

UNITED STATES TARIFF COMMISSION

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OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

25TH REPORT

1973

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TC Publication 708

**UNITED STATES TARIFF COMMISSION**

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**Address all communications to  
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TRADE AGREEMENTS PROGRAM

25th Report  
1973

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

Washington  
1974



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## INTRODUCTION

This report is the 25th issued by the United States Tariff Commission on the Operation of the Trade Agreements Program. It coincides with the 25th anniversary year of the General Agreement on Tariffs and Trade. In recognition of both of these anniversaries this report includes a brief historical background on the Trade Agreements Program, the General Agreement, and the relationship of the Program to developments in some of the more important regions to the United States for its international trade. However, the report concentrates on developments in calendar year 1973.

Nineteen seventy-three was an unusual economic year in many respects. World output rose by an unprecedented eight percent in 1973, compared to an annual average growth rate of 5.5 percent for the decade ending in 1971. This expansion was remarkable in that it was short, generally ending by mid-1973, although it was of such vigor that its influence was clearly evident in annual statistics. The expansion was broadly based and, in a number of countries, aggregate demand outdistanced the physical capacity to produce more goods. To some extent, increasing shortages were a contributing factor in the ebbing of the boom.

An unusually high rate of inflation accompanied the boom of 1973. The rate of increase in consumer prices in OECD countries amounted to 7.7 percent--more than double the average annual rate for the decade ending in 1971.

This 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. It was prepared principally by Anton Malish, Joel Harteker, William Layher, Cecilia Klein, Michael Youssef, and Susan Davis, of the Office of Economic Research of the United States Tariff Commission.

## CHAPTER 1

### U.S. ACTIVITIES RELATING TO THE TRADE AGREEMENTS PROGRAM

#### The Trade Agreements Program

The international trade agreements concluded under the Trade Agreements Act of 1934, 1/ under 11 extensions and amendments of that act, and under the Trade Expansion Act of 1962 make up the trade agreements program. Thirty-two separate agreements were negotiated with 29 different countries prior to the conclusion of the General Agreement on Tariffs and Trade (GATT) in 1947. The GATT represented the first U.S. multilateral trade agreement. Since that first multilateral negotiation, which resulted in the General Agreement itself and the first round of concessions, five additional major multilateral negotiating rounds have taken place under the aegis of the General Agreement on Tariffs and Trade to lower international trade restrictions. The President's authority to engage in multilateral negotiations for reduction in rates of duty terminated July 1, 1967, when the congressional delegation under section 201 of the Trade Expansion Act of 1962 expired. Thus, no new agreements under the trade agreements program have been negotiated since that time. The President, however, would regain authority to proclaim modifications in rates of duties and to enter into agreements

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1/ Although known as the Trade Agreement Act, that provision is technically section 350 of the Tariff Act of 1930, as amended.

to reduce trade barriers under the trade agreements program if the proposed Trade Reform Act of 1974 becomes law.

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

#### Status of the program in 1973

During 1973, five of the bilateral agreements negotiated under the Trade Agreements Act of 1934 as amended and extended continued in force. For three of these, El Salvador, Honduras, and Paraguay, the schedules of tariff concessions have been terminated for at least 10 years and only general provisions concerning items such as most-favored-nation treatment remain. The schedules of tariff concessions have not been terminated in the agreement with Argentina, but they have been rendered obsolete by subsequent concessions in the General Agreement on Tariffs and Trade. Most of the trade agreement with Venezuela was terminated in 1972; however, the most-favored-nation provision remains in force and the U.S. tariff concessions on crude oil (not incorporated into the U.S. schedule of concessions under the GATT) remained in force until May 1, 1973, when, by a unilateral action, the President suspended all duties on petroleum and petroleum products. A preferential bilateral agreement with Cuba still exists but it has not been applied since 1962. If normal trade relations are re-established with Cuba, that agreement may again become effective.

Through the GATT, now the primary vehicle for carrying out the trade agreements program, the United States participates in a trade agreement relationship with 98 countries which together with the United States account for more than 80 percent of total world trade.

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

The U.S. trade agreements program and implementing legislation provide safeguarding arrangements which permit tariff concessions to be withdrawn or imports otherwise adjusted. During 1973, U.S. action under these arrangements involved use of procedures and criteria for implementing so-called "escape-clauses" and use of the national security provision (section 232) of the Trade Expansion Act. <sup>1/</sup> In addition, domestic adjustment assistance may be provided to injured firms or unemployed groups of workers.

The escape clause.--The first instance of U.S. inclusion of an escape clause in a trade agreement occurred in the Mexican Trade Agreement of 1943. Executive Order 9832 (February 25, 1947) provided for incorporation of an escape clause in every trade agreement entered into thereafter, and an escape clause was incorporated into the GATT as Article XIX. The Trade Expansion Act sets the domestic statutory procedures and criteria for modification or withdrawal of trade agreement concessions.

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<sup>1/</sup> An escape clause provides, in the sense such term is used in this report, that any party to a trade agreement may suspend or modify any concession made therein if the article on which the concession was granted enters in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles.

Sections 351 and 352 of the Trade Expansion Act empower the President to adjust rates of duty or to negotiate orderly marketing agreements to prevent or remedy serious injury to the domestic industry producing articles like or directly competitive with the imported articles. Before the President may take any action under the escape clause, an investigation is made by the Tariff Commission to determine whether as a result in major part of trade agreement concessions an article is being imported in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry (section 301(b)). An affirmative determination is required before the President may provide relief. In 1973 the Tariff Commission completed four such escape clause investigations.

Escape clause investigations, 1973

Investi- gation	Article	Date complete	Result
TEA-I-25	Brass Wind Musical Instruments and Parts Thereof-----	January 26	Tie - 3-3
TEA-I-26	Men's and Boys' Neckties-----	January 18	Discontinued
TEA-I-27	Ball Bearings-----	July 30	Aff. 3-1; Neg. 3-1
TEA-I-28	Ferroalloys-----	June 28	Discontinued

Source: U.S. Tariff Commission.

In the brass-winds investigation, the Commission was equally divided in its determination and the President accepted the negative finding as the finding of the Commission. The Commission's determination in the ball bearing investigation was affirmative with respect to some ball bearings but negative with respect to others. The President requested more information before taking action on ball bearings and, consequently, the Tariff Commission initiated a supplemental investigation under section 351(a)(4), which was not completed in 1973. The neckties and ferroalloys investigations were discontinued without prejudice at the request of the petitioners. Hence, no new escape actions were undertaken in 1973.

In February, the Tariff Commission submitted its third annual review of a 1970 escape clause action in pianos. Reviews of escape clause actions are required under section 351(d)(3) of the Trade Expansion Act. As a result of the review, on February 20, 1973, the President, in Proclamation 4198, again extended for one year increased duties on pianos which were scheduled to expire February 21, 1973.

Safeguarding national security.--On May 1, 1973, the 14 year old Mandatory Oil Import Program (MOIP), which had provided for quotas on petroleum and petroleum products, was terminated. Petroleum imports were the only imports restricted under the national security provisions of section 232 of the Trade Expansion Act of 1962. The Mandatory Oil Import Program was instituted when world oil prices were lower than domestic prices. After 1970, domestic production reached its maximum level at existing petroleum prices and the import program underwent a

series of modifications to permit increased imports to satisfy rising demand. Each modification attempted to refine the allocation system or permitted greater imports of petroleum. Finally, Presidential Proclamation 4210, effective May 1, 1973, terminated the quantitative restrictions, established an upward escalating license fee system together with a declining fee-free allotment for imports of petroleum and petroleum products, and suspended the U.S. tariffs-- both the full rates applicable to communist countries and the trade agreement rates negotiated with Venezuela and in the GATT--on petroleum and petroleum products. Later, Presidential Proclamations 4227 of June 19, 1973, and 4317 of September 27, 1974 were issued to revise certain definitions and make other changes in Proclamation 4210. One such change in Presidential Proclamation 4227 accorded a preferential treatment to motor gasoline and finished products from Canada. For these items the maximum fee will not be reached until 1980, whereas for other products the maximum will be reached in 1975.

Under the old program, imports were restricted by assigning quota allocations to individual companies, based on the amount of domestic crude oil refined by each company in the past. This basis has been retained to allocate fee-free allotments in the new license fee system. The fee-free portion of total imports is scheduled to decline each year until it is eliminated in 1980. However, to encourage refinery construction, new refining capacity coming on stream will also receive a fee-free allocation. Under the fee system, anyone willing to pay the fee can import petroleum.



As the Tariff Commission noted in a report prepared for the Committee on Finance, U.S. Senate, the license fee system has the incidence of and is in principle a customs duty. <sup>1/</sup> The license fees, like most of the suspended tariffs, are specific rates. While the weighted average rate of duty on all petroleum and petroleum products was 7 to 8 cents per barrel, the weighted average for the fee system as it reaches its published maximum is expected to be about 40 cents per barrel. In terms of the current supply and price of crude oil, however, the license-fee does not have the effect of restricting imports.

Presidential Proclamations establishing the new system cite the authority vested in the President by section 232 of the Trade Expansion Act. In addition to the recognition in domestic legislation that actions taken under the trade agreements program could impair the national security, the GATT itself provides a broadly interpreted security exception (Article XXI) that nothing in the Agreement prevents a party from taking any action which it considers necessary for the protection of its "essential security interests".

Adjustment assistance.--The same section of the Trade Expansion Act that established a procedure for providing industry relief from injury due to trade agreement concessions also provided, under the same or essentially the same criteria, for adjustment assistance to be made available to firms injured (section 301(c)(1)) or groups of workers

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<sup>1/</sup> U.S. Tariff Commission (hereafter, USTC), World Oil Developments and U.S. Oil Import Policies, Oct. 1973.

unemployed (section 301(c)(2)) as a result of trade agreement concession-induced imports. Adjustment assistance, however, is a purely internal program providing for technical, financial, or tax assistance to injured firms and allowances and training to displaced workers. Consequently, trade agreement concessions are not disturbed when such assistance is provided.

During 1973, the Tariff Commission completed nine such investigations involving requests from individual companies for adjustment assistance. Three affirmative or tied decisions resulted. In tied adjustment assistance cases, the President has usually found the affirmative determination to be the determination of the Commission. In addition, the Commission completed 54 worker investigations--the largest number since 1971. Affirmative or tied determinations resulted in 17 cases.

#### Trade Agreements Outside the Trade Agreements Program

The United States has also entered into trade agreements which, while making provisions for reciprocal tariff concessions, are based on separate domestic implementing legislation. Such agreements vary in commercial importance. For example, total value of U.S. imports from the Philippines, which under the terms of the Philippine trade agreement were accorded a tariff preference, amounted to \$663 million in 1973. The value of imports of automotive products entered from Canada under the duty-free provisions of the Automotive Products Trade Act of 1965 was \$6 billion in 1973.

### The Philippine Agreement

As authorized in the Philippine Trade Act of 1946 and the Philippine Trade Agreement Revision Act of 1955, the United States entered into a bilateral trade agreement with the Republic of the Philippines that provided for a period of duty-free treatment ending in 1956, followed by a schedule of progressively increasing duties until 1974, when tariffs reached most-favored-nation levels. The progressive rate schedule is shown below:

U.S. Philippine tariffs as a percent of most-favored-nation tariffs

Year	U.S. rate on Philippine articles Percent	Philippine rate on U.S. articles Percent
1956-----	5	25
1959-----	10	50
1962-----	20	75
1965-----	40	90
1968-----	60	90
1971-----	80	90
1974-----	100	100

Source: Trade Barriers, U.S. Tariff Commission 1974.

The most-favored-nation rate of duty became applicable on January 1, 1974, to all but a few Philippine products imported into the United States, and on these few products the rate rose only to the level of the preferential Cuban rate. On July 4, 1974, the preferential rates on these products also terminated.

Canadian Automobile Agreement

On January 16, 1965, the United States and Canada concluded an agreement that provided for duty-free treatment of specified new motor vehicles and original equipment parts imported from the United States by Canadian manufacturers. The United States pledged to seek enactment of legislation authorizing duty-free entry into the United States of certain Canadian motor vehicles and original equipment parts. The necessary implementing legislation--"the Automotive Products Trade Act of 1965"--was passed on October 21, 1965, and the President proclaimed the entry into force of the necessary tariff modifications retroactive to January 18, 1965. In recognition of Canada's smaller and higher-cost automotive industry, certain restrictive features, intended to be temporary and transitional, on Canadian imports of motor vehicles and parts were included in the Agreement. For example, only vehicles imported by manufacturers into Canada can be imported duty-free. In addition, Canadian motor vehicle manufacturers were required to increase the Canadian share of total production value in order to be permitted duty-free importation of vehicles and parts.

Prior to the Agreement all automobiles imported into Canada were liable to a 17.5 percent ad valorem duty, while all automobiles imported into the United States were subject to 6.5 percent ad valorem. As a result of the Agreement, a North American free trade area was created for the products covered. Since U.S. duty-free treatment of motor vehicles and original equipment parts extended only to those entered

from Canada, it would have violated Article I of the GATT. The U.S. consequently obtained a waiver from the GATT on December 20, 1965, to implement the agreement.

In 1973 the agreement entered its ninth year of operation. During that year Canadian-United States two-way trade in automotive products reached nearly \$11 billion, a level 14 times as great as the 1964 level. Motor vehicle trade, which does not include the vehicle parts component of automotive products covered by the agreement, grew at an average annual rate of 29 percent during the first nine years of the agreement, a sharp contrast to the 6 percent rate that occurred during the nine years (1955-64) immediately preceding the agreement.

The influence of the agreement on two-way motor vehicle trade is evident from a comparison of U.S.-Canadian automotive trade with that of all countries for the 9 year periods before and after the agreement. Total U.S. motor vehicle trade grew at an average annual rate of 11 percent for the 9 years preceding the agreement and at 19 percent for the 9 years from 1964 to 1973. Thus trade with Canada grew at a lower rate than total motor vehicle trade before the agreement, and grew at a higher rate than total trade after the agreement as shown below.

Trade growth before and after the Canadian  
Automobile Agreement

Year	: U.S. motor vehicle: : trade with Canada :		: Total U.S. motor : vehicle trade	
	: Two-way : trade	: Average : annual : growth : rate	: Two-way : trade	: Average : annual : growth : rate
	: <u>Million</u> : <u>dollars</u>	: <u>Percent</u>	: <u>Million</u> : <u>dollars</u>	: <u>Percent</u>
1955-----	372	-	1,395	-
1964-----	645	6	3,421	11
1973-----	6,276	29	16,009	19

Source: "Automotive Trade Statistics," U.S. Tariff Commission, 1974, and U.S. Foreign Trade, U.S. Department of Commerce, 1955, 1969.

The U.S. balance in automotive trade with Canada has moved from a substantial surplus to a substantial deficit since 1965, as shown in the table below:

Automotive products: U.S. imports for consumption  
from Canada, and U.S. exports of domestic mer-  
chandise to Canada, 1964-73

(Millions of U.S. dollars)

Year	: U.S. imports : from Canada	: U.S. exports : to Canada	: Net surplus (+) : or deficit (-) : in trade
1964 1/----	111	667	+555
1965 1/----	257	914	+657
1966 1/----	929	1,324	+395
1967 1/----	1,619	1,798	+179
1968 1/----	2,633	2,425	-209
1969 1/----	3,509	2,802	-707
1970-----	3,608	2,514	-1,095
1971-----	4,650	3,275	-1,375
1972-----	5,302	3,980	-1,322
1973-----	5,993	4,763	-1,230

1/ Partly estimated.

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

U.S.-Canadian automotive trade statistics are complicated by the fact that the value of U.S. imports of vehicles and parts from Canada, as reported by the U.S. Customs Service, differ considerably from actual transaction values. Moreover, U.S. export statistics are not as finely detailed as Canadian import statistics. When adjustments for these differences are made, such as they are in the President's annual report on the operations of the Automotive Products Trade Act, the results are as shown below:

U.S.-Canada trade in automotive products, 1964-73  
U.S. imports - Canadian imports

(Millions of U.S. dollars)			
Year	U.S. imports	U.S. exports (adjusted Canadian import data)	Net surplus (+) or deficit (-) in trade
1964-----	76	640	+563
1965-----	231	889	+658
1966-----	819	1,375	+556
1967-----	1,406	1,889	+483
1968-----	2,274	2,634	+360
1969-----	3,061	3,144	+ 83
1970-----	3,132	2,936	-196
1971-----	4,000	3,803	-197
1972-----	4,595	4,496	- 99
1973-----	5,301	5,656	+355

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

In 1973, some 96 percent of the value of imports shown in the table on page 12 were those duty-free as provided in the APTA. The large deficit originates mainly in the trade in passenger automobiles, and to a lesser extent from trade in snowmobiles, which in the Tariff Schedules of the United States (TSUS) are classified as a motor vehicle.

It is the Tariff Commission's opinion that the value of U.S. imports of vehicles and parts from Canada as reported by the U.S. Customs Service (page 12) represents the best figure available to show value for trade purposes. On the other hand, the transactions value of U.S. imports from Canada, as reported by the automobile companies (page 13), is a better expression of the money flows in a balance-of-payments context.

### International Textile Agreements

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

#### Long-Term Cotton Textile Agreement

From 1962, until it expired on December 13, 1973, the Long-Term Arrangement regarding International Trade in Cotton Textiles (LTA), provided the multilateral basis for regulation of international trade



in cotton textiles. The LTA, originally to have been in effect for a five-year period (it was subsequently extended three times) was negotiated under the sponsorship of the General Agreement on Tariffs and Trade. Countries that participated in the LTA included the principal cotton textile importing and exporting nations. GATT membership was not required. The United States based its participation on section 204 of the Agricultural Act of 1956, as amended.

The United States regulated imports of cotton textiles by resort to Article 3, 6(c), and 4 of the LTA. Article 3 permitted the unilateral imposition of restraints by participating countries when such imports caused or threatened to cause market disruption. Article 6(c) required, essentially, that disruptive imports from nonparticipants should not be treated more favorably than those from participants and thus, the United States applied the procedures of Article 3 against nonparticipants. Article 4, on the other hand, permitted the negotiation of mutually acceptable bilateral agreements limiting textile trade. Early in the life of the LTA the United States relied mainly on Article 3 restraints, but, by the expiration of the agreement in 1973, emphasis had shifted to Article 4 bilateral agreement limitations. In addition, some of these bilateral agreements in later years began to cover exports of noncotton textiles to the United States. The first such bilateral agreement covering wool and man-made fiber textiles was negotiated with Malaysia in 1970; by 1973 the number of countries had been expanded to seven, representing the principal textile exporters in the Far East.

U.S. textile imports from 37 countries were subject to restraints in 1973. All of the restraints were in force during the entire year

except for those with Turkey, where restraints expired after the first half of the year, Egypt, where restraints expired after the third quarter, and Singapore, where wool and manmade fiber textiles were regulated only during the last quarter of the year. The table on page 17 lists each textile restraint level for each country with which the United States had a bilateral textile agreement in 1973. Since restraint levels had increased in successive agreement years and most agreement years did not coincide with calendar years, restraints from two agreement years were prorated to obtain most of the country restraint levels shown in the table. Cotton textile import restrictions totaled 1,977 million equivalent square yards in the year 1973, while imports from the 37 countries subject to restraints were 1,433 million equivalent square yards. Therefore, only approximately 70 percent of the cotton textile import restraints were filled in 1973.

In an effort to combat inflationary price rises in cotton textiles, the United States offered all the countries with which it had bilateral trade agreements a one time five percent increase in restraint levels during the then current agreement year on October 31, 1973. On December 2, 1973, the United States announced that Brazil, Republic of China, Colombia, El Salvador, Haiti, Hong Kong, India, Korea, Malaysia, Mexico, Nicaragua, Pakistan, Peru, Romania, Singapore, and Thailand had accepted the five percent increase offer. Although the overall cotton restraint was not filled in 1973, the five percent increase arrangement permitted additional imports from any individual country which may have filled its restraint level.

Restraint Levels for Textile Imports into the United States, 1973  
(by country of origin)

(In million equivalent square yards)

Country	Cotton textile restraint	Wool textile restraint	Manmade fiber textile restraint
Barbados-----	0.49	-	-
Brazil-----	83.76	-	-
British Honduras----	2.84	-	-
China, Republic of--	99.22	4.81	523.43
Colombia-----	43.05	-	-
Costa Rica-----	1.73	-	-
Czechoslovakia-----	2.99	-	-
Egypt-----	43.41	-	-
El Salvador-----	5.92	-	-
Ghana-----	.45	-	-
Greece-----	11.73	-	-
Haiti-----	4.78	-	-
Hong Kong-----	485.49	40.50	228.91
Hungary-----	4.78	-	-
India-----	122.79	-	-
Italy-----	1.80	-	-
Jamaica-----	29.06	-	-
Japan-----	369.35	43.37	1,060.50
Korea-----	51.50	12.89	382.79
Macao-----	3.10	1.40	.50
Malaysia-----	22.42	.10	5.92
Malta-----	17.02	-	-
Mauritius-----	.11	-	-
Mexico-----	106.44	-	-
Nicaragua-----	5.10	-	-
Pakistan-----	98.86	-	-
Peru-----	5.32	-	-
Philippines-----	63.17	-	-
Poland-----	7.35	-	-
Portugal-----	125.19	-	-
Romania-----	9.92	-	-
Singapore-----	49.45	.82	31.00
Spain-----	54.02	-	-
Sri Lanka-----	1.08	-	-
Thailand-----	15.56	-	-
Turkey-----	2.03	-	-
Yugoslavia-----	25.75	-	-
Total-----	1,977.05	103.89	2,233.06
1973 actual imports--	1,397.73	39.63	1,712.93

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

The overall levels of textile restraints were not reached in 1973 as shown by a comparison of total restraints to actual imports.

#### Multifiber Textile Arrangement

In June 1972, GATT established a Working Party on Textiles to prepare a factual document on the various elements influencing international textile trade. In December 1972, that Working Party published a voluminous document covering virtually every aspect of textile trade. This document then served as the basis for a further study, undertaken in April 1973, to discover the problem areas and to determine alternative multilateral solutions. The Working Party evolved into a Textile Negotiating Group and, on December 20, 1973, the Arrangement Regarding International Trade in Textiles (The Multifiber Textile Agreement) was finalized. This arrangement is to serve as the multilateral basis to regulate world trade in manmade fiber, wool, and cotton textiles and is to be effective from January 1, 1974, for a four-year period. Representatives from 50 countries made up the Textile Negotiating Group which developed the new agreement. The arrangement was accepted by the United States on December 28, 1973, to become effective April 1, 1974. The details of the new agreement are more fully discussed in a later chapter of this report. It is expected that the United States will renegotiate its previous bilateral agreements to bring them into harmony with the new arrangement.

The legal authority to enter into trade restraint agreements on textiles is found in section 204 of the Agricultural Act of 1956, as amended. This section does not require submission of the restraint arrangements to Congress for approval.

## International Commodity Agreements

International commodity agreements, several of which have United States participation, use two principal mechanisms--export quotas and buffer stocks--to regulate markets and stabilize prices. The export quota system is an advance agreement among producers to divide a market in accordance with past production levels. The buffer stock approach attempts to modulate commodity price changes by making purchases to be stored as a buffer stock during periods of low prices and by selling from the buffer stock when prices are high.

The primary factor in international commodity markets in 1973 was an extraordinary high level of world demand which forced the prices of many commodities to unprecedented highs. Frequently, economic expansion in one area of the world is offset at least partially by contraction in other areas; however, in 1973 most areas of the world experienced simultaneous expansion. In addition, adverse crop conditions and producer cartel arrangements restricted supplies. The accompanying pressures made for unusual price increases. The following table illustrates the price increases that occurred in several important commodities subject to international commodity agreements.

Prices of Selected Commodities, January and December 1973

Commodity	: January : price	: December : price	: Increase
	: <u>U.S.</u> : <u>dollars</u>	: <u>U.S.</u> : <u>dollars</u>	: <u>Percent</u>
Coffee, Brazilian-----lb--:	.58 :	.71 :	22
Cocoa-----lb--:	.37 :	.60 :	62
Sugar, U.S. price-----lb--:	.09 :	.11 :	22
Wheat, U.S. average-----bu--:	2.40 :	4.80 :	100
Tin-----lb--:	1.78 :	2.85 :	60
	:	:	:

Source: "Coffee Intelligence", "Sugar Reports", "Wheat Situation", "American Metal Market", and Foreign Agricultural Service.

### International Coffee Agreement

The International Coffee Agreement of 1968 chiefly utilized an export quota mechanism to dampen the coffee price fluctuations that existed when the price of coffee was determined by the free market. However, in December 1972, the governing body of the agreement, the International Coffee Organization, failed to establish export quotas for 1973. Subsequently, the agreement expired in September 1973, but it was replaced by the International Coffee Agreement reached in London in April of the same year. The new agreement, accepted by the United States on November 30, 1973, contained no provisions for export quotas, indicator prices, certificates of origin, and other control mechanisms. It also dissolved the World Coffee Promotion Committee. The new agreement provides for little more than a center for compiling and disseminating information on coffee markets.

In place of an effective international agreement, the four biggest coffee producers (Colombia, Brazil, Angola, and the Ivory Coast) formed a cartel--cafe mundial--to control export prices. The average price of a pound of green coffee did climb from 58 to 71 cents during 1973, but the extent to which the cartel, or a frost that halved Brazil's coffee harvest, was responsible is indeterminate.

### International Wheat Agreement

The 1971 International Wheat Agreement (Wheat Trade Convention) was scheduled to terminate in June 1974. The agreement had not been equipped with the regulatory authority possessed by its predecessor, the Wheat Trade Convention of the International Grains Arrangement, of 1967.

Several events--including currency exchange rate revisions, crop failures in 1972, and the 1973 commodities boom--prevented the negotiation of substantive provisions during the life of the 1971 agreement. The agreement has served as a forum and provided for the collection and exchange of wheat trade data. One facet of the agreement, the food aid convention, pledged producing nations to supply food aid to the developing countries.

Monthly wheat prices to U.S. farmers rose from \$2.38 to \$4.78 per bushel in 1973. These prices contrasted sharply with the loan rate to farmers of \$1.25. World wheat trade for the crop-year ending June 1973 increased to 72.3 million metric tons from 56 million metric tons in the preceding crop-year. However, there was no significant further increase in trade for the crop-year ending June 1974. The following table shows a decline in world production in the 1972-73 crop-year which, in turn, led to a decline in wheat stocks as world consumption increased six percent in that year.

#### Wheat production and trade

(In millions of metric tons)

Item	Crop year		
	1971-72	1972-73	1973-74
World production-----	342.5	334.8	367.4
World trade-----	56.0	72.3	72.9

Source: "Wheat Situation", U.S. Department of Agriculture, 1974.

### International Sugar Agreement

The quota provisions of the International Sugar Agreement expired on December 31, 1973. Quota provisions of the old agreement had covered only a small part of the sugar trade; and there are no quota provisions in the new agreement, worked out at the end of 1973, because producers and consumers could not agree on prices. The new agreement provides an administrative framework with no supply or price controls. The United States is not a participant in the International Sugar Agreement, but has attended meetings as an observer. The United States regulated its sugar imports in accordance with the Sugar Act of 1948. Under the Sugar Act, Congress provided for the assignment of quotas to foreign countries exporting sugar to the United States. These quotas have held the volume of imports to a little less than half of U.S. consumption. In 1973, imports of sugar accounted for 46 percent of domestic consumption and amounted to 5,333,000 short tons (raw). World sugar prices exceeded domestic sugar prices during most of 1973.

### Voluntary Export Restrictions

The United States has periodically negotiated restrictions with foreign governments (or foreign interested parties) to voluntarily limit the kinds or amounts of certain exports destined for the United States. For example, Japan had for a time imposed voluntary controls over cotton textile items destined for the United States. Such voluntary controls are usually deemed preferable to controls imposed as a result of U.S. escape-clause actions or to quantitative action



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

#### Voluntary restraints on meat

Imports of beef, veal, mutton, and goat meat are subject to limitations under the Meat Import Act of 1964 (P.L. 88-482). The annual limitation is determined by the Secretary of Agriculture 1/. In order to avoid invoking import quotas under the Meat Import Act, voluntary restraints had been instituted with 14 countries exporting meat to the United States. However, in a policy reversal, these restraints were suspended in mid-1972 and throughout 1973 in an effort to combat rising meat prices in the United States. With the voluntary restraints suspended, any rise in meat imports threatened to trigger the import-limiting provisions of the Meat Import Act.

In accordance with the act, the Secretary of Agriculture estimated the 1973 meat import limitation at 1,047 million pounds. Since potential imports exceeded 110 percent of the limitation, the act required the President to limit, by proclamation, the total quantity of meat imported in 1973. The act also provided that the President

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1/ The Act provides that meats covered by the tariff descriptions in items 106.10 and 106.20 may be made subject to an absolute quota by Presidential Proclamation should estimated imports equal or exceed 110 percent of the adjusted base quota. The base quota is adjusted in proportion with the change in average annual domestic commercial production (estimated for the upcoming year plus the 2 previous years) compared to that during 1959-63, inclusive.

could suspend the import quantity limit if he determined that such action was required by overriding economic or national security interests of the United States after having considered the importance to the nation of the economic well-being of the domestic livestock industry.

By Presidential Proclamation 4183 on January 29, 1973, the President imposed a quota of 1,047 million pounds on meat imports, but he immediately suspended the quota because of overriding economic or national security interests.

#### Voluntary steel restrictions

In 1972, steel producers' associations in Japan, the European Community, and the United Kingdom agreed in letters to the U.S. Secretary of State to limit steel exports to the United States for a three-year period ending in 1974. These countries accounted for about 80 percent of the steel products imported into the United States in 1973. As shown in the following table, the European Economic Community-United Kingdom combination exceeded its quota in 1972 but not in 1973. Japanese steel exports fell short of quotas in both 1972 and 1973.

#### Steel quotas and imports into the United States

(In thousands of net tons)

Country	1972		1973	
	Quota	Imports	Quota	Imports
European Economic Community-	:	:	:	:
United Kingdom-----	6,498	7,779	8,094	6,510
Japan-----	8,014	6,440	6,660	5,637
Total-----	14,512	14,219	14,759	12,147

Source: "Steel Import Data," U.S. Department of Commerce, July 1974.

Although the overall restraints were not surpassed in 1973, most of the specialty steel limitations within the overall restraints were exceeded as illustrated below:

Specialty steel quotas and imports, 1973

Item	(net tons)			
	European Economic Community-United Kingdom		Japan	
	Quota	Imports	Quota	Imports
Stainless steel-----	24,808	29,929	75,886	47,772
Tool steel-----	517	3,210	1,009	2,660
Other alloy steel-----	113,968	123,471	156,426	166,766

Source: "Steel Import Data," U.S. Department of Commerce, July 1974.

In 1972, a consumer group filed a court suit charging inter alia, that the voluntary arrangement constituted a regulation of commerce within the meaning of article 1, section 8, clause 3 of the U.S. Constitution, and within the meaning of sections 301 and 352 of the Trade Expansion Act of 1962, and as such was in excess of the authority of the foreign defendants and the 1972 U.S. Government defendants named, including the Secretary of State and the parties who sent the letter to the Secretary. The court ruled that the voluntary arrangement was not exempt from the antitrust laws, could not be exempted by the Executive, but could be entered into outside the procedures provided in the TEA so long as the arrangement did not violate legislation regulating foreign commerce, such as the Sherman Act. Both parties appealed the decision and the matter was not decided by the U.S. Court of Appeals for the District of Columbia before the end of 1973.

Devaluation of the dollar and the worldwide pressure on steel supplies helped to ease foreign competition in the U.S. steel market in 1973, causing overall imports to fall short of the quota. The U.S. steel industry operated generally at capacity in 1973, which, in turn, lessened the industry's concern with imports and weakened the interest in renewing the voluntary steel restraints.

#### Section 22 of the Agricultural Adjustment Act

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

In 1973 the Tariff Commission instituted nine investigations in response to Presidential requests under Section 22 and reported its findings to the President for seven of these investigations. Two investigations were pending at the end of the year. Each of the nine

investigations was directed at eliminating or reducing import restrictions previously imposed under section 22. The worldwide commodities boom and high prices of 1973 led the United States to seek a reduction in import barriers in order to attack domestic price inflation by increasing supplies with added imports.

Presidential Proclamation 4177 of December 30, 1972, and subsequent similar proclamations were typical of the section 22 actions taken in 1973. In the proclamation, the President stated that the Secretary of Agriculture found that additional quantities of nonfat dry milk could be imported for a temporary period without rendering ineffective, or materially interfering with, the price-support program conducted by the Department of Agriculture for milk or reducing substantially the amount of products processed in the United States from domestic milk. The President asked the Tariff Commission to investigate the matter as required by section 22, and the Tariff Commission subsequently recommended that these actions would not interfere with price supports. The Secretary of Agriculture had reported that an emergency existed and that the quantitative limitation should be increased without awaiting the Tariff Commission's findings. Therefore, the President proclaimed that 25 million pounds of nonfat dry milk under item 115.50 of the Tariff Schedules of the United States could be entered from December 30, 1972, to February 15, 1973, under the emergency provisions of section 22. The 25 million pounds was an addition to the existing annual nonfat dry milk quota. No individual importer was permitted to enter more than 2.5 million pounds of the additional quantity. Three more proclamations

followed, each allowing an emergency increase to the 1973 nonfat dry milk import quota. Proclamation 4216 allowed 60 million pounds between May 11, 1973, and June 30, 1973; Proclamation 4230 allowed 80 million pounds between July 19, 1973, and August 31, 1973; and Proclamation 4238 allowed 100 million pounds between August 29, 1973, and October 31, 1973. An added provision in Proclamation 4238 also allocated the quota increase to exporters as shown below:

Country allocations of Nonfat Dry Milk quota increase,  
August 29, through October 31, 1973

<u>Supplying country</u>	<u>Quantity</u> <u>(Millions of</u> <u>pounds)</u>
European Economic Community-----	40
Australia-----	25
New Zealand-----	25
Canada-----	10

On July 18, 1973, the President asked the Tariff Commission to review nonfat dry milk quotas and quotas for feeds containing milk or milk derivatives for 1973 and future years. The Tariff Commission was asked to find whether import quotas on these items could be suspended or increased without interfering with the milk price support program.

After making an investigation, the Tariff Commission found that the quotas for nonfat dry milk and milk derivative feeds could not be suspended; however, the Commission did find that for 1974 an additional 265 million pounds of nonfat dry milk could be imported, in addition to imports of 2 million pounds permitted under the existing annual quota.

The Commission recommended that the additional quota be allocated equally among Australia, Canada, the European Community, and New Zealand. The President took no action on these findings in 1973.

Section 22 actions were also undertaken for cheese. In proclamation 4213 on April 25, 1973, the President announced an emergency increase of 50 percent in the annual quotas for certain cheeses, effective between April 25, 1973, and July 31, 1973, and asked the Tariff Commission to conduct an investigation. Upon completion of its investigation, the Commission recommended that these additional imports did not interfere with Department of Agriculture programs. In addition, certain Canadian cheddar was permitted to enter without license requirements during the period. Import licenses were required for the remaining increase.

Another section 22 activity concerned butter. Presidential Proclamation 4253 authorized quota additions of 56 million pounds of butter and 23 million pounds of butter oil under the emergency provisions of section 22 without prior Tariff Commission investigation. After completing its investigation, the Tariff Commission recommended that these quota additions would not interfere with price supports. These quota additions were established for the period from November 1, 1973, to December 31, 1973, and the butter portion was allocated with 29 million pounds for New Zealand, 25 million pounds for the European Community, and 3 million pounds for other suppliers.

Cotton was also subject to section 22 action. On October 31, 1973, the President asked the Tariff Commission to investigate whether the import quotas on certain cotton, cotton waste, and cotton products could be suspended as recommended by the Secretary of Agriculture. The Tariff Commission reported to the President its findings that import quotas on certain cotton, cotton waste, and cotton products could be temporarily suspended without "interfering with" the program for cotton of the Department of Agriculture.

Finally, wheat restraints were also reevaluated. On October 31, 1973, the President asked the Tariff Commission for findings and recommendations as to whether the import quotas on wheat and milled wheat products could be suspended without rendering ineffective Department of Agriculture programs for wheat or without causing reduced U.S. wheat milling. In an interim report, the Tariff Commission unanimously recommended that the President suspend the import quotas on wheat and milled wheat products until June, 1974.

The following table summarizes section 22 investigations made in 1973.



Tariff Commission Recommendations under Section 22  
Investigations, 1973-74

Article	Investigation instituted	Report to President	Recommendation
Nonfat dry milk-----	January	February	25 million pound quota addition.
Cheeses and cheese substitutes-----	March	April	Quota increased 50%
Nonfat dry milk-----	May	June	60 million pound quota addition
Nonfat dry milk-----	July	August	80 million pound quota addition
Nonfat dry milk and milk feeds-----	July	December	No quota suspension, 265 million pound quota addition for dry milk
Nonfat dry milk-----	August	October	100 million pound quota addition
Butter and butter oil-----	November	December	79 million pound quota addition
Certain cotton, cotton waste, and cotton products-----	November	April 1974	Temporary suspension of quota
Wheat and milled wheat products-----	November	January 1974	Temporary suspension of quota

Source: U.S. Tariff Commission.

### Relief from Unfair Trade Practices

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

#### Antidumping Act, 1921

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

During 1973, the Treasury Department found that sales at less than fair value occurred in 28 of the antidumping complaints that it investigated. The Tariff Commission made 11 injury decisions, 2 likelihood of

injury decisions, and 9 decisions of no injury in 1973. 1/ Six decisions were pending at the end of the year. The Secretary of the Treasury issued formal findings of dumping for the 13 cases in which injury or the likelihood of injury were found and imports of the articles became liable to special dumping duties. A Treasury finding of dumping and a Tariff Commission finding of injury are prerequisites for the assessment of dumping duties. Dumping duties, however, may be avoided by a realignment of home market and export prices so as to eliminate the less than fair value differential. The following table summarizes the antidumping injury investigations made in 1973.

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

Antidumping injury investigations by the United States Tariff Commission, 1973

Merchandise and Country of origin	Date of Finding	Finding
Canned Bartlett pears from Australia-----	March 1	Injury
Roller chain from Japan-----	March 1	Injury
Collapsible baby strollers from Japan-----	March 12	Injury
Manual hoists from Luxembourg-----	March 29	No injury
Stainless steel plate from Sweden-----	May 1	Injury
Synthetic methionine from Japan-----	May 14	Injury
Impression fabric of manmade fiber from Japan-----	May 14	No injury
Printed vinyl film from Brazil-----	July 18	Likelihood of injury
Printed vinyl film from Argentina-----	July 18	Likelihood of injury
Stainless steel wire rods from France-----	July 24	Injury
Ceramic glazed wall tile from the Philippines-----	August 10	No injury
Aluminum ingot from Canada-----	August 15	No injury
Concrete reinforcing bars from Mexico-----	August 24	No injury
Electronic color separating and sorting machines from the United Kingdom-----	September 7	No injury
Steel wire rope from Japan-----	September 7	Injury
Germanium point contact diodes from Japan-----	September 26	No injury
Cold rolled stainless steel sheet and strip from France-----	October 11	No injury
Elemental sulfur from Canada-----	October 19	Injury
Papermaking machinery from Sweden-----	October 24	No injury
Polychloroprene rubber from Japan-----	October 31	Injury
Expanded metal of base metal from Japan-----	November 30	Injury
Calcium pantothenate from Japan-----	December 7	Injury
Acrylonitrile butadiene styrene type of plastic resin in pellet and powder (ABS) from Japan-----	Not completed in 1973	
Metal punching machines from Japan-----	do	
Primary lead metal from Australia-----	do	
Primary lead metal from Japan-----	do	
Iron and sponge iron powders from Canada---	do	
Racing plates from Canada-----	do	

### Countervailing Duty Statute

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

During 1973, the Treasury had 24 complaints of bounties or grants being paid under various stages of consideration. Two investigations resulted in the assessment of countervailing duties. These countervailing duties were assessed on certain tires from Canada and on certain refrigerators and freezers from Italy.

### Unfair practices in import trade

Section 337 of the Tariff Act of 1930, as amended, authorizes the President to deal with unfair methods of competition and unfair acts in the importation of articles. The Tariff Commission makes a preliminary inquiry to determine whether a full investigation is needed and whether it should recommend that the President temporarily exclude entry of the articles concerned, subject to entry under bond. If, after a full investigation by the Commission and a report to the President, a violation has been established to the President's satisfaction, he may direct that the articles concerned be excluded from entry into the United States. Twenty-four section 337 complaints were in progress in 1973.

Fourteen inquiries were begun in 1973, while four investigations and inquiries ended during the year.

An investigation on closed toe circular hosiery knitting machines was dismissed in July without a determination on its merits; an ampicillin investigation was terminated without prejudice in August; an inquiry into dual in-line reed relays was dismissed in October, and an inquiry into combination measuring tools was dismissed in November. Three preliminary inquiries--cylinder boring machines and boring bars, polytetrafluoroethylene thread joint sealing tape, and convertible game tables--were completed in 1973 and full investigations were begun for each inquiry.

## U.S. Trade with Communist Countries

Two-way trade between the United States and the communist countries grew 150 percent in 1973. The table below shows that the U.S. trade surplus with the communist countries rose to nearly \$2 billion in 1973, giving an important boost to the U.S. balance of payments in that year.

## United States Trade with East Europe, Soviet Union, and China, 1970-73

(In millions of dollars)

Year	Imports	Exports	Trade balance
1970-----	226	352	126
1972-----	354	883	529
1973-----	584	2,486	1,902

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

The trade agreement between the United States and the Soviet Union, which was announced in October 1972, still had not entered into force by the end of 1973, since the actions of the U.S. necessary to bring into force the agreement--authority for which is partly provided for in the proposed Trade Reform Act of 1973--had not been taken, due to the failure of the Trade Reform Act to be passed by Congress.

Several protocols were completed by the United States and communist countries in 1973. The first related to the possibility of establishing a United States-Union of Soviet Socialist Republic Chamber of Commerce. In June 1973, the Secretary of Commerce agreed to consult with the U.S. business community and the Minister of

Foreign Trade of the U.S.S.R. agreed to consult with Soviet foreign trade organizations on the establishment of a joint chamber of commerce to promote contacts between U.S. businessmen and Soviet foreign trade organizations.

A protocol relating to expansion and improvement of commercial facilities in Washington and Moscow was also signed in June 1973. The protocol arranged for the opening of a trade representation of the U.S.S.R. in Washington and a commercial office of the United States in Moscow sometime in 1973. In October, arrangements for the trade representation and commercial offices in Washington and Moscow were completed when the offices were opened simultaneously with the signing of a protocol. The protocol limited office staffs to 25 persons. The U.S.S.R. also accredited 10 U.S. business firms to establish offices in Moscow.

In December 1973, the United States and Romania signed a Joint Statement of Principles in which they agreed to encourage trade expansion.



## CHAPTER 2

OPERATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE  
Background of the General AgreementNegotiations and Results

On July 5, 1945, the Congress approved the fourth extension of the President's authorization under the Trade Agreements Act to enter into trade agreements. This 1945 extension was significant in that the President was authorized to decrease by 50 percent any rate of duty existing on January 1, 1945. Under the original Trade Agreements Act and the first three extensions, the 50 percent limitation applied to the rates existing in June 1934.

Anxious to take advantage of the new negotiating authority, the Acting Secretary of State gave public notice of his intention to negotiate a trade agreement with 18 nations. Negotiations began in Geneva in April 1947 and were concluded in October. Insofar as the United States was concerned, the resulting agreement was not a treaty but rather an executive agreement concluded under the authority of the Trade Agreements Act, as amended, and provisionally placed in effect, as of January 1, 1948, by Presidential Proclamation (2761-A) of December 16, 1947.

This was the first GATT negotiating round and was one of the most important in terms of the volume of trade subject to concessions--more than 45,000 items and about half of total world imports. In the end, 23 countries became charter members of GATT. At the time of its negotiation, however, the GATT was looked upon as a secondary event. A far more significant undertaking was to be the negotiation of a

charter for an International Trade Organization (ITO). This Organization would administer the complex and wide-ranging code of conduct covering international trade that was to be incorporated in its charter. In the meantime, to prevent impairment of the tariff concessions made in Geneva, the General Agreement included much of the commercial policy chapter of the proposed ITO. The ITO, however, never became operational; consequently, the General Agreement--the intermediate step to the ITO--rather than the ITO charter itself--became the principal code governing the conduct of world trade.

The General Agreement currently consists of four main parts, schedules of concessions, and annexes. Part I deals with tariffs and preferences, Part II treats with general commercial policy, and Part III considers certain procedural and related matters. A major review of the Agreement took place in 1955. Part IV, entitled "Trade and Development," entered into force in 1966. Details of the agreement are adequately covered in other sources including earlier reports on the Operation of the Trade Agreements Program. Only the contents of the Agreement and a brief analysis are included here.

#### Preamble

#### Part I

Article I.--General most-favored-nation treatment.  
 Article II.--Schedules of concessions.

#### Part II

Article III.--National treatment on internal taxation and regulation.  
 Article IV.--Special provisions relating to cinematograph films.  
 Article V.--Freedom of transit.  
 Article VI.--Antidumping and countervailing duties.  
 Article VII.--Valuation for customs purposes.

- Article VIII.--Fees and formalities connected with importation and exportation.
- Article IX.--Marks of origin.
- Article X.--Publication and administration of trade regulations.
- Article XI.--General Elimination of quantitative restrictions.
- Article XII.--Restrictions to safeguard the balance of payments.
- Article XIII.--Nondiscriminatory administration of quantitative restrictions.
- Article XIV.--Exceptions to the rule of nondiscrimination.
- Article XV.--Exchange arrangements.
- Article XVI.--Subsidies
- Article XVII.--State trading subsidies
- Article XVIII.--Governmental assistance to economic development.
- Article XIX.--Emergency action on imports of particular products.
- Article XX.--General exceptions.
- Article XXI.--Security exceptions.
- Article XXII.--Consultation
- Article XXIII.--Nullification or impairment.

### Part III

- Article XXIV.--Territorial application-frontier traffic-customs unions and free-trade areas.
- Article XXV.--Joint action by the contracting parties.
- Article XXVI.--Acceptance, entry into force and registration.
- Article XXVII.--Withholding or withdrawal of concessions.
- Article XXVIII.--Tariff negotiations.
- Article XXIX.--The relation of this agreement to the Havana Charter.
- Article XXX.--Amendments.
- Article XXXI.--Withdrawals.
- Article XXXII.--Contracting parties.
- Article XXXIII.--Accessions.
- Article XXXIV.--Annexes.
- Article XXXV.--Nonapplication of the agreement between particular contracting parties.

### Part IV Trade and Development

- Article XXXVI.--Principles and objectives.
- Article XXXVII.--Commitments.
- Article XXXVIII.--Joint action.

Annexes A to G: Relating to Article I.

Annex H: Relating to Article XXVI.

Annex I: Notes and supplementary provisions.

Protocol of provisional application.

Although the GATT is a complex document, it can be divided into general provisions and tariff concessions. The general provisions, Articles I to XXXVIII, represent a framework of rules to safeguard and supplement the tariff concessions. The general provisions also deal with procedural matters such as the geographic areas covered, the accession of new countries, the termination of obligations, consultation, administration, and other matters. The tariff concessions which each signatory undertakes to extend to all other signatories are provided in schedules annexed to the Agreement, which have been made an integral part of Part I. These schedules currently are numbered from I through LXXII. The U.S. schedule, for example, is schedule XX. These schedules list the concessionary, or "bound", rates to which contracting parties are entitled. While a party to the agreement may apply a lower rate, it may not impose a higher rate than that specified in its schedule.

The prohibition on increasing duties above the rate specified in a schedule serves to highlight the philosophy of flexibility and pragmatism characteristic of the General Agreement; for example, Article XXV:5 provides -

In exceptional circumstances not elsewhere provided for in this Agreement, the Contracting Parties 1/ may waive an obligation imposed upon a contracting party by this Agreement....

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1/ In this report the term contracting parties is capitalized when referring to the group as a whole.

The granting of waivers, therefore, plays an important role inasmuch as they can be applied not only in the modification of the schedules of concessions, but also in regard to any obligation undertaken by the signatories. Should an import restriction contrary to the provisions of the GATT be applied without the authorization of the Contracting Parties, a consultation procedure under Article XXII is provided. Finally, if any action is taken that nullifies or impairs any benefit accruing to a particular contracting party, the injured party may be authorized to suspend the application of appropriate concessions or obligations in return (Article XXIII).

In concluding the General Agreement, the Charter members to the GATT agreed to apply provisionally Parts I and III and to apply Part II to the fullest extent not inconsistent with their existing domestic legislation. Thus, the United States, for example, need not find that another contracting party's export subsidization subject to countervailing duties must cause or threaten material injury to a domestic industry (Article VI:6) since earlier U.S. countervailing authority contained no injury standard (section 303 of the Tariff Act of 1930, as amended).

#### Sponsorship of Tariff Conferences

The Geneva Conference of 1947 that brought forth the General Agreement also resulted in 123 agreements providing for tariff concessions. Subsequently, five other multilateral rounds of GATT negotiations took place: (1) Annecy (France) in 1949; (2) Torquay (England)

in 1950 and 1951; (3) the Geneva negotiations of 1956; (4) the "Dillon Round" of 1960-1962; and (5) the "Kennedy Round" of 1964-67. While these negotiations were primarily concerned with the reciprocal and mutually advantageous reduction of rates of duty, other business and negotiations were also conducted.

During the Annecy Conference, 11 new countries began negotiations with the contracting parties to accede to the Agreement, and nine acceded. The Annecy Protocol added new country schedules and added new or greater concessions to 18 of the original 20 country schedules. One hundred and forty-seven bilateral negotiations were concluded. 1/

During the Torquay Round in 1950 and 1951 four new countries acceded to the Agreement. Of particular importance to the trading partners of GATT was the accession of West Germany. Negotiations at Torquay involved those leading to new memberships, new or additional concessions among old members, and other consultations. In all, some 8,800 concessions were granted, compared to about 5,000 at Annecy. 2/

By June 30, 1953, the contracting parties to the agreement numbered 33. These included countries that were charter members and those that acceded under the Annecy and Torquay Protocols. Indonesia had become a member under Article XXVI. Four members--China, Lebanon, Liberia, and Syria--had withdrawn. 3/

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1/ USTC, Operation of the Trade Agreements Program, 3d Report, p. 6. Uruguay negotiated at both Annecy and Torquay but did not accede until December 1953.

2/ USTC, Operation of the Trade Agreements Program, 4th Report, p. 59.

3/ USTC, Operation of the Trade Agreements Program, 6th Report, p. 25.

In 1955, Japan, which had notified the contracting parties some three years earlier of its desire to join the GATT, conducted tariff negotiations with some of the contracting parties and became a full contracting party. Also in 1955 the Intersessional Committee and the Organization for Trade Cooperation (OTC), were created to administer the GATT. The Intersessional Committee was replaced in 1960 by a GATT Council consisting of all contracting parties.

In 1956 a new round of tariff negotiations opened in Geneva. Although the objective was to substantially reduce the general level of tariffs--perhaps by as much as 30 percent--the goal was not achieved. The old practice of negotiating product-by-product on a bilateral basis with principle suppliers had already generally exhausted the possibility of making significant mutual concessions. The 22 participating countries completed about 60 negotiations between pairs of countries. Almost all items negotiated were already covered by concessions from earlier rounds. 1/

A new opportunity for a tariff conference presented itself when the Congress of the United States extended the Trade Agreement Act and provided the President with somewhat greater negotiating authority than he had had in 1956. This round of trade negotiations, known as the "Dillon Round" after the U.S. Undersecretary of State (C. Douglas Dillon) who proposed the conference, was held in two phases. In the first phase, negotiations took place to compensate various GATT members who had

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1/ USTC, Operation of the Trade Agreements Program, 14th Report, p. 25.

received previous trade concessions which were soon to be compromised by the adoption of the new European Economic Community's Common External Tariff (CXT). Article XXIV:6 provides for such negotiations 1/. The second phase of the conference, commencing in May 1961, was devoted to negotiating new or additional concessions. By mid-1962, near the conclusion of the Dillon Round, membership in the GATT increased to 41. 2/

In May 1964 the "Kennedy Round" of negotiations was inaugurated. The U.S. negotiating authority, based now on the Trade Expansion Act of 1962, was the broadest ever conferred. Negotiations were to be conducted on an across-the-board basis with only sensitive agricultural and other products specifically excluded. The issues which created the greatest difficulties were the tariff disparity problem (some national tariffs being generally higher than others), access to agricultural markets (particularly to the EEC market), and the removal of the American Selling Price (ASP) system of valuation for certain chemicals and a few other products entering the United States.

On June 30, 1967, an agreement under the Kennedy Round was reached which can be codified in four instruments: The usual protocol and schedule of concessions; a special agreement on chemicals between the United States, the Community, the United Kingdom, and Japan and other countries 3/; an agreement on an antidumping code 4/; and an

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1/ The U.S. reserved its right of compensation with respect to certain agricultural products, and continues to do so.

2/ USTC, Operation of the Trade Agreements Program, 14th Report, p. 25.

3/ The package of concessions involving the U.S. abandonment of the American Selling Price system of customs valuation for certain chemicals and other products never entered into force, and ultimately, at the end of 1972, it expired completely.

4/ See p. 65.



International Grains Arrangement. In addition to a protocol on the prolongation of the Long-Term Arrangement Regarding Trade in Cotton Textiles was signed. The Kennedy Round was particularly successful in terms of trade coverage (more than 20 percent of world imports) and in the major reductions in rates of duty that resulted.

#### Developments in 1973

Although 1973 proved to be a difficult year in many respects, the GATT members registered several notable achievements. Among the most important of these was the successful conclusion of the Ministerial meeting in Tokyo and the resultant opening of another major round of multilateral trade negotiations. Also significant was the adoption of a new Multifiber Textile Agreement. Its significance rests not only in its provisions, but in the fact that it was concluded during the petroleum crisis when events suggested that multilateral cooperation was waning. Similarly, the difficulties did not bring widespread resort to either balance of payments or Article XIX safeguards during the year. These developments and others of substantial impact are discussed in the remainder of this chapter.

GATT membership

The contracting parties to the General Agreement totalled 83 countries after the accession of Singapore and Hungary during 1973. The following is a listing of contracting parties as of the end of 1973:

Member countries (83)

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

In addition, two countries, the Philippines and Tunisia, have acceded provisionally. Finally, 15 countries, once territories of member states and listed below, maintain a de facto application of the GATT pending final decisions as to their future commercial policy:

Algeria	Maldives
Bahamas	Mali
Bahrain	Qatar
Botswana	Swaziland
Equatorial Guinea	Tonga
Fiji	Yemen, People's Democratic
Khmer Republic	Republic
Lesotho	Zambia

#### Multilateral Trade Negotiations

At their 28th annual session in November 1972, the GATT members agreed to undertake a new round of comprehensive trade negotiations. <sup>1/</sup> This new round is to be a far reaching one, involving both tariff and non-tariff barriers, covering both industrial and agricultural products (including tropical products) and including the major industrialized GATT members, plus all developing countries (regardless of GATT membership) who might wish to take part. A "Preparatory Committee" was established to define issues and make recommendations on the proposed round of multilateral trade negotiations. The Committee met for the first time on January 31, 1973, and held other meetings through July. An aim of these sessions was to produce a Ministerial declaration to follow the Ministerial meeting to be held in Tokyo and scheduled for mid-September 1973.

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<sup>1/</sup> U.S.T.C. Operation of the Trade Agreements Program, 24th Report, p. 48 ff.

The representatives of more than 100 governments met as scheduled during September 12-14. The United States delegation was jointly headed by George P. Shultz, Secretary of the Treasury, and William D. Eberle, the President's Special Representative for Trade Negotiations. At the end of the conference the Ministers issued "the Tokyo Declaration officially opening what the Director-General of the GATT (Olivier Long) has characterized as, "the most ambitious trade negotiations of the postwar era." A Trade Negotiating Committee was established to develop plans and establish negotiating procedures and to supervise the progress of the negotiations. This committee was to be open to all participating governments, and representatives of 87 countries attended the first meetings. Thus, the new round will most likely involve a larger number of participants than did the Kennedy Round. Since the conference is to be open to all governments that wish to attend, the list of participants may be further expanded.

The new round of negotiations is intended to further expand and liberalize world trade, and thereby to improve standards of living. These goals are to be achieved through the progressive dismantling of trade barriers and through the improvement of the world trade framework. For the first time in GATT negotiations, the aims of the developing countries will receive extensive treatment and additional benefits will be sought for them, so as to increase their foreign exchange, export diversification, and trade growth rates. Moreover, the negotiations are intended to improve access to markets for developing countries, and where appropriate help them to attain "stable, equitable and remunerative prices for primary products."

The scope of the negotiations are outlined in paragraph 3 of the Declaration. Specifically, the Ministers expect to:

- (a) conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible;
- (b) reduce or eliminate non-tariff measures or, where this is not appropriate, to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline;
- (c) include an examination of the possibilities for the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique;
- (d) include an examination of the adequacy of the multi-lateral safeguard system, considering particularly the modalities of application of Article XIX, with a view to furthering trade liberalization and preserving its results;
- (e) include, as regards agriculture, and approach to negotiations which, while in line with the general objectives of the negotiations, should take account of the special characteristics and problems in this sector;
- (f) treat tropical products as a special and priority sector.

The principles on which the negotiations are to be based include mutual advantage and reciprocity within the context of the most-favored-nation clause; however, as in the Kennedy Round, developed countries do not expect reciprocal concessions from developing countries. Moreover, emphasis is placed on recognizing the problems of developing countries, and particularly those of the least developed among the developing countries.

The Trade Negotiations Committee held its first meeting in Geneva October 24-26, 1973. Some of the projects discussed included expanding the GATT tariff data base, continuing work on non-tariff barriers, and updating certain data on agricultural trade. The Committee discussed its organization for work. By March 1974, four sub-groups

were engaged in technical discussions on tariffs, non-tariff measures, and the specific problems of trade in agricultural and tropical products. Two other sub-groups, to deal with the product sector approach and with international safeguards were established later in 1974. 1/

The quick convening of the Trade Negotiations Committee, coming as it did in less than six weeks after the Tokyo Conference, could be taken as a reinforcement of the GATT members political commitment to undertake the new round of trade negotiations.

#### Arrangement Regarding International Trade in Textiles

As noted earlier in this report, a new multilateral agreement applicable to international trade in textiles was signed on December 20, 1973. This "Arrangement on International Trade in Textiles" (the "Multifiber Textile Agreement") entered into force on January 1, 1974, with certain provisions entering into force three months later.

The new arrangement is made up of a preamble, 17 articles, and two annexes which constitute an integral part of the arrangement. The objectives of the arrangement as stated in Article 1 are:

...to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and the avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries....

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1/ For an extensive treatment of the complexities that these sub-groups face see the "Report of the Committee on Trade in Industrial Products," which was aimed at helping the Preparatory Committee with its work, and which is reproduced in GATT, Basic Instruments and Selected Documents, 20th supp., Geneva, 1974, p. 96ff.

Article 1 goes on to declare as a "principal aim" the furtherance of developing countries' economic and social development and the attainment of a "substantial increase" in their export earnings derived from textile products. Article 2 addresses existing quantitative restrictive measures. Such measures, if not reported to a newly created "Textiles Surveillance Body" (see page 54), are to be terminated immediately. Reported quantitative restrictive measures not justified under the General Agreement are to be terminated within one year of April 1, 1974, incorporated into a phase-out program, or brought into conformity with the new Arrangement. Article 3 provides for safeguards against "market disruption." The first paragraph provides:

Unless they are justified under the provisions of the GATT (including its Annexes and Protocols) no new restrictions on trade in textile products shall be introduced by participating countries nor shall existing restrictions be intensified unless such action is justified under the provisions of this Article.

Resort to safeguards are to be used sparingly and taken only after consultations; however, in "highly unusual and critical circumstances" causing "serious market disruption" and "damage difficult to repair," temporary restraints may be imposed unilaterally. If restraints are to be imposed, the level of restraint is to be generally determined by the actual level of importation (or exportation) of the particular products concerned during a recent 12 month period (Annex B). The Textiles Surveillance Body is to make recommendations, review safeguard actions, and determine if actions taken under Article 3 are justified under the terms of the arrangement. Safeguard actions are to be limited

to one year's duration subject to extensions for additional one-year periods. Salient features of other articles include: a permission to negotiate bilateral agreements, which is cautioned by a reminder to participants of their commitment to a multilateral approach (Article 4); with regard to textile restraints, the appropriateness of providing more favorable terms to developing countries (Article 6); safeguards against trans-shipments or other actions by non-participants to circumvent the arrangement, and, conversely, that in resort to Articles 3 and 4 action taken thereunder should not restrain exports of participants more severely than non-participants (Article 8); and a limitation on the textiles covered, i.e., from the early stages of manufacture up to and including complete garments and other manufactures of cotton, wool, man-made fibers, or blends, except those from cottage industries in developing countries (Article 12).

The Textiles Surveillance Body, noted above, represents a unique GATT creation. No similar organ was provided under the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). This body, established by a GATT Textile Committee (Article 10), is to be made up of a Chairman and eight members appointed by the parties to the Arrangement. It is to be a standing body charged with supervising the implementation of the Arrangement (Article 11), and it is to be the focal point for multilateral textile information, consultations, and mediation of disputes. Parties to the Arrangement are pledged to "endeavor to accept in full" the recommendations of the Surveillance Body.



"Market disruption" is to be the basis for resort to the safeguard provisions of the Agreement, and Annex A provides a definitional description for that term. In general, Annex A represents an evolutionary refinement of a description found in the GATT decisions of November 19, 1960, 1/ which, in turn, was carried over into the LTA. Annex A provides that market disruption shall be determined on the basis of "serious damage to domestic producers or actual threat thereof." A list of economic observables--turnover, market share, profits, export performance, employment, volume of imports, production levels, capacity utilization, productivity, and capital investment--is provided as guidance in testing for producer damage. A causation link is also required. 2/ Finally, in making its decisions as to market disruption the importing country is to consider the interests of the exporting country, particularly the latter's stage of development.

#### Protocol on Milk Fat

On April 2, 1973, the Arrangement Concerning Certain Dairy Products was expanded to apply to milk fats, ghee, and butteroil and butterfat.3/

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1/ Basic Instruments and Selected Documents, 9th supp., Geneva, 1961, p. 26.

2/ The Annex provides that "The factors causing market disruption... which generally appear in combination are as follows:

(i) a sharp and substantial increase or imminent increase of imports of particular products from particular sources. Such an imminent increase shall be a measurable one and shall not be determined to exist on the basis of allegation, conjecture, or mere possibility...;

(ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country...."

3/ For an account of the Arrangement Concerning Certain Dairy Products, see USTC, Operation of the Trade Agreements Program, 22d Report, p. 58.

Like the original arrangement, which applied only to skimmed milk powder (nonfat dry milk), this protocol binds the participants to ensure that the export price of such products does not fall below a specified minimum. The minimum price for the guideline product was fixed at US\$68 per 100 kilograms. The minimum price was not to apply to donated exports to developing countries nor was it to apply to exports destined for relief or welfare purposes in developing countries. A "Management Committee" was established to review developments in the international marketplace. Like the basic arrangement, the protocol is for one year's duration, but a provision is made for additional one-year extensions. The arrangement with regard to skimmed milk powder was in its fourth year in 1973.

In 1973, the EC, New Zealand, Australia, Canada, and Japan were signatories to the arrangement and protocol. The United States was not a signatory.

#### Customs Unions, Free-Trade Areas, and other Preferential Arrangements

On January 1, 1973, the accession of Denmark, Ireland, and the United Kingdom to the European Community (EC) became effective. <sup>1/</sup> Beginning on January 1, 1974, these states began a progressive adaptation of the EC's Common External Tariff (CET) and Common Agricultural Policy. The remaining members of the European Free Trade Association (EFTA)--Austria, Iceland, Portugal, Sweden, Switzerland, Finland, and

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<sup>1/</sup> USTC, Operation of the Trade Agreements Program, 24th Report, p. 72-99, and 101ff. The "European Community" consists of three entities with a single executive. These entities are the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and the European Atomic Energy Community (EURATOM).

Norway--signed bilateral free trade agreements with the European Community during 1972 and 1973. Thus, within the next few years, a free-trade area--free of all internal duties within the nine-member EC and free of duties on industrial and processed agricultural products within the web of bilaterals--will encompass most of Western Europe. The enlarged European Community, with its ties to EFTA members, represents the most economically powerful of a number of regional trade groups which have been created since World War II. As a result, most of the GATT attention on customs unions and free-trade areas has centered on the developments in Western Europe. In addition, however, in 1973 a GATT Working Party also reported on the preferential trading arrangement between Egypt, India, and Yugoslavia.

Working Party on EC enlargement--Article XXIV, relating to customs unions and free-trade areas, provides that such arrangements create free trade as opposed to creating a preferential relationship between the members, and requires that trade barriers shall not be increased against those excluded from the arrangements. The examination of the compliance of the EC enlargement with the provisions of Article XXIV began in 1972, and the work was assigned to a special GATT working group. Much of the inquiry involved complex matters, and the examination and the difficulties involved were reported in some detail in the Tariff Commission's 24th report on the Operation of the Trade Agreements Program 1973. The United States actively participated in the working group; however, early in 1973, the group's inquiry halted

because of disagreements involving the methodology employed, particularly in regard to the examination of agricultural products, and because of a desire to await the outcome of the bilateral negotiations provided for in Article XXIV:6.

EC negotiations under Article XXIV:6.--In January 1973, the European Community announced its willingness to open negotiations under Article XXIV:6 with those countries whose trade interests might suffer as a result of the entry into the European Community of the United Kingdom, Denmark, and Ireland and the subsequent alignment of their import tariffs with the Community's CXT. The EC initially took the position that the tariff reductions made by the three in adopting the CXT more than offset the tariff increases. The United States, however, took the position that the lower duties being raised to CXT levels represented lost concessions which the United States had "paid for" in earlier negotiating rounds. Some other GATT members took similar positions. Inasmuch as the increases and decreases involved in aligning with the CXT covered different product sectors, the U.S. maintained that the loss of market access for agricultural commodities (where bindings were generally eliminated) could not be offset by increased access for industrial goods. Moreover, the United States never received compensation for concessions on certain agricultural commodities that were lost with the original adoption of the CXT and the Common Agricultural Policy by the Six. The U.S. essentially had preserved its right as of September 1, 1960, under two "standstill agreements" in which the EC agreed to further negotiations, but without a decision on value of compensation involved.

Detailed discussions on the compensation involved in the first issue were held from March through July 1973, and negotiations on the "standstill agreements" were resumed in June 1973. U.S. rights on agricultural commodities were involved in both issues. No solutions were immediately forthcoming.

In December 1973, the EC offered tariff reductions on items of intent to a number of countries. The United States found that the offer still did not constitute equivalent compensation for the concessions lost, and matters were unresolved at year's end.

EC agreements with EFTA members. -- In July 1972 the EC concluded agreements with Austria, Iceland, Portugal, Sweden, and Switzerland (and Liechtenstein). The Contracting Parties were informed that these agreements established a free-trade area between the EC and the respective countries concerned. Similar free trade agreements were later signed with Finland and Norway.

At the 28th session of the Contracting Parties, working parties were set up to examine the first five such agreements and to report to the GATT Council. The United States was represented in the working parties. These reports were submitted in October 1973

In general, the signatories to the agreements found them to be "fully consistent" with the General Agreement since Article XXIV permitting the formation of free trade areas had been satisfied. On the other hand, various members of the working party pointed out that the agreement: (1) provided for a preferential arrangement, not a free trade area, and that this was contrary to the "letter and spirit" of Article XXIV; (2) severely impaired third country trade

and constituted a derogation of the MFN principle; (3) would not conform to Article XXIV:4 in that the rules of origin would frustrate intra-trade; (4) did not conform to Article XXIV:8 in that most agricultural products were excluded; and (5) that Article VIII--fees and formalities connected with importation and exportation--was contravened by the complex rules of origin. The U.S. delegation was especially concerned with the rules of origin. The U.S. representative pointed out that while rules of origin were justified in order to eliminate trade deflection resulting from the removal of trade barriers within a free-tariff area, rules of origin that went beyond this would have a protectionist effect and were not justified. Another member noted that the agreements would devalue the benefits to developing countries of the Generalized System of Preferences permitted under the 10-year GATT waiver of June 25, 1971. Other divergent views were also noted. Unable to come to any unanimous conclusions, the working parties simply reported the opinions expressed.

In December 1973, the United States announced it desired to consult with the countries concerned on the rules of origin provisions of the agreements. These rules could affect as much as half of the U.S. industrial goods exported to the EC and EFTA.

Associations with the EC.--The EC has negotiated a number of agreements establishing associations between the Community and developing countries. These associations include those with 19 African countries which are parties to the Yaounde Convention, the agreement with associated overseas territories, and the associations with Morocco, Tunisia, Spain, and Israel.

In giving notification to the Contracting Parties the signatories to these associations point out that these agreements are based on the formation of free-trade areas between the EC and each associate state, and, as free-trade areas, are within the meaning of Article XXIV. Certain GATT members not parties to these agreements--the United States, Japan, and Indonesia, for example--have criticized the associations on the grounds that they are not in conformity with Article XXIV:8(b), which requires that customs duties be eliminated on "substantially all the trade between the constituent territories, and have maintained that the associations resemble preferential trading areas (prohibited by Article 1:1) more than free-trade areas. While the United States supported the granting of tariff preferences by developed countries to the products of developing countries, it opposed "reverse preferences" that grant developed countries a discriminatory advantage in access to the markets of developing countries.

Trade arrangements affecting Egypt, India, and Yugoslavia.--Upon the request of Egypt, India, and Yugoslavia the Contracting Parties agreed to extend the Trade Expansion and Economic Cooperation Agreement among those countries to March 31, 1978. The Contracting Parties conceive of the tripartite agreement as a modest effort by these developing countries to increase their trade with each other.

Three features broadly characterize this agreement. First, the trade creative aspect of the agreement was ensured by including non-traditional items in the list of products which qualify for tariff

preferences and by excluding products traditionally characterizing their export trade. Second, full opportunity for consultations were provided to those countries whose trade interest may be affected by the operation of the agreement. Third, the agreement is open for accession to other developing countries.

In a GATT working party report on the tripartite agreement adopted in November 1973, the members of the working party noted that there were no indications that interests of third countries had been adversely affected by the agreement.

#### Emergency Action on Particular Imports

Article XIX (the GATT "escape clause") contains provisions whereby because of unforeseen developments and the effects of obligations incurred in the general agreement including tariff concessions, a contracting party may suspend obligations or withdraw or modify concessions if increased imports cause serious injury to its domestic producers. While some countries have used Article XIX as the primary safeguarding mechanism that it was intended to be, others have found relief under other GATT provisions or have taken national action to achieve the same results. As already noted, during 1973 no new GATT escape actions were taken by the United States although four petitions were filed under U.S. domestic law to escape from trade-agreements concessions. Three other contracting parties, however, did notify the GATT that they were either invoking Article XIX, or terminating previous escape actions. The EC invoked Article XIX to set a quota on imports



of magnetophones (classified as sound recorders and reproducers) into Italy. Canada invoked Article XIX with respect to fresh sweet cherries and imposed a surtax on them; on the other hand, Canada abolished a licensing system on imports of motor gasoline, which had been in force since 1970 and which was said to be in accordance with Article XIX. Australia invoked escape action with respect to knitted shirts and knitted apparel.

#### Balance of Payments Restrictions

Article XII of the General Agreement permits contracting parties to impose quantitative restriction to prevent the depletion of their foreign reserves or increase the level of already low monetary reserves. Article XVIII gives the developing countries the right to impose restrictions on imports for the purpose of assisting their economic development plans.

The GATT permits the imposition of restraints for the reasons cited, but requires a careful overview. Article XII:4(b) requires consultation with the Contracting Parties at one year intervals, and Article XVIII:12(b) requires consultations at approximately two year intervals. After examining the justification given for recourse to Articles XII or XVIII, the GATT members either agree to the application of import restraints (although sometimes because of the method chosen a separate waiver is required) or recommend abolishing them.

During 1973, three countries were required to consult under Article XII and 15 were required to consult under Article XVIII. Significant developments included: New Zealand's notification that

it would no longer invoke Article XII; the GATT Council's recommendation that Spain liberalize its import policies because the restrictions imposed under Articles XII or XVIII were no longer justified; and Israel's notification that its import surcharge imposed for budgetary purposes was being increased from 20 to 25 percent. 1/

In their own annual report, the Contracting Parties noted with satisfaction that, despite some of the difficulties experienced in international economic relations during 1973, few countries made use of trade restrictions to overcome payments difficulties.

#### Nullification or Impairment

Article XXIII provides a method whereby a party to the GATT who finds that its benefits are being nullified or impaired can refer the matter to the Contracting Parties for a ruling or recommendation. During 1973, two complaints brought under the procedure of Article XXIII:2 were settled. One of these involved a complaint by Israel against United Kingdom restrictions on imports of cotton textiles. In the course of bilateral discussions it was agreed that Israel would be treated as an unrestricted supplier as of January 1, 1973. The other brought by the United States against the United Kingdom was also settled bilaterally and provided for the eventual removal of "dollar area" quotas imposed by the United Kingdom on certain products including cigars, fresh and frozen grapefruit, orange and grapefruit juices, and rum.

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1/ Additional actions related to balance of payments are found in a later section on waivers granted or extended.

In May 1973, the EC brought a complaint against the United States charging that the special tax status conferred upon Domestic International Sales Corporations (DISC's) in effect provides a direct tax exemption in favor of export products. 1/ Certain types of tax exemptions have long been considered as a means of indirect subsidization (Article XVI). In a countercharge, the United States complained under Article XXIII:2 that certain income tax practices in three EC countries--Belgium, France, and the Netherlands--also acted to subsidize export sales. In light of these complaints in July 1973 the GATT Council decided to set up panels to study these taxation practices.

#### Antidumping Practices

In November 1973, the GATT Committee on Antidumping Practices adopted its fifth report. The committee indicated that 23 countries, including the EC and some of the individual country members of the EC, were parties to the "Agreement on the Implementation of Article VI" (ie. the International Antidumping Code) 2/. The United States is a member.

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1/ The formation of DISC's was provided for in the Revenue Act of 1971. Basically, the DISC provides U.S. exporters with a tax treatment comparable to that for foreign subsidiaries by deferring taxes on half of the DISC's income, provided that most of the DISC's receipts and assets relate to exports.

2/ During the year, Australia made a decision to accept the code and to try to enact the necessary enabling legislation during 1974.

### Activities in the Interest of Developing Countries

The growth in the number of developing countries which have become GATT numbers has been reflected in several ways, some of which have already been discussed in this chapter. One of the principal forums for the interests of developing countries, however, has been the Committee on Trade and Development which reviews implementation of Part IV of the GATT. Other GATT activities dealing primarily with developing countries' trade and development include those undertaken by the Group of Three, and the marketing research and training provided by the International Trade Centre, and in specialized GATT forums.

The Committee on Trade and Development.--The Committee held its 23d through 26th sessions during 1973. The United States was represented at each session. During the first three sessions the committee prepared its input, reflective of the interests of developing countries, to the Ministerial meeting. Much of the committee's work ultimately found expression in the Tokyo Declaration.

During the November session, the committee conducted its annual review of the implementation of Part IV of the General Agreement. A number of developed countries reported on commercial policy actions of particular significance. Several, including the EC, pointed out improvements and expansion of their participation in the Generalized System of Preferences (GSP). U.S. officials indicated that the GSP provisions in the proposed Trade Reform Act were considered to be high priority items. The committee also directed attention to its future role in the new round of trade negotiations and to the availability of its secretariat to provide technical assistance to developing countries during the course of the negotiations.

Group of Three.--This high level organization established in 1971 is comprised of GATT officials, namely, the Chairman of the Contracting Parties, the Chairman of the GATT Council, and the Chairman of the Committee on Trade and Development. The Group studies trade problems of developing countries, makes recommendations, and follows up on the implementation of its suggestions.

The Group's third report, delivered in June 1973, noted that the increasing dollar value of trade of developing countries was "shared very unevenly." Certain countries in the Middle East and Asia experienced expanded sales of petroleum and manufactured goods, but a number of countries experienced a decline or no change in their export earnings. While progress had been made in eliminating quantitative restrictions, some developed countries continued to restrain significantly some products from developing countries, by means of quotas and by recourse to safeguard mechanisms. The report noted that other non-tariff matters, health and sanitary regulations, for example, also caused difficulties. While the Group was pleased with progress made toward expanding the application of the GSP, it also indicated that limits on product coverage and amounts reduced the benefits flowing to less developed countries. Moreover, the Group noted that Canada and the United States had not yet implemented GSP's of their own.

International Trade Centre and the GATT Training Program.--The Centre was established in 1964 and given the responsibility of assisting developing countries in marketing their exports. Since 1968 the Centre has been operated jointly by GATT and the United Nations Conference on Trade and Development (UNCTAD). For financial year 1973, the

Centre's budget amounted to \$3.1 million, the bulk of which was financed by equal shares from the GATT and the United Nations. A small portion was financed by the United Nations Development Programme and voluntary contributions. The Centre promotes exports of developing countries by providing training services and facilities, by making financial studies, and by assisting in marketing research and development.

The training program of GATT provides practical training for officials from developing areas who are responsible for the formulation and implementation of trade policies in their own countries. In 1973, a special Spanish-language course on multilateral trade negotiations was offered.

#### Waivers Granted or Extended

The Contracting Parties may waive any obligations imposed on a particular contracting party to the GATT. Article XXV:5, which contains the waiver authority, provides that a decision to grant a waiver must be approved by a two-thirds majority where the two-thirds includes more than half of the contracting parties. In 1973, a number of such waivers were granted, and the time limits of some outstanding waivers were extended.

Brazil; Renegotiation of Schedule III.--In 1967, the Contracting Parties suspended the application of the provisions of Article II to Brazil to enable that country to apply rates of duty provided in a new Custom Tariff which might exceed those bound in the Brazilian Schedule (Schedule III). The decision was made under certain conditions, one of which was that Brazil hold negotiations or consultations in conformity

with Article XXVIII and end such negotiations before February 29, 1968. The time limits were subsequently extended in 1968, in 1969, 1970, and 1971. Since the negotiations with all countries concerned could not be concluded within the latest extension, the Contracting Parties, on January 30, 1973, decided to extend the time limit until December 31, 1973.

Turkey; Stamp Duty.--Turkey had been granted a waiver in 1963 to maintain a stamp duty (import surcharge) for balance of payments purposes on imports of products bound in Schedule XXXVII. The last extension was to have expired in 1972; however, after consultation with Turkey the waiver was extended to June 30, 1975.

India; Auxilliary Duty on Customs.--On March 1, 1973, India introduced an auxilliary duty as part of a program to mobilize resources for development. Certain of these auxilliary rates were levied on articles included in the Indian Schedule (Schedule XII) annexed to the General Agreement. On November 15, 1973, the Contracting Parties waived until March 31, 1974, India's obligations under Article II in order to enable India to apply the temporary auxilliary duty of customs.

India; Renegotiation of Schedule XII.--India notified the Contracting Parties of its intention to modernize and rationalize the Indian tariff by changing to the Brussels Tariff Nomenclature. This action would more adequately reflect the economic and industrial development of the country and its new trade patterns. The rationalization of India's tariff structure will involve adjustments of a certain number of duties bound in Schedule XII. Moreover, India had previously given notice, under Article XXVIII:5, reserving its right to modify its country schedule during 1973-75.

The Contracting Parties decided on March 16, 1973, to suspend the application of the provisions of Article II to enable India to apply the rates of duty exceeding the bound rates, on the condition that India should enter, as soon as the modifications are made, into consultations and negotiations with interested contracting parties to discuss the concessions that will be offered as compensation for the modification and withdrawal of concessions at present specified in Schedule XII. The waiver decision, however, also cited the applicability of Part IV, including Article XXXVI:8 to the negotiations. 1/

Indonesia; Renegotiation of Schedule XXII.--The Indonesian government provided notification that on January 31, 1973, it adopted a new tariff based on the Brussels Tariff Nomenclature and including rate changes. The Contracting Parties decided to suspend the application of the provisions of Article II to enable the Indonesian Government to apply rates of duty which may exceed those bound in Schedule XXI, provided the Indonesian Government should enter into negotiations with other contracting parties to discuss concessions to be offered as compensation for the modification and withdrawal of concessions presently specified in Schedule XXI. However, Part IV, including Article XXXVI:8, is applicable to the negotiations. 1/

New Zealand; Tariff-Free Quotas for Handicraft Products.--New Zealand asked the Contracting Parties for permission to establish tariff-free quotas for a limited range of handicraft items originating in Fuji, Tonga, Nauru, Papua/New Guinea, and Western Samoa. Despite

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1/ Article XXXVI:8 states: The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties.



the small volume of trade involved, the improved access to New Zealand's markets will be beneficial to their economic development. Accordingly, the Contracting Parties decided to waive until December 31, 1976, the application of the provisions of Article I to enable New Zealand to establish the duty-free quotas.

#### Communist Countries in the GATT

Czechoslovakia was the first communist country to become a member of GATT. It is one of the charter members, although in fact its GATT membership antedates its communist status. Cuba's membership represents a similar circumstance. Yugoslavia entered into special relations with the contracting parties to the General Agreement in 1959 and became a full member in 1969. Poland negotiated for membership during the Kennedy Round and became a full contracting party at the end of the Round. Romania acceded in 1971 and Hungary became a full member of GATT in 1973.

Since the foreign trade system of communist countries does not rely on customs duties as the primary means of import control, those communist countries which have recently become members of GATT have generally undertaken to diversify their trade and increase the value of their imports from other GATT members in exchange for GATT membership privileges. Poland, for example, agreed to increase its imports from GATT members by an average of seven percent each year. Romania expressed its intention to increase its imports from GATT members at a rate not less than its growth rate for all imports included in its

Five-Year Plans. In Hungary's accession in 1973, however, this pattern changed. Hungary had been applying a customs tariff since January 1, 1968, and negotiations on this tariff took place with 13 of the contracting parties (including the EC) between December 1972 and July 1973. The Hungarian Schedule to be annexed to the GATT is said to contain about 1,000 reductions or bindings of duties. The United States has invoked Article XXXV with respect to Romania and Hungary, and has not applied MFN treatment to Czechoslovakia since 1951. 1/

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1/ The U.S. action with respect to Czechoslovakia was approved by the GATT as a matter of "exceptional circumstances" (Declaration of Sept. 27, 1951).

## CHAPTER 3

## DEVELOPMENTS IN MAJOR TRADING AREAS

## European Community

A Review of Commercial Policies--1946-1972

In 1946 industrial production in Europe was roughly 60 percent of the prewar figure, and high rates of open or suppressed price inflation (i.e., rationing) prevailed in most countries. The real volume of intra-European trade in 1946 was only 45 percent of that in 1938. Trade with non-European countries was also depressed, with exports down by a far greater amount than imports. In 1946 and 1947 Europe ran a cumulative trade deficit with non-Europeans of some \$12 billion (almost \$9 billion being with the United States alone). It is against this gloomy backdrop that postwar trade and commercial policies developed.

All European countries limited and regulated their imports by direct quantitative restrictions or foreign exchange controls. The system was highly discriminatory; imports from "hard currency" areas--especially the United States--were particularly subject to such restrictions. In addition, intra-European trade took place within a network of several hundred bilateral clearing agreements designed to insure balance in each country's trade with each other country. Such bilateral balancing was an inefficient way to conduct trade and was also inherently discriminatory. However, countries were not anxious to allow bilateral trade surpluses to develop, because the European currencies that would have been obtained were not redeemable for gold or dollars at central banks and were them-

selves of limited value due to rapid European inflation and shortages of European goods.

Over the next few years European economies staged a rapid recovery, and a substantial liberalization of Europe's foreign trade was initiated. The economic recovery was largely due to financial aid from the United States: from 1948 to 1951 the United States provided Europe with some \$10 billion of "Marshall Plan" grants and loans. A wave of European currency devaluations in 1949 contributed to the recovery by revitalizing Europe's competitive position in world trade. By the early 1950's industrial production and foreign trade were well above prewar levels, prices had stabilized and the current account in Europe's balance of payments had moved into surplus.

The United States was the moving force behind postwar European trade liberalization. In the 1941 Atlantic Charter and in the various Lend-Lease Agreements of World War II, the United States had secured pledges from the United Kingdom and other signatory European countries to work toward reducing trade barriers and eliminating discriminatory commercial practices once the war ended. After the war the Europeans joined with the United States and other countries in drawing up the General Agreement on Tariffs and Trade and establishing the International Monetary Fund (IMF). Among the twenty-three original contracting parties to the GATT were six West European nations--Belgium, France, Luxembourg, the Netherlands, Norway, and the United Kingdom--and Czechoslovakia. With the Annecy Protocol (1950), Denmark, Finland, Italy, and Sweden also acceded to the GATT. Western Europe was similarly represented among the original members of the IMF.

While subscribing to the general GATT and IMF principles outlawing discriminatory commercial policies, direct quantitative trade restrictions, and foreign exchange controls, the European countries at the same time were responsible for many important exceptions that were included in the GATT and IMF charters. In particular the Europeans insisted that the GATT allow discriminatory quantitative restrictions to be used by countries experiencing serious balance-of-payments difficulties. They also pushed for the indefinite length of the IMF grace period for removing existing foreign exchange restrictions.

Within this context European trade has been gradually liberalized since 1946. Tariffs were substantially reduced in the tariff negotiations sponsored by the GATT. Quantitative restrictions were progressively dismantled under a program sponsored by the Organization for European Economic Cooperation (OEEC), set up in 1947 to plan and administer Marshall Plan aid. The OEEC also engineered the formation of the European Payments Union (EPU)--a multilateral European clearing arrangement allowing each country to run bilateral payments imbalances while requiring its total European trade to be in balance.

The continuing, though greatly abated, weakness of European economies vis-a-vis the United States was partly responsible for the regional integration movement which evolved in Western Europe during the 1950's. Although European economic integration would institutionalize trade discrimination against third countries, it was said to have "trade creating" effects, and the United States did not resist the movement.

In 1957 Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany signed the Treaty of Rome, which established the European Economic Community (EEC). This treaty was a blueprint of the initial steps toward eventually achieving full economic integration. A less ambitious organization, the European Free Trade Association (EFTA), was formed in 1959 by the United Kingdom and six other European nations. It involved free trade among members, but did not provide a common front against outsiders. 1/ The EEC was by far the more important of the two groups.

The economic purpose of the EEC was to increase productivity and social welfare. To this end, the EEC members first formed a customs union for trade in manufactured goods. Tariffs and quotas on intra-union trade were eliminated over a 12-year transition period, and a common external tariff was adopted to apply to imports from outside the Community. The free movement of goods within the Community allowed an expansion of internal trade, although not all of the increase was true "trade creation"; some of it was "trade diversion", which occurred at the expense of reduced imports from lower cost producers outside the Community.

The Common Agricultural Policy (CAP) was also instituted by the EEC members. The bargaining among the states was so intense and the issues so divisive that even the main features of the CAP were not settled until the mid-1960's. The CAP provided for free trade within the Community under common Community supported prices for major products, such as grains,

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1/ The "Outer Seven", as they were called, were the United Kingdom, Denmark, Norway, Sweden, Switzerland, Portugal, and Austria.

fruits and vegetables, dairy products, beef, and poultry. The support levels generally were higher than world prices. Hence, restrictions of food imports from outside the union were incorporated into the farm policy. The Community chose the so-called variable levy as its main restrictive device. Usually the variable levy is an import tax set at the difference between the c.i.f. import price and the EEC support price. The tax varies with any change in either of these prices. Foreign producers thereby have been relegated to the role of residual suppliers of agricultural goods to the EEC. At any given time they can market only the difference between EEC demand and EEC supply at the existing support price.

In some cases EEC support prices for agricultural products were high enough that domestic supply exceeded domestic demand. The EEC has often subsidized exports of such goods in order to reduce the accumulating surplus. That practice, although discouraged by Article XVI of the GATT, has continued to be used by the EEC.

In addition to freeing the movement of goods, the EEC enhanced the mobility of its resources in order to facilitate more efficient employment. Legal barriers to the movement of workers between member states were eliminated over the 12-year transition period, numerous capital controls were liberalized or abolished, and free mobility of enterprise was assured in most industries by the passage of "right of establishment" laws.

Two final concrete steps taken during the EEC's formative years were (1) the adoption and rigorous enforcement of the so-called "rules of competition,"

which forbade private business practices that restrained trade, and (2) the harmonization of national transport policies, especially the elimination of unjustified transport subsidies and freight-rate discrimination.

In 1969, with the common-market transition period completed, the EEC was a viable trading bloc. Intraunion imports (c.i.f.) had increased from \$6.8 billion in 1958 to \$36.3 billion in 1969, an average annual growth rate of 16.7 percent. The EEC's external trade (imports plus exports) had risen from around \$32 billion in 1958 to around \$78 billion in 1969, a growth rate of 8.5 percent, which was far smaller than the rate for intraunion trade. Gross national product of the EEC had grown over the same period from \$170 billion to \$427 billion, a growth rate of 8.7 percent per year.

Since 1969 the major development in the EEC has been its expansion to nine members. The United Kingdom, Ireland, and Denmark acceded to the Community on January 1, 1973, and their commercial policies are currently being phased in with the common policies of the original Community of Six. Expansion raised the EEC's gross national product by over a third and its foreign trade by over 40 percent. The expanded Community's GNP is now nearly two-thirds that of the United States. The Community's external trade is substantially larger than U.S. foreign trade, whereas the external trade of the



Six was slightly smaller.

Statistics on postwar U.S. trade with the original six members of the EEC are presented in the table on page 80. Subject to some cyclical fluctuation, U.S. exports to the EEC have grown steadily since World War II. The average annual growth rate from 1948 through 1973 was 6.7 percent. Growth after 1960 was much faster than before that year--9.3 percent as compared with 3.9 percent.

Over the 25-year period U.S. imports from the EEC grew on average by 14.9 percent per year. The reason for this high growth rate was partly the small postwar base on which growth took place; European exports to all countries were depressed following World War II. Even though growth slowed during the 1960's, however, the average growth rate after 1960 was still relatively high at 13.1 percent per annum (down from the average 1948-1960 rate of 17.4 percent).

United States balance of trade  
with the European Economic Community, 1948-73 <sup>1/</sup>

(In millions of U.S. dollars)

Year	U.S. exports to the EEC	U.S. imports from the EEC (f.o.b.)	Balance of Trade
1948-----	2,501.1	346.0	2,155.1
1949-----	2,380.2	331.4	2,048.8
1950-----	1,839.1	568.8	1,270.3
1951-----	2,733.8	970.5	1,763.3
1952-----	2,927.0	884.4	2,042.6
1953-----	3,254.1	1,049.5	2,204.6
1954-----	2,825.8	928.1	1,897.7
1955-----	2,614.5	1,138.1	1,476.4
1956-----	3,680.1	1,415.4	2,264.7
1957-----	3,892.7	1,546.9	2,345.8
1958-----	2,869.4	1,667.9	1,201.5
1959-----	2,866.2	2,401.6	464.6
1960-----	3,973.9	2,263.0	1,710.9
1961-----	4,152.3	2,226.2	1,926.1
1962-----	4,574.1	2,445.5	2,128.6
1963-----	4,905.1	2,517.1	2,338.0
1964-----	5,267.5	2,829.0	2,438.5
1965-----	5,252.2	3,321.8	1,930.4
1966-----	5,503.9	4,124.7	1,397.2
1967-----	5,642.5	4,453.2	1,189.3
1968-----	5,018.7	4,868.1	150.6
1969-----	7,005.1	5,798.4	1,206.7
1970-----	6,263.8	4,815.5	1,448.3
1971-----	6,513.9	5,935.6	578.3
1972-----	8,859.4	8,983.3	-123.9
1973-----	12,620.0	11,204.6	1,415.4
(EC-9, 1973)-----	(16,746.0)	(15,507.8)	(1,238.2)

<sup>1/</sup> All figures except the last set are for the original six members of the EEC.

Sources: U.S. Bureau of the Census, Foreign Trade and Navigation of the United States, 1946-63, 1964, 1965; U.S. Bureau of the Census, Highlights of the U.S. Export and Import Trade, Report FT 990, December issues, 1967-73.

The U.S. trade balance with the EEC was consistently strong through the mid-1950's. This partly reflected the large amounts of exports which went to Europe financed by U.S. aid for European reconstruction. Similarly, Europe's capacity to export was limited until production facilities had been restored.

Europe did rebuild, of course, and in the late 1950's the U.S. trade surplus with the EEC diminished. Although it rebounded during the early 1960's, a fairly steady decline again set in starting around 1965, and in 1972 the trade balance registered its first deficit during the postwar era. The deficit was reversed in 1973, however, due in part to the currency realignments of 1971-73.

#### Developments in 1973

In some respects 1973 was a landmark year for the EC, not for what it accomplished but rather for what it failed to accomplish. In an historic EC "summit" conference held in Paris on October 19-21, 1972, the heads of government of the EC states drew up a comprehensive program of actions to be taken by the Community in 1973. Substantive progress was called for in a number of important policy areas, including economic and monetary union, regional aid, energy policy, and trade relations with developing countries.

In most of the areas, substantive progress had not been achieved as 1973 drew to a close. Another "summit" conference of the heads of state was held in Copenhagen on December 14-15, 1973, in an attempt to resolve the differences which had stalemated the various policy deliberations within the Community institutions. A high EC official frankly acknowledged that a series of problems had "thrown the Community into a state of crisis, and that "the Community [had] failed to achieve several of the important objectives set for 1973, and it [had] been unable to take the immediate decisions that were needed to meet the new situation." 1/

This lack of progress in important policy areas is described below, along with a number of achievements which the Community made in 1973. Numerous references are made to two EC institutions--the Commission and the Council. The Commission is the executive branch of the EC and is also the initiator of policy. The Council's role is to approve or reject the policy proposals made by the Commission.

Economic and Monetary Union.--In 1971 the European Community launched a staged drive toward full economic and monetary union. In the first stage (1971-73), a narrowing of the allowed margin of fluctuation in the exchange rate between any two members' currencies was planned. A newly created European Monetary Cooperation Fund (EMCF) would coordinate currency intervention operations by the member states, administer mutual financial assistance in connection with a member's balance-of-payments difficulties, and serve in general as the forerunner of a Community Central bank. Various measures to liberalize capital movements within

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1/ Seventh General Report on the Activities of the European Communities, 1973, Brussels (1974), pp. XV-XXVI.

the Community were also planned, as were measures to foster a native European capital market (as an alternative to the Eurodollar market). Finally, the member states were urged to coordinate their fiscal and wage-price policies.

Narrowing the margin for intraunion exchange rate fluctuations was finally put into effect in April of 1972. For any intraunion exchange rate the range of fluctuation, taken as a percentage of the "central" (i.e., official) rate for the two currencies, was set at 2 1/4 percent. The various currencies were additionally constrained by the December, 1971, Smithsonian agreement, which stipulated that any currency could fluctuate against the U.S. dollar within a 4 1/2 percent range centered on its official rate with the dollar. The EC's exchange rate scheme came to be known as the "snake within the tunnel." The United Kingdom, Ireland, Denmark, and Norway, who were scheduled to become members of the EC, joined the arrangement in May.

Almost immediately afterward the arrangement was disrupted when the pound sterling came under speculative attack and Britain and Ireland decided to float their currencies. Additional disruptions, though less severe, occurred during the remainder of 1972. Under pressure from intense currency speculation following the February 1973 dollar devaluation, the "snake in the tunnel" was transformed into the "floating snake." This arrangement again stipulated a 2 1/4 percent margin for intraunion exchange rates, but the currencies were allowed to float as a group against the dollar.

Only six members of the expanded Community participated in the revised currency scheme. The United Kingdom and Ireland remained out, and now Italy also did not participate. Britain in particular was unwilling to draw down its monetary reserves to keep the pound within the snake in the event that the pound came under speculative attack. Britain would join the snake arrangement only if it contained an unlimited credit line from balance-of-payments surplus countries to balance-of-payments deficit countries, where such credits were without conditions and without obligation to repay. These provisions were unacceptable to West Germany, who would not finance another member's deficit unless that country's economic policies were such as to assure eventual repayment.

The six-country joint float continued in operation during the remainder of 1973, although upward currency revaluations by Germany in July and Holland in September distorted the intraunion currency relationships which the floating snake was designed to maintain. The European Monetary Cooperation Fund (EMCF) was set up in April, 1973, but it was endowed with only \$1.8 billion of already existing short-term credits. Total international reserves of EC members in 1973 were approximately \$107 billion, and the small amount of EMCF credits meant that the new fund could not by itself support successful foreign exchange intervention during a currency crisis.

During 1973 the EC worked toward the second stage of economic and monetary union, scheduled to begin on January 1, 1974. The main proposals under consideration centered on expanding the scope and powers of the EMCF. The Commission's plan included a partial pooling of members' reserves (gold, dollars, SDR's), with a view toward

eventually pooling all the reserves of the EC members. Also, the existing short-term credit facility would be greatly expanded and made an adjunct of the fund's clearing operations. An initial quota of credit was to be automatic, with further credits possibly subject to conditions.

In early December the Council of Ministers had still not reached a decision on these proposals. By that time a "summit" meeting of the EC heads of government had been scheduled for December 14-15 in connection with the newly arisen energy crisis, and decisions in major policy areas were left to the summit. At the conference, however, the heads of state were unable to resolve the problematic issues in economic and monetary union, and the Council in turn postponed any further decisions until June of 1974.

Regional Aid Policy.--One of the objectives listed in the Treaty of Rome was the reduction of economic disparities among the various regions of the European Community. The Community, however, did not launch a concerted drive to establish a formal regional aid program until late 1972. The final communique of the EC "summit" conference of October, 1972, called for the coordination of member states' regional aid policies and the establishment of a Regional Development Fund. The fund was to be set up by the end of 1973 and was to be financed from the Community's own resources.

In addition to the overall social objective of reducing regional economic disparities, regional aid was seen by Community leaders as a necessary adjunct to the renewed drive toward economic and monetary

union. Under fixed intraunion exchange rates, currency depreciation could not be used by an EC member to combat unemployment connected with balance-of-payments difficulties. A regional aid fund, therefore, could be used to alleviate such unemployment when it was concentrated geographically.

A strong additional impetus to regional policy was provided by Britain's accession to the European Community. The British government exacted the promise of a regional fund at the 1972 "summit" meeting, anticipating that Britain with its many depressed regions would be an immediate net gainer from the Community in regional aid. This would help to counter domestic criticism that Britain's heavy net contribution to the Common Agricultural Policy was too high a price for Britain to pay for membership in the EC.

In spite of these pressures for a strong regional policy, a regional fund was not established in 1973. The proposals which came out of the EC Commission around midyear were for a fund of nearly \$3 billion to be allocated over a three-year period partly on the basis of need and partly according to each country's own regional aid effort. The latter consideration reflected a desire for Community regional aid to compliment rather than replace national spending. EC aid was to be used mainly for setting up industry, services, or infrastructure projects in depressed farming and industrial areas characterized by low per capita income, persistent and high unemployment, or heavy net outward migration.



The EC Council considered the proposals but in the end did not act on them. This was partly due to Germany holding back support for the fund because the Community failed to make substantial progress in 1973 toward economic and monetary union, an avowed German goal. Also, England undermined its own bargaining position for a large regional fund when it resisted the Commission's efforts to establish a common energy policy. Regional aid policy was taken up at the EC "summit" conference of December 14-15, but the heads of state were unable to work out a compromise policy that was acceptable to all. Further discussion of regional aid was left until the following year.

Energy Policy.--At the EC "summit" meeting of October, 1972, the heads of government urged the Community "to formulate as soon as possible an energy policy guaranteeing certain and lasting supplies under satisfactory conditions." The Community greatly expanded its energy policy efforts in 1973, but nevertheless by the year's end a common policy had not emerged.

By mid-1973 the Commission and the Council were in agreement that some formal organization of the internal Community energy market was needed, with a view toward energy sharing during a crisis. They also agreed that definite relations should be established with the major energy-exporting and energy-importing countries regarding international trade in energy supplies. However, agreement on the specifics of internal and external policy proved more difficult to achieve.

Internally, the Commission proposed common price and import policies for the EC states, including close surveillance of oil shipments and inventories of the major oil companies. Externally, the Commission proposed joint planning and coordination of demand by the major energy consumers.

Although price and supply difficulties were already looming in mid-1973, the Council was unable to reach a decision on these proposals. Germany and Holland opposed strong regulation of the Nine's internal energy market, but felt that a strong external policy was essential. France opposed a strong external policy, preferring instead a free hand in its overall Middle East foreign policy, especially in its dealing with the Arab states on energy supplies. Britain was reluctant to support internal policy for fear that its recently discovered North Sea oil might be declared a Community reserve to be shared among the EC members. The British external position was similar to that of the French.

War broke out in the Middle East in October, and the Arab states soon instituted a cutback in oil production along with a complete embargo on oil sales to Holland. Germany softened its position on internal controls, but in the Council and in various special political meetings the EC states remained unable to resolve their basic differences on energy policy. The Community did not institute formal internal and external programs, and in particular did not take a public stand against the Arab oil states on the production cutback and the oil embargo against Holland.

The EC "summit" conference of December 14-15 was called principally because of the Middle East war and the worsening oil crisis. The

Commission in fact sent its latest oil-sharing proposals directly to the summit. The chances for acceptance had improved, partly because the Commission had decided against classifying Britain's North Sea oil as a Community reserve, and partly because by mid-December Britain and France's unilateral prospects for Arab oil appeared to be not much better than anyone else's. Nevertheless, the heads of state could not reach a compromise on the energy policy issues, nor were they able to negotiate a "package" agreement on energy policy, regional aid, and economic and monetary union.

Throughout these developments, several EC members took unilateral action in attempting to secure future energy supplies from foreign sources. During 1973 bilateral energy deals were concluded between Germany and Iran, Italy and Algeria, and France and Iraq. In each case long-term contracts for supplies of natural gas or petroleum were tied to the furnishing of major capital investments, including steel mills and oil refineries. Additional negotiations were in progress.

Common Agricultural Policy.--The two major issues in farm policy during 1973 were setting new agricultural support prices and reforming the CAP. Some noteworthy adjustments were made in the pattern of support prices, but the reform movement gained virtually no headway.

In recent years the annual debate over setting support levels has been intense and sometimes acrimonious. The debate for the 1973-74 farm year was no exception. The EC Commission favored holding down prices, and initially proposed an across-the-board increase of 2.7 percent. The United Kingdom and Italy, who are large importers of major food crops, supported the Commission. Germany was adamantly opposed, and France stood somewhere in the middle.

Along with its price figures the Commission proposed phasing out all special taxes and subsidies that had been imposed on intraunion agricultural trade because of currency revaluations. Farm support prices theoretically were fixed in terms of the EC unit of account, which was defined in terms of gold. When the parity of an EC currency changed, farm support prices expressed in that currency should have changed accordingly. Starting with the 1969 French devaluation, however, support prices in reval countries generally did not change in line with parity revisions. In turn, special compensatory payments (import taxes in the case of an upward revaluation and import subsidies and export taxes in the case of devaluation) were instituted to make up for the resulting differences in farm prices across the Community. <sup>1/</sup> Administration of the compensatory payments was also exceedingly complex: following the February 1973 dollar devaluation the Commission was calculating more than 50 different surcharge for each farm product.

Ultimately the Commission lost its fight to phase out the compensatory levies. Any decision was put off until the Community completed its debate on farm-policy reform. However, the Commission made some moderate adjustments on price levels. The prices of most major crops went up by only 1 percent, prices of milk (perennially in surplus in the EC) increased by a modest 5.5 percent, and some of the higher price hikes were for products deemed in short supply in the Community--e.g., beef (10.5 percent).

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<sup>1/</sup> Additional compensatory levies were instituted to compensate for the dollar devaluations of 1971 and 1973.

The central issue in farm policy reform is cost--not just the cost of farm products to consumers, but also the budgetary cost of the CAP. Farm policy expenditures accounted for 80 percent of the Community budget in 1973. The projected share for 1974 was down to 67 percent, but this was due mainly to increased projected spending in non-agricultural areas such as regional policy.

In recent years the Commission has considered supplementing the price support system with direct aids to low income farmers in order to lower the cost of the CAP. <sup>1/</sup> In 1973 the Commission did in fact obtain Council approval for direct subsidies to the EC's low income farmers. However, the Commission did not include direct aids in the general reform proposals which it sent to the Council late in 1973. The proposals centered on using price and bonus incentives to reduce costly surpluses in certain markets and to stimulate production in areas of shortage.

The Council considered the Commission's reform proposals but took no immediate action. Apparently, any reforms were being held back so that they could be traded against concessions from the United States and Japan in the scheduled round of GATT trade negotiations. Also, two international developments in 1973 took some of the impetus out of the agricultural reform movement. One was the United States' July ban on exports of soybeans, which threatened a breakdown in food supplies from the United States. The other was the general soaring of world food prices during the year, which by September left grain intervention prices below world grain prices and thereby lowered the cost of the CAP.

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<sup>1/</sup> See United States Senate, Committee on Finance, The Common Agricultural Policy of the European Community, Washington (1973), pp. 44-46.

Trade Relations with Developing Countries--During the 1960's the EC developed an extensive network of special trading arrangements with developing countries. The trade preferences granted by France and Belgium to nineteen of their former African colonies were carried over into the EEC by the Treaty of Rome and were later renewed in a comprehensive "association" agreement known as the Yaounde Convention. This agreement provided these ex-colonies with development aid and extensive trade preferences from the EEC, including duty-free entry for manufactured goods, while they in turn extended trade preferences to the EEC--the so-called "reverse preferences." Three other African states obtained a separate and more limited association agreement termed the Arusha Convention. The EC also negotiated association and other preferential trade agreements (some involving reverse preferences) with a number of other developing countries; many of them were situated in the Mediterranean basin. Finally, under the sponsorship of the United Nations Conference on Trade and Development and with a general GATT waiver of Article I, the EC instituted a "Generalized System of Tariff Preferences" (GSP) for the exports of all other developing countries.

During 1973 the EC undertook negotiations for revising and extending many of these arrangements. The main set of negotiations was for renewing the two African association agreements and enlarging them to encompass certain other developing nations. Forty-four invited states took part in these negotiations--the twenty-two current African associates,

eighteen independent British Commonwealth countries situated in Africa, the Pacific Ocean, and the Caribbean, and four other African states which had no special historical ties with EC members. 1/

In its broad negotiating position, the Community expressed a strong desire to negotiate a single association agreement, although the participants were assured that separate agreements could be worked out for individual countries if necessary. The basis for the enlarged association would be free access to the Community market for manufactured exports of the associated states, and limited preferences for their agricultural exports. Reverse preferences for EC goods were not expected. The EC would continue its development aid program and would also introduce a separate program to help stabilize the export earnings of the associated states from certain basic products, including bananas, cocoa, coffee, copper, cotton, groundnuts, groundnut oil, and sugar.

The invited nations organized into three groups for the negotiations--one group comprising all the African participants, another the Caribbean states, and a third the Pacific nations. The participants agreed to the EC's request to strive for a single association agreement, but they had some reservations about the EC's negotiating

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1/ The United Kingdom terminated most of its preferential trading relationships with overseas Commonwealth countries when it acceded to the EC, but the Six agreed to work toward establishing similar relationships with many of these countries. A formal invitation to associate was extended to them in Protocol 22 of the Act of Accession. The last four African countries referred to in the text participated in the negotiations under a broad invitation embodied in Council declarations of 1963 and 1969.

platform. In particular, they were not happy with EC restrictions to their agricultural exports. They also contended that past preferences for the associates had deteriorated due to the EC's Kennedy Round tariff cuts and the EC's Generalized System Preferences, and they wanted protection against similar erosion in the future. They hoped that the EC's proposed export-earnings stabilization scheme would help in this respect. Finally, they called for the abolition of the EC's special fiscal taxes on tropical products.

The invited states were divided in their opinions on reverse preferences. The currently associated states tended to favor reverse preferences, some feeling that such reciprocity provided the moral basis for association. Other states, notably the Commonwealth countries, opposed reverse preferences on grounds that they perpetuated the existing trade pattern whereby developing countries exported primary goods to industrial nations in return for manufactured goods.

The EC too was divided over the merits of reverse preferences, but the Community was concerned mainly that the new association should be sufficiently like a free-trade area so that it did not violate Article I of the GATT. In this regard the Commission suggested that the new association should include reverse preferences, that the associates should be free to offer the same low tariffs to countries other than the EC, and that any associates which did so could then impose special import taxes for budgetary purposes or for promoting regional cooperation.



Technically, such actions probably would not conflict with the GATT.

The deadline for establishing the enlarged association is February 1, 1975, which is when the present Yaounde and Arusha Conventions expire. Only the preliminary negotiations were completed in 1973. Given the large number of countries involved and the difficult issues faced, the successful initiation of the proceedings was an important achievement for the Community in 1973.

Foreign Trade Statistics.--In 1973 the EC's internal and external trade increased sharply in value. The table below give figures for intraunion exports, exports to third countries, and imports from third countries. The percentage increases over corresponding 1972 figures are also shown, as are the average rates of increase from 1970 through 1972.

Foreign Trade of the EC in 1973  
(Expanded Community of nine members)

	: 1973-Billions : of dollars	: % increase : over 1972	: Average annual : % increase 1970-72
Exports (intra-union)	110.9	39.1	18.4
Exports (extra-union)	99.7	35.9	14.4
Imports (extra-union)	104.4	42.7	11.9

Source: Organization for Economic Cooperation and Development,  
Series A: Overall Trade by Countries

The unusually high rates of change for 1973 were partly due to accelerating price inflation. Statistics on wholesale prices give some idea of the price behavior of traded goods. In 1973 the average percentage increase

in wholesale prices of industrial goods of EC members (weighting by GNP) was 10.3 percent. By contrast the 1972 figure was 4.2 percent. Even if adjustments were made for suggested price changes, however, it is clear that the volume of EC trade would show a substantial increase in 1973.

United States exports to and imports from the Community in 1973 were \$16.7 billion and \$15.5 billion, respectively (both measured f.o.b.). 1/ These amounted to increases of 41.2 percent and 24.2 percent over the corresponding 1972 values. The expansion in exports comprised increases in both agricultural and non-agricultural sales. The former increased by almost 75 percent over 1972, and the latter rose by around 32 percent. The overall trade surplus with the EC of \$1.2 billion in 1973 more than reversed the deficit which occurred in 1972.

By recent historical standards the 1973 increases in US-EC trade were unusually large, although price inflation played a significant role in the statistics. The tremendous surge in U.S. exports relative to imports was even more unusual, however, and this probably was partly due to the currency changes of recent years. As compared with pre-June 1970 parities, the dollar's value in terms of EC currencies was down in 1973 by a trade weighted average of 19.3 percent. 2/ Coupled with

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1/ United States Bureau of the Census, Highlights of the U.S. Export and Import Trade, Report FT 990, December 1973.

2/ For each EC member the percentage depreciation of the dollar was weighted by that member's share in total US-EC trade. Also, the 19.3% figure technically was calculated as the average of the percentage depreciation of the dollar and the percentage appreciation of the EC currencies; due to the mathematics of exchange rates, those two measures were similar but not identical. Exchange rates were daily averages taken from International Financial Statistics.

the slightly lower rate of increase in U.S. wholesale prices compared to EC prices from 1970 through 1973, this constituted a substantial improvement in the competitiveness of U.S. goods relative to EC goods, and it helps to explain the improvement in the U.S. trade balance with the EC in 1973.

## Japan

Background to Japan's Entering the Trade Agreement Program

No reciprocal tariff concessions were exchanged between the United States and Japan prior to World War II. After the war, Japan was governed by the General Headquarters, Supreme Commander for the Allied Powers. Some actions taken by the Occupation government had particularly long lasting consequences. For example, the foreign exchange rate of 360 yen to the dollar was established as part of a broad economic stabilization program in 1949, and this exchange rate remained long after Japan's recovery was completed. Indeed, it did not change until the United States suspended the convertibility of dollars into gold (August 15, 1971) and the Japanese government realized it could no longer maintain the 360 to one ratio by purchasing dollars.

Under the Occupation government, imports were regulated by direct controls. As normalcy returned, however, tariffs eventually gained prominence as a control measure. On April 28, 1952, the San Francisco Peace Treaty became effective and the Japanese again took control of their own political and economic affairs.

In 1952, Japan notified the Contracting Parties that it desired to negotiate for accession to the GATT. The United States supported Japan's accession to the trade agreements network; however, since another multilateral round of tariff negotiations to exchange concessions was not then scheduled, Japan proposed that it join on a provisional basis. A number of Contracting Parties opposed this course of action, but

ultimately a decision was reached whereby Japan participated but without voting rights. In February 1955, Japan began negotiating tariff concessions with the United States and 16 other contracting parties. On September 10, 1955, Japan became a full Party to the GATT. 1/

The fear of disruption within their domestic markets from a large expansion of Japanese exports prompted 14 Contracting Parties to invoke Article XXXV with respect to Japan. 2/ As a result of its massive use toward Japan, some important trading countries (and their dependencies) were left free to discriminate against Japanese exports. At that time, some 40 percent of Japan's trade with GATT members was involved. Over the years, the invocation of Article XXXV was gradually withdrawn. Nonetheless, at the end of 1973, Austria, Haiti, Ireland, and South Africa were still applying Article XXXV with respect to Japan, as were a number of former colonies that had inherited their mother country's invocation.

As a GATT member, Japan participated in the fourth and fifth rounds of tariff negotiations and granted limited concessions to the United States. In the sixth (Kennedy) round, however, Japan participated as one of the 15 countries that negotiated on the basis of a full 50 percent "linear" or across-the-board reductions in duties. Only certain sensitive and agricultural products were specifically excepted. Japan made concessions on about two-thirds of the imports available for concessions entered from the United States. Moreover, when the Kennedy

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1/ Japan's accession to the GATT is covered in USITC, Operation of the Trade Agreements Program, 7th, 8th, and 9th reports.

2/ Article XXXV provides for the non-application of the agreement between particular Contracting Parties.

Round concessions were being implemented, Japan was running a strong trade surplus and completed the staging of its Kennedy Round reductions in April 1971--some nine months ahead of schedule. In April 1972, Japan made unilateral reductions on one-third of its tariff items, and followed this action with a further unilateral reduction of 20 percent on most items in November of the same year.

The table on page 101 shows the growth in U.S.-Japanese trade since 1948. U.S. imports from Japan, starting from a smaller base, increased much more rapidly than did exports. By the late 1950's both imports from and exports to Japan had reached the billion dollar mark, and in the mid-1960's the balance of trade shifted decidedly to Japan's favor. In 1972, the U.S. trade deficit with Japan reached \$4.1 billion, accounting for about two-thirds of the total U.S. trade deficit. The next year, however, U.S. exports to Japan increased 70 percent (from \$4.9 to \$8.3 billion), while imports increased only a little, thus reducing sharply the U.S. deficit with Japan.

United States balance of trade  
with Japan, 1948-73

(In millions of U.S. dollars)

Year	U.S. exports to Japan	U.S. imports from Japan (f.o.b.)	Balance of trade
1948	324.7	62.7	262.0
1949	467.5	82.0	385.5
1950	418.3	182.1	236.2
1951	601.4	204.9	396.5
1952	632.7	229.3	403.4
1953	686.4	261.5	424.9
1954	692.7	279.0	413.7
1955	682.5	431.9	250.6
1956	997.8	557.9	439.9
1957	1,319.3	600.5	718.8
1958	986.7	666.4	320.3
1959	1,079.4	1,028.7	50.7
1960	1,447.0	1,148.7	298.3
1961	1,837.3	1,054.8	782.5
1962	1,573.7	1,357.8	215.9
1963	1,843.6	1,497.7	345.9
1964	2,009.3	1,768.0	241.3
1965	2,080.5	2,413.9	-333.4
1966	2,363.6	2,962.6	-599.0
1967	2,695.0	2,998.7	-303.7
1968	2,954.3	4,054.4	-1,100.1
1969	3,489.7	4,888.2	-1,398.5
1970	4,651.9	5,875.4	-1,223.5
1971	4,054.7	7,260.9	-3,206.2
1972	4,962.9	9,064.1	-4,101.2
1973	8,311.8	9,644.8	-1,333.0

Source: United States Bureau of the Census, Foreign Trade and Navigation of the United States, 1946-63, 1964, 1965; Highlights of the U.S. Export and Import Trade, Report FT 990, December issues, 1967-73.

### Developments in 1973

During 1973, Japanese gross national product increased to a value of \$416 billion, up from \$300 billion the year before. Even though much of this expansion could be attributed to inflation, GNP still increased by 11 percent when measured in constant dollars. This growth rate in real GNP was the highest of the major Western industrial nations in 1973, and almost twice as high as the U.S. rate during the same period. By mid-1973 production in several key industries in Japan--iron and steel, non-ferrous metals, ceramics, pulp and paper, and textiles--were at or approaching full capacity. Total industrial production in Japan showed a 17.5 percent gain over the level of the previous year.

During the year, the government of Japan tried to control domestic inflation first by restraining credit, and then by postponing public works, restricting private non-residential construction, and allocating certain short-supply products. Late in 1973, the restrictions on petroleum exports by the Arab oil producing nations adversely affected automobile sales, and the government required reductions in energy consumption by all major industrial fuel users.

The 1973 expansion spilled over into the foreign trade sector and imports into Japan increased by some 70 percent--from \$19.8 billion to \$32 billion. Japanese exports also increased in response to a brisk worldwide demand to a value of \$36 billion, but at a rate less than half of that for imports. The Japanese export surplus was reduced



from \$9 billion in 1972 to about \$4 billion in 1973. The reaction of the U.S. component in Japan's foreign trade was even more sharply divergent, with imports from the United States increasing proportionately almost as much as total imports, i.e., from a value of \$5.8 billion to \$9.3 billion (c.i.f.), while the value of exports to the United States in 1973 was barely unchanged from the 1972 level (\$9.5 billion (f.o.b.) in 1973 versus \$8.8 billion the previous year). The improved U.S. position resulted from: (1) the U.S. devaluations of August 1971, and February 1973, which elicited a pronounced trade effect after the latter date; (2) the increased prices of the agricultural goods and raw materials which made up a large part of U.S. exports to Japan; and (3) the deliberate efforts of the Japanese government to reduce the previous lopsided trade balance with the United States.

Currency changes.--In early 1973 pressures on the foreign exchange market increased, the United States again devalued, and by mid-March Japan and the other major industrial countries decided to permit their currencies to float against the dollar subject to some government intervention. 1/ Having been revalued upward to 308 yen/dollar (from 360) in the 1971 Smithsonian Agreement, the yen appreciated further to around 265-to-1 in the managed float, and it stayed near that rate during much of 1973. This change represented a 26 percent appreciation from the rate that existed prior to August 15, 1971. The yen fell back somewhat

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1/ During the remainder of 1973 Japan's official interventions in the foreign exchange market involved a reduction in that government's dollar holdings by some \$6 billion.

near the end of the year with the emerging energy crisis, and at the end of 1973 it stood at 280 yen/dollar.

While agricultural and primary products led the increase in U.S. exports it was clear that a wide range of U.S. products became more attractive in Japan after the exchange rate realignments. In a survey conducted by the U.S. Embassy in Japan, all but two of 14 leading Japanese department stores reported marked improvement in the competitiveness of U.S. goods. Sales of U.S. products such as large home appliances, sporting goods, apparel, housewares, and writing instruments all increased, either because of actual price declines or because of much sharper increases in the prices of comparable Japanese goods.

On the other hand, U.S. imports from Japan, after years of showing annual increases in the range of 20 to 35 percent, increased by only 6 percent in 1973. A six percent growth rate relative to the size of the increases that had gone before, represented a virtual stagnation. The value of some U.S. imports from Japan showed significant declines--electrical household appliances, fabric and apparel, and footwear were off by 16 to 41 percent from 1972 levels--and others such as passenger automobiles increased by only 9 percent. These changes appeared to be attributable primarily to the devaluation and the consequent price effect, and to the higher rate of price inflation in Japan than in the United States.

Price increases.--The value of agricultural commodities exported from the United States to Japan more than doubled in 1973 compared with 1972. The value of corn exported to Japan increased from \$200 to \$648

million; that of wheat, from \$162 to \$405 million; that of grain sorghums from \$118 to \$252 million; that of soybeans from \$375 to \$7.6 million 1/; and that of cotton from \$116 to \$184 million.

Higher prices for these commodities contributed to about half of the increases.

Other basic materials such as logs and lumber and metal ores and scrap also showed strong upward trends. The increased demand for steel scrap, for which the United States is the primary source, drove the world price from approximately \$35 to \$190 per ton. Thus, the rise in export prices of primary products had a significant effect on dollar levels of U.S. exports to Japan.

Government action.--During 1973, the Japanese government took some deliberate efforts to reduce its trade surplus with the United States. Effective May 1, 1973, Japan liberalized its foreign investment policies to permit up to 100 percent foreign investment in both new and existing companies. In a number of important sectors, however, foreign investment will continue to be limited either permanently or temporarily through April 1976. In one of these excepted sectors--retail trade--Japan nevertheless agreed to approve the establishment of U.S. wholly-owned retail operations up to a total of 11 stores selling U.S. brand-name products. This liberalization is expected to favor U.S. exports, particularly of consumer goods.

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1/ U.S. exports of soybeans were embargoed for five days and later subject to an export licensing system. But for this action, the value of exports would probably have been still higher.

Effective April 1, 1973, the Japanese customs tariff was revised to extend the "preferential" rates applicable to developing countries to imports of agricultural and marine products. Other reductions, however, were applicable to products imported from the United States. These latter reductions involved changes in Japan's "temporary rate" column. The "temporary" rates were extended on 187 tariff items (to March 31 1974), and temporary rate reductions were made on 32 tariff items including soybean and certain other vegetable oils, lard, sulphur, ball bearings and parts of bearings, tractors, motor vehicle engines, and air conditioners. Although reductions in the temporary rates did not involve an international commitment, products imported from the United States were dutiable at the lowest rates applicable (excluding the preferential rates), and hence the reductions and extensions within the temporary rate column were of benefit to the United States.

Toward the end of 1973, Japan continued to impose import quotas on 30 four-digit BTN categories, but the number of categories so restricted had been reduced from 120 in 1969. Items freed during 1973 included certain smoked fish, temporarily preserved grapefruit, roasted groundnuts, certain sorghum flours, and integrated circuits with less than 200 elements. In June 1973 the Japanese Government announced that it intended to free three more categories by the end of 1975--computers and peripheral equipment, computer parts, and integrated circuits with 200 or more elements. Some remaining categories subject to quotas and

of particular U.S. interest include beef, citrus fruits and fruit preparations, wheat flour, and dairy products. None of the remaining quotas appear justified under the GATT.

One other action by the Japanese Government seems to have had a favorable impact on certain U.S. exports in 1973. That action introduced a "parallel import" system that permitted importers other than exclusive agents to import name-brand foreign products. Previously, the government had closed off other channels for such name-brand products. The action was taken as an anti-inflation measure. The U.S. Embassy survey showed that the new "parallel import system" was a positive factor affecting the competitive position of a number of U.S. consumer products.

## CANADA

Canada and the Trade Agreements Program

Of the 16 bilateral agreements concluded under the Trade Agreements Act between 1934-37, the Canadian one in 1936 was probably the most far reaching. A new and expanded trade agreement was negotiated with Canada during the Act's first extension (1937-1940), and a supplementary agreement relating to only one product (silver fox furs) was negotiated during the second extension (1940-43). Canada and Cuba were the only two countries with which the United States concluded agreements during every extension of the Act prior to 1943. The U.S. Trade Agreements Program became essentially dormant during the war years of 1943-46, but when the Program became multilateral, with the signing of the General Agreement in 1947, Canada was one of the original contracting parties.

Canada did not negotiate with the United States at the Annecy Conference in 1949 and made no important changes in its tariff rates in 1949. Canada did participate in the Torquay Round in 1950, however, and the United States reported that the direct agreements with Canada and Germany "applied to the greatest amount of trade." <sup>1/</sup> Canada also took part in the 1956 Geneva Round and again in the 1960-62 Dillon Round.

In the Kennedy Round, Canada was included as a "special arrangement" country. At the Ministerial meeting preceding the Kennedy Round the participants resolved that the tariff negotiations were to be conducted

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<sup>1/</sup> USTC, Operation of the Trade Agreements Program, 4th Report, 1967.

on a linear basis (i.e., across-the-board) and 15 nations did, in fact, negotiate that way. A number of countries, Canada included, negotiated instead on an item-by-item basis (i.e., the "special arrangement"), because their exports were concentrated in agricultural and primary products. Canada ended the negotiations with one of the highest tariff schedules among the developed countries.

In 1965, Canada and the United States entered into the Canadian Automobile Agreement discussed in an earlier chapter. Unlike the United States, which applied the duty-free treatment for automotive products provided in the Agreement only to those entered from Canada, the implementation of the agreement by Canada was on an MFN basis. As noted earlier, this agreement contributed to the shift in the U.S. balance of trade with Canada from an export to an import surplus, and since 1970 the U.S. deficit in automotive trade with Canada has amounted to about half of the U.S.-Canada total trade deficit.

As shown in the table below, U.S. exports to Canada increased at an average annual rate of about 6 percent between 1948 and 1964. U.S. imports from Canada increased at a slightly faster rate, equivalent to about 6.3 percent annually. Between 1965 and 1973, however, U.S. exports to Canada increased at an annual rate of 13 percent, and imports from Canada increased at a rate of about 17 percent annually.

United States Balance of Trade  
with Canada, 1948-73

(In millions of dollars)

Year	U.S. exports to Canada	U.S. imports from Canada (f.o.b.)	Balance of trade
1948-----	1,944.4	1,593.3	351.1
1949-----	1,958.9	1,551.0	407.9
1950-----	2,038.6	1,960.5	78.1
1951-----	2,693.0	2,275.3	417.7
1952-----	3,003.2	2,386.5	616.7
1953-----	3,197.5	2,461.6	735.9
1954-----	2,965.5	2,376.6	588.9
1955-----	3,404.1	2,653.4	750.7
1956-----	4,148.7	2,893.6	1,255.1
1957-----	4,040.7	2,906.9	1,133.8
1958-----	3,538.9	2,673.6	865.3
1959-----	3,824.5	3,042.0	782.5
1960-----	3,809.8	2,900.8	909.0
1961-----	3,826.3	3,270.0	556.3
1962-----	4,045.0	3,660.0	385.0
1963-----	4,251.3	3,828.6	422.7
1964-----	4,915.2	4,239.1	676.2
1965-----	5,642.2	4,832.6	809.6
1966-----	6,660.8	6,124.9	535.9
1967-----	7,164.7	7,106.6	58.1
1968-----	8,072.3	9,005.2	-932.9
1969-----	9,137.0	10,383.6	-1,246.6
1970-----	9,079.3	11,092.0	-2,012.7
1971-----	10,365.7	12,761.7	-2,396.0
1972-----	12,415.2	14,926.7	-2,511.5
1973-----	15,072.8	17,442.9	-2,370.1

Source: United States Bureau of the Census, Foreign Trade and Navigation of the United States, 1946-63, 1964, 1965; Highlights of the U.S. Export and Import Trade, Report FT 990, December issues, 1967-73.



Developments in 1973

Canada shared in the expansion which characterized world economic developments in 1973. Canada's GNP amounted to C\$119 billion, up by nearly 15 percent from the level of the previous year. 1/ After adjusting for price changes, the growth was 7.1 percent. In real terms, the performance of the Canadian economy was the best for any year since 1956.

Temporary suspension of duties.--On February 20, 1973, the Government of Canada placed into effect a wide range of temporary tariff reductions (for one year). This use of its customs tariff as an anti-inflationary device represented an innovation in Canadian commercial policy. The entire Canadian tariff was not affected; no cuts were made where an adverse impact on employment would result, where a favorable price impact could not be expected, or where other government policies would have been compromised. Nevertheless, the unilateral reductions were applied on a broad range of consumer products, extended to a depth of 10 percentage points in some instances, and aimed at levies more than 15 percent ad valorem. The total reduction package averaged about 5 percentage points on imports valued at about \$1.3 billion--a trade impact about equal to half of Canada's Kennedy Round concessions. The Canadian government announced that as many as 60 percent of the affected imports originated in the United States. Products

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1/ Average 1973 exchange rate: C\$1.00=US\$1.00.

covered by the temporary reductions included auto parts, certain household appliances, tires and tubes, cattle and meat, citrus juices, mobile homes, drugs, hand tools, and plywood. For many of the items on which the reductions were made, the reduction was sufficient to eliminate the Commonwealth preference. Thus, U.S. exporters benefitted both from the lower rate applicable and from the elimination of a more favored supplier.

The temporary reductions included duty-free treatment for beef and live cattle. When the U.S. price freeze on meat ended in mid-September a flood of cattle, previously held back, entered the U.S. market and some entered the Canadian market. To prevent serious dislocation in the Canadian livestock industry a duty of 1.5 cents per pound on live cattle and 3 cents per pound on beef was reimposed on September 21, 1973.

Energy policy.--In response to the petroleum crisis later in 1973, Canada abolished all import duties on gasoline, light heating oils, diesel fuel, aviation fuel, and feedstocks for petrochemical industries for a two-year period ending October 24, 1975. The suspension of duties on heavy fuel oils, which was due to expire in mid-1974 also was extended to October 1975.

Although Canada is self-sufficient in petroleum, its petroleum reserves are located in western Canada and are not easily accessible to the population centers in the East. Some tanker shipments (by way of

the Panama Canal) have taken place, but another option lies in extending the Trans-Canada Pipeline further eastward to Montreal. The goal of Canada's energy policy seems to be to take better advantage of its own reserves and to isolate the Canadian economy from international oil developments, but the decisions on how this policy was to be implemented were not fully developed by the end of 1973.

Investment in Canada.--In mid-December 1973, the Foreign Investment Review Act passed Parliament, to become effective April 9, 1974. This Act had been introduced in January 1973 and a similar measure had been introduced the previous year. Basically, the Act requires governmental screening of proposed foreign takeovers of large Canadian firms to ensure that the takeovers will result in "significant benefit" to Canada. Eventually, the screening will apply to all new foreign investment in Canada. The establishment of a new unrelated business by "non-eligible" persons is also subject to government approval. A Foreign Investment Review Agency was set up to help administer the Act. Five criteria for significant benefit were established within the Act and these were summarized by the Foreign Investment Division, Canadian Department of Industry, Trade and Commerce as including:

- (1) the effect on the level and nature of economic activity in Canada, including the effect on employment, on resource processing, on the use of Canadian parts, components and services, and on exports;
- (2) the degree and significance of participation by Canadians in the business enterprise and its affiliates;

- (3) the effect on productivity, industrial efficiency, technological development, product innovation, and product variety in Canada;
- (4) the effect on competition within any industry or industries in Canada; and,
- (5) the compatibility with national industrial and economic policies, taking into consideration industrial and economic policy objectives enunciated by any province likely to be significantly affected.

Since the Act did not enter into force until 1974, it was not immediately evident what effect the new legislation would have on new U.S. private investment in Canada. At the end of 1972, the book value of U.S. direct investment in Canada totalled nearly \$26 billion, or four-fifths of all direct foreign investment in Canada. In recent years foreign ownership has extended to about one-quarter of all Canadian corporate assets.

During 1973, the Canada Development Corporation (CDC), a financial institution established by the Canadian government, acquired enough shares of Texasgulf, Inc., a U.S. private mineral corporation with extensive holdings in Canada, to give CDC effective control of the firm. As a result of the acquisition CDC's assets increased to over C\$600 million with major holdings in pipelines, venture capital, pharmaceuticals, and mining, smelting, and refining.

Foreign trade statistics.--In 1973 Canada's exports and imports reached C\$25.2 and C\$23.3 billions, respectively, and resulted in a surplus of \$1.9 billion in merchandise trade.

The improvement in the balance of trade was due to the sharp rise in the prices of agricultural products, petroleum, metals and minerals, and forestry and fishery products. Price increases averaged 15 percent for goods exported and 10 percent for goods imported for the period 1972-73, which improved Canada's terms of trade considerably. The U.S. continued to be Canada's primary trade partner by a large margin, although the value of Canada's exports to Japan nearly doubled in 1973 over the level in 1972, making that country the second important export market for Canadian goods. For the first time, Canada's exports to Japan exceeded the individual level of exports to the United Kingdom and the EEC,

## Canada's foreign trade

(Value in millions of dollars)

Trading area	Exports				Imports			
	1970	1971	1972	1973	1970	1971	1972	1973
United States-----	10,900	12,025	13,926	17,062	9,917	10,951	12,877	16,496
Britain-----	1,501	1,395	1,358	1,589	738	837	950	1,006
Japan-----	813	831	963	1,800	582	802	1,072	1,018
European Economic Community	1,205	1,109	1,136	1,526	805	935	1,150	1,392
Latin America-----	566	568	624	647	546	607	661	888
Commonwealth exc. Britain-----	657	619	576	782	555	547	666	793
Other countries								
All countries-----	16,819	17,820	20,064	25,208	12,952	15,617	18,668	23,315

Source: Canada Commerce, April 1974.

Although the Canadian currency floats against the U.S. dollar it has generally maintained parity. As a result, Canada's exports benefited in terms of its currency realignment relative to the yen and

Western European currencies. The United States also benefitted inasmuch as, generally, prices of Japanese and European goods tended to increase much more than did prices of U.S. items.

In 1973, six groups of commodities--automotive and related products, metal ores, crude oil, wood products, pulp and paper, nonferrous metals, and grains--accounted for about three-fifths of Canada's imports.

As shown in the table, Canadian exports to the United States increased by \$3.1 billion, or by 22 percent, in 1973 over 1972. Most of the increase was automotive and related products, crude petroleum, and wood and pulp. Canadian imports from the United States rose by \$3.6 billion, or 28 percent, in 1973 over 1972. Higher import demand was registered for automotive and related products, industrial machinery, equipment and tools, food, feed, beverages, and tobacco, and other transport equipment.

## Latin America

During the bilateral trade agreement phase of the Trade Agreements Program (1934-1947) more than half of the agreements concluded were with countries in Latin America. Over the years most of these bilaterals were terminated or superseded by the adherence of both parties to the General Agreement. The five U.S. bilateral agreements which remain from this era are all with Latin American countries.

The majority of U.S. trading partners in South and Central America and in the Caribbean maintain trade agreement ties with the United States, either through the remaining remnants of the bilaterals or through membership in the GATT. One of the most important exceptions is Mexico, which is neither a GATT member nor a party to a bilateral trade agreement still in force. Nevertheless, in spite of the lack of a formal trade agreement, the United States has extended all trade agreement concessions in effect to Mexico, and, in turn, Mexico has not discriminated against U.S. trade.

### Integration movements

The process of economic development in Latin America has been trade oriented. Export-led growth has been the rule in most Latin countries due mainly to the predominance of agricultural production in their economies and to their generally small internal markets. Encouraged by the success of the EEC, the Latin American and Caribbean nations have, since 1961, formed several organizations of economic and trade integration.

The largest of these, the Latin American Free Trade Association (LAFTA), was founded in February 1960 with the signing of the Treaty of Montevideo. It was conceived solely in terms of liberalization of trade within the membership, on the grounds that this would enlarge the effective market for the member countries and expand industrial production. At the end of 1973, the membership of LAFTA consisted of Colombia, Ecuador, Peru, Bolivia, Paraguay, Chile, Argentina, Uruguay, Brazil, Mexico, and Venezuela.

The future of the LAFTA as an agent for economic development, however, has clouded. Growth of intraregional trade has lost momentum, and increasing portions of the regional imports are coming from the developed countries, not from within LAFTA as had been hoped.

In 1969, five LAFTA members--Bolivia, Chile, Colombia, Ecuador, and Peru formed a subregional group within the LAFTA--the Andean Group. This Group's goal has been economic development through industry allocation and policy harmonization, rather than through expansion of regional trade per se. Trade policy and trade growth have been of secondary importance in the Andean integration program. The Andean Group grew to six members in 1973 with the accession of Venezuela.

The Central American Common Market (CACM), created the same year as the LAFTA, had a more ambitious integration plan. From the beginning it has been a customs union with a uniform external tariff. Moreover, the level of policy coordination within the group has been much more sophisticated than in the case of the LAFTA. Conflicts



among the members over the distribution of benefits under the CACM damaged what had been Latin America's most promising attempt at economic integration. Guatemala, El Salvador, Costa Rica, and Nicaragua continue within the CACM framework, while Honduras has removed itself at least temporarily from the customs union. A war and two crippling national disasters within recent years further retarded economic growth within the CACM.

The membership of the Caribbean Common Market (CCM) and the East Caribbean Common Market (ECCM) includes most of the Caribbean Commonwealth nations. The CCM countries are Jamaica, Trinidad, Guyana, and Barbados, while several lesser developed Caribbean states--Antigua, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Montserrat, and Belize (formerly British Honduras)--make up the ECCM. The transition of all of these Caribbean states from a loose grouping known as the Caribbean Free Trade Area to a customs union will involve the establishment of a common tariff and coordinated regional aid programs.

#### U.S. trade with Latin America

The table on page 121 shows the U.S. exports, imports, and balance of trade with Latin America since 1948. One of the most notable trends has been the slow and erratic growth in U.S. trade with the area--at least through the 1960s. Between 1948 and 1968, for example, the average annual growth rate for U.S. exports to Latin America was

slightly less than 1.3 percent, while U.S. imports from the area grew at about 3.6 percent annually. Annual trade balances were sometimes greatly in favor of the United States, as in 1948 and in 1957, and sometimes greatly in favor of Latin America, as in 1953. Between 1968 and 1973, U.S. trade with Latin America nearly doubled, and while both exports and imports increased, the balance in favor of the United States after declining for several years again increased in 1973.

This U.S. export performance in 1973 can be related to the dollar devaluations of 1971-1973. Nearly all of the countries of Latin America and the Caribbean maintained their old exchange rates against the dollar. Not to have followed the dollar would have made the Latin currencies about 20 percent more expensive in dollar terms in 1973 than they were in 1971. The decision to remain pegged to the U.S. dollar resulted in a depreciation of Latin American currencies against most other world currencies but not against the dollar, and this in turn meant that Latin America faced higher prices for imports from Japan and Western Europe but not for imports from the United States. This new price advantage for U.S. goods tended to increase the U.S. share of the Latin American import market and contributed to the doubling of the U.S. trade surplus with Latin America in 1973.

United States Balance of Trade with Latin America  
and the Caribbean 1/ 1948-1973

(Millions of U.S. dollars)

Year	: U.S. exports : to region	: U.S. imports : from region	: Balance : of trade
1948-----	3,361.9	2,505.8	856.1
1949-----	2,901.6	2,442.7	458.9
1950-----	2,863.8	3,102.0	-238.2
1951-----	3,914.2	3,548.1	366.1
1952-----	3,678.6	3,635.8	42.8
1953-----	3,316.8	3,654.3	-337.5
1954-----	3,555.0	3,518.2	36.8
1955-----	3,499.0	3,608.0	-109.0
1956-----	4,094.7	3,961.5	133.2
1957-----	4,960.0	4,140.0	820.0
1958-----	4,460.1	4,028.3	431.8
1959-----	3,867.5	4,027.0	-159.5
1960-----	3,873.1	3,962.1	-89.0
1961-----	3,846.7	3,723.8	122.9
1962-----	3,678.8	3,928.5	-249.7
1963-----	3,962.4	4,018.3	-55.9
1964-----	4,292.2	4,148.3	143.9
1965-----	4,992.8	4,365.2	627.6
1966-----	3,913.2	3,936.5	-23.3
1967-----	4,716.9	4,629.8	87.1
1968-----	4,337.6	5,139.4	198.2
1969-----	5,575.6	5,160.8	414.8
1970-----	6,531.8	5,834.1	697.7
1971-----	6,482.6	6,036.0	446.6
1972-----	7,271.4	6,997.5	273.9
1973-----	9,928.8	9,329.6	599.2

1/ "Latin America and the Caribbean" is taken to be the western hemisphere excluding the United States, Canada, and Greenland.

Source: U.S. Bureau of the Census, Foreign Trade and Navigation of the United States, 1946-63, 1964, 1965; U.S. Bureau of the Census, Highlights of the U.S. Export and Import Trade, Report FT990, December issues, 1967-73.

LAFTA developments in 1973

In 1973 the end of the transition period of the Latin American Free Trade Association (LAFTA) was to have been reached with the removal of all tariff barriers between member nations. However, no substantial tariff concessions had been made since the middle 1960's, and it has been clear for some time that the goals of the Treaty of Montevideo would not be reached within the twelve years originally allotted.

The Protocol of Caracas, negotiated in 1969, extended the transition period to 1980, principally by reducing the proposed average annual intra-area tariff cuts to 2.9 percent from 8 percent. It also authorized a reconsideration of the list of permanent concessions available to all members. During 1973, Chile, Peru, Colombia, and Uruguay ratified the Protocol, completing the approval process required by the Treaty of Montevideo, and thereby rendering the Protocol effective.

Complementation agreements.--Complementation agreements, which provide for two or more members to establish free-trade within the LAFTA for specified products before the completion of the LAFTA transition period, have proved to be a vehicle for trade expansion. These agreements were designed to accelerate development by enabling the industries involved to effectively coordinate their production and intra-regional marketing plans. They have been made on an industry-by-industry basis and have applied only to those members in whose territories the negotiating industries were located. Of the twenty

agreements of this type entered into since 1962, sixteen were approved in the last five years. During 1973, a new agreement was concluded which involved dye and pigment industries in Argentina, Brazil, Chile, and Mexico.

Energy policy.--In April 1973 LAFTA members formed the Latin American Energy Organization (OLADE) to study and deal with their rising dependency on imported fuels. Since only Bolivia, Colombia, Ecuador, and Venezuela are free of the burden of importing large quantities of fuels, the rest of the LAFTA must maintain a growing value of exports to pay for the increased energy imports. The price of energy imports was already rising before the prices for imported fuels began their rapid climb in late 1973. In essence, OLADE is a recognition that substantial increases in fuel prices pose a threat to development programs in Latin America.

Trade policies and trade trends.--Nearly all the LAFTA members have applied high rates of duty to imports that compete with domestically produced goods. Most of the members also required licenses, either to import goods or to obtain the foreign exchange needed to purchase them. Luxury and "non-essential" imports have been generally dutiable at much higher rates than capital goods or raw materials, if such non-essentials were permitted to enter at all. As a free-trade area, the LAFTA has not had a common tariff applicable to goods from outsiders. During 1973, the basics of this trade policy remained unchanged.

The trade policies of two countries, Mexico and Brazil, both of especial commercial importance to the United States, were particularly reflective of the trade policy outlined above. Mexico has used an import licensing system that encourages and protects domestic industry. This system, together with Mexico's tariff policy, has resulted in substantial substitution of imports with domestic manufactures.

Brazil's trade policy also has been based on import substitution. Through a series of import licenses and tariffs that can range as high as 200 percent ad valorem on luxuries, "non-essentials," and goods that compete with domestic manufactures, foreign exchange has been freed for the importation of capital goods and raw materials (dutiable at lower rates) and domestic industry has been encouraged. Export promotion has been another goal of Brazilian trade policy. Tax exemptions, funds for market research, and special loans have been available to firms that produce for export.

The formal arrangements under which Venezuelan trade with the United States took place underwent a significant change in mid-1972, preparatory to Venezuela's adherence to the Andean Pact. The external trade of Venezuela will now be carried on in accordance with the group's proposed Common External Tariff and the BTN-based Andean Tariff Nomenclature (NABANDINA). An exchange of notes between the U.S. and Venezuela continued the low U.S. tariffs on Venezuelan crude petroleum and reaffirmed the most-favored-nation status.

The termination of the bilateral trade agreement with Venezuela would have caused the U.S. rates of duty on crude petroleum to "spring back" to the statutory rates (listed in column 2 of the TSUS), since the trade agreement rates of duty (listed in column 1) on crude petroleum were found in the Venezuelan agreement and not in the U.S. schedule of concessions in the GATT. However, the entire matter became moot when, on May 1, 1973, the United States suspended all duties on petroleum and petroleum products.

The intraregional trade of the Latin American Free Trade Association has not grown rapidly, and since 1969 the trend has been for both South and Central America to increase the proportion of their total trade with Europe, Japan, and petroleum exporters outside of Latin America. Nevertheless, it is significant that the trend in intraregional trade is toward more exchange of industrial goods and a diversification of the kinds of goods traded.

Although U.S. trade with the LAFTA countries in 1973 was still over ten percent of total U.S. trade, it has been a decreasing portion of total U.S. trade for over 20 years. By the same token, the U.S. has become less important, proportionately, in the trade of the LAFTA countries. In 1973, the United States received slightly more than a quarter of the region's exports, and supplied nearly two-fifths of its imports, both down from the 1968 levels.

U.S. exports to LAFTA countries consisted mainly of industrial machinery, transport equipment, chemicals, iron and steel, some refined petroleum products, and foodstuffs (principally grain). Three-quarters of the value of U.S. exports to the LAFTA in 1973 went to Brazil, Mexico,

and Venezuela, and comprised from nearly a third to nearly two-thirds of the value of their total imports. In 1973, despite the long-term decline of the U.S. share of the LAFTA's import market, U.S. exports to the region were up by about two-fifths from the previous year for the first increase in market share since 1970.

LAFTA's exports to the U.S. were composed primarily of food-stuffs and raw materials including coffee, sugar, cocoa, meats, bananas, copper, tin, and crude petroleum. Over half of the coffee imported by the United States was from LAFTA nations.

#### The Andean Subregional Group

Although no new development programs were approved by the Commission of the Andean Pact, 1/ the member countries made important progress toward defining the method and scope of the integration of their economies. The Andean Group now seems to be at the forefront of Latin American economic integration.

Progress slowed in the area of external tariff harmonization. By the end of 1973, only Chile, Peru, and Venezuela had adopted the NABANDINA, the Andean common tariff nomenclature. The adoption of a common nomenclature has been considered to be a prerequisite for the successful establishment of a common tariff system. Not surprisingly, there was no movement toward a common external tariff during the year, as the Group had been unable to implement even the first steps of a

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1/ The Commission is the supreme organ of the Andean Pact and is composed of one representative from each of the member governments. All proposals of the Secretariat and acts of the organization require two-thirds approval of the Commission before being submitted to the member governments for implementation.



"Common Minimum External Tariff." Annual adjustments in member countries' external tariff rates were to have equalized the rates of all five countries (now six with Venezuela) by December 31, 1975. By the middle of 1973, however, neither Colombia nor Peru had approved even the first adjustments, which were due on December 31, 1972.

The trade policies of the original five members have varied greatly with Ecuador and Bolivia having had the fewest restrictions to imports and Peru and Colombia having had the most. Chile has maintained stringent exchange controls. Venezuela was highly protective of domestic industry, especially before it entered into the Andean Group.

Adherence of Venezuela.--The adherence of Venezuela to the Agreement of Cartagena, which established the Andean Group, was a major event. Although a participant in the original negotiations, Venezuela had not signed the Agreement of Cartagena when it was drawn up in 1969. The signing of the Consensus of Lima on February 13, 1973, which provides for Venezuela's accession, was the first step in Venezuela's admittance. Venezuela became a functioning member later in 1973 following the ratification of the Consensus by the other member countries. Venezuela agreed to assume the tariff schedule adjustments decreed in the Agreement of Cartagena within 120 days from the date of the last ratification, and several late-1973 ratifications meant that the tariff adjustments would be made early in 1974. The BTN-based common tariff nomenclature, NABANDINA, was adopted by Venezuela on May 1, 1973.

The benefits to the subregion as a result of Venezuela's entry are expected to increase. The Group's potential importance, both as a market and as an integrated economy, has been greatly enhanced by the Venezuelan population, industry, capital, and raw materials. In turn, following Venezuela's entry into the Andean Group the total sub-regional population increased to 72 million and the GNP of the Group rose by 44 percent, which considerably augmented the size and purchasing power of the subregional market.

Venezuela's accession was accompanied by certain safeguards. As a Group member, Venezuela now has a veto on the level of the rates in a future Andean common external tariff. Venezuela received an enlarged list of exceptions to internal tariff reductions of the Group, and escape clauses from external tariffs on agricultural imports. Unilateral action by Venezuela in matters concerning duties on agricultural imports and devaluation are to be permitted pending review by the Commission. A further concession to Venezuela was made in an amendment to the Andean Foreign Investment Code to allow unregulated reinvestment of profits by foreign investors up to five percent of registered capital in portfolio bonds. This amendment permits foreign investors in Venezuela to gradually enlarge the capital base upon which profits are to be repatriated.

Trade policy and trade.--Within the Andean subregion, the member countries were hesitant to place scheduled intra-group tariff reductions into effect. Beginning in 1971, internal duties were to be

automatically reduced to zero over a 10-year period on all Andean goods not either specially exempted or included in a sectoral program. Throughout most of 1973, neither Colombia nor Chile had implemented the second (1972) round of annual tariff reductions that they and Peru had ratified earlier. Nevertheless, by the end of 1973 these members were back on the time table.

Bolivia and Ecuador were not required to participate in the annual reductions until December 31, 1976. In the meantime, tariff concessions on products of interest to these two more severely underdeveloped Group members were implemented by the other member nations on December 31, 1973. Additional items from Bolivia and Ecuador are to be duty-free throughout the subregion.

A related issue complicating the removal of the Andean Group's internal tariffs has been extra-subregional trade conducted under complementation agreements between members of the Andean Group and the other countries of LAFTA. These agreements have the potential of undercutting both the intra-Andean-Group tariff preferences and the exclusive production rights granted under the Group's sectoral programs. Chile, nevertheless, was authorized by the Commission to join the dye-and-pigment complementation agreement noted earlier, in spite of the inclusion of chemicals in the Andean Group's sectoral programming schedule.

Trade among the members has grown more rapidly than extra-Group trade since the Group's incorporation in 1969. Between 1968 and 1973, total exports of the Group increased at an average rate of about

11 percent per year, and total imports grew in value by nearly 12 percent per year. In the same period, however, intra-Andean Group exports averaged an annual growth rate of almost 30 percent. The base on which intra-Group trade grew was small, nevertheless, and in 1973 intra-Group exports still accounted for only about 5 percent of the value of the region's total exports. The more developed members of the Group--Chile, Colombia, and Peru--have dominated the subregion's internal trade from the start. In 1973 they generated almost four-fifths of intra-Group trade. However, their share of intra-group exports has dropped and their share of imports has risen. This trend is generally taken to reflect the success of the preferential tariff concessions allotted to the less developed members, Ecuador and Bolivia. Bolivia's exports to intra-group markets increased six fold in value between 1968 and 1973, and Ecuador's exports more than tripled.

Venezuela's implementation of the internal tariff reductions scheduled under the Agreement of Cartagena will also stimulate intra-Group trade. Trade liberalization is, however, only a preliminary step to the achievement of a common Andean market. When industries allocated exclusively to each member country under the sectoral programs are in operation, intraregional trade can be expected to increase at an even faster rate than it has done in the last five years.

U.S.-Andean Group trade accounts for a small and declining portion of total U.S. trade. In 1973, less than two percent of U.S. exports went to the Andean Group (less than three percent if Venezuela is

included). In the Group's five years of operation (1968-73), U.S. imports from the Group dropped from nearly three percent to only 1.6 percent of the value of total U.S. imports. The U.S. share of Andean Group imports has also declined, from 41 percent in 1968 to 32 percent in 1973.

U.S. exports to the subregion consist mainly of manufactures, wheat, and chemicals. Nineteen seventy-three was a good year for U.S. exports to the Group, reflecting the higher reserve positions and intensified developmental activity of most of the members.

Over half of U.S. imports from Andean Group countries are foodstuffs. Twenty-one percent of the green coffee, bananas, and plantains imported by the United States in 1973 were from the six Andean countries. Large amounts of shellfish, sugar, copper, tin, and nitrates also come to the United States. Over 80 percent of the value of Venezuelan exports to the United States is attributable to petroleum.

Other Andean Group developments.--During 1973 the other major Andean Group developments involved consideration of the Sectoral Programs for Industrial Development, speculation about the impact of the Andean Foreign Investment Code, and preparation for the Group's participation in the proposed multinational trade negotiations.

Sectoral Programs for Industrial Development were proposed in the automotive and petrochemical industries in 1973. Although no country allocations were made in either sector, tentative lists of products to be produced were drawn up. The metalworking sectoral program, approved

by the Commission in August 1972, has yet to be ratified by all the member countries. Moreover, it must now be amended to provide for Venezuela's inclusion. As a result, none of the sectoral program for industrial development were in operation at years-end.

The Foreign Industrial Code (AFIC) had been ratified by all the members of the Group before 1973. Though there is uncertainty in the exact meaning of some of the AFIC provisions, all the members have endorsed its goals of increasing local capital investment and of strictly regulating the conditions under which foreign capital will operate within the Group. 1/

The impact of the code on U.S. direct investment in the area has been uncertain. The effect of local political and economic conditions on the level of investment seem, thus far, to have been much more important than the effect of the AFIC. Moreover, there are special provisions in the code that would allow the individual governments to exempt public services, banks, transportation industries, and basic industries such as mining and petroleum from the provisions that require majority local ownership and forbid new foreign direct investment. These special provisions have been invoked by most of the members. Presently, however, uncertainty over the harsh profit-remittance requirements of the code is thought to have had an adverse effect on foreign investment, and the entry of new private foreign capital into the region has been declining.

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1/ For a description of the code and its amendments see USITC, Operation of the Trade Agreements Program, 24th Report, p. 146.

It was expected that in 1973 a common Andean policy on technological transfer would be proposed, and this occurred during the 13th Ordinary Session of the Commission at the end of November. Progress was also expected on coordination of agricultural policies and the formation of an Andean Court, but this action was deferred until 1974.

Through Peru the Andean Group expressed dissatisfaction with the Tokyo Declaration of September 1973. Feeling that the developing nations were not benefitting proportionately from the increased world trade fostered through the GATT, the representative of Peru stated that the declaration did not guarantee an effective share of the benefits of the proposed trade negotiations to either the Andean Group countries or other developing nations. Moreover, the declaration did not adequately express the basic position on future tariff negotiations advocated by Peru at the Conference.

Nevertheless, after the Ministerial Conference the Group formalized its coordination of policies and efforts in trade negotiations, even though individual members were represented in the GATT Negotiating Committee. In any GATT negotiations, however, the Group announced that it would take a common position.

#### The Central American Common Market

The year 1973 was one of uncertain progress towards normalcy in the Central American Common Market (CACM), after nearly four years of interrupted trade and the disruptions caused by the 1969 war between

El Salvador and Honduras. The problems that have blocked progress go beyond the lingering political effects of the 1969 war, however. Serious trade inequalities among the member countries have caused friction within the CACM. Although CACM officials believe that the trade created by the CACM added one percent annually to the growth rate of GNP in the region in the last decade, a faster rate of development and a more equal distribution of the benefits of integration have been required.

A High Level Committee, created to reorganize and revitalize the CACM, held its first official meetings in 1973. Its recommendations were especially concerned with the adoption of a new treaty of integration that would create a Central American Economic and Social Community. The purpose of this community would be to bring about a higher standard of living in Central America through the realization of an equitable economic and social system in the region. Conferences were scheduled for 1974 to study the Committee's recommendations.

The Protocol of San Jose was approved by CACM in 1968. It decreed a 30 percent surcharge on imports from outside the region in order to stem the region's worsening trade deficit. In 1973 the Protocol was renewed for another 5-year period until 1978. Mexico hosted three rounds of CACM meetings in the last half of 1973 in an attempt to help settle the disputes between Honduras and El Salvador that have continued since the 1969 war. The prospects for settlement of the border dispute and



for renegotiation of consular, diplomatic, and trade relations appeared favorable, but at the last session, in December, major disagreements led to a termination of the talks.

Prices for the region's principal exports of coffee, bananas, sugar, cotton meat, and shrimps increased in 1973. For example, the prices received for coffee exports during 1973 were from 11 percent to 43 percent higher than they were in 1970, and the prices of cotton were from 3 percent to 26 percent over the level of 1970. The volume sold also increased, with banana sales up 25 percent from the 1970 level and the quantity of coffee exported up 18 percent. Intraregional trade in the Central American Common Market has accounted for between one-fifth and one-fourth of the value of the area's total trade over the past five years. The United States is still the area's most important trading partner, receiving nearly 40 percent of CACM's exports in 1973 and supplying 40 percent of its imports. The U.S. share of the import market rose in 1973 due in part to the increased competitiveness of U.S. products under the realigned exchange rates. U.S. exports to the CACM countries consisted mainly of machinery, manufactured goods, transport equipment, and chemicals. The CACM accounted for less than one percent of total U.S. trade in 1973.

#### The Caribbean Common Market

In 1973, the Caribbean Common Market (CCM) replaced the Caribbean Free Trade Association (CARIFTA), and thereby extended the scope of

economic integration and development in the Caribbean. CARIFTA was founded in 1968 as a response to the earlier failure of the West Indies Federation in 1962. The latter organization had attempted the political and economic union of some of the Caribbean Commonwealth nations, whereas the goals of CARIFTA were more narrowly economic.

The transition from CARIFTA to the CCM was made in 1973 only by Jamaica, Trinidad, Guyana, and Barbados. The less developed CARIFTA members, which comprise a subregional group, the East Caribbean Common Market (ECCM), had until May 1, 1974, to decide whether they wished to join the CCM. The CCM is part of a broader plan for a Caribbean Community. Jamaica, Guyana, and Trinidad are required to implement a common external tariff among themselves within three years and Barbados and the ECCM must do likewise by 1981. The Caribbean Development Bank, founded under CARIFTA, will channel aid and technical assistance to the ECCM to insure them proportional benefits under the CCM and a more equal level of development.

Under the Caribbean Community, a high level of policy integration is planned. Emphasis is to be placed on the harmonization of fiscal incentives to direct foreign investment in the region. The location of new industry is also to be a matter of regional policy. Regional agricultural planning and financial and monetary policy cooperation are other major goals. In matters of foreign policy, the Caribbean Community is to present a unified front before international organizations, and semiannual meetings of the Foreign Ministers have been planned

to coordinate the foreign policies of the members.

Under CARIFTA, the external tariff rates of the member countries were levied individually. Jamaica, Trinidad, Guyana, and Barbados encouraged capital goods imports with low tariffs. With the exception of Barbados, they followed an import substitution policy with respect to other manufactured goods, using high duties and some outright prohibitions of manufactured imports. Luxury goods were also prohibited or heavily taxed. On the other hand, those countries in the ECCM that were more dependent on imports generally had lower duty rates. All CARIFTA members granted tariff preferences to imports from other Commonwealth countries.

The expiration of the Commonwealth preference system following the United Kingdom's entry into the European Common Market has caused the CCM and the ECCM to seek EEC trade preferences to assure markets for their agricultural exports. The two groups also hope to qualify for aid from the European Development Fund.

U.S. trade with the CCM nations, Jamaica, Trinidad, Guyana, and Barbados, accounted for less than one percent of total United States foreign trade in 1973. Principal exports from the United States to these countries have included machinery and transport equipment, chemicals, meat, and grain. Imports have chiefly consisted of primary goods such as ores, petroleum, chemicals, and sugar. These commodities accounted for nearly 85 percent of United States imports from the group in 1973.

The United States is the major trading partner of Jamaica and Trinidad, taking well over 40 percent of their exports from 1967 through 1973. Bauxite constituted over half the value of U.S. imports from Jamaica from 1971 through 1973. Over 80 percent of the value of U.S. imports from Trinidad in 1971 and 1972 consisted of petroleum and petroleum products.