.0
Textile machinery-----	105.8	5.0	20.1	15.1	19.8	35.1
	24.6	1.2	28.0	26.0	5.6	13.0
Electric machinery, apparatus and appliances-----	222.5	10.5	21.9	22.8	13.2	17.1
Professional, scientific, measuring and controlling instruments and apparatus----	73.8	3.5	19.7	18.5	14.1	22.5
Photographic and cinematographic supplies-----	26.4	1.2	18.9	19.2	20.6	29.6
Total-----	903.7	42.7	25.4	24.0	16.9	19.5
<u>U.S. trade position deteriorated</u>						
Organic chemicals-----	89.4	4.2	15.8	15.9	19.2	18.6
Medicinal and pharmaceutical products----	21.5	1.0	36.9	37.7	17.4	12.2
Plastic materials-----	98.6	4.7	21.7	22.1	28.5	22.1
Aluminum-----	27.8	1.3	25.5	29.8	13.6	9.8
Total-----	237.3	11.2	22.9	23.5	19.9	17.1

^{1/} Trade with Finland excluded.

^{2/} The total value of EFTA imports of the four principal manufactured commodity groups from the United States was \$2,117.0 millions (table 1).

^{3/} \$2,117.0 millions=100 percent.

Source: OECD Series B, Analytical Abstracts, Jan.-Dec. 1960, Book 6;
 OECD Series C, Commodity Trade: Imports, Jan.-Dec. 1965.

selected by observation to represent the disparate trends of EFTA trade with the United States.

The articles encompassed in the first four commodity groups consist largely of machinery and scientific instruments. Some observers believe that the technical superiority of certain U.S. products in these groups explains the increasing demand for them in the EFTA countries, despite the growing discrimination directed against U.S. imports. The growth of American subsidiaries in EFTA countries may also have caused an increase in imports of machinery from the United States. For these reasons the increasing tariff preferences given to intra-EFTA trade during the transitional period did not have a marked effect on the imports of these products from the United States.

Commodities included in the second four groups shown in table 6 were imported increasingly from other EFTA countries, probably in part as a result of the gradual removal of import duties on intra-regional trade. The increased intra-regional trade probably contributed to the decreased U.S. share of EFTA's imports of these products. The four commodity groups shown here, for which the U.S. trade position improved, accounted for 43 percent of the value of EFTA's imports of manufactured products from the United States in 1965, compared with only 11 percent for the groups for which the U.S. trade deteriorated..

PROSPECTS

The future development of the economic and trade relationships of the EFTA members to one another and to the rest of the world cannot be easily predicted. EFTA was created in the hope that eventually its members would become integrated into a larger Western European trade area that would include the EEC. In 1967, the United Kingdom and other EFTA members made a new attempt to join the EEC; hence, the orientation of the EFTA members has remained largely unchanged since 1960.

Much of EFTA's future development, therefore, will be determined by the success or failure of its members to achieve association with the EEC. EFTA will continue its separate existence only if its members fail in this endeavor. But even if the Association succeeds in causing its own liquidation, the required negotiations and ensuing ratification of the agreements that would be involved will require a long time. Meanwhile, EFTA will continue to function as a separate unit. The longer the waiting period, however, the more difficult will be the required adjustment, because of the cumulative effect that trade discrimination will have on the commerce not only between the two areas but also between them and third countries. The successful conclusion of the Kennedy round, of course, can be expected to reduce the impact of the two systems of preferential trading upon the commerce of the member countries.

Comparably it would be difficult to predict the structure and character of a new and more comprehensive European trade system, if such should eventuate. It now appears that the EFTA countries would

have to apply individually for membership in the EEC. As a price for their entry, the Community might well insist on complete adherence to the provisions of the Treaty of Rome. This requirement might keep out of the new trade organization some of the EFTA members that strongly favor the looser arrangement of a free-trade association. Acceptance by the EFTA countries of the Treaty of Rome would require a radical change in the character of intra-member relationships now maintained under the EFTA. In the more remote event the EFTA countries should join their EEC counterparts in some form of a free-trade association, the new arrangement might provide a basis for a broader system of trade collaboration that conceivably could include the East European countries, the United States, Canada, Australia, New Zealand, or Japan.

It appears, therefore, that EFTA will continue to function as an independent organization, while at the same time the members continue their efforts to join the EEC. As such, EFTA's main internal objective will be to make intra-area trade completely free of any restrictions. Efforts in the future will most likely seek to complement the goals already attained by the removal of intra-regional nontariff and non-quota barriers to trade; these might include stringent safety and health provisions, complicated registration procedures for products, differing industrial standards and patents. The EFTA countries may also seek to establish uniform rules of competition. A number of residual import duties and quotas no doubt will be reexamined and possibly eliminated; measures will be sought to expand intra-EFTA trade in agricultural and fisheries products. EFTA might even choose to broaden

its scope of activities; a number of authorities in the EFTA countries have recently urged that the Association should consider undertaking area-wide economic activities not provided for in the Stockholm Convention but similar to some undertaken by the EEC--e.g., the organization of integrated capital and labor markets and the harmonization of fiscal policies.