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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Alfred E. Eckes, Chairman

Paula Stern

Veronica A. Haggart

Kenneth R. Mason, Secretary to the Commission

Report principally prepared by

Office of Economics

John W. Suomela
Director

Martin F. Smith
Chief, Trade Reports Division

Thomas F. Jennings
Barbara G. Norton

Paul R. Golding
Hilliard H. Goodman
Patricia G. Marx
Kim A. Skidmore
Jerry Tempalski

Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436

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INTRODUCTION

Section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that, at least once a year, the United States International Trade Commission submit to the Congress a factual report on the operation of the trade agreements program of the United States.

The trade agreements program encompasses "all activities consisting of, or related to, the administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution . . ." 1/ and other legislation. Among such other laws are the Reciprocal Trade Agreements Act of 1934 (which modified the Tariff Act of 1930 and started the trade agreements program), the Trade Expansion Act of 1962, the Trade Act of 1974, and most recently, the Trade Agreements Act of 1979.

The Trade Policy Committee (TPC) is the mechanism by which most decisions concerning the operation of the trade agreements program are made. The TPC is chaired by the President's principal advisor on international trade, the United States Trade Representative.

This report is the 33d report to be submitted under section 163(b) and its predecessor legislation. The period covered in the report is calendar year 1981, although occasionally, to enable the reader to understand developments more fully, events in early 1982 are also mentioned. The report consists of a preface, a summary, and five chapters. The preface provides background to the report by covering the economic and trade performance of the United States during 1981. Chapter I treats a number of special topics which highlight developments in the trade agreements sphere during the year. Chapter II concerns activities in the General Agreement on Tariffs and Trade (GATT), the main area of multilateral trade agreement activity. Activities concluded outside the GATT are taken up in Chapter III. Chapter IV discusses bilateral relations between the United States and its major trading partners. The administration of U.S. trade law, including decisions taken on remedial actions available to U.S. industry and labor, is covered in chapter V.

The report was prepared principally in the Trade Reports Division of the Commission's Office of Economics. Substantial assistance was provided by the Commission's Office of Executive Liaison, the Office of Tariff Affairs, the Textiles Division of the Office of Industries, and the Research Division of the Office of Economics.

1/ Executive Order No. 11846, Mar. 27, 1975.

PREFACE

The U.S. Economy and U.S. Trade in 1981

Economic Performance of the United States

The U.S. economy began 1981 in the midst of a recovery following a brief, but sharp, contraction in 1980. The first quarter of 1981 saw real fross national product (GNP) grow at a seasonally adjusted 8.6-percent annual rate. Unseasonably mild weather throughout much of the nation allowed normal springtime construction activity to begin earlier than usual in 1981. In addition, rebates spurred car sales.

Partially as an adjustment to the surge of economic activity in the first quarter, real GNP growth declined in the second quarter to a 1.6-percent annual rate. Also contributing to the decline was a decline in sales in the interest-rate-sensitive sectors of the economy, especially housing and automotive. Interest rates moved up sharply in the second quarter of the year. As a result, auto sales, which in the first quarter of the year were at an annual rate of 10.1 million, fell to an annual rate of 7.8 million in the second quarter. Housing starts, which in the first quarter of the year were at an annual rate of 1.39 million units, also fell in the second quarter to an annual rate of 1.17 million units.

By July, the weakness in the housing and automotive sectors spread to other sectors of the economy, and the economy moved into recession. Industrial production, investment spending, and new factory orders fell as firms sought to reduce inventory levels. Reflecting the fall in output, the unemployment rate rose, and capacity utilization declined. Despite the downturn in production, real GNP rose at a 1.4-percent annual rate in the third quarter of 1981.

By the end of the year, the U.S. economy was clearly in a severe recession. Real GNP declined at a 4.8-percent annual rate in the fourth quarter, and the unemployment rate in December was at its highest level since 1975. Despite the weakened U.S. economy, interest rates remained at historically high levels; these high interest rates reduced the prospects for an early 1982 recovery. Despite the weak second half of the year, real GNP in 1981 was 2.0 percent higher than in 1980, and although the growth of U.S. real GNP was weak, it was somewhat stronger than the growth experienced by many U.S. trading partners.

The factor most strongly affecting the U.S. economy in 1981 was the level of interest rates; despite a drop in the inflation rate, interest rates were at historically high levels. The real interest rate (the nominal interest rate minus the inflation rate) has averaged about 3 percent in the postwar period. Because of high inflation, the real interest rate in 1979 and 1980 was actually negative. In 1981, however, the real interest rate averaged 6 percent, as nominal rates remained high while inflation subsided. High real interest rates discouraged both consumers and businessmen from taking on additional debt and contributed directly to the recession.

Several factors contributed to the high interest rates. The Federal Reserve Board (Fed), under the leadership of Chairman Paul Volcker and with the general approval of the administration, continued the restrictive monetary

policy they began in 1979 in an attempt to lower the inflation rate. Despite the Fed's announced intention to fight inflation, lenders, having suffered financial losses in previous years from lending money at low interest rates only to see inflation increase, and having observed an increased interest rate volatility, were reluctant to lend money long term without a large risk premium. Borrowers, on the other hand, were reluctant to borrow money long term at historically high interest rates for fear that inflation and interest rates would subsequently decline, and that they would be stuck with high-interest-rate debt.

High long-term interest rates led borrowers to borrow short term to obtain the funds they needed. Because most borrowing was funneled into the short-term market, and because of the Fed's restrictive monetary policy, short-term interest rates also stayed high.

Long-term interest rates increased rather steadily for the first three quarters of the year and reached their peaks in the early fall. Shortly thereafter, these rates dropped sharply, but by the end of the year, they had begun to move back up. The yield on corporate AAA bonds, which began the year at a then-record 13.00 percent, reached 15.75 percent in early October. The yield on these bonds was 14.50 percent at the end of the year.

Short-term interest rates in 1981 were much more volatile than long-term rates. Short-term rates fell in the first part of the year. In March, they began to move higher and reached their yearly highs in May. Rates fell sharply in the latter half of the year. The rate on three-month Treasury bills, which began the year at 14.50 percent, hit 16.75 percent in May. However, by November, this rate had fallen to 10.25 percent.

Part of the reason for the volatility in short-term interest rates was the close attention paid by investors to the weekly money-stock figures. The interest in this statistic has increased since October 1979, when the Fed adopted its policy of direct control of the money supply. Since the new Fed policy was instituted, a larger-than-expected money-stock increase has generally been accompanied by higher interest rates, and a smaller-than-expected increase by lower interest rates.

In addition to affecting interest rates by changing the expected behavior of the Fed, changes in the money stock can affect interest rates by changing inflationary expectations. A large money-stock increase raises the possibility that the inflation rate will increase in the near future. To guard against that possibility, lenders raise their interest rates to keep their expected real return unchanged. Conversely, a small money-stock increase lowers the possibility that the inflation rate will increase. This allows lenders to lower their interest rates.

The erratic growth rate of the money stock also helped cause interest rates to fluctuate greatly in 1981. The money stock increased rapidly at the beginning of the year. New regulations concerning Negotiable Order of Withdrawal (NOW) accounts were partially responsible for this. For the first 4 months of the year, the money stock increased at a 14.2-percent annual rate. From April to November, however, the money stock increased at a very slow 1.2-percent annual rate. The rate of increase rose dramatically later in the year; from November 1981 to January 1982, the money stock increased at a 17.7-percent annual rate.

The Fed had set a target range of 6.0 to 8.5 percent for M1B 1/ growth in 1981. The increase for the year actually amounted to only 4.9 percent. The previous 4 years had an average growth rate of 7.8 percent.

Contributing to the high level of interest rates was the growing concern about the projected record-high levels of future Federal deficits. The fear was that these deficits, coupled with an economic recovery that would greatly increase the demand for loanable funds in the future, might cause future interest rates to reach new alltime highs.

The tight monetary policy did contribute to slowing inflation for the U.S. economy in 1981. The weakness in the economy, record large harvests, and relatively stable oil prices also contributed to lower inflation. The consumer price index, which had increased 11.3 percent in 1979 and 13.5 percent in 1980, increased only 8.9 percent in 1981. Producer prices rose only 7.1 percent, compared with 11.9 percent in 1980. For January-August 1981, the annual rate of producer price increase was only 4.5 percent. This slowdown in producer price increases implies more good news for consumer prices, provided these savings are passed on to consumers.

Another favorable development in 1981 was the continued progress of U.S. energy conservation. The volume of oil consumed in the United States fell 6 percent in 1981, following a decline of 8 percent in 1980. Part of this fall in consumption reflected the weak economy, but a substantial portion was attributable to price-induced conservation.

The worldwide cutback in oil consumption left the world oil market considerably softer than it has been for several years. As a result, oil prices were virtually unchanged in 1981 after having risen about 250 percent from 1978 to 1980.

Industrial production increased throughout most of the first half of 1981 and reached its peak for the year in July, after which, it declined steadily. By December, industrial production was 6.8 percent lower than it had been in July. Industrial production was down 4.7 percent for the year.

The unemployment rate began the year at 7.4 percent. It edged downward in the first half of the year and hit a low of 7.2 percent in July, but it climbed swiftly in the latter part of the year and reached its high for the year in December at 8.8 percent. The postwar high for the unemployment rate was 9.0, set in January 1975. 2/ The unemployment rate averaged 7.6 percent in 1981.

The record-high levels of U.S. interest rates combined with the lower U.S. inflation rate to attract a good deal of foreign capital to the United States. Because of this large capital inflow and the resultant increase in the demand for dollars, the value of the dollar rose 17.6 percent, on a trade-weighted average, from January through August. 3/ After a drop in

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1/ M1B is defined as the sum of currency plus demand deposits, including now accounts.

2/ In September 1982, the unemployment rate reached 10.1 percent.

3/ Trade-weighted average of 17 industrial countries as reported in International Financial Statistics.

short-term interest rates, the dollar was somewhat weaker during the fourth quarter. Contributing to the general strength of the dollar during the year were the favorable U.S. current-account balance and the turmoil in Poland.

For the year, the dollar was up 11.3 percent on a trade-weighted basis. The dollar was up 25.0 percent against the British pound, 15.1 percent against the German mark, and 8.3 percent against the Japanese yen. The appreciation of the dollar reduced the price competitiveness of U.S. exports in foreign markets and made it more attractive for U.S. residents to substitute imports for domestically produced goods. These relative price effects contributed to a growing merchandise trade deficit in 1981.

Trade Performance of the United States

The U.S. current account registered a surplus of $6.6 billion in 1981, up from $3.7 billion in 1980. This marked the fourth consecutive annual increase in the current-account balance and the seventh surplus in the last 9 years. A steady rise in net services earnings kept the current account in surplus for the year. However, the sharp appreciation of the dollar increased the merchandise trade deficit in 1981, despite a sharp drop in oil imports.

The U.S. merchandise trade deficit was $27.8 billion in 1981, compared with $25.3 billion in 1980 and $27.3 billion in 1979. The first annual increase in the U.S. trade deficit since 1978 occurred in 1981. The merchandise trade deficit rose throughout the year as the continued strength of the dollar took its toll on the U.S. trade balance. In January-March 1981, 1981 it was $4.7 billion, but by October-December it reached $9.2 billion.

The value of exports increased from $224.0 billion in 1980 to $236.3 billion in 1981, or by 5.5 percent. The value of imports increased from $249.3 billion in 1980 to $264.1 billion in 1981, or by 5.9 percent. From 1979 to 1980, the value of U.S. exports increased 21 percent, and the value of U.S. imports increased 18 percent.

During January-March 1981, the value of U.S. exports reached its highest level ever, as 61.0 billion dollars' worth of U.S. goods were shipped abroad. U.S. agricultural exports were particularly high in this quarter. For the remainder of the year, however, the value of U.S. exports declined, falling to $57.0 billion in October-December. This decline reflected the effects of the worldwide slowdown in economic activity and the appreciation of the dollar.

Agricultural exports rose only 5.0 percent in value in 1981, from $42.2 billion to $44.3 billion, after experiencing 20-percent annual increases for each of the previous 3 years. Although agricultural exports to the Soviet Union increased somewhat after the U.S. embargo was lifted, good harvests among major world producers and weakened economic conditions in many consuming nations combined to keep the volume of agricultural exports unchanged from the previous year.

Nonagricultural exports increased 5.7 percent in value in 1981, from $181.7 billion to $192.0 billion, and export volume fell 1 percent. The increase in the price of U.S. exports caused by the dollar appreciation combined with the worldwide economic slowdown to limit U.S. exports.

Because of a sharp drop in the value of imported oil and the onset of a recession in the United States, the value of imports fell in the second half of 1981 to $131.1 billion from $132.9 billion in the first half. Imports peaked in April-June and were lowest in July-September.

The value of oil imports decreased 1.6 percent in 1981 to $77.6 billion from $78.9 billion in 1980 as the volume of oil imports fell 11.8 percent. The average unit value of petroleum imports rose on a year-to-year basis from $30.57 per barrel in 1980 to $34.30 per barrel in 1981. After reaching a peak in April 1981, the price of imported oil fell almost 10 percent through December. Petroleum import volume fell 9 percent between the first and second halves of the year. For the year, the average number of barrels imported daily declined to 6.25 million from 7.08 million.

The value of nonpetroleum imports increased 9.4 percent in 1981, and the volume of nonpetroleum imports also increased throughout the year, despite the economic slowdown in the United States in the second half of 1981. The volume of manufactures imports increased 17 percent between January-June 1980 and January-June 1981, while the volume of manufactures exports increased only 1.5 percent. The effect of the dollar appreciation increased the competitiveness of imported goods and resulted in the higher volume of imports.

Despite the rise in overall imports, the number of automobiles imported fell in 1981. This was due to depressed economic conditions in the United States and the voluntary limit Japan placed on car exports to the United States.

In merchandise trade, the United States had a trade surplus of $12.3 billion with Western Europe, compared with a 1980 surplus of $20.3 billion. The trade deficit with Organization for Petroleum Exporting Countries (OPEC) countries fell from $38.2 billion in 1980 to $28.8 billion in 1981, primarily due to the decline in oil imports. The trade deficit with Japan rose to $15.8 billion from $10.4 billion in 1980 because of higher U.S. imports in 1980. The deficit with Japan was the largest merchandise trade deficit ever recorded with a single trading partner, and it accounted for over half of the total U.S. trade deficit.

The value of service exports increased 15.7 percent, from $120.7 billion in 1980 to $139.7 billion in 1981, whereas the value of service imports increased 16.4 percent, from $84.6 billion in 1980 to $98.5 billion in 1981. Thus, the surplus in services trade increased from $36.1 billion in 1980 to $41.2 billion in 1981. This was the sixth consecutive annual increase in the services balance. A sharp increase of receipts from net portfolio investment more than offset a sizable drop in the return from direct investments. For the first time in more than 30 years, foreign direct investment in the United States ($18.6 billion) in 1981 exceeded U.S. direct investment abroad ($7 billion).

SUMMARY

World trade declined in 1981 after having increased significantly in 1979 and 1980. World exports fell by $37 billion, or 2 percent, from those in the previous year. The slowdown in trade was the second consecutive year of very slow economic growth in most countries, as major countries continued to apply restrictive fiscal and monetary policies to prevent a new round of inflation in the wake of the second oil price "shock." A poor trade performance by the industrial countries, particularly in their trade with one another, contributed heavily to the global decline.

With international markets not expanding and unemployment rising steadily throughout the year, it is not surprising that the year was marked by "a considerable increase in international trade tensions." 1/ Nonetheless, protectionist pressures were largely resisted, implementation of the Tokyo round agreements proceeded on schedule, and, indeed, the United States and other countries were able to look ahead to the possibility of expansion of international trade through the ministerial negotiations scheduled in the GATT for late 1982.

Selected Issues in U.S. Trade Agreements Activities

In addition to the specific multilateral and bilateral trade issues described in this report, special attention has been given to four trade topics that were particularly important during 1981: 1) the issuance by the administration of a major statement on trade issues the United States will be facing in the next decade; 2) the renewal of the arrangement regarding international trade in textiles; 3) the preparation of a multilaterally developed nomenclature for international trade; 4) and the U.S. initiative to strengthen trade ties with the countries of the Caribbean Basin.

In July 1981, the Reagan administration released a comprehensive statement on trade issues facing the United States in the 1980's. Among the major areas slated for action in the decade ahead are agriculture, investment, services, high technology, Government export credit subsidies, and trade with the less developed countries. The countries of the Caribbean Basin will be the focus of particular efforts in the future. Outlining strategies for meeting the trade challenge ahead, United States Trade Representative William Brock said the United States will continue to pursue a free-trade policy and to vigorously enforce fair trade practices.

Negotiators from major textile-exporting and importing countries agreed late in 1981 to extend the Multifiber Arrangement (MFA) through July 31, 1986. The MFA is the GATT-sanctioned umbrella agreement under which much of the world's trade in textile products is regulated on a bilateral basis. The terms of the MFA extension reflected the determination of the main textile importing countries to limit the growth of their imports of sensitive textile products in view of the slow growth of domestic consumption.

1/ GATT Activities in 1981, GATT Secretariat, Geneva, 1982.

During 1981, the U.S. International Trade Commission began to prepare the conversion of the Tariff Schedules of the United States (TSUS) into the nomenclature structure of the Harmonized System, a multilaterally developed scheme for categorizing products that are traded internationally. The Harmonized System is intended to "harmonize," or make uniform, various national tariff classification systems. It is hoped that converting to the Harmonized System will result in more uniform trade statistics and allow more widespread use of data processing in trade transactions. The Commission is to complete its study on the conversion of the TSUS, and report on what effects the changes will have on U.S. industries, workers, and trade, by June 30, 1983.

During 1981, the U.S. administration announced its intention to establish closer trade ties with the countries of Central America and the Caribbean. By doing so, the United States hopes to spur the economic development of the region and to promote its social stability. Final details of the administration's trade, aid, and investment package proposal were incomplete at yearend. The United States imported almost 10 billion dollars' worth of goods from the Caribbean Basin in 1981, representing about 4 percent of total U.S. imports during the year. Petroleum, sugar, textiles, tobacco, coffee, and strategic minerals were major imports from the region. Roughly 30 percent of U.S. imports from the Caribbean entered free of tariffs in 1981.

International Trade Agreements Activities During 1981

Within the GATT, the principal multinational forum that deals with world trade matters, 1981 was a year of consolidating the results of the Tokyo round of Multilateral Trade Negotiations (MTN) in the face of very difficult economic and trade conditions. The United States and other GATT Contracting Parties also moved to remove forward progress toward the reduction of barriers to the international exchange of economic goods.

Two of the nontariff measure (NTM) codes negotiated in the Tokyo round--covering customs valuation and government procurement--came into effect at the beginning of 1981, as did another round in the scheduled stage-in of MTN tariff cuts. As noted above, the Multifiber Arrangement was renegotiated during the year under the auspices of the GATT Textiles Committee. The number of cases submitted to the GATT for dispute settlement increased in 1981, reflecting heightened tensions caused by the slowdown in world trade. Perhaps most significant for the long-term enhancement of the GATT's role as an arbiter of trade problems was the decision of the Contracting Parties to convene a ministerial-level meeting during 1982. Such an examination of the condition of the world trading system at the political level may serve to strengthen the framework for the conduct of international trade at a time of growing protectionist pressure. It could perhaps even result in a decision to extend the present scope of the GATT system of multilateral discipline on trade barriers to include a broader range of international economic transactions.

Besides the GATT, several other international organizations play important roles in international trade matters, though their trade-related activities are more limited in scope. The United States works actively in the Organization for Economic Cooperation and Development (OECD), a forum for economic policy discussion and coordination among the industrialized

countries. The United States also participates in a number of commodity organizations designed to stabilize the supply and demand for some of the main internationally traded primary products.

The OECD continued to work during 1981 on ways to liberalize investment flows, as well as trade in services, agriculture, and high-technology goods. The OECD also dealt with the need to reduce the trade-distorting subsidy element in officially supported export credits. After extensive negotiations, an agreement to raise interest rates on official export credits was reached in late 1981.

In 1981, the United States was a member of separate organizations created to administer international agreements on trade in five commodities--coffee, natural rubber, sugar, tin, and wheat. It also held observer status in an organization dealing with trade in cocoa. Negotiations for the Sixth International Tin Agreement were concluded in June, but the United States did not sign the agreement because of disagreement over the size and financing of the buffer stock and the issue of export controls. 1/ The United States also participated in study groups, preparatory meetings, or negotiating sessions on cotton, hard fibers, jute, lead and zinc, tea, and tungsten during the year.

U.S. Trade Relations with Major Trading Partners in 1981

By the end of 1981, serious disagreements had developed between the United States and many of its major trading partners. The United States took action to deal with alleged unfair trade practices in exports of steel from the European Community (EC) and held a series of higher level discussions with the EC on its Common Agricultural Policy (CAP); the introduction of a "National Energy Program" in Canada, aimed at reducing the role of foreign companies in energy production, caused serious concern in the United States; Japan's merchandise trade surplus with the United States reached an all-time high, bringing a call from the American side for freer access to the Japanese market; and, finally, the imposition of martial law in Poland in mid-December prompted the imposition of trade sanctions against the Soviet Union and Poland and cooled the climate for trade between the United States and the Eastern European nations.

In January 1981, Greece became the tenth EC member. Despite depressed economic conditions, most EC institutions functioned well during the year. However, internal disagreements arose concerning the EC budget and future funding for the EC's Common Agricultural Policy. U.S.-EC conflicts over steel and EC agricultural policies intensified during the year.

Bilateral relations between Canada and the United States were tense during 1981, following passage by Canada in late 1980 of new laws on energy and measures to strengthen existing foreign investment laws. The new laws were designed to increase Canada's ownership and control of Canadian energy resources and to further limit foreign control of Canadian-based firms. The United States objected strongly to the Canadian actions. Bilateral discussion of these and other issues continued into 1982.

1/ The United States has formally announced its decision not to join the Sixth International Tin Agreement.

Japan and the United States made some progress toward reducing trade tensions when, in May 1981, following bilateral consultations, Japan decided to limit auto shipments to the United States. Then, a soaring Japanese trade surplus with the United States and a large number of smaller bilateral disputes prompted U.S. demands for freer access to Japan's markets. Measures offered by Japan in late 1981 to open its markets were deemed inadequate by the United States, and a serious trade conflict continued into 1982.

In 1981, the United States and Mexico had discussions on a wide variety of issues, including Mexican export incentives and performance requirements, application of U.S. countervailing duty laws to Mexico, U.S. policy on silver stockpile sales, Mexican import licensing requirements, Mexico's local content requirements for autos, and the "graduation" of certain Mexican products from the benefits of the U.S. Generalized System of Preferences. Global oil demand declined during the year, which led to cuts in the prices charged by oil-exporting countries, including Mexico. This development, coupled with stagnant growth of Mexico's exports of manufactured goods, had a depressing effect on the country's balance of payments and tested the ability of the Bank of Mexico to support the peso in foreign-exchange markets.

U.S. trade relations with nonmarket economy countries in Eastern Europe improved somewhat in April 1981 when President Reagan suspended the economic sanctions that had been imposed against the Soviet Union by President Carter 15 months earlier. Soon after, bilateral negotiations were held to extend the U.S. grain agreement with the Soviets. By yearend, however, tensions were increased as the imposition of martial law in Poland prompted President Reagan to impose new economic sanctions against the Soviet Union and Poland.

Administration of U.S. Trade Laws

In 1981, the volume of investigations into the impact of imports on domestic industries in the United States conducted by the U.S. Department of Commerce and the U.S. International Trade Commission continued to be heavy. Antidumping and countervailing duty investigations, along with cases involving unfair import practices, constituted the bulk of the administrative workload in this area.

In 1981, the United States imported 8.4 billion dollars' worth of products duty free under the Generalized System of Preferences (GSP), a temporary tariff preference scheme designed to expand market opportunities in the United States for the products of lesser developed countries. The President "graduated," or removed from eligibility for duty-free treatment, some products from the more advanced developing countries for the first time in 1981. Nonetheless, Taiwan, the Republic of Korea (Korea), Hong Kong, Brazil, and Mexico were the principal beneficiaries under the program, supplying over 80 percent of all GSP duty-free imports during the year.

CHAPTER 1

SELECTED ISSUES IN TRADE AGREEMENT ACTIVITIES IN 1981

The U.S. Trade Agenda for the 1980's

The Congress and the new administration extensively reviewed U.S. trade policy in 1981, both to pinpoint important issues that may confront the United States in the 1980's and to examine the U.S. Government's current handling of trade decisions. It was the first such general review since the Trade Act of 1974 was passed, giving the President the authority to negotiate the reduction of tariff and nontariff barriers in the Tokyo round of the MTN and providing for the creation of the U.S. Generalized System of Preferences (GSP).

During hearings before the Senate Finance Committee in July, United States Trade Representative William Brock made the administration's first comprehensive statement on trade policy--releasing the so-called "white paper" on U.S. trade strategy for the coming decade. 1/ Ambassador Brock confirmed the administration's determination to let market forces govern economic choice, and expressed support for free trade and investment. However, he cautioned that the U.S. commitment to free trade was predicated on free trade being a "two-way street." Asserting that our trading partners should open their markets to U.S. goods and remove existing nontariff barriers to them, he vowed to fully utilize existing U.S. trade laws--such as antidumping, countervailing, and section 301 provisions--to remove impediments to the operation of the free international market.

The U.S. Government is closely monitoring implementation of the Tokyo round agreements and codes by foreign countries, and it is assessing the impact of the MTN codes on U.S. trade law administration. The United States is also advocating the adoption of a Safeguards Code.

The trade policy "white paper" reaffirmed the strong support of the United States for the existing multilateral mechanisms dealing with trade disputes within the GATT. During 1981, the United States and other major trading countries agreed to convene a meeting of the GATT Ministers, scheduled for November 1982. The Ministerial has several objectives: (1) To assess the situation in the world trading system, including compliance with the codes and concessions agreed to in the Tokyo Round; (2) to maintain and strengthen the GATT system; and (3) to determine the future direction of the international trading system, and the need for future GATT negotiations.

U.S. Trade Policy: a free-market approach to trade and investment

Since the Tokyo round was concluded, new strains on the free-trade foundations of the multilateral system have emerged. In recent years, the sluggish growth of most Western nations, teamed with high inflation and

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1/ Statement on U.S. Trade Policy, Ambassador William E. Brock, U.S. Trade Representative, before the Senate Committee on Banking, Housing, and Urban Affairs, July 8, 1981. Unless otherwise indicated, all references to U.S. trade policy in this section are based on this policy statement.

structural adjustment problems in industries such as textiles, autos, and steel, has fueled increased government intervention in the world market, both to support exports and to limit imports. Furthermore, certain newly industrializing countries (NIC's) have yet to assume full responsibility in the world trading system, while other less developed countries (LDC's) have erected new barriers to trade.

Among the most serious instances of Government intervention are export subsidies, particularly as they affect third-country sales (e.g., in agriculture); support for promising new industries (such as computers); distortions of the environment for international investment, whether through incentives or so-called "performance requirements;" nontariff barriers; barriers to trade in services; and impediments to the free flow of information. A principal theme of the administration's international economic and trade policies will be the minimization of market distortions. According to Ambassador Brock, the United States will pursue such issues vigorously in all international forums. The following areas, cited by Brock, will receive particular attention.

Agriculture.--Agriculture is a major component of U.S. exports, accounting for about $43 billion, or 18 percent, of U.S. exports in 1981. While the United States is highly competitive in the international market, structural problems in the agricultural sectors in some other countries, notably the European Community and Japan, have resulted in extensive subsidization of agriculture in the EC and high tariff-quotas on most farm products in Japan. In some cases, this has limited U.S. agricultural sales to third-country markets.

Although agriculture is within the purview of the GATT, trade in agriculture is still much more restricted than trade in manufactured products. This is due, in part, to the strong desire of many countries to maintain adequate food supplies from domestic sources, and to the myriad of domestic programs countries have adopted to achieve this objective. Many countries have intervened in their agricultural sector in order to assure a stable and secure food supply by protecting the incomes of their farmers and/or by promoting their farm output in world markets. During the Tokyo round of the MTN, codes were negotiated covering meat and dairy products. Although the codes can contribute to liberalized trade in these sectors, the basic goal of bringing agriculture substantially within the framework of the GATT was not achieved.

The United States is concerned about its limited access to foreign country markets and about competition with subsidized exports in third-country markets. According to Ambassador Brock, the United States will make aggressive bilateral efforts to lower barriers to U.S. commodity sales and will press its competitors to rationalize production, using section 301 of the Trade Act of 1974, as amended by the Trade Agreements Act of 1979, as necessary.

Investment.--As the leading source of investment capital in the world, the United States has been expressing growing concern about restrictions on the free flow of investment, because such restrictions may alter the market allocation of resources and affect international trade. U.S. direct investment abroad grew from approximately $12 billion in 1950 to $213 billion in 1980. Moreover, receipts on international investment have made a substantial contribution to the strength of the U.S. current account in the past decade; the U.S. surplus of net income from foreign investment increased by more than five times, from $6 billion in 1970 to $33 billion in

1980. 1/ These surpluses helped to offset rising merchandise trade deficits over the same period.

Hindrances to the free flow of investment capital often take the form of government actions designed both to shape the structure of industrial investment and to prop up poor trade performance. A number of countries--both developed and developing--use their control over the ability of foreign firms to invest as a bargaining chip in negotiations with firms seeking to do business in their country. For example, firms may be required to agree to use local labor and parts, or agree to minimum export levels, in order to obtain licenses to import or to secure other essentials for business operations. 2/ Along with the stick, governments may offer carrots--favorable tax regulations, tariff concessions, limited monopoly positions in the economy, and subsidies. 3/ Because of the number of trade and investment restrictions that many countries impose, firms have sometimes found it desirable to set up complete manufacturing operations in the local market in order to be competitive in that market.

The effect of these investment incentives and performance requirements is to change the flow of investment and trade from that which would have occurred without intervention. Export and import substitution requirements can have a direct effect on U.S. trade. Investment incentives may impair normal competition by causing investment to shift from one country to another and thus shift production from one country to another. Performance requirements may require a firm to export a certain volume or value of goods. They may also lead to inefficient choices of inputs (e.g., labor and materials).

To meet the challenge that the proliferation of investment performance requirements has posed, the United States and its trading partners began to discuss ivestment issues in bilateral and multilateral forums in 1981. The United States is attempting to have investment included on the agenda for the 1982 GATT Ministerial and has been seeking to have the principle of "national treatment"

1/ Other U.S. concerns about investment restrictions center on the relationship of such restrictions to U.S. merchandise and service exports. For example, the Commerce Department estimated that in 1977, about one-third of U.S. exports result from trade between U.S. corporations and their affiliates abroad. The International Trade Commission instituted Investigation No. 332-142 to study the impact of foreign trade related performance requirements on U.S. industry. The investigation is due to be completed in late September 1982.

2/ These practices are commonly referred to as "performance requirements." Other performance requirements may cover the amount of capital invested and local employment created, location, limits on foreign ownership and the employment of foreign nationals (particularly technicians and managers), repatriation of earnings, investor financing and access to local capital, and the use of technology and its transfer to the host country on favorable terms.

3/ These practices are referred to as "investment incentives."

applied to investment within the OECD countries. At the July 1981 economic summit in Ottawa, the leaders of the seven major industrial powers agreed to work for the removal of impediments to capital flows. In October 1981, the United States suggested that the OECD undertake an expanded and coordinated program of action on investment issues. 1/ In 1981, the World Bank began a study on investment incentives and disincentives, including an examination of performance requirements and their effects on trade and capital flows. On the bilateral front, the United States has initiated a Bilateral Investment Treaty Program (BIT). The BIT consists of negotiating bilateral investment agreements with interested foreign countries, based on a model treaty that includes provisions limiting the use of performance requirements. BIT negotiations were conducted with Egypt and Panama during 1981.

Services.--The service sector of the U.S. economy has been increasing in importance since 1940, both in terms of employment and in terms of its contribution to national income. 2/ Due in part to the diversity of the industries represented in the service sector--ranging from communications to construction and from insurance to engineering--and to the fact that the international exchange of services takes place through channels and mechanisms that are fundamentally different from the physical passage of goods across borders, the international operations of service companies have yet to be normalized through agreed-upon rules or codes, such as those provided by the GATT for merchandise trade. Barriers to services trade are diverse and often difficult to pinpoint. Examples are the denying of permission to companies that wish to establish offices in a foreign country; exchange controls; unfavorable tax provisions; national security, privacy, and consumer protection regulations that discriminate against foreign firms; and unwillingness to accept scientific testing data from foreign sources. Furthermore, the industries that make up the service sector--such as insurance and banking--are often stringently regulated for a variety of reasons.

According to Ambassador Brock, the service sector will be the focus of increased attention in both domestic policymaking and international trade discussions. The United States intends to push for the removal of many distortions to the free flow of services across international borders. Restrictions on transborder data flows (TBDF), which are often critical to the international operations of both manufacturing and service firms, will receive particular attention. In 1980, the United States began a vigorous program designed to tackle barriers to the international activities of U.S. service firms and initiated background studies on particular service industries. 3/ That effort continued throughout 1981. The United States has raised the issue in the OECD and the GATT, as well as in bilateral talks with major trading

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1/ For more detailed information, see the section in Chapter 3 of this report that deals with U.S. activities in the OECD.

2/ The service sector is defined as intangible economic output sold by establishments. Among the industries typically included in the service sector are: telecommunications, banking, insurance, transportation, health care, and construction/engineering.

3/ The International Trade Commission instituted investigation No. 332-132 to examine the relationship of exports in U.S. service industries to U.S. merchandise exports. The investigation was completed in September 1982, and the results were published in USITC Publication 1290, September 1982.

partners. The November 1982 GATT Ministerial meeting may serve to advance multilateral discussions on this issue toward the U.S. objective of bringing services trade under some multilateral discipline. Meanwhile, Brock said, existing bilateral and multilateral channels will be used to express the United States' desire to liberalize service trade, and the procedures available under section 301 of the Trade Act of 1974 will be used wherever appropriate.

Export credits.--The economic difficulties experienced in the last decade have caused many countries, both western industrialized countries and newly industrializing countries, to support their export sales through the use of government-backed credits, often at below-market rates. Since the 1973 oil shock, the subsidy element of such loans has grown with the rise in inflation and interest rates, because most countries did not raise their official export credit agencies' interest rates by a comparable amount. The substantial subsidy now provided by most official export credits has meant that the financing component of sales of certain big-ticket manufactured goods has become a key element in competition.

In 1978, the United States joined with the 22 members of the OECD's Group on Export Credits and Credit Guarantees to stem the rapid growth in export credit subsidies that distort international competition. 1/ The group adopted the "Arrangement on Guidelines for Officially Supported Export Credits," which sets minimum interest rates and minimum cash payments on the value of goods sold. 2/ The arrangement differentiates in its treatment of loans to relatively rich, intermediate, and poor countries. However, until November 1981, the arrangement did not differentiate between loans made in different currencies. This was a source of dissatisfaction with the arrangement for the Japanese, since their rate of inflation has been generally lower than that of other signatories to the arrangement. This means that, for a given nominal rate of interest, the real interest rate in yen-denominated credits is generally higher than on credits denominated in other currencies.

Since 1978, the United States has been advocating a further increase in officially supported interest rates. The U.S. export credit agency, the Export-Import Bank of the United States, has had difficulty remaining competitive because the bank is forced by law to at least break even from its operations. Although Eximbank's average cost of money is now much higher than it was in 1978, interest rates on official credits have not risen by a similar amount. In late 1981, the United States successfully negotiated with its OECD partners an increase of minimum interest rates of about 2.5 percent. The new interest rates ranged from 9.25 to 11 percent. However, the United States viewed the increase as a temporary solution, and continues to place the raising of the arrangement's interest rates high on its trade policy agenda for the 1980's.

High technology.--Currently, an extensive examination of high-technology policy, from an industrial policy point of view and from an international marketing perspective, is taking place within the U.S. Government. The United States is in a strong international position in many high-technology fields,

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1/ For more detailed information, see the section in ch. 3 of this report that deals with U.S. activities in the OECD.

2/ The arrangement does not apply to exports of military products, aircraft, agricultural goods, or nuclear energy products.

but in some, such as semiconductors, its international lead is slipping. The Commerce Department will study the elements of competitiveness in some of these industries, and the interagency structure will endeavor to craft policy that reflects the importance of this field, both to national security and to the level of global competitiveness.

Nontariff barriers.--The gradual elimination of nontariff barriers (NTB's) to trade, such as the discriminatory use of standards, testing requirements, customs procedures, and the like, remains a key U.S. trade policy objective. Although progress was made in diminishing some of these barriers in the Tokyo round, much more is yet to be done. For example, services are, as a rule, covered in the MTN codes only if those services are incidental to the sale of goods. The administration will seek the reduction in NTB's in the GATT and other appropriate forums. The United States also supports efforts to broaden the acceptance of current and any new GATT codes by less developed and newly industrialized countries. This policy is consistent with the more general objective of having the more advanced developing countries "graduate" to full participation in the rights and obligations of the GATT system.

Trade with less developed countries.--The main objective of the United States with respect to developing countries is to bring them more fully into the international trading system. In 1981, the U.S. Government took several steps toward that goal.

During the year, the operation of the GSP was modified by removing, or "graduating," several more advanced LDC's from eligibility for tariff preferences on some of their exports. Second, the United States revised its aid strategy, placing more emphasis on targeted, bilateral aid and relatively less on multilateral development banks. Third, the United States has been actively seeking the wide acceptance by these countries of free-trade principles, such as those embodied in the GATT, and will seek greater commitments from LDC's to gradually accept more responsibility for the maintenance of the free international trading system. The United States will also seek commitments from these countries to provide a liberalized investment climate, and, in turn, will encourage the U.S. private sector to pursue investment opportunities in the LDC's as the principal means of promoting their economic development.

The October 1981, North-South summit in Cancun, Mexico, proved to be a useful occasion for exchanging views and establishing working relationships for both the Western industrialized participants and the representatives of the developing countries.

The administration intends to give developing countries in the Caribbean Basin particular attention. 1/ Draft plans for a package of investment incentives, trade concessions, and aid programs were formulated by the administration in 1981.

Trade adjustment assistance.--The Trade Adjustment Assistance Program was formulated to ease the adjustment to import competition of industries,

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1/ For a more detailed examination of U.S. trade with the Caribbean Basin, see the discussion in the section on U.S. trade with the Caribbean Basin in this report.

workers, and companies. 1/ In 1981, the Reagan administration shifted the emphasis of the Trade Adjustment Assistance Program away from income maintenance for displaced workers. The program will increasingly be aimed at providing assistance to firms and individual industries. The Department of Commerce will provide specialized technical assistance and professional help to firms by helping develop new technologies, new products, and new markets (including export markets).

U.S. export policy

Export disincentives.--The administration intends to examine current legislation that may have a negative effect on U.S. international competitiveness. Examples of such disincentives include the Foreign Corrupt Practices Act, provisions of the tax codes that tax American workers abroad, and ambiguities in the administration of export control regulations. 2/

Export control policy.--The United States is reassessing its policy towards Eastern Europe, the Soviet Union, and the People's Republic of China (China). 3/ In doing so, the desirability of trade links with these nations and the need to strengthen export control regulations are to be examined. Export control regulations are being reviewed in order to remove items from controls that no longer pose a strategic threat and to add new items that have potential military/intelligence applications. Administration of the controls is also to be improved. According to Lawrence Brady, Assistant Secretary of Commerce for Trade Administration, the administration will tighten controls on exports of high-technology and critical equipment that might enhance Soviet military capability. 4/ The United States will attempt to coordinate these actions with those taken by its fellow members of the Coordinating Committee on East-West Trade (COCOM). 5/

The administration also took a careful look at the impact of expanded trade between the Soviet Union and Western Europe, especially the proposed Siberian gas pipeline project. The United States took a strong stand against the pipeline at the Ottawa Summit and in bilateral talks, claiming that "expanded trade between the U.S.S.R. and Western Europe has significantly

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1/ For information on the operations of the Trade Adjustment Assistance program in 1981, see ch. 5.

2/ For a comprehensive review of export promotion policy and potential export disincentives, see Report to the President on Export Promotion Functions and Potential Export Disincentives, U.S. Department of Commerce, September 1980.

3/ For a more in-depth discussion of the issues in East-West trade, see the section on East-West trade in ch. 4 of this report.

4/ Statement on export control policy before the Subcommittee on Trade of the House Ways and Means Committee on Nov. 2, 1981, p. 4.

5/ COCOM is an informal body that provides a forum for discussion of trade control decisions to promote consistency in application by the participating countries. Its members are all the members of the North Atlantic Treaty Organization (except Iceland) and Japan.

increased Western European reliance on the Soviet Union, both as a supplier of raw materials, especially energy, and as a purchaser of Europe's industrial exports." 1/

During 1981, the administration reviewed its export policy toward China. In July, the Commerce Department adopted a more liberal export policy for China, upgrading the level of technology allowed to be exported.

Extension of the Multifiber Arrangement

On December 22, 1981, negotiators from most major textile-exporting and importing countries agreed to extend the Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA), through July 31, 1986. The MFA is an umbrella agreement, based on a waiver of the most-favored-nation principle set forth in article I of the GATT, under which countries may enter into agreements to regulate their trade in textile products on a bilateral basis.

The terms of the MFA extension reflected the determination of the main textile-importing countries to limit the growth of their imports of textile products in view of the slow growth of domestic consumption. In particular, the new accord provides for the negotiation of bilateral agreements between importing countries and the larger textile-exporting countries that will allow for little or no quota growth on products where trade levels are high. However, new or small textile suppliers will be permitted to expand their exports in line with the original MFA guidelines. Renewal of the MFA before it expired at the end of 1981 also avoided the possibility of the unraveling of the Tokyo round tariff reductions on textiles and apparel. This could have occurred as a result of the reversion of the duties on most textile products to pre-Tokyo round rates, as provided for in the so-called "snapback" provision of section 504 of the Trade Agreements Act of 1979.

Background of the MFA

The importance of the textile and apparel industry to the world economy has long been recognized, and under the auspices of the GATT, special agreements have been concluded between textile-exporting and importing nations to provide for orderly trade in this sector. In general, these agreements have sought to control or restrain the volume of textile exports from low-wage countries to the high-wage countries, primarily in Europe and North America.

The first major restraints on U.S. textile imports involved Japan, which in 1957 instituted a 5-year program of voluntary export controls on its shipments of cotton textile products to the United States. During the years following imposition of the voluntary restraints (1958-61), Japan's share of U.S. imports of cotton textile products declined from 63 to 34 percent; other suppliers, particularly Hong Kong, increased their share.

1/ Statement on export control policy before the Subcommittee on Trade of the House Ways and Means Committee on Nov. 2, 1981, p. 3.

Immediately before the initiation of Japan's 5-year program of voluntary export restraints, legislation was enacted in the United States which granted the President authority to negotiate agreements limiting exports from foreign countries or imports into the United States of textiles or textile products. Section 204 of the Agricultural Adjustment Act of 1956 provides that:

> The President may, whenever he determines such action appropriate, negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries and the importation into the United States of any agricultural commodity or product manufactured therefrom or textiles or textile products, and the President is authorized to issue regulations governing the entry or withdrawal from warehouse of any such commodity, product, textiles, or textile products to carry out any such agreement. . . .

Section 204 was amended in 1962 to give the President authority, if a multilateral agreement has been concluded, to unilaterally control imports of nonsignatories.

In 1961, in response to changing trade patterns and the emergence of new textile-exporting countries, the President announced a seven-point program of assistance for the textile and apparel industry that included a directive to the Department of State "to arrange for calling an early conference of the principal textile exporting and importing countries . . . . [to] seek an international understanding which will provide a basis for trade that will avoid undue disruption of established industries." An instrument was signed in July 1961, entitled "Arrangements Regarding International Trade in Cotton Textiles," with 16 countries participating. This agreement, known as the Short-Term Arrangement (STA), covered the period from October 1, 1961, through September 30, 1962. It created a mechanism for requesting restrictions on trade in cotton products when imports were causing or threatening to cause disruption to an importing country's domestic market.

In addition, the STA provided for the establishment of a committee to search for a long-term solution to the problems associated with trade in cotton textiles and make recommendations consistent with the basic principles of the GATT. In February 1962, negotiations on the committee's recommendations resulted in approval by 19 participating countries of a Long-Term Arrangement Regarding International Trade in Cotton Textiles, referred to as the Long-Term Arrangement (LTA).

The aims of the LTA were basically the same as those of the STA. It attempted to balance the need for increased access to the developed countries' markets by the developing countries with the need to prevent market disruption in importing countries. Initially effective for 5 years, the LTA was renewed in 1967 and 1970. By 1973, there were approximately 82 countries that were signatories.

The LTA did not cover trade in textile products made of wool and manmade fibers. While U.S. imports of wool products were not increasing during 1960-70, imports of manmade-fiber products increased from 31 million pounds to 329 million pounds during the period. This growth in imports provided impetus for the United States to seek to broaden the coverage of the international textile agreements to include products of fibers other than cotton. Consequently, the United States succeeded in negotiating bilateral agreements

during 1970 and 1971 with Japan, Hong Kong, Malaysia, Korea, and Taiwan limiting exports from these countries of wool and manmade-fiber textiles in addition to cotton textiles. Finally, in 1974, about 50 countries participated in negotiations leading to the signing of the MFA. The MFA, which covers textiles and apparel of cotton, wool, and manmade fibers, initially covered the period from January 1, 1974, through December 31, 1977. It was extended for an additional 4 years effective January 1, 1978, and for an additional 4 years and 7 months effective January 1, 1982.

As stated in article 1 of the MFA, its basic objectives are--

> to ensure the expansion of trade in textile products, particularly for the developing countries, and progressively to achieve the reduction of trade barriers and the liberalization of world trade in textile products while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries.

The 1974 MFA was a compromise between the interests of the developed importing countries and the developing exporting countries. It enabled the importing countries to apply selective restraints on particular textile products from particular sources, under certain prescribed circumstances. The exporting countries accepted the MFA, at least in part, with the expectation that it would provide a degree of certainty and stability to an area of world trade that often lacked such stability.

The MFA is a general framework or "umbrella" agreement under which a country may restrain imports of textile and apparel products from particularcountries through the negotiation of bilateral agreements with exporting countries. The MFA is an exception to the principles of the GATT in that it permits import restrictions on a discriminatory basis.

The term of the original MFA expired December 31, 1977. However, after more than a year of negotiations, a decision was reached in late December 1977 to extend the MFA for another 4 years, but with certain "understandings" or interpretations attached to the basic document as part of a protocol extending the MFA. Although the United States initially proposed a simple 4-year extension of the MFA, certain developing countries wanted to change the MFA to allow greater access to the developed countries' markets; the EC supported a more restrictive agreement. A compromise was reached with a two-part document extending the MFA. The first part was a protocol renewing the agreement for 4 years to December 31, 1981. The second part was an interpretive document entitled "Conclusions of the Textiles Committee adopted on 14 December 1977."

A major feature of these "conclusions" was contained in paragraph 5.3, which allows signatories to negotiate bilaterally "jointly agreed reasonable departures from particular elements (of the MFA) in particular cases." This language provided importing countries with the ability to depart from the 6-percent growth rate and from other provisions of the MFA when necessary to solve specific problems. Although paragraph 5.3 allowed departures from the MFA, paragraph 5.4 required that all measures taken within the context of paragraph 5.3 be only temporary, and that bilaterals be returned within the shortest possible time to the general principles of the MFA.

"Reasonable departures" was offered basically to recognize and support a practice which had developed within the MFA bilaterals in cases of particularly sensitive product categories. Countries had been negotiating agreed-upon restraint levels that did not comply with the general provisions

of the MFA that called for 6-percent annual growth. Thus, two countries might agree that sweater quotas would increase at 3 percent per annum (a "reasonable departure") instead of at the MFA's stated growth rate of 6 percent per annum.

The United States currently has bilateral agreements with over 20 countries. Its imports of cotton, wool, and manmade-fiber textiles from these countries have represented about 80 percent of total imports of such textiles. During 1974-81, the overall quantity of U.S. imports of cotton, wool, and manmade-fiber textile products increased by 31 percent, from 4.4 billion to 5.8 billion equivalent square yards (SYE). 1/ Apparel imports increased by 62 percent during the period, from 1.9 billion to 3.1 billion SYE; fabric imports increased by 38 percent, and yarn imports declined by 52 percent.

1981 developments in the textile negotiations

Negotiations with respect to a second extension of the MFA formally began in Geneva, Switzerland, on December 10, 1980, and continued throughout 1981. They finally culminated in a protocol extending the MFA through July 31, 1986.

As was the case during the 1977 negotiations, positions differed considerably among developed and developing countries concerning the extent to which the MFA should be a factor in controlling trade and allocating market shares. The developing countries stated their position in a meeting in Bogota, Colombia, in November 1980. At that meeting, 22 developing textile-exporting countries expressed concern that the commitment of developed importing countries to liberalize world trade in textiles and apparel remained unfulfilled, and that the MFA is discriminatory in that it controls exports from the developing countries but not from the developed countries. Participants at the meeting also stated that world trade in textiles and clothing must be liberalized by means of a gradual return to free trade in conformity with normal GATT rules and practices, and that the "reasonable departures" clause contained in the 1977 Protocol of Extension of the MFA has been widely misused and that all practices deriving from it must be abolished.

The negotiating positions of the developed countries varied considerably. However, certain major elements were present in most of their positions, including the concept of relating import growth to growth in domestic consumption and of restricting import growth from developing countries that are major suppliers.

During the course of the 1981 negotiations, proposals or comments on proposals were submitted by Austria, Brazil, Canada, Colombia (on behalf of developing countries), Czechoslovakia, the European Community, Egypt, Hungary, India, Indonesia, Japan, Korea, Pakistan, Peru, the Philippines, Poland, Portugal (on behalf of Macau), Romania, Sri Lanka, Sweden (on behalf of the Nordic countries), Switzerland, the United Kingdom (on behalf of Hong Kong),

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1/ To measure the overall quantity of textile and apparel imports, the various textile and apparel units of measure (dozens, pieces, yards, pounds, and so forth) are converted to the common unit SYE basis.

the United States, and Yugoslavia. Although there were areas of agreement among countries or groups of countries, there was also considerable divergence of views.

The final meeting of the GATT Textiles Committee began on November 18, 1981, and was to continue until agreement was reached. Due to the many differing proposals that had been tabled, there was some doubt that agreement could be reached prior to the scheduled expiration of the MFA on December 31, 1981. However, on December 22, negotiators agreed on a protocol to extend the MFA for 4 years and 7 months, through July 31, 1986.

Significance of the MFA

The MFA was extended through July 1986 without any change to its basic text. However, appendix B of the Protocol of Extension, entitled "Conclusions of the Textiles Committee Adopted on 22 December 1981," provides certain new guidelines for interpretation and implementation of the MFA.

The most significant difference between this protocol and the 1977 Protocol of Extension is the extent to which the latest protocol provides a certain amount of guidance concerning the circumstances under which departures from MFA provisions could take place. By contrast, the 1977 protocol merely made mention of "the possibility of jointly agreed reasonable departures" without spelling out the types of departures permissible. However, the most recent Protocol is still subject to interpretation and, therefore, may result in greater leeway in future bilateral negotiations than previously existed under the MFA. Consequently, the most significant textile trade issues will, to a large extent, be settled on a country-by-country basis in bilateral negotiations.

Several provisions in the new protocol relate to regulation of trade growth. Paragraph 6 of the protocol deals with finding "mutually acceptable" solutions to problems caused by large supplying countries. Paragraph 9 allows for "mutually acceptable arrangements with regard to flexibility" for the major suppliers and, "in exceptional cases," for rates of import growth lower than the 6-percent norm of the MFA.

Surges in imports which may result when a large quota is substantially underfilled in one year, but then filled or almost filled in the succeeding year, are addressed in paragraph 10. Exporting countries may agree to mutually satisfactory solutions concerning consistently underfilled larger restraint levels which cause or threaten serious damage to domestic industry.

Important provisions in the protocol which may strengthen the position of exporting countries include more favorable treatment of new and smaller suppliers and cotton-producing countries. The protocol also basically restates the existing MFA language concerning TSUS item 807, or outward processing trade, emphasizing that products sent abroad for assembly and subsequently reimported should be given special and differential treatment in terms of quota. In addition, the Protocol requires that claims of market disruption be substantiated by relevant specific factual information.

Apart from its central role in the regulation of textile trade, the MFA was tied to another set of issues by way of the so-called "snapback" provision in the U.S. and EC schedules of concessions on textile products. This

provision was subsequently reflected in the Trade Agreements Act of 1979, which implemented certain of the results of the Tokyo round of the MTN. Section 504 of this act links the maintenance of tariff reductions on certain textile products negotiated in the Tokyo round to the continuance in force during the period of the reductions of the MFA or some suitable substitute arrangement for controlling U.S. imports of textile products.

Because of this, if the textile negotiators had failed to renew the MFA before its scheduled expiration on December 31, 1981, the possibility existed that the United States would have suspended over $60 million in textile and apparel tariff concessions, which may in turn have led to retaliatory actions by the other parties to the Tokyo round agreements. The EC also made their Tokyo round tariff concessions on textiles subject to snapback. However, the United States indicated informally that existing bilateral agreements would, in case of nonrenewal of the MFA, be considered a suitable substitute for the continuation of the MFA. While an actual snapback of U.S. textile tariffs was therefore not probable so long as there was sufficient coverage under bilateral agreements, failure to renew the MFA would have created a number of technical and negotiating problems for the United States.

World trade in textiles and apparel

World trade in textiles and apparel increased at an average annual rate of 15 percent between 1973 and 1980, rising from $36 billion to $94 billion. This compares with the 19-percent annual growth registered in world trade in all products. Consequently, the share of world trade accounted for by textiles and apparel fell during the period from 6.3 to 4.8 percent.

The slower growth recorded in world textile and apparel trade stemmed from a variety of factors, the most important of which was the escalating cost of petroleum, which inflated the value of world trade during 1973-80, as petroleum shipments increased from $63 billion to $468 billion. For textiles and apparel, productivity increases coupled with wage rates that remained considerably lower than those of other manufacturing sectors helped to slow price increases. At the same time, market limitations resulting from stagnant consumption in the developed countries and MFA-sanctioned trade restrictions also contributed to lower growth in textile and apparel trade.

Although textiles and apparel represent less than 5 percent of total world trade, this sector provides the greatest number of manufacturing jobs in the world. The textile and apparel industries employ approximately 25 million workers worldwide and account for about 12 percent of all manufacturing employment in the developed countries and about 28 percent in the developing countries. Textile and apparel employment in the EC, the United States, Japan, and Canada declined from 6.7 million in 1973 to 5.4 million in 1979, before stabilizing somewhat in 1980. By contrast, employment in the developing countries increased, especially in Hong Kong, Korea, and Taiwan. In these countries, employment increases ranged from 22 to 100 percent between 1973 and 1979. Employment growth moderated in the three largest textile-exporting developing countries in 1980, but the general upward trend in the developing countries should continue, largely because of Government policies encouraging greater production of apparel for export as well as for growing domestic consumption.

As world trade in textiles and apparel grew during 1973-80, the gradual shift in sources of supply that developed during the 1960's continued to take place. World production has been shifting from the developed countries to the developing countries, especially where labor is abundant and wages are low. Nevertheless, the developed countries continue to be the major suppliers, as shown in table 1, although their share of world textile and apparel trade declined from 68 percent in 1973 to 62 percent in 1980. The developing countries, on the other hand, increased their share of the trade during the period from 22 percent to 28 percent, largely at the expense of the developed countries. Nearly half of this growth was generated by the so-called "Big Three" (Hong Kong, Korea, and Taiwan), whose exports of textiles and apparel more than tripled from $4.3 billion in 1973 to $13.3 billion in 1980. The remainder of world textile and apparel trade was accounted for by the nonmarket economy countries, whose share of the trade during 1973-80 remained unchanged at 10 percent. The largest supplier among these countries is China, exports from which more than tripled from just under $1 billion in 1973 to $3.5 billion in 1980.

Despite a 5-percent decline in textile production in the developed countries during 1973-80, their textile industries are becoming increasingly capital intensive. This trend is aiding their competitiveness vis-a-vis developing countries. Still, because production of most apparel remains highly labor intensive, the long-term movement of apparel production from areas of high labor cost to the lower cost developing countries (including China) will continue to occur.

Table 1.--Textiles and apparel: World exports, by products and by country groupings, 1/ 1973 and 1977-80

(In billions of dollars)

Item	1973	1977	1978	1979	1980 2/
Textiles:					
Developed countries	17.2	24.5	28.9	34.9	38.5
Developing countries	4.2	6.7	8.4	10.8	11.7
Nonmarket economy countries	1.8	2.6	3.4	4.2	4.8
Total	23.2	33.8	40.7	49.9	55.0
Apparel:					
Developed countries	7.0	12.1	14.4	17.8	19.9
Developing countries	3.8	8.5	10.5	12.7	15.1
Nonmarket economy countries	1.8	2.9	3.5	4.2	4.5
Total	12.6	23.5	28.4	34.7	39.5

1/ Area classifications conform to United Nations regional groupings. Developed countries include principally the United States, Japan, Canada, and the market economies of Western Europe. Nonmarket economy countries include principally China, the U.S.S.R., and Eastern Europe. Developing countries encompass the oil-producing countries and other countries with per capita incomes under $2,000.

2/ Data partially estimated by the staff of the U.S. International Trade Commission.

Source: United Nations, Monthly Bulletin of Statistics, May 1979 and May 1981, except as noted.

It is unlikely that any country, except possibly China, will in the near future attain the growth in export volume that the Big Three achieved during the 1970's. Stagnant internal consumption combined with import controls in the developed countries will tend to limit the growth of their shipments. Most consumption forecasts for the United States and other developed countries predict slow growth in the 1980's, in the range of 1 to 2 percent annually in terms of quantity. This consumption forecast is based primarily on declining population growth, slower economic growth, and shifts in consumer spending habits toward nontextile products.

Nevertheless, although export levels comparable with those of the Big Three are unlikely, considerable growth is possible for new and smaller suppliers. The growth potential arises out of the interaction of many factors, including the capabilities of each country's textile and apparel industries, labor availability and costs, government policies, and the emergence of new markets. In addition, these countries may benefit from a diversion of trade from the Big Three because of problems related to acquiring export quotas on popular apparel items. This shift has become more likely, since the newly extended MFA allows the importing countries to grant more favorable treatment to new and small suppliers and restrict quota growth of the major suppliers. Moreover, rising costs are forcing Hong Kong and Taiwan to "trade up" in quality and fashion. This is creating opportunities in the low-priced apparel markets for new and smaller suppliers.

The Harmonized Commodity Description and Coding System

The international trade community has for decades struggled with the difficulties resulting from the fact that products moving in international trade are subject to many different classification systems. While Canada and the United States maintain their own unique trade classification systems, most other countries of the world use the Customs Cooperation Council Nomenclature (CCCN) as the basis of their systems. These differing classification systems have complicated the preparation of customs and transport documentation, interfered with more widespread use of electronic data processing in international trade transactions, increased the difficulty of analyzing trade data, and promoted uncertainty in the negotiation, application, and interpretation of trade agreements.

Background

The Customs Cooperation Council (CCC) is an international technical body which studies and attempts to resolve customs problems with the objective of facilitating international trade. Since 1973, the CCC has been developing the Harmonized Commodity Description and Coding System, more commonly referred to as the Harmonized System. The Harmonized System is a new system for the classification of products moving in international trade. It is being developed as a comprehensive modern system to be used for customs tariff, statistical, and transport documentation purposes. 1/

1/ For a more detailed description of the Harmonized System, see Interim Report on the Harmonized Commodity Description and Coding System, USITC Publication 1106, November 1980.

The Harmonized System is based on the CCCN, which has been modified to reflect changes in technology, trade patterns, and user requirements since its promulgation in 1952. Additional classification subdivisions have been created to provide for nearly 5,000 distinct product categories. The Harmonized System was designed as a "core" system, which will permit individual countries to make further product subdivisions according to their particular tariff or statistical needs.

The U.S. Government, and in particular the U.S. International Trade Commission, has been an active participant in the technical work on the Harmonized System, as mandated by section 608(c)(2) of the Trade Act of 1974. The U.S. business community has also been involved in the development of the system. As a part of this process, all draft chapters of the Harmonized System were made available for public comment by the Commission.

Status of the Harmonized System

The technical work of drafting and reviewing the Harmonized System at the international level should be completed by the end of 1982. It is expected that the entire Harmonized System, including explanatory notes thereto, will be submitted to the CCC for its approval at its June 1982 session, and that the Harmonized System will be implemented internationally on January 1, 1985. This schedule leaves approximately 1.5 years for countries to study and then enter into and complete negotiations under article XXVIII of the GATT to modify their schedules of trade-agreement concessions.

The United States is now at the stage of deciding whether to adopt the Harmonized System. On August 24, 1981, in order to assess fully the effect of U.S. adoption of the Harmonized System, the President requested the Commission to prepare a conversion of the TSUS into the nomenclature structure of the Harmonized System and to submit a report on the probable effect of adoption of the converted tariff schedule on U.S. industries, workers, and trade. 1/

After the Commission's draft tariff conversion is completed, the administration will consider the issues of (1) seeking the necessary legislation to convert the TSUS into the Harmonized System structure, and of (2) initiating negotiations with our trading partners pursuant to article XXVIII of the GATT regarding any tariff rate changes associated with international adoption of the Harmonized System. It should be noted that while international adoption of the Harmonized System is not intended to result in changes in trade-agreement concessions, such changes are an unavoidable by product of a changeover in nomenclature systems. This is particularly so in the case of Canada and the United States, where the Harmonized System and the present tariff systems differ so significantly.

1/ The Commission has published 55 of the 96 chapters to be converted for public comment and hearing. The final group of chapters will be published in January 1983. The converted U.S. tariff schedule and conversion report are scheduled to be transmitted to the President no later than June 30, 1983.

Policy issues

As the technical work on the Harmonized System is nearing completion, the CCC has begun to discuss questions concerning the international implementation of the system. These include (1) whether the Harmonized System should be formally implemented by a new CCC convention or merely by a recommendation of the CCC, (2) whether countries applying the formal convention should be permitted to adopt the system only partially, (3) what, if any, special and more favorable treatment should be accorded to developing countries, (4) what provisions should be made to maintain the system and insure it is uniformly applied, and (5) whether any new convention should be open to the EC as a single organization or to its individual member states. Discussions are proceeding on these and related issues, and it is expected that they will be resolved by June 1983.

Benefits of the Harmonized System

In its reports to the Congress on the Harmonized System, the Commission summarized the benefits and costs of U.S. adoption of the Harmonized System as follows.

Economic benefits.--International adoption of the Harmonized System would clearly promote a greater degree of certainty and understanding in the negotiation, application, and interpretation of trade agreements. Also, international adoption of the Harmonized System would serve to protect the product coverage of tariff concessions granted to the United States. A major benefit for our trading partners of the international use of the CCCN is to protect the product coverage of their tariff concessions, since the CCCN to some extent standardizes product classifications, and, through the Nomenclature Committee, controls the product coverage of each classification.

Since the United States is not a signatory to the CCCN Convention, U.S. participation has had virtually no influence in the decisionmaking process of the Nomenclature Committee. The fact that the United States is not a member of the CCCN has been a cause of frustration for many U.S. exporters who believe that tariff concessions may have been lost (as a result of reclassification decisions) without payment of compensation by our trading partners.

Statistical benefits.--Another potential benefit lies in the availability of improved statistical data that will be gathered on the basis of the Harmonized System. Throughout the development of U.S. technical proposals on the Harmonized System, a primary consideration has been the usefulness of the data to be collected, not only by the United States but also by other potential users of the system. Many U.S. firms, particularly capital-intensive industries with substantial exports, use statistics published by foreign governments in their investment planning and in determining export potential for their products. The Harmonized System will enable these producers to obtain the kinds of trade data they need, on a product basis, most useful for assessing market potential.

The use of the Harmonized System internationally would reduce the need for cross-references between the multiplicity of existing trade nomenclature systems and would thus facilitate the publication and analysis of comparable international trade data. Section 608(a) of the Trade Act of 1974 provides for the achievement of statistical comparability among U.S. import, export,

and production systems, as well as international trade statistical systems. Beginning with the 1978 editions of the Tariff Schedules of the United States Annotated (TSUSA) and Schedule B, a significant level of comparability has been achieved between U.S. export and import data. Adoption of the Harmonized System internationally would vastly increase the number of product categories for which data would be collected on a comparable basis, both nationally and internationally.

Trade facilitation.--The use of the Harmonized System for international trade purposes could result in a substantial reduction in the cost and time spent in the reclassification of products as they move from the purview of one classification system to another, and in the administration of the various trade statistical systems. The Harmonized System could also facilitate the further standardization of trade documentation and the automated exchange of detailed product information. Finally, a potential benefit of U.S. adoption of the Harmonized System lies in facilitating the distribution of information on the tariff classification of products in foreign countries. Because of a lack of expertise in the application of the CCCN, it is now difficult for U.S. Government agencies to adequately respond to requests for such information. Should the United States and its trading partners adopt the Harmonized System, the U.S. Customs Service would be better able to advise exporters of the proper classification of products in foreign tariffs.

Modernization.--As a result of changes in technology, in commercial terms and practices, and by reason of the introduction of new articles into commerce, tariff and statistical product nomenclatures that are not maintained lose their effectiveness over time as meaningful sources of trade data and become difficult to administer.

International trade now, more than ever, plays an important role in the economic structure and well-being of every country. Consequently, there is a great need on the part of policymakers, trade analysts, market researchers, and others not only for comparable data but also for trade data that is meaningful on a detailed product basis. Such trade data are increasingly relied upon in responding to foreign economic trade policy questions, and are essential in sales and market analysis, and in determining domestic consumption of products. They are also used extensively by the U.S. Government in adjustment assistance cases, escape clause actions, dumping investigations, in the negotiation of trade agreements, and in other policy applications. However, there are at this time no formal mechanisms to insurethat the U.S. tariff schedules or the CCCN are kept up to date. With the general adoption of the Harmonized System, however, it is envisaged that the CCC will establish a permanent mechanism to carry out this maintenance and modernization function, to the advantage of all users of the system.

Costs of adopting the Harmonized System

The Harmonized System reflects concentrated technical input from a variety of interests and countries. A result of numerous compromises, it is not completely satisfactory to all interests. The proposed multilateral use of the system and the international nature of its development did not permit it to satisfy the peculiarities of individual countries' statistical or tariff needs. This is both advantageous and disadvantageous. It is an advantage in that product nomenclature has been somewhat neutralized as a basis for trade

discrimination. The disadvantage, of course, stems from the fact that a national tariff is an instrument of economic policy whose provisions are fashioned to reflect particular policy decisions.

If the United States adopts the Harmonized System as the basis for its tariff, numerous subdivisions will have to be created in order to restate existing tariff treatment. Such a procedure will be difficult without some consequential changes in rates of duty. The more completely a tariff conversion sticks to the concept of "no rate change," the more complex it becomes, and consequently, the more difficult the new tariff becomes to administer. This is particularly true with respect to the problem of converting the current TSUS, which has already become quite complex since its adoption.

In addition, since the Harmonized System is a "core" system using 6-digit code numbers, the further numbering of subdivisions for national tariff and statistical purposes will probably expand the U.S. tariff reporting number from its present 7 digits to 10 digits. This will also result in additional complexity for tariff and foreign-trade statistical systems, with a concomitant increase in the administrative burden. Also, it should be noted that the adoption of any new classification system for trade statistics will have a detrimental short-term impact on the continuity of statistical series (in the immediate time period after adoption) that can be only partially overcome through the use of concordances.

Finally, the initial administrative burdens of implementing a new tariff and foreign-trade statistical system are formidable, not only for customs officers but for all those concerned with the preparation and processing of international trade documentation and the publication of data. The educational process involved in training personnel to use a new system, the reprogramming of computers, and the republishing of tariff and trade schedules represent significant investments in money, time, and effort.

U.S. Trade with the Caribbean Basin 1/

The U.S. administration announced its intention to establish closer trade ties with the Caribbean Basin in its "white paper" on U.S. Trade Policy released in July 1981. Throughout the year, the administration worked to iron out a comprehensive package to meet these goals. While the administration did not finalize work on all the elements of the package by the close of 1981, a proposal was outlined by the President on February 24, 1982, which includes a special U.S. trading relationship with the region, investment incentives for

1/ For the purposes of this section, and the data contained herein, the Caribbean Basin refers to: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Cayman Islands, Montserrat, Netherlands Antilles, Saint Christopher-Nevis, Turks and Caicos Islands, and the British Virgin Islands.

U.S. private interests, and an aid/economic development program. Legislation to implement this Caribbean Basin Initiative (CBI) is under consideration in both Houses of Congress as of this writing.

Other countries within the American continents have expressed interest in spurring the development of Central America and the Caribbean. In July 1981, the foreign ministers of Mexico, Canada, Venezuela, and the United States met to discuss ways to stimulate the economic and social advancement of the area. They adopted a joint communique recognizing the need for a comprehensive set of measures covering trade, investment, and development aid.

Congress also sought to improve bilateral economic relationships with Central America and the Caribbean, requesting the President to "examine the desirability of entering into trade agreements with countries in the northern portion of the Western Hemisphere to promote the economic growth of the United States and such countries and the mutual expansion of market opportunities." 1/ In the course of drawing up the President's report to Congress on this matter, the United States Trade Representative asked the International Trade Commission to prepare a background study on the economic structure and international trade patterns of the United States, Canada, Mexico, and other North American countries (including the Caribbean Basin). 2/

While the evidence contained in the Commission's report suggested that structural economic change is taking place in the Caribbean Basin, agriculture still accounts for the largest component of GNP in these countries. According to the study, over half of the working population in these countries is involved in agriculture. Skilled labor is scarce, and adult illiteracy is a major problem. Agricultural products account for a large share of U.S. imports from the area. 3/

U.S. direct investment in the Caribbean Basin has steadily risen since 1960. However, in 1979, most of U.S. direct investment in the Caribbean went to the Bahamas. Insurance and finance were the favored sectors for this investment. The investment climate in the region is generally open and favorable; foreign investment is often eagerly sought to spur the development of the individual countries' economies. 4/

Total U.S. imports from individual countries in the Caribbean in 1981 are shown in table 2. Leading suppliers of imports to the United States are the Netherlands Antilles, Trinidad and Tobago, the Bahamas, the Dominican Republic, and Honduras. Petroleum is a key factor in the high value of imports from the first three countries, sugar is a major component of U.S. imports from the Dominican Republic.

1/ Sec. 1104 of the Trade Agreements Act of 1979.
2/ Background Study of the Economies and International Trade Patterns of the Countries of North America, Central America, and the Caribbean, USITC Publication 1176, September 1981.
3/ Ibid., p. 27.
4/ Ibid., p. 37.

Table 2.--U.S. imports from individual Caribbean Basin countries, ranked according to 1981 imports

(In thousands of dollars; customs value)

Rank	Country or territory	Imports in 1981
1	Netherlands Antilles	$2,599,159
2	Trinidad and Tobago	2,214,911
3	Bahamas	1,243,169
4	Dominican Republic	922,400
5	Honduras	431,172
6	Costa Rica	365,432
7	Jamaica	356,986
8	Guatemala	347,133
9	Panama	296,637
10	Haiti	276,395
11	El Salvador	258,524
12	Suriname	179,374
13	Nicaragua	140,295
14	Guyana	104,078
15	Barbados	80,694
16	Belize	42,197
17	St. Lucia	12,795
18	St. Christopher-Nevis-Anguilla	11,103
19	Antigua	5,242
20	Cayman Islands	4,542
21	Turks and Caicos Islands	3,550
22	St. Vincent	1,572
23	British Virgin Islands	880
24	Grenada	339
25	Montserrat	257
26	Dominica	103
	Total	$9,898,939

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

A general overview of U.S. imports from the Caribbean Basin in 1981 is given in table 3. As the table illustrates, the region supplied just under 4 percent of all U.S. imports, amounting to $9.9 billion, in 1981. Of that amount, 71 percent was dutiable, and 29 percent was granted duty-free tariff treatment. The average tariff rate on imports from the Caribbean Basin was just over 1 percent in 1981. The United States imports substantial quantities of petroleum, sugar, and textiles from the area, as well as coffee, tobacco, meat, bananas, and strategic minerals.

Imports under items 806.30 and 807.00 of the TSUS amounted to $548 million in 1981, representing approximately 6 percent of all U.S. imports from the Caribbean Basin. Imports that enter under items 806.30 and 807.00 are assessed duties on the "value added" outside the United States. Generally, the major portion of the foreign value added is accounted for by labor. 1/ Textiles and electronic goods from the Caribbean Basin are the principal imports under item 806/807 provisions.

With the exception of Cuba, all of the Caribbean Basin nations are beneficiaries under the United States' Generalized System of Preferences . Many items of importance to the Caribbean Basin are eligible to enter the United States duty free under the scheme. However, some important U.S. imports from the Caribbean Basin are not covered under the GSP, including textiles, petroleum, and leather products; also, several major suppliers of sugar are not eligible for GSP duty-free treatment on that product. GSP duty-free imports from the Caribbean accounted for just under 6 percent, or $551 million, of U.S. imports from the area in 1981, with coffee, bananas, and shellfish among the top 30 GSP imports (table 4).

When textiles, petroleum, and sugar are excluded, over $2.4 billion, or nearly 81 percent of U.S. imports from the Caribbean Basin, were duty free in 1981. Slightly less than 12 percent of these duty-free imports entered under the GSP. Of the remaining imports, agricultural items and certain electrical manufactures, such as electronic tubes, switches, and capacitors, were important in 1981.

Major groups and significant items in U.S. trade with the Caribbean Basin in 1981 are illustrated in table 5. The region supplies substantial quantities of petroleum, sugar, textiles, leather, and rum to the United States.

Petroleum was by far the largest single import category in the year. Petroleum imports from the Caribbean Basin in 1981 totaled $5.8 billion, and petroleum accounted for almost 60 percent of all imports from the Caribbean Basin. The region supplied about 7 percent of U.S. petroleum imports in 1981; these imports represented over 80 percent of all dutiable imports from

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1/ Imports under items 806.30 and 807.00 are products that have been partially manufactured or processed in the United States. Duties on such imports are levied only on the cost of foreign processing or assembly and the value of foreign inputs used, e.g., labor, overhead, depreciation, and export packing materials.

Table 3.--U.S. imports 1/ for consumption from the world and from the Caribbean Basin, duties collected, and average tariff rates, 1981

Item	1981
Imports from the world------1,000 dollars--:	259,011,977
Imports from the Caribbean Basin------do----:	9,898,939
Ratio of imports from Caribbean Basin to imports from the world------percent--:	3.8
Dutiable value of imports from the Caribbean Basin------1,000 dollars--:	7,024,247
Imports under 806.30 and 807.00------do----:	548,447
Ratio of 806.30 and 807.00 imports to dutiable imports from the Caribbean Basin------percent--:	7.8
Ratio of 806.30 and 807.00 imports to total imports from the Caribbean Basin------percent--:	5.5
Duty-free value of imports from the Caribbean Basin ------1,000 dollars--:	2,874,692
GSP duty-free imports from Caribbean Basin------do----:	550,628
Ratio of GSP duty-free imports to duty-free imports from the Caribbean Basin------percent--:	19.2
Ratio of GSP duty-free imports to total imports from the Caribbean Basin------percent--:	5.6
Average tariff rate:	
On dutiable imports from the Caribbean Basin------do----:	1.9
On all imports from the Caribbean Basin------do----:	1.3

1/ Customs value basis.

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

Table 4.--Top 30 items in U.S. imports for consumption from Caribbean Basin countries, 1979, 1980, and 1981

(In thousands of dollars; customs value)

TSUS No.	Product	1979	1980	1981
475.05	Crude petroleum under 25 degrees A.P.I.	$2,016,566	$2,593,124	$2,500,331
475.10	Crude petroleum 25 degrees A.P.I. or more	1,459,524	2,024,230	2,162,882
155.20	Sugars, sirups, and molasses	344,351	690,115	669,798
475.25	Motor fuel	593,072	821,079	612,810
475.35	Naphthas	642,249	555,178	488,816
160.10	Coffee	883,366	732,218	427,031
146.40	Bananas, fresh	264,524	287,900	354,932
601.06	Bauxite	307,335	286,362	262,037
417.12	Aluminum hydroxide	149,316	170,305	227,279
114.45	Shellfish	174,841	187,691	202,721
106.10	Beef and veal	301,817	222,414	176,844
605.20	Gold or silver bullion/dore	16,640	121,620	116,423
606.20	Ferronickel	-	75,767	60,471
521.11	Asphaltum, bitumen, limestone	69,022	67,239	59,582
376.24	Lace or net body-supporting garments.	39,539	48,821	57,240
156.10	Cocoa beans	104,834	61,334	54,227
687.75	Electronic tubes	-	-	53,221
155.40	Beet or cane molasses	34,145	33,883	50,289
480.65	Nitrogenous fertilizers	33,317	39,670	46,551
734.56	Baseball equipment	30,151	32,502	38,341
376.28	Body-supporting garments	29,155	31,603	33,955
605.70	Precious-metal sweepings	2,750	59,024	33,375
685.90	Electrical switches	17,039	21,627	23,552
685.80	Electrical capacitors	23,865	28,177	29,069
521.17	Bauxite, calcined	31,536	39,806	28,616
412.22	Analgesics, antipyretics	-	12,717	27,919
382.81	Women's, girls', or infants' apparel, manmade.	36,223	22,592	26,968
110.10	Sea herring, smelts, tuna	34,617	34,403	26,047
475.45	Lubricating oils	3,335	29,388	25,674
380.39	Men's, or boys' apparel, cotton	13,610	17,058	25,568
	Total	7,656,737	9,347,848	8,902,569
	Total, all items imported from Caribbean Basin countries	8,596,636	10,308,572	9,898,939

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

Table 5.--U.S. imports for consumption of selected products from the Caribbean Basin, 1981 1/

Product	Major Caribbean Basin supplier	Value	Caribbean Basin share of all U.S. imports	Share of imports from the Caribbean Basin	Duty-free share of total	806 and 807 share of total 2/
		--$1,000--	--Percent--			
Petroleum	Netherland Antilles	5,813,708	7.2	58.7	2.1	0
Sugar	Dominican Republic	669,798	31.2	6.8	38.4	0
Textiles	Dominican Republic	328,861	3.3	3.3	1.8	90.3
Total		6,812,367	7.3	68.8	13.5	54.1
Leather footwear and handbags	Dominican Republic, Jamaica.	16,102	17.6	.2	76.8	18.2
Rum	Jamaica	3,786	86.6	3/	.1	0
Other imports		3,066,684	3.8	31.0	80.4	8.0

1/ Customs-value basis.
2/ Dutiable and customs value both include the full value of items entered under provisions 806 and 807 of the TSUS. During 1981, about 2/3 of the value of all imports from the Caribbean under these provisions was U.S. value, and therefore duty free.
3/ Less than 0.05 percent.

the region in the year. However, duties on petroleum are very low; during 1981, the average tariff rate was the equivalent of 0.15 percent ad valorem. The principal petroleum suppliers in the Caribbean were the Netherlands Antilles, Trinidad and Tobago, and the Bahamas. Most of the imported petroleum from the Caribbean originates in OPEC countries, is processed, and subsequently shipped to the United States.

Sugar is a major import from the Caribbean Basin, both in terms of value--it accounted for $670 million in 1981, or nearly 7 percent of the value of imports from the region--and in terms of market share--it supplied 31 percent of U.S. sugar imports in 1981. Although sugar is on the list of items eligible for duty-free tariff treatment under the GSP, three major Caribbean Basin suppliers were not eligible for GSP duty-free treatment for sugar during the year--the Dominican Republic, Guatemala, and Panama. The Dominican Republic is the leading Caribbean supplier of sugar to the United States. Consequently, over 60 percent of sugar imports from the Caribbean Basin were dutiable during the year.

Rum is also an important item. Even though the value of rum imports was less than 1 percent of the value of total imports from the Caribbean Basin in 1981, the area supplied almost 90 percent of U.S. rum imports. (Shipments of rum from Puerto Rico and the Virgin Islands, the other major sources of this product, do not show up as imports in the most widely published U.S. trade statistics, since the former area is a U.S. possession, and the latter is within the customs territory of the United States.)

Leather handbag and footwear imports from the region amounted to $16 million, or about 10 percent of all U.S. leather imports in 1981. However, they represented less than 1 percent of the value of U.S. imports from the Caribbean Basin in 1981.

The Caribbean Basin supplied the United States with just 3 percent of its imported textiles in 1981. Of that amount, less than 2 percent was duty free either under the basic most-favored-nation (column 1) tariff or under other tariff provisions (e.g., the GSP). Nearly two-thirds of the duties collected on imports from the Caribbean Basin countries in 1981 were levied on textile imports. However, over 90 percent of dutiable textile imports from the region entered under item 806/807 tariff provisions. Textile imports from the region amounted to $329 million in 1981. Most textile imports from the Caribbean enter the United States under bilateral restraint levels negotiated under the auspices of the MFA.

Table 6 illustrates major dutiable items in U.S. imports from the Caribbean Basin in 1981. Tariffs on these items range from 14.9 percent ad valorem (on scrap tobacco) to 0.1 percent (on crude petroleum). Imports of items that have a high dutiable value as a share of customs value, and that face a substantial tariff rate, are the most likely to be stimulated should a broadened duty-free scheme be introduced by the United States for the Caribbean Basin. Among the items that would fit into this group are electrical capacitors, electrical switches, manufactured and scrap tobacco, electronic resistors, leather handbags, leather footwear, and rum.

Table 6.--Major U.S. imports from the Caribbean Basin, customs value, the Caribbean Basin's share of total imports, dutiable value as a share of total customs value, and the ad valorem equivalent tariff, 1981

TSUS No.	Product	Imports from the Caribbean Basin	Share of total imports	Dutiable value as a share of total customs value 1/	Ad valorem equivalent tariff rate
		1,000 dollars	Percent		
475.05	Crude petroleum under 25 degrees A.P.I	2,500,331	3.7	99.7	.1
475.10	Crude petroleum 25 degrees A.P.I. or more	2,162,882	21.6	99.1	.2
475.25	Motor fuel	612,810	34.3	89.3	.9
475.35	Naphthas	488,816	35.0	94.4	.2
106.10	Beef and veal	176,844	14.8	99.9	1.8
687.75	Electronic tubes	53,221	2.2	100.0	5.6
734.56	Baseball equipment	38,341	79.2	99.8	3.5
685.80	Electrical capacitors	29,069	10.3	100.0	10.0
412.22	Analgesics	27,919	41.1	13.3	11.8
685.90	Electrical switches	23,552	2.7	79.9	5.9
170.80	Tobacco, manufactured	18,087	11.8	99.9	11.1
686.10	Resistors and parts	17,804	10.0	100.0	6.0
706.07	Leather handbags	10,046	8.9	99.9	10.0
170.60	Tobacco, scrap	9,670	21.4	100.0	14.9
170.66	Cigars, each valued 15 cents or over	8,282	80.2	99.7	8.1
700.45	Leather footwear, n.e.s	6,076	.7	100.0	10.0
148.96	Pineapples, fresh	6,057	95.3	100.0	6.1
169.14	Rum	2,739	93.7	99.8	46.5

1/ Dutiable and customs value both include the full value of items entered under provisions 806 and 807 of the TSUS. During 1981, about 2/3 of the value of all imports from the Caribbean under these provisions was United States value, and therefore duty free.

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

CHAPTER 2

GATT ACTIVITIES DURING 1981

The General Agreement on Tariffs and Trade (GATT) is the focal point for international efforts to reduce or eliminate barriers to trade. Originally signed in 1947 by representatives of 23 governments, its terms now serve as the standard for rules of foreign commerce in 118 countries. (See list below.) The GATT is therefore the principal focus of international trade activities in the world today. As a result of the slowdown in general economic activity throughout the world in 1981, the number of disputes submitted to the GATT for arbitration exceeded the record-high level for such cases in 1980. A number of these conflicts reflected the intensification of difficulties between major industrialized trading partners. 1/ The developing countries also suffered the consequences of inflation, high interest rates, and severely diminished economic growth. Lower demand for exports, together with depressed prices for raw materials, contributed further to their economic problems.

The year also saw the continued implementation of the multilateral agreements negotiated in the Tokyo round, as the second stage of tariff cuts entered into force. The Customs Valuation and Government Procurement Agreements regarding nontariff measures came into effect, and application of the Multilateral Trade Negotiation (MTN) agreements implemented in 1980 was further pursued.

The Multifiber Arrangement (MFA), originally negotiated in 1973 and extended for 4 additional years in 1978, was renegotiated during 1981. The second extension of the MFA is to last for a period of approximately 4-1/2 years (July 1986). The reconciliation of the trading interests of textile exporting and importing countries resulted in a number of understandings being mentioned in the Protocol of Extension, which was appended to the original text of the MFA.

Most significantly in terms of the future of world trade, the governments of the Contracting Parties, at their meeting in 1981, decided to hold their 1982 annual meeting at the Ministerial level "to examine the functioning of the multilateral trading system, and to reinforce the common efforts of the contracting parties to support and improve the system for the benefit of all nations."

As of yearend 1981, 86 countries were Contracting Parties (full members) to the GATT, and one country was a provisional member; an additional 31 countries, former territories of contracting parties, were applying the terms of the GATT on a de facto basis, pending final decisions as to their future commercial policy. A list of all these countries follows.

1/ Often, increased protectionist pressures and a desire to increase exports prompted some countries to resort to subsidies, export credit arrangements, and certain bilateral agreements outside of the multilateral, international framework of the GATT.

GATT Membership at Yearend 1981

Contracting Parties to the GATT (86)

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

Acceded Provisionally (1)

Tunisia

Countries to whose territories the GATT has been applied and which now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (31)

Algeria
Angola
Bahamas
Bahrain
Belize
Botswana
Cape Verde
Dominica
Equatorial Guinea
Fiji
Grenada
Guinea-Bissau
Kampuchea
Kiribati
Lesotho
Maldives
Mali
Mozambique
Papua New Guinea
Qatar
St. Lucia
St. Vincent
Sao Tome and Principe
Seychelles
Salomon Islands
Swaziland
Tonga
Tuvalu
United Arab Emirates
Yemen, Democratic
Zambia

Accessions to the GATT

The Protocol for the Accession of Colombia to the GATT was negotiated in 1979. The terms of Colombia's accession were accepted in a decision adopted by the Contracting Parties on November 28 of that year. The Protocol was signed in April 1980, and this action was ratified by the Colombian Senate in December 1980 and by the Colombian House of Representatives in March 1981. The documents of ratification were signed by the president of Colombia on May 14, 1981, and on October 3, Colombia officially became a contracting party to the GATT.

Consultative Group of Eighteen

The Consultative Group of Eighteen (CG-18) was formed in 1975 to increase commercial policy coordination. Although originally intended as an interim committee of the GATT, its mandate was renewed by the Council in both 1976 and 1977, and in 1979 it was made a permanent GATT body. Although the group remains a consultative rather than a decisionmaking organ, its role in the work of the GATT has become increasingly important in recent years.

The CG-18 consists of senior trade policy officials, from a representative group of developed and developing countries, who meet on a regular basis to discuss trade problems and issues. In 1981, the CG-18 was composed of representatives of Argentina, Australia, Brazil, Canada, Egypt, the European Community (and member states), Czechoslovakia, India, Japan, Malaysia (for the Association of Southeast Asian Nations) Nigeria, Sweden (for the Nordic countries), Pakistan, Peru, Switzerland, Turkey, the United States, and Zaire. Membership of the CG-18 rotates as appropriate.

In 1981, the CG-18 met three times--in March, June, and October. Among the significant topics discussed were results of the MTN and outstanding issues, trade in agriculture and the GATT, trade in services, and structural adjustment.

The CG-18 considered the depressed situation in world trade and identified inflation, protectionism, and adjustment as the central issues of economic policy. Members agreed that a political expression of support for the GATT system was particularly necessary at this time, and it was out of this recognition that a consensus on the desirability of a ministerial meeting was reached. Such a meeting, if convened by the Contracting Parties, could provide an opportunity for member Governments to express support for the multilateral trading system and further, to enhance its creditability, and at the same time attempting to find solutions for existing problems and setting priorities for the future work of the organization. The continued absence of any agreement on the safeguards issue was cited as one example of an area in which continued failure to reach an agreement is endangering the multilateral system.

Committee on Trade and Development

The Committee on Trade and Development (CTD) is the standing body of the GATT which reviews issues of trade of particular interest to developing

countries and examines how member countries are adhering to the provisions of part IV of the General Agreement. 1/ At three meetings held during 1981, the Committee undertook its traditional review of the developments in international trade affecting the trade and payments position of developing countries; in its examination of the implementation of Part IV, it paid particular attention to the operation of the Tokyo round "enabling clause," under which differential treatment for developing countries is legalized within the GATT system. 2/ This discussion highlighted a number of differences between the developed and developing countries on the subject of the operation of the Generalized System of Preferences (GSP). Certain developing countries maintained that some GSP schemes were operating in a discriminatory and arbitrary manner, citing the exclusion of certain products of export interest to them on the basis of their level of industrialization ("graduation"). It was argued that such treatment was not consistent with the provisions of the "enabling clause." Developed country spokesmen indicated that in their view the GSP system was unilateral, non-reciprocal and non-contractual.

Among other major topics discussed within the CTD were (1) work on trade liberalization in the area of tropical products and quantitative restrictions affecting products of particular interest to developing countries; (2) technical assistance extended by the GATT secretariat to developing countries; and (3) expansion of trade among developing countries.

In 1980, the role of the CTD was strengthened and expanded by the establishment of two subcommittees--one on protective measures and another on trade of the least developed countries.

Subcommittee on Protective Measures

The subcommittee was created to examine cases of protective action by developed countries against imports from developing countries. In 1981, the subcommittee continued to examine such cases. Its report to the full CTD emphasized both the greater degree of transparency afforded by the examination process and the responsibility for notification on the part of both the countries applying new measures of protection and those affected by such measures.

Subcommittee on Trade of Least Developed Countries

The terms of reference of the subcommittee called for it "to give special attention to the particular situation and trade problems of the least-developed among the developing countries in GATT's work program and to keep under review the special treatment which could be accorded these

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1/ Part IV was added to the GATT in 1965. Among its provisions is an undertaking by developed contracting parties to do all that they can to reduce existing barriers to the trade of developing nations and to refrain from setting up new barriers.

2/ The clause strengthens the committment by advanced countries not to expect reciprocity from developing countries inconsistent with their individual trade, development, and financial needs, and at the same time encouraging these countries to accept a greater share of GATT obligations as their economic development efforts continue.

countries in the context of any general or specific measures taken in favor of developing countries." The subcommittee's role of identifying the trade problems of the least developed countries and promoting their solution was approved in the action of the CTD in 1981 to prolong the life of the subcommittee within its existing terms of reference.

Committee on Balance-of-Payments Restrictions

The GATT Committee on Balance-of-Payments Restrictions acts to oversee restrictions taken for balance-of-payments purposes within the context of the General Agreement. Under article XII, quantitative restrictions "to safeguard . . . external financial position and . . . balance-of-payments" are permitted. Article XVIII sets up the same rights for developing countries, but specifies a less stringent method of consultation with the Contracting Parties. The Committee on Balance-of-Payments Restrictions carries out the consultations required by articles XII and XVIII.

During 1981, seven consultations under the "simplified procedures" of article XVIII took place. The consulting countries were Egypt, Peru, Sri Lanka, the Republic of Korea (Korea) Tunisia, Turkey, and Yugoslavia. Simplified procedures allow the consultations to be completed, usually on the basis of a written statement by the consulting country.

Full consultations allow for a more detailed examination of the restrictions under review and "provide an opportunity for all countries whose trade is likely to be affected by the restrictions to gain a full understanding of their scope, to examine and overcome any practical problems that may arise, to check that the restrictions are not excessive, and to share their own experience with the government of the country in difficulty." 1/

In May 1981, a consultation was held with Portugal. The Committee concluded that certain previously imposed import measures had not yet been relaxed and that no time table for such action had been announced. It recommended that Portugal announce a time table for the removal of the measures in the near future.

In October 1981, the question of an Italian requirement that made purchases of foreign currency subject to a non-interest-bearing prior deposit was examined. The Committee, while acknowledging the monetary form of the deposit scheme, noted its effects on trade and the fact that the scheme was due to be terminated in February 1982.

Article XIX--Emergency Action on Imports of Particular Products

Under article XIX, a country is permitted to suspend tariff concessions or other obligations with respect to imports that, as a result of unforeseen circumstances and of obligations incurred under the GATT, are being imported in such increased quantities as to cause or threaten to cause "serious injury to domestic producers . . . of like or competitive products." The article

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1/ GATT Activities in 1981, General Agreement on Tariffs and Trade, Geneva, 1982, pp. 19 and 20.

provides that a concession may be withdrawn, suspended, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury resulting from the concession. The actions, therefore, are legally intended to be temporary in nature. However, many of the emergency actions taken under the "escape clause" (i.e. art. XIX), have been made permanent through action under Article XXVIII. Article XIX provides Contracting Parties affected by a particular suspension with the ability to take necessary steps to restore the balance of reciprocal concessions by suspending "substantially equivalent concessions."

During 1981, two emergency actions were notified under article XIX, as shown in the following tabulation:

Date	Notifying country	Product	Type of measure
Jan. 26, 1981	EC	Mushrooms	Tariff quota
Nov. 24, 1981	Canada	Nonleather footwear	Quota

Updating the Inventory of Nontariff Measures (NTM's)

The inventory of nontariff measures (NTM's) covering both agricultural and industrial goods that were alleged to impede trade and that were used as a basis for the MTN negotiations was rendered at least partially obsolete by the successful completion of the Tokyo round. Following the end of the MTN, it was proposed to update the inventory. The updating process was approved in early 1980, and work was begun immediately. The updating continued in 1981 and was completed for industrial products. The process for agricultural products was still under way at yearend 1981.

The inventory groups nontariff measures into five main categories:

(1) Government participation in trade and restrictive practices;

(2) Customs and administrative entry procedures;

(3) Technical barriers to trade;

(4) Specific limitations such a quantitative restrictions, import licensing, export restraints, measures to regulate domestic prices, and so forth; and

(5) Charges on imports (e.g. prior deposits, border tax adjustments, discriminatory credit restrictions, and so forth).

The inventory presently lists more than 600 measures and comprises 800 pages. Since it is a confidential negotiating document, it is only available to Governments of GATT member countries. Revisions to the inventory will be circulated by the GATT secretariat.

Conciliation and Dispute Settlement

The General Agreement is organized as a system of reciprocal rights and obligations to be maintained in balance. When a country fails to respect a

tariff concession or other obligation, the General Agreement provides a means to achieve a "satisfactory adjustment of the matter" through the dispute settlement articles XXII and XXIII. In the absence of a mutually satisfactory resolution of a dispute, these articles allow the affected parties to suspend reciprocal "concessions 1/ or other obligations . . . as they determine to be appropriate in the circumstances" if the reciprocal balance of concessions is not restored by other means.

Article XXII provides that Contracting Parties shall afford adequate opportunity for other Contracting Parties to consult on any matter affecting the operation of the General Agreement. If this does not lead to a resolution of a dispute, the affected party may proceed under article XXIII:1 to "make written representations or proposals to the other contracting party or parties which it considers to be concerned." Thereupon, "any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it." If the bilateral discussions fail to produce a settlement within a "reasonable" time, the matter is referred to the Contracting Parties under article XXIII:2. At this point, the procedure increasingly used is to refer the dispute to a panel, usually composed of three (sometimes five) individuals selected from Contracting parties not involved in the dispute. The panel members are expected to act as disinterested mediators and not as representatives of their Governments. The panels usually meet several times and issue a report containing draft recommendations to be formally issued under the aegis of the Contracting Parties. Normally, these recommendations call for disputing parties to settle their differences by some means short of withdrawal of concessions, the GATT's ultimate sanction.

In 1981, there were 14 international trade disputes, more than last year's record number, brought before the GATT Council under article XXII and XXIII procedures. This number of trade disputes reflected the severe economic difficulties faced by many countries during 1981 and an increased willingness of countries to make use of GATT procedures in settling their trade disputes. A brief discussion of these disputes follows.

EC restrictions on imports of poultry from the United States

In October 1980, the GATT Council set up a panel to examine a complaint by the United States concerning treatment by the United Kingdom of poultry imports from the United States. 2/ The United States complained that the United Kingdom was giving its poultry processors until August 1982 to comply with new European Community (EC) processing standards for poultry, while requiring that U.S. chicken imported into the United Kingdom comply with the new standards as of May 1, 1980.

1/ Under the GATT, "concessions" are generally reductions in import restrictions on traded items made by countries in response to requests by other GATT members. A complex, balanced structure of reciprocal concessions has resulted from past rounds of trade negotiations.

2/ For more information on the background of this dispute, see Operation of the Trade Agreements Program, 32d report, USITC Publication 1307, GATT section.

The United Kingdom and the EC claimed that most U.S. processors would not find the new requirements difficult to adjust to and asserted that major exporters of poultry to EC countries had been warned well in advance about the new processing requirements.

On May 13, 1981, the United States informed the Contracting Parties that it was withdrawing its request for examination under article XXIII:2 of the complaint, and that the withdrawal of the complaint was without prejudice to the United States' rights under the General Agreement, which were reserved. 1/ The panel then terminated its work.

EC sugar export subsidies

In 1978, Australia and Brazil complained that EC export subsidies for sugar had enabled EC sugar to gain more than a fair share of the world sugar market, violating GATT article XVI rules on the use of subsidies for agricultural products. 2/ After study, GATT panels formed under article XXIII:2 found that the EC system for granting refunds on exports of sugar tended to destabilize world markets for sugar and caused depressed sugar prices; but the panel was unable to reach a conclusion on the question of whether the subsidies had resulted in the EC "having more than an equitable share of world export trade" in sugar.

However, in November 1980, the GATT Contracting Parties requested the EC to discuss with them the possibility of limiting the subsidization of EC sugar exports. The EC agreed to this, and a GATT working party was formed. Discussions began in December 1980, jointly covering both the EC/Brazil case and the EC/Australia case. Also, the GATT Council held lengthy sessions at several meetings during 1981 on the EC's system of granting export refunds on its sugar exports.

In early 1981, the EC notified other GATT members that it was adopting new sugar regulations under which the financial burden of sugar export refunds would be carried by EC sugar producers themselves. The EC claimed that the new rules constituted an "equalization system" rather than a subsidy.

During the year, Brazil, Australia, and other countries expressed their concern over the worsening situation in the world sugar market since early 1981, which they attributed to the maintenance of the EC system of sugar export refunds. In their view, the EC's new system continued to constitute a serious threat of injury to their sugar-exporting interests, because it still did not place any effective limitation on exportable quantities of EC sugar. On September 14, the United States submitted questions to the EC on its new sugar regime. 3/ The United States noted that the GATT panel formed to

1/ The United States decided to withdraw the panel request because by May 1981 most U.S. exporters of poultry to the EC had installed or made plans to install equipment that enabled them to comply with the new EC standards.

2/ For more information on the background of this dispute, see Operation of the Trade Agreements Program, 32d report, USITC Publication 1307, GATT section.

3/ In addition, in the spring of 1982 the ITC conducted a countervailing duty investigation under section 701 of the Tariff Act of 1930 involving sugar exports from the EC.

examine the Australian complaint had concluded that the old EC system had "constituted a permanent source of uncertainty in world sugar markets," because it did not have any limits on production, price, or refunds. The United States questioned whether the new system remedies this because under the new regime (1) there appears to be no limit on total production, (2) there appears to be no real reduction on production eligible for subsidy, (3) there appears to be no limit on funds available to finance subsidies, and (4) therefore, there appears to be no real limit on the total amount of subsidization.

After analyzing the EC's new sugar regime, Australia and most other participants in the working party studying the scheme concluded that the EC had advanced no meaningful proposals to change its system. Australia stated that it was clear that the new regime would not effectively limit either production, price, or the amount of export refunds, and would, therefore, not remove or limit the threat of prejudice to world trade.

After exhaustive discussions on the issue, the GATT Council noted at its meeting on September 25, 1981, that Australia and Brazil were maintaining their complaints, while the EC contended that it had fulfilled its obligations under GATT article XVI with its new sugar scheme. The GATT Council decided to set up a new working group, open to all GATT members, to review the situation on sugar and report back to the Council in 1982.

EC tariff quota on imports of beef from Canada

At a GATT Council meeting, in March 1980, Canada raised objections to a tariff quota for high-quality grain-fed beef established by the EC as part of the Tokyo round tariff negotiations. 1/ The EC regulation that established the quota specified that "beef graded USDA 'choice' or 'prime' automatically meets" standards for high quality beef. An annex to the regulation indicated that the U.S. Department of Agriculture (USDA) was the only authority empowered to issue the certificates of authenticity required for beef to be imported under the quota.

Canada said that Canadian beef, which it had shown met the exact specifications for entry into the EC as high-quality beef, had been excluded from the quota concession because of the USDA certification requirement. Canada considered that the EC had implemented its levy-free tariff-rate quota for high-quality grain-fed beef in a manner not consistent with GATT articles I and II by setting out discriminatory conditions, causing nullification of benefits accruing to Canada from an EC concession.

In June 1980, the GATT Council established a panel under article XXIII:2 to examine Canada's complaint, and at a March 10, 1981 meeting, the Council adopted the report of the panel. In its report, the panel concluded that the EC regulation was inconsistent with the most-favored-nation principle in GATT article I, because it had the effect of preventing access of "like products" from countries other than the United States. It also concluded that the

1/ For more information on the background of this dispute, see Operation of the Trade Agreements Program, 32d report, USITC Publication 1307, GATT section.

manner in which the EC concession on high-quality beef was implemented accorded less favorable treatment to Canada than provided for in the EC regulation establishing the beef quota, and that this was inconsistent with GATT article II. The panel found that the infringement of GATT articles I and II constituted prima facie nullification or impairment of benefits in the sense of GATT article XXIII, and proposed that GATT members should recommend that the EC take necessary steps to implement the GATT provisions. The EC representative said that his authorities had taken note of the report and were examining its consequences.

Japanese restraints on imports of manufactured tobacco

At a GATT Council meeting on November 16, 1979, the United States presented a complaint against Japanese import restrictions on manufactured tobacco products, specifically cigars and pipe tobacco. 1/ Following a request by the GATT Council, the United States and Japan participated in bilateral consultations under GATT article XXIII:1.

After the two countries were unable to resolve the problem during bilateral consultations, the Council set up a panel in February 1980 to examine the matter. The Council, in June 1981, adopted the panel report that noted that the United States and Japan had informed it in May 1981 that they had reached a bilateral settlement, and that the United States was withdrawing its complaint. 2/ The panel told the Council that, in its view, the agreement between the two parties constituted a solution to the matter.

Spanish tariff treatment of unroasted coffee

In January 1980, Brazil told the GATT Council that a new Spanish law on unroasted coffee imports gave unwashed Robusta and Arabica coffee less favorable tariff treatment than that given other types of coffee. Before this law, there had been no differentiation in Spain's tariff treatment of unroasted coffee imports. As a major supplier of coffee to Spain, Brazil was concerned with the discriminatory character of the new tariff rates and requested article XXII:1 consultations with Spain. 3/

Brazil requested further consultations under article XXIII in March 1980 after the two countries were unable to reach agreement. Following these consultations, at a Council meeting on June 18, 1980, Brazil informed the Council that the talks had not resulted in a satisfactory adjustment between the parties and that Brazil had decided to invoke the procedures of article XXIII:2, requesting examination of the matter by a panel.

1/ For more information on the background of this dispute, see Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, p. 74.
2/ The settlement occured in November 1980.
3/ For more information on the background of this dispute, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, GATT section.

In April 1981, the panel presented its report, which noted that Brazil exported to Spain mainly unwashed Arabica and Robusta coffee, on which the new Spanish law charged higher duties than those applied to mild coffee. The panel decided that these must be considered to be "like products," and it concluded that the tariff regime as applied by Spain discriminated against unroasted coffee imports from Brazil. Finding that the Spanish tariffs for unroasted coffee were not in conformity with the provisions of article I:1, the panel further concluded that this constituted prima facie a cause of impairment of benefits accruing to Brazil within the meaning of article XXIII. The panel suggested that the GATT member states request Spain to take the measures necessary to make its tariff regime for unroasted coffee conform to the General Agreement.

During the Council's discussion of the report, Spain expressed reservation over the panel's conclusions concerning the notion of "like products," saying this might constitute a dangerous precedent for the future. Spain also considered that since no quantification had been made of the prejudice caused to Brazilian interests, the report was not fully exhaustive.

The Council adopted the report. In October 1981, Spain informed the GATT that by December 31, 1981, it would give equal tariff treatment to unwashed Arabica and other unroasted coffee.

Spanish measures concerning domestic sale of soybean oil

In November 1979, the United States informed the Council that the United States had held consultations with Spain under article XXIII:1 as a result of a restriction maintained by Spain on the domestic sales of soybean oil, which Spain has used to protect its olive oil sector. The United States claimed that the Spanish restriction has had adverse effects on U.S. exports of soybeans to Spain. 1/ As these consultations did not lead to a solution, the United States referred the matter to the GATT Council, in accordance with the provisions of article XXIII:2, requesting the establishment of a panel to investigate the matter.

The panel completed its report in June 1981. The report indicated that during the panel's examination of the Spanish measures, the panel heard arguments from the United States and Spain with respect to the following provisions of the General Agreement: article III:1; article III:4; article III:5; article XVII, and article XXIII.

The United States asserted that the restrictions imposed by Spain on the domestic sale of soybean oil nullified or impaired benefits accruing to the United States under the GATT. The U.S. representative said that the measures were inconsistent with Spain's explicit GATT obligations and had, therefore, to be considered a prima facie case of nullification or impairment under article XXIII. The U.S. view was that the effect of the restrictions on the sale of soybean oil, a principal by product of soybeans, was to alter in a fundamental way the competitive conditions for the processing and sale of soybeans in a manner contrary to the reasonable expections of the United States.

1/ For more information on the background of this dispute, see the 31st report on the Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, p. 73.

The United States also claimed that a sharp increase in Spanish soybean oil exports, caused by restrictions on domestic Spanish soybean oil consumption, had displaced U.S. soybean oil exports in certain traditional U.S. markets. As the world's largest exporter of soybean oil, the United States reported that it had to sustain a significant annual loss of export earnings equal to displacement in traditional markets (such as Morocco, Turkey, and Tunisia) resulting from the Spanish diversion of soybean oil out of domestic consumption and into exports. Such losses amounted to 400,000 tons of soybean oil exports in 1980. U.S. representatives asserted that in 1979, Spain exported roughly 70 percent of all the soybean oil that it produced from imported beans.

Spain continued that all soybean oil extracted in grinding mills established in Spain, whether processed from domestic soybeans or from imported ones, was Spanish oil, and thus exempt from GATT rules on restrictions of imports. In addition, Spain claimed that growth of U.S. exports of soybeans to Spain from a level of 15,612 tons in 1963 to more than 2 million tons in 1978 demonstrated that Spain had not blocked growth of such trade.

The panel agreed with Spain that soybean oil produced in Spain must be considered a Spanish product for the purposes of the General Agreement, and that any restrictions on its domestic sale were, therefore, a purely domestic matter. The panel also found that soybeans and soybean oil could not be termed "like products," thereby finding that restriction on soybean oil could not, under current GATT rules, be said to constitute restrictions on soybeans. Finally, the panel disagreed with U.S. claims that the Spanish measures had any adverse effects on U.S. exports of soybeans to Spain. The panel stated that even taking into account the rise in soybean oil exports by Spain measured as soybean equivalent, Spain's net imports of soybeans had increased substantially since 1963.

However, the panel did find that it could not entirely exclude the possibility that the Spanish measures, although not conflicting with the evoked articles of the General Agreement, could have had some effects on Spanish exports of soybean oil in such a way as to displace exports of soybean oil by the United States from some of its traditional markets, possibly nullifying or impairing benefits accruing to the United States in the sense of 1(b) or 1(c) of article XXIII. Mindful of its doubts as to the possible effects of the Spanish measures on soybean oil exports by the United States to third markets, the panel suggested that the Contracting Parties recommend to Spain that it accord sympathetic consideration to any concrete representations that the United States might wish to make in relation to this matter.

In November 1981, the Council considered the panel's report. During the discussion, the United States said it could not share the panel's view on interpretation of several important GATT provisions. The United States did not, however, ask the Council to undertake a new examination of the Spanish measures, or to make findings or recommendations to Spain on this issue. The United States requested that the Council take note of the report and of the various comments made, instead of adopting the report.

Spain requested adoption of the report by the Council, describing it as well balanced and stressing that its conclusions had been arrived at unanimously.

After lengthy discussion, several countries (both developed and developing) said they could not adopt the report, as they had reservations about some of its findings; they did not, however, object to taking note of the report and the various statements made concerning it. The Council thus took note of the report and the accompanying statements.

U.S. import duty on vitamin B12

During the recent MTN negotiations, the United States agreed to eliminate the ASP (American selling price) system of establishing dutiable value for certain imports. Under the ASP system, the United States charged a much lower rate of duty for feedgrade vitamin B12 than for pharmaceutical grade vitamin B12. When changing from the ASP system to ad valorem equivalent duties, the United States decided to use a single duty rate (higher than the previous rate on feedgrade vitamin B12) to cover both types of vitamin B12. The European Community objected to this step, and in late 1980 requested bilateral consultations with the United States under GATT article XXII. The consultations failed to resolve the problem, and on May 4, 1981, the EC held article XXIII:1 consultations with the United States concerning the U.S. practice of charging the same duty on imports of vitamin B12 feedgrade quality and vitamin B12 pharmaceutical grade. The EC contended that the United States' application of a higher duty rate on feedgrade vitamin B12 since conversion from ASP was inconsistent with U.S. obligations under the General Agreement and constituted a nullification and impairment of the EC's GATT rights on this product.

In June 1981, the EC informed the Council that consultations with the United States on this issue had brought no solution, and it asked the Council to set up a panel to examine the EC complaint. In its complaint, the EC claimed that the U.S. duties on feedgrade vitamin B12 are contrary to the agreement reached in the Multilateral Trade Negotiations with respect to the conversion of duty rates to reflect the duties collected in the past as a result of the ASP valuation, and contrary to U.S. obligations under the General Agreement, especially article II.

The United States said it considered its practices concerning imports of vitamin B12 feedgrade quality to be fully consistent with its GATT obligations, but agreed to establishing a panel. The Council then set up a panel to examine the dispute and report its findings.

U.S. imposition of countervailing duty on industrial fasteners from India

In November 1980, the Council agreed to establish a panel to examine a complaint by India that the United States had imposed a countervailing duty on industrial fasteners imported from India without establishing that the imports had caused material injury to the U.S. domestic industry producing like products. India claimed that as a signatory to the Agreement on Interpretation and Application of article VI, XVI, and XXIII of the General

Agreement (the Subsidies Code), it was entitled to an injury test 1/ before countervailing duties could be imposed on its exports. For reasons outlined below, 2/ the United States refused to recognize India as a Subsidies Code signatory. After consultations ending in September 1981, the United States agreed to apply the provisions of the Subsidies Code to India. Soon after, India and the United States informed the panel that as a result of bilateral consultations, both countries considered that the dispute had been satisfactorally resolved, and India requested that the proceedings of the panel be terminated.

U.S. restrictions on imports of automotive spring assemblies

On August 10, 1981, following a determination by the Commission that imports from a Canadian firm violated section 337 of the Tariff Act of 1930, in that they infringed or would infringe valid U.S. patents and caused substantial injury to the U.S. industry, the Commission issued an order excluding imports of the infringing automotive spring assemblies from any source from entry and sale in the United States. Canada claimed that this section of the Tariff Act and the Commission order, by applying only to foreign producers, were inconsistent with U.S. obligations under the GATT, because they constituted a denial of the General Agreement's "national treatment" provisions.

In October 1981, Canada informed the GATT Council that, in accordance with article XXIII:1, it had made written representations to, and held consultations with, the United States with a view to resolving this matter. In November 1981, Canada told the Council that the exclusion order had been allowed to stand. Canada then requested the Council to establish a panel pursuant to article XXIII:2 to examine the matter on an urgent basis, in view of the very serious consequences for the Canadian firm involved.

The United States said it did not object to a panel being established, but felt that the process of consultations under article XXIII:1 should first be completed. The U.S. representative asserted that his authorities were prepared to enter into such consultations promptly, and believed that the U.S. actions in this matter would be found to have been in full conformity with its GATT obligations.

The representative of Canada said that his Government had fully complied with the requirements of article XXIII:1 to seek bilaterally a satisfactory adjustment of this matter. He stated that while his delegation could agree to further bilateral consultations at the earliest possible time, Canada wished to insure that no valuable time was lost in resolving the dispute, either through consultations or by means of a panel.

1/ Art. VI of the General Agreement requires demonstration, when countervailing duties are imposed, that the subsidized imports in question are, in fact, responsible for causing material injury to the domestic industry of the importing country.

2/ For further information on the background of this dispute, see report on the Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, GATT section. Also see the section of this chapter on the Agreement on Subsidies and Countervailing Duties.

The Council agreed that if such consultations did not quickly lead to a mutually satisfactory solution, a panel would be established promptly. Following unsuccessful consultations between the United States and Canada, the Council set up a panel in December to examine the dispute and report back to the Council.

U.S. prohibition of imports of tuna and tuna products from Canada. 1/

On August 31, 1979, pursuant to section 205 of the Fishery Conservation and Management Act, the United States instituted a prohibition on imports of tuna and tuna products from Canada. This action was taken in response to Canada's seizure that same month of a number of U.S. flag vessels fishing for tuna off the coast of British Columbia. Canada asserted that the U.S. tuna embargo violated U.S. obligations under the GATT and impaired Canada's GATT benefits. Following bilateral consultations conducted at Canada's request, in January 1980 Canada asked for formation of a panel under article XXIII:2 to determine whether the U.S. restrictions were compatible with GATT rules. The Council agreed to set up the panel.

In September 1980, after the United States and Canada reached an interim agreement on fisheries, the United States lifted the prohibition on imports of tuna products from Canada. However, Canada insisted that the panel continue its work and issue a report on its findings. The panel continued its research during 1981, and in early 1982 presented conclusions that the United States' embargo on imports of tuna and tuna products from Canada did not comply with the requirements of article XX and was not consistent with the provisions of article XII. In February 1982, the Council adopted the panel's report without any U.S. objection.

U.S. tax legislation (DISC) and income tax practices maintained by France, Belgium, and the Netherlands

In 1981, the United States and the European Community reached an understanding on disputes between them over taxation of exports; the conflict had remained unsettled for nearly 10 years.

In May 1973, the EC had complained to the GATT Council about the operation of the United States Domestic International Sales Corporations (DISC's). Designed as a tax incentive to increase U.S. exports, the DISC legislation took effect on January 1, 1972. 2/ The EC argued that the DISC system constituted an exemption of direct taxes in favor of exports, and thus conflicted with GATT rules on subsidies.

After bilateral discussions failed to lead to an agreement, in 1976 the Council set up a panel under article XXIII:2 to investigate the EC complaint. In November 1976, the panel reported to the Council that after reviewing the operation of the DISC scheme in the light of GATT rules, it concluded that the scheme should be regarded as an export subsidy, and that in some cases it had

1/ This matter is also discussed in the Canada section of ch. 4 of this report.

2/ A corporation that qualifies as a DISC benefits from a tax deferral of part of its export income.

effects that contravened U.S. obligations under article XVI:4 of the General Agreement. The panel found there was a prima facie case of nullification or impairment of benefits that other GATT members were entitled to expect under the General Agreement.

At the same time that the EC complained about the DISC scheme in 1973, the United States also complained to the GATT Council about income tax practices maintained by three EC member states: France, Belgium, and the Netherlands. The United States considered that these three countries' tax practices gave a certain exemption from income taxes on export sales, and were thus contrary to GATT requirements.

In early 1976, the Council set up panels under article XXIII:2 to examine each of the three complaints by the United States at the same time as the panel (described above) examined the European complaint about DISC legislation. Although the panels were officially separate, the same five experts served on all four.

Reporting to the Council in November 1976, the panels said the application of the territoriality principle by Belgium and France--and of the world wide principle by the Netherlands--allowed some part of export profits belonging to an economic process originating in the parent country to be outside the scope of that country's taxes. 1/ The panels concluded that all these practices amounted to export subsidies, and in some cases had effects that contravened Belgian, French, and Dutch obligations under article XVI:4. Each of the three panels found prima facie cases of nullification or impairment of benefits that other GATT members were entitled to expect.

The Council took note of all four panel reports, but could not agree on their adoption. The reports were discussed at several Council meetings over the next 5 years.

There was no resolution of the issue until December 1981, when the Council considered the panel reports together with an understanding proposed by the countries principally concerned.

After some discussion, during which several other countries expressed reservations about the long delay in resolving this dispute, the Council adopted all four reports and accepted the understanding put forth by the countries involved. Under the terms of the understanding, (1) with respect to these cases, and in general, economic processes (including transactions involving exported goods) located outside the territorial limits of the exporting country need not be subject to taxation by the exporting country, and should not be regarded as export activities in terms of article XVI:4, (2) it was understood that article XVI:4 requires that "arm's-length" pricing be observed, i.e., prices for goods in transactions between exporting enterprises and foreign buyers under their, or the same, control should for tax purposes

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1/ Under the "territoriality" or "worldwide" principle of taxation as applied by the three countries, despite certain technical differences, the export sales income of foreign branches and foreign sales subsidiaries of domestic manufacturing firms are, largely or totally, exempt from taxation by the parent countries.

be the prices that would be charged between independent enterprises acting at arm's length, and (3) article XVI:4 does not prohibit the adoption of measures to avoid double taxation of foreign source income.

Following adoption of the reports, the Council modified the recommendations of the panel through the Chairman's interpretive remarks. The Chairman (of the Council) noted that the Council's decision, and the understanding, "does not mean that the parties adhering to article XVI:4 are forbidden from taxing the profits on transactions beyond their borders; it only means that they are not required to do so." He noted further that the decision does not modify the existing GATT rules in article XVI:4 as they relate to the taxation of exported goods. He also noted that this decision did not affect, and was not affected by, the Tokyo round agreement on subsidies and countervailing measures.

The Council then took note of the Chairman's statement, and also of subsequent statements by several countries. These countries said that, although they had not objected to the Council's decision to adopt the reports, they had objections to the understanding, and they reserved their rights to raise this issue again, both under the General Agreement and under the terms of relevant Tokyo round agreements to which they were parties.

Implementation of the Tokyo Round Agreements

Among the results of the Tokyo round negotiations are six major agreements or codes establishing rules of conduct in non-tariff areas, and a sectoral agreement on trade in civil aircraft. Because non-tariff barriers (NTB's) were perceived by both the United States and our trading partners as the greatest obstacles to expanding international trade after the tariff cuts of the Kennedy round, these codes are frequently viewed as the most important result of the Tokyo round.

The following section, describing how the agreements were implemented in 1981, focuses on the work of the code committees. These committees were established by each agreement for signatories to have a forum in which to consult one another over disputes and contested areas of interpretation of the codes. The signatories to the agreements as of the end of the year are shown in table 7.

Agreement on civil aircraft

The purpose of the Agreement on Trade in Civil Aircraft is to create a more open market for trade in all civil aircraft, engines, and on most parts and repairs. To this end, the agreement not only seeks to eliminate most tariffs on these products, but also seeks to limit NTB's with regard to standards, government purchase policies, quantitative restrictions, financing, and inducements in the aircraft sector. Because of the agreement's focus on removing both tariff and NTB's in a single sector of industry, the agreement is unique among the Tokyo round MTN Codes.

Table 7--Signatories to the GATT Agreements on Nontariff Measures and the Agreement on Trade in Civil Aircraft, as of December 31, 1981

Country	Agreement								
	Antidumping	Subsidies/ Countervail	Technical Barriers (Standards)	Licensing	Aircraft	Meat	Dairy	Customs Valuation	Government Procurement
Argentina			X	X		X	X	X	
Australia		X		X		X	X		
Austria	X	X	X	X	X	X	X	X	X
Brazil	X	X	X			X		X	
Bulgaria						X	X		
Canada	X	X	X	X	X	X		X	X
Chile		X	X	X					
Czechoslovakia	X			X					
Egypt	X	X	X	X	X	X	X		
European Economic Community 1/	X	X	X	X	X	X	X	X	X
Belgium			X		X				
Denmark			X		X				
France			X		X				
Greece			X		X				
West Germany			X		X				
Ireland			X		X				
Italy			X		X				
Luxembourg			X		X				
Netherlands			X		X				
United Kingdom	X 2/	X 2/	X 3/	X 2/	X	X 4/		X 2/	X 2/
Finland	X	X	X	X		X	X	X	X
Hungary	X		X	X		X	X	X	
India	X	X		X				X	
Israel			X						
Ivory Coast			X						
Japan	X	X	X	X	X	X	X	X	X
Republic of Korea		X	X					X	
New Zealand		X	X	X		X	X		
Norway	X	X	X	X	X	X	X	X	X
Pakistan	X	X	X	X					
Philippines			X	X					
Poland	X								
Romania	X		X	X	X	X	X	X	
Singapore			X						X
South Africa				X		X	X		
Spain	X		X					X	
Sweden	X	X	X	X	X	X	X	X	X
Switzerland	X	X	X	X	X	X	X	X	X
Tunisia			X			X			
United States	X	X	X	X	X	X	X	X	X
Uruguay		X				X	X		
Yugoslavia	X	X	X	X		X		X	

1/ The European Economic Community is a signatory to all of the agreements. Inasmuch as the Agreements on Technical Barriers to Trade and on Trade in Civil Aircraft cover matters outside the purview of the Community, each of the EC member states are also signatories to these Agreements.
2/ The United Kingdom signed the agreement for certain of the territories for which it has international responsibility, particularly Hong Kong.
3/ The United Kingdom signed the Standards Agreement in respect of its metropolitan territory and also for certain of the territories for which it has international responsibility, particularly Hong Kong.
4/ The United Kingdom signed the Meat Agreement for Belize.

The agreement went into effect on January 1, 1980. The United States implemented the agreement on civil aircraft with the Trade Agreements Act of 1979 and Presidential Proclamation 4707. As a consequence, tariffs of the United States and other parties to the agreement on repairs and on trade in aircraft and parts covered by the agreement were bound in the GATT at zero.

To carry out its provisions, the agreement established the Committee on Trade in Civil Aircraft, composed of the signatory representatives. A subsidiary body, the Technical Subcommittee on Trade in Civil Aircraft, also has been established. The subcommittee has been examining the implementation of duty-free treatment for aircraft and parts, and a proposal for uniform statistical reporting of trade under the agreement.

Among the issues considered by the committees in 1981 were two proposals to extend the initial agreement. One would expand the tariff provisions to include all aircraft parts (at present about 5 percent of the traded value of aircraft parts is excluded). Another proposal would require that all signatories provide data on the extent to which they subsidize aircraft research and development, production, and purchases. Both issues are still under discussion.

A third related issue arose over the question of the governments subsidizing loan interest rates to export aircraft. Because the Organization for Economic Cooperation and Development (OECD) agreement on export financing exempted aircraft from its coverage, governments are still able to provide low interest financing to foreign purchasers. In 1981, the Civil Aircraft Committee agreed that expanding the Agreement to include export financing was an appropriate topic for its deliberation.

In addition to the above issues, several other minor issues were brought before the code's committees. For example, Japan maintains import licensing procedures construed by some signatories of the agreement as an NTB. Even though Japan has never denied a license, foreign manufacturers contend that the procedure is an obstacle to civil aircraft trade. Another issue resulted from a Canadian tax on civil aircraft repairs made outside of Canada. The issue was presented as a violation of the code, and Canada has revised its tax accordingly. A third issue was raised over whether the Italian "cabiniari" and the "Guardia di Finanza" are civilian or military entities. If civilian, their aircraft-related purchases must fall under the agreement. This question is still being discussed.

Separate from the MTN code, but nonetheless concerned directly with civil aircraft trade, is a dispute between the United States and Brazil. Since 1979, Brazil has imposed import restrictions on small aircraft in an effort to protect its own infant aircraft industry. Several U.S. manufacturers have complained that this practice discriminates against their exports to Brazil. The practice has been discussed bilaterally on several occasions.

Agreement on customs valuation

The customs valuation agreement, which entered into force on January 1, 1981, establishes a uniform system of rules to determine the customs value for

imported goods. 1/ The primary purposes of the Agreement are to eliminate arbitrary practices which overvalue goods and also to allow exporters and importers to predict accurately how their goods will be valued by customs authorities. Implementing the agreement will also lead to simpler valuation systems in a number of signatory countries.

Under the agreement's provisions, a primary method of valuation and a series of alternative methods are set forth. The primary method of valuation is to use the transaction value--the price actually paid or payable for the goods--to establish the dutiable value of the good. In most cases, the transaction value will be used; however, the agreement provides alternative methods when the value cannot be determined by using the transaction value. The second method of preference is to use the transaction value of an "identical" good exported from the same country to the same importing country. The third method of preference is to use the transaction value of a "similar" good sold for export to the same importing country. If neither of these valuation methods is feasible, the resale price of the imported goods less the necessary expenses after importation is used, or lastly, the production costs can be used to reconstruct the value of the good. In the situation where none of these five methods is feasible, the agreement provides that any reasonable means consistent with the general provisions of the agreement and art. VII of the GATT may be used.

The agreement also establishes two committees, a technical committee, under the auspices of the Customs Cooperation Council (CCC), and the GATT Committee on Customs Valuation. The technical committee, which met two times in 1981, focuses on the technical interpretation of the codes' provisions as well as problems related to customs valuation. The GATT Committee on Customs Valuation, which met three times during 1981, supervises the implementation of the agreement and provides a forum for the signatories to consult one another.

During 1981, several procedural actions were taken by the Committee on Customs Valuation. For example, the standard procedures used by other GATT code committees were adopted for participation of observers and for the circulation and derestriction of documents. Another decision provided that accession of non-GATT contracting parties to this agreement, should any decide in the future that they wish to accede, will be handled on a case-by-case basis rather than in a standardized manner. It was also agreed that a checklist of issues relating to national legislation on customs valuation be initiated for an examination of the national legislation of the contracting parties.

Several issues were presented at the two custom valuation committees in 1981. The Canadian delegation complained that transportation costs after their exports crossed the U.S. border were sometimes included in the import value of their goods for the purposes of levying a duty. Inflating the customs value in this way results from the Canadian practice of pricing on a delivered basis; that is, including freight charges. The Canadian Government

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1/ The customs valuation agreement entered into force internationally on Jan. 1, 1981, although the United States and the European Community agreed to implement the agreement on July 1, 1980.

has requested that U.S. customs authorities adjust the price of the import to exclude from the dutiable value those freight charges incurred after the point of arrival in the United States. The Canadian Government is willing to implement the identical treatment for goods shipped to Canada from the United States.

The Canadian Government also made a special request that the CCC review its draft legislation to implement the code in Canada. This review was requested because extensive changes will be required in Canadian law to conform to Code requirements.

Finland's implementing legislation caused some concern because of its unclear language. The Finnish delegation responded that the wording had been purposely broad to provide flexibility on a case-by-case basis and that all reasons and methods of calculating customs values would be covered in written responses to queries from importers. Some of the signatories also feared that the Finnish legislation would permit the use of minimum customs values; however, the Finnish delegation denied that this was the intent of the legislation.

Lastly, a related issue arose over the European Community's implementing legislation concerning EC regulations on confidentiality. The United States delegate claimed that the legislation was vague with regard to the question of who might have access to customs valuation information. The U.S. delegation also expressed concern over separate EC member state provisions. The EC delegation defended the wording of their confidentiality provisions as being necessary to oversee constant Code implementation throughout the EC. As for member state provisions, the EC will share this information with the United States when it involves the public domain.

Agreement on import licensing

The Licensing Code simplifies the procedures importers must follow to obtain import licenses. 1/ The Code requires that signatories publish the rules for submitting import-licensing applications, and that they clarify the forms and procedures for obtaining licenses. The Code also stipulates that licenses can be denied on the basis of documentation errors only when the errors are significant.

The Code, which became effective January 1, 1980, also establishes the Committee on Import Licensing, composed of signatories. The purpose of the Committee is to facilitate consultation. In 1981, the Committee met in April and in November. Because no licensing disputes were referred to the Committee, its activities consisted primarily of sharing information and consulting on procedural matters relating to how various countries administer the agreement. In 1980, the Committee began to compile information on the licensing systems of each signatory to be submitted later to the GATT secretariat.

1/ Many less developed countries require import licenses to allocate scarce foreign exchange. In the industrialized countries, however, licensing is often required for non economic reasons. For example, in the United States, import licensing in used to control trade in endangered species, for health reasons, and sometimes to administer quotas.

As of the November meeting, 20 governments, including the European Community as one, had acceded to the agreement. Argentina and Yugoslavia have signed the Agreement but have not yet completed their acceptances. To date, only GATT members have acceded to the agreement.

Agreement on government procurement

The agreement on government procurement, which entered into force on January 1, 1981, requires government agencies that are covered by the agreement to allow bidding by foreign firms on major governmental purchases, thereby opening new opportunities that were previously closed by buy-national laws. 1/ To achieve this purpose, common international ground rules are established for qualifying suppliers for bidding and publishing bid opportunities. The agreement also establishes procedures for providing information on bids, opening and awarding bids, and filing complaints. Furthermore, the agreement stipulates the government agencies whose purchases must fall under the agreement and the minimum value of contracts that must be offered internationally under its terms. 2/

The agreement also establishes the Committee on Government Procurement to monitor compliance and to settle disputes arising over the agreement's implementation. The committee, with representatives from each of the agreement's signatories, met three times in 1981 to discuss complaints.

During 1981, the United States complained that several signatories had not complied fully with the agreement. One of these complaints concerned Italy's selective tendering procedures. Under the agreement, nations are allowed to tender bids either openly or from a selected list of qualified bidders. With the latter procedure, only certain registered suppliers are invited to bid. In the case of Italy, the U.S. delegation charged that the selective list leads to preferential tendering practices favoring local firms.

The U.S. delegation also asked that West Germany's practice of failing to notify unsuccessful bidders be changed. Another practice that received the U.S. delegation's attention is that both the United Kingdom and Sweden provide preferential treatment to bidding firms in less developed areas of their respective countries.

Another issue raised at the meetings in 1981 concerned the "threshold" level regulation, and the way the EC countries calculate the value of contracts. Under this regulation, a contract subject to the agreement must be above the threshold level--$196,000 in 1981--to be subject to the agreement. The EC "nets out" (i.e., subtracts) the value-added tax (VAT) when estimating

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1/ The agreement on government procurement applies only to the purchase of products. The agreement does not apply to products which are leased, nor does it apply to the purchase of services unless the services are incidental to the purchase of goods. In addition, the agreement does not apply to construction contracts, national security items, or purchases by local governments (with or without federal funds).

2/ For a more detailed description of the agreement on government procurement, see the Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, p. 44.

the value of prospective contracts, and thereby reduces the number of contracts above the threshold level and subject to the agreement. The U.S. delegation asked that the practice of netting out the VAT be terminated so that more contracts will be open for U.S. bidders.

In addition to the above issues, the United States also raised a question over whether more could be done to see that the procurement procedures of signatories are fully publicized and consistently followed. To further this goal of "transparency" in the administration of the agreement, the U.S. delegation maintains that the bidding guideline documents submitted to GATT by each signatory should be open to the public. However, some signatories maintain that these are internal documents and should not be published.

The U.S. delegation has also attempted to widen the coverage of the agreement by encouraging other governments to expand the number of governmental entities covered. At present, most governmental entities in foreign countries that purchase heavy electrical, telecommunications and railroad equipment (i.e., utilities, posts, telephone and telegraph agencies, and railroads) are excluded from the agreement. In the United States, companies in these areas are privately owned and have open procurement policies. The U.S. Government has taken the position that it would therefore be more equitable for other signatories to extend the coverage to their publically owned utilities, posts, telephone and telegraph agencies, and railroads.

Agreement on subsidies and countervailing duties

The Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code) clarifies and strengthens existing GATT provisions to control the use of subsidies for promoting exports. The agreement also requires that each signatory's domestic procedures and laws for imposing countervailing duties conform with certain international standards as enumerated in part I of the agreement.

The Subsidies Code provides two "tracks" for redress by parties seeking relief from another signatory's subsidy practices. The first track is domestic in nature and allows signatories to impose countervailing duties to offset the margin of subsidy and to provide relief to industries found materially injured or threatened with material injury by reason of the subsidies. The first track also permits "undertakings" in place of issuing a countervailing duty orders. Undertakings are used in cases where the government of the exporting country agrees to eliminate or to limit the subsidy or to revise its prices so that authorities in the importing country are satisfied that the injurious effect of the subsidy ends.

The second track provides a multilateral approach for signatories to enforce their rights under the agreement. This track is of special importance in cases where one signatory's export subsidies displace another signatory's exports in third-country markets. In such cases, traditional countervailing duties are not an effective countermeasure. To use the procedures of the second track, a signatory may request consultations with any signatory believed to be providing subsidies inconsistent with the agreement. Should these consultations fail to result in a mutually accepted solution, any

signatory that was a party to the consultation may refer the matter to the Committee on Subsidies/Countervailing Measures (CSCM) for conciliation. Following this notification, the country alleged to be providing the subsidy and the affected country enter a conciliation period. If conciliation should fail to resolve the problem, the CSCM shall appoint a panel of experts to investigate the matter. When a mutually acceptable solution cannot be reached by the parties to the dispute before the panel of experts, the panel submits a report to the CSCM setting forth its findings. The Committee then considers the panel report and recommends how to resolve the dispute. If the Committee's recommendations are not followed in a reasonable time, the Committee may authorize appropriate counter measures.

The United States fully implemented the agreement with the Trade Agreements Act of 1979. Under the 1979 act, countervailing duties may be imposed on subsidized imports originating in countries that apply the agreement to the United States only after these subsidized imports are found to cause or threaten to cause material injury to the domestic industry in the United States or to materially retard the establishment of an industry in the United States. Imports of subsidized dutiable products originating in countries that have not been designated as a "country under the Agreement" do not benefit from this test of material injury. Duty-free imports continue to benefit from a material injury test consistent with the international obligations of the United States.

Title IX of the Trade Agreements Act, which provides for the enforcement of U.S. rights under trade agreements, also implements the agreement's second track by amending section 301 of the Trade Act of 1974. Under this provision of the law, an interested party in the United States can petition the President of the United States (through the Office of the United States Trade Representative) to enforce U.S. rights under any trade agreement. Should the United States Trade Representative accept a petition alleging that a signatory to the Agreement is granting subsidies inconsistently with the Code's provisions, the United States is required to use the consultation and dispute-settlement mechanism of the Code to resolve the matter. If a satisfactory resolution does not result from international initiatives undertaken by the United States, the United States Trade Representative is required to submit a report to the President recommending actions to be taken. The President, within 21 days following receipt of the recommendations, must determine what action, if any, is to be taken against the trade of a country found in violation of the agreement.

In 1981, the United States Trade Representative accepted four petitions under section 301 alleging violations of various provisions of the agreement by the European Community through its subsidy practices. The products covered by these petitions were pasta, poultry, sugar, and wheat flour. 1/ In each case, consultations pursuant to article 12 of the agreement were requested by the United States, and, in the case of wheat flour, a panel was established to review the matter in December 1981.

1/ A description of these cases is contained in ch. 5 of this report. During the spring of 1982, the Commission conducted a countervailing duty investigation under sec. 701 of the Tariff Act of 1930 involving sugar exports from the EC.

In addition to mediating the grievances of the signatories, the CSCM regularly reviews how the Subsidies Code is being implemented. One set of issues before the CSCM in 1981 concerned the conditions under which new signatories may accede to the Code. Perhaps most notable among these were the accessions of New Zealand and Australia. Considerable debate took place in several 1981 meetings, because both countries have export incentive schemes which are inconsistent with some provisions of the Code. Furthermore, neither country wanted to end its subsidy programs immediately as required. Hence, both Australia and New Zealand agreed to accede to the Code provided that they would be allowed a reasonable period of time to change their programs. As a consequence, the United States provisionally applied the agreement to both countries.

Another issue of some importance which was resolved in 1981 concerned the United States' refusal to apply the agreement to India in spite of India's 1980 accession to the agreement. The United States argued that India's commitment to discipline its export restrictions pursuant to article 14 of the Code was insufficient. India, however, responded by noting that under article 14, developing country export subsidies are recognized as an integral part of development programs, and that, therefore, India did indeed satisfy the requirements of article 14. Because of this impasse, India requested a GATT panel be convened under article XXIII of the GATT to resolve the dispute. However, before the panel met, the United States agreed in September 1981 to apply the provisions of the Code to India in exchange for a commitment from India to discipline the use of its export subsidy program.

In addition to the above, several technical questions were considered by a group of experts during 1981. One question concerned the meaning of the word "related" when used to describe producers in a domestic industry that may be related to exporters or importers of the alleged subsidized product. Because both the Subsidies Code and the Antidumping Code direct domestic authorities to exclude such related parties from the domestic industry when making an injury determination, an accepted definition of the term is important for uniformly applying the agreements multilaterally. The group of experts specified the conditions under which producers are deemed to be related to exporters or importers. 1/ The report of the panel of experts was adopted by the CSCM in 1981.

Another technical question considered by a group of experts in 1981 considered how to calculate the amount of an export subsidy. An understanding in this area would help domestic authorities achieve a common basis upon which to determine whether a product is being subsidized and the level at which it might be countervailed. The work of this expert's group continued into 1982.

Countervailing duty actions.--Under article 2:16 of the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code), signatories to the Code are to submit semiannual reports of any countervailing duty actions taken

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1/ Such a relationship only exists under the following conditions: (1) one of the parties directly or indirectly controls the other; (2) both parties are directly or indirectly controlled by a third person; (3) together the parties directly or indirectly control a third person--and provided that they are substantially benefiting from dumped or subsidized imports.

within the preceding 6 months. Twelve countries 1/ reported that they had not taken any countervailing duty action during 1981. Australia, New Zealand and Pakistan did not submit a report for January-June 1981, for July-December 1981, all three reported that no countervailing duty actions were taken. Uruguay reported no countervailing action in January-June 1981 and did not submit a report for July-December 1981.

The EC reported only one countervailing duty action in 1981. On September 19, the EC initiated a countervailing duty action against women's footwear from Brazil. No provisional measures were taken. An undertaking was decided upon on November 14, 1981.

The United States reported to the GATT that in 1981 it had not imposed any countervailing duties after conducting 13 countervailing duty investigatons and making 11 determinations. At yearend the United States had the following cases pending:

Country	Product	Initiation
Belgium	Carbon steel plate	Nov. 18, 1981.
Brazil	Carbon steel plate	Nov. 18, 1981.
France	Hot-rolled sheet	Nov. 18, 1981.
Mexico	Ceramic tile	Oct. 26, 1981.
Spain	Prestressed concrete strand	Dec. 2, 1981.
Spain	Potassium permanganate	Dec. 4, 1981.
Spain	Structural steel	Nov. 24, 1981.
The Republic of South Africa	Carbon steel plate	Nov. 18, 1982.
The Republic of South Africa	Prestressed Concrete Strand	Dec. 4, 1981.

Antidumping agreement

The Tokyo round antidumping agreement revises a previous understanding on GATT article VI from the Kennedy round negotiations of the 1960's. The current agreement brings the Kennedy round understanding into line with the the new Subsidies Code, especially with regard to injury determinations, imposition and collection of antidumping duties, and price undertakings between exporters and the importing country. The Tokyo round antidumping agreement also aims to achieve a greater degree of uniformity on implementing the agreement.

The Committee on Anti-Dumping Practices (CADP) met twice in 1981. One of the most important actions taken by the CADP was adopting an understanding on the practice of signatories establishing "basic price systems"--or price systems for imported goods that might trigger an import action on particular products. Because the Tokyo round agreement was ambiguous with regard to the

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1/ Austria, Brazil, Chile, Finland, Hong Kong, India, Japan, the Republic of Korea, Norway, Sweden, Switzerland, and Yugoslavia. In addition, Canada reported on three countervailing duty actions initiated in July 1980. Provisional duties were applied against emmenthal cheese from Austria, Finland, and Switzerland on Dec. 12, 1980. In March 1981, a price arrangement was entered into between Canada and the three countries. Canada did not report initiating any new countervailing duty actions in 1981.

place of basic price systems, the CADP felt it was necessary to clarify their use. In an understanding reached among the signatories in 1981, the CADP stated that basic price systems should not be used to provide the basis for any antidumping investigation or for the imposition and collection of antidumping duties. In the same understanding, the CADP recognized that special monitoring schemes, in so far as they are related to antidumping systems, are not envisioned by either the GATT or the Antidumping Code and that they give cause for concern, because they could be used in a manner contrary to the spirit of the agreement. The CADP agreed, therefore, that such schemes should not be used as a substitute for starting and carrying out antidumping investigations in full conformity with all requirements of the agreement. Furthermore, because basic price systems may have the effect of burdening and distorting international trade, these effects should continue to be examined so as to strengthen international discipline in this area.

Another 1981 activity of the CADP coincided with the work of the Committee on Subsidies and Countervailing Measures. Both committees requested an expert panel define the meaning of the word "related" when used to describe producers in a domestic industry that may be related to exporters or importers of an alleged dumped product. The CADP adopted the experts panel report in 1981. (See previous section.)

In addition to matters directly related to clarifying the agreement, the CADP heard complaints from signatories about how others had applied the agreement in specific cases. For example, the U.S. delegation for example complained that the EC textile industry was bringing invalid dumping cases against the U.S. textile industry. Referring to the EC dumping case on bed linens from the United States, the United States delegation complained that the case was initiated despite what the United States regarded as a failure to present even a prima facie case respecting injury and dumping margins. Furthermore, the case had been brought by companies representing less than 50 percent of EC producers. The U.S. delegate said that the case would not have been accepted under U.S. law and might lead to a stream of similarly weak cases intended to harass U.S. exporters.

The EC delegation replied that in fact the United Kingdom producers bringing the case represented 50 percent of the total EC producers of bed linens. As to the case presented by the petitioners, the EC delegation asserted that they had done the best they could to reconstruct ex factory U.S. prices from inadequate, publicly available data. They felt that the U.S. charge of harassment was exaggerated. In response, the U.S. delegate said that the bed linens case would be brought up bilaterally with the EC.

Antidumping actions.--Under article 14:4 of the antidumping code (Agreement of Implementation of Article VI of the General Agreement on Tariffs and Trade) signatories are to submit on a semiannual basis reports of any antidumping actions taken during the preceding 6 months. Twelve signatories 1/ reported that no antidumping actions were taken during 1981.

Antidumping actions were reported by Austria, Canada, the European Community, Finland, Sweden, and the United States. These actions are summarized in table 8. In 1981, Austria initiated one antidumping action and made no final determinations; Sweden initiated two such actions and also made

1/ Brazil, Czechoslovakia, Hong Kong, Hungary, India, Japan, Norway, Poland, Romania, Spain, Switzerland, and Yugoslavia.

Table 8.--Antidumping actions reported by signatories to the GATT Antidumping Code, 1981

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Austria	Italy	Reinforcing wire mesh	2-28-81		
Canada	Belguim	Hose wire	11-18-80	2-12-81	5-13-81 - Definitive duty.
Do	Brazil	Custom wheel rims	9-25-80	4-10-81	7-10-81 - Definitive duty.
Do	China	Waterproof rubber footwear	5-22-81		
Do	Finland	Papermaking machinery	5-5-81	9-28-81	12-23-81 - No injury.
Do	France	Steel sheet piling	7-4-80	10-27-80	1-23-81 - No injury.
Do	Hong Kong	Waterproof rubber footwear	5-22-81		
Do	India	Hydroxystearic acid	10-14-81		
Do	Italy	Container cranes	12-10-81		
Do	do	Baler twine	7-16-81	11-25-81	
Do	Japan	Microwave ovens	4-3-81	12-30-81	
Do	do	Stainless steel Buttweld fittings	8-20-81		
Do	do	Drywall screws	8-13-81		
Do	Luxembourg	Steel sheet piling	7-4-80	10-27-80	1-23-81 - No injury.
Do	Malaysia	Waterproof rubber footwear	5-22-81		
Do	Netherlands	EDTA Na 4 liquid and DTPA liquid	6-4-80	7-7-81	10-2-81 - No injury.
Do	do	Baler twine	7-16-81	11-25-81	
Do	do	Lauroyl peroxide	8-18-80	12-10-80	3-10-81 - Definitive duty.
Do	Poland	Hardboard panels	3-11-81	6-26-81	9-23-81 - Definitive duty.
Do	Portugal	Baler twine	7-16-81	11-25-81	
Do	Singapore	Drywall screws	8-13-81		
Do	do	Microwave ovens	4-3-81	12-30-81	
Do	Spain	Hose wire	11-18-80	2-12-81	5-13-81 - Definitive duty.
Do	Switzerland	Capacity voltage transformers	9-28-81		
Do	Taiwan	Stainless steel screwed end fittings	7-17-81		
Do	United Kingdom	EDTA Na 4 liquid and DTPA liquid	6-4-80	7-7-81	10-21-81 - No injury.
Do	do	Lauroyl peroxide	8-18-80	12-10-80	3-10-81 - Definitive duty.
Do	do	Steel sheet piling	7-4-80	10-27-80	1-23-81 - No injury.
Do	do	Baler twine	7-16-81	11-25-81	
Do	United States	Juvenile products	6-23-80	11-7-80	2-5-81 1/
Do	do	Benzoyl peroxide	8-18-80	12-10-80	3-10-81 - Definitive duty.
Do	do	T-Butyl peroctoate	do	do	do.
Do	do	T-Butyl parbenzoate	do	do	do.
Do	do	Multilevel telephone intercom systems.	11-13-80	6-11-81	9-11-81 - Definitive duty.

Table 8.--Antidumping actions reported by signatories to the GATT Antidumping Code, 1981--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Canada	United States	Vehicle washing equipment	7-7-80	11-28-80	2-27-81 - Definitive duty.
Do	do	Radiator components headers	6-16-81	9-22-81	12-21-81 - No injury.
Do	do	Stainless steel Buttweld fittings	8-20-81		
Do	do	Steel rule products	9-14-81		
Do	do	EDTA Na 4 liquid and DTPA liquid	6-4-80	7-7-81	10-2-81 - No injury.
Do	U.S.S.R	Hardboard panels	3-11-81	6-26-81	9-23-81 - Definitive duty.
Do	West Germany	EDTA Na 4 liquid and DTPA liquid	6-4-80	7-7-81	10-2-81 - No injury.
Do	do	Lauroyl peroxide	8-18-80	12-10-80	3-10-81 - Definitive duty.
Do	do	Steel sheet piling	7-4-80	10-27-80	1-23-81 - No injury.
Do	Yugoslavia	Waterproof rubber footwear	5-22-81		
EC	Brazil	Malleable cast iron tube fittings	9-26-80		6-3-81 - Price undertakings.
Do	do	Hermetic compressors for refrigerating equipment.	11-14-80		4-25-81 - No injury.
Do	Canada	Potato granules	8-29-80	4-28-81	8-26-81 - Definitive duty.
Do	do	Conifer plywood	5-20-81		11-25-81 - No injury.
Do	Czechoslovakia	Codeine	4-1-81		
Do	do	Refrigerators	7-2-81		
Do	do	Pianos	7-23-81		
Do	do	Oxalic acid	9-19-81		
Do	do	Cylinder vacuum cleaners	9-25-81		
Do	do	Photographic enlargers	10-23-81		
Do	do	Trichlorethylene	do		
Do	do	Polyvinylchloride	12-19-81		
Do	Hungary	Hermetic compressors for refrigerating equipment.	11-14-80		4-25-81 - No dumping.
Do	do	Codeine	4-1-81		
Do	do	Refrigerators	7-2-81		
Do	do	Fabric building board	7-4-81		
Do	do	Oxalic acid	9-19-81		
Do	do	Polyvinylchloride	12-19-81		

Table 8.--Antidumping actions reported by signatories to the GATT Antidumping Code, 1981--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
EC	Japan	Ball and tapered roller bearings	7-18-79		6-11-81 - Price undertaking.
Do	do	Hermetic compressors for refrigerating equipment.	11-14-80		4-25-81 - No dumping.
Do	do	Polypropylene film	6-24-81		
Do	Poland	Ball and tapered roller bearings	9-18-81		6-11-81 - Price undertaking.
Do	do	Codeine	4-1-81		
Do	do	Refrigerators	7-2-81		
Do	do	Cylinder vacuum cleaners	9-25-81		
Do	do	Photographic enlargers	10-23-81		
Do	do	Trichlorethylene	do		
Do	Romania	Ball and tapered roller bearings	9-18-79		6-11-81 - Price undertaking.
Do	do	Refrigerators	7-2-81		
Do	do	Trichlorethylene	10-23-81		
Do	do	Steel gas tubes	11-18-81		
Do	do	Polyvinylchloride	12-19-81		
Do	Spain	Hermetic compressors for refrigerating equipment.	11-14-80		4-25-81 - No injury.
Do	do	Seamless steel tubes	10-19-79		6-25-81 - No injury.
Do	do	Furfural	8-27-80		7-11-81 - No injury.
Do	do	Trichlorethylene	10-23-81		
Do	United States	Chemical fertilizer	2-26-80	8-15-80	2-12-81 - Definitive duty.
Do	do	Vinyl acetate monomer	7-9-80	11-21-80	5-15-81 - Definitive duty.
Do	do	Styrene monomer	7-26-80	2-14-81	6-13-81 - Definitive duty.
Do	do	Orthoxylene	11-5-80	5-27-81	7-25-81 - Definitive duty.
Do	do	Paraxylene	do	6-16-81	10-15-81 - Definitive duty.
Do	do	Textured polyester fabric	12-24-80	5-20-81	7-16-81 - Definitive duty.
Do	do	Fluid cracking catalyst	2-10-81		
Do	do	Conifer plywood	5-20-81		11-25-81 - No dumping.
Do	do	Polyester cotton sheets and pillow-cases.	6-26-81		

Table 8.--Antidumping actions reported by signatories to the GATT Antidumping Code, 1981--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
EC	United States	Phenol	3-10-81	7-18-81	
Do	do	Trichlorethylene	10-23-81		
Do	do	Decabromodipheny-lether	12-24-81		
Do	Yugoslavia	Codeine	4-1-81		
Do	do	Refrigerators	7-2-81		
Finland	Switzerland	Coffee filter bags	7-10-80	12-18-80	9-18-81 - Price undertakings.
Do	West Germany	do	do	12-17-80	9-18-81 - Price undertakings.
Sweden	Republic of Korea.	Steel radial tires	11-26-81		
Do	Yugoslavia	do	do		
United States	Canada	Methyl alcohol			8-13-81 - Revoked.
Do	do	Sheet piling	11-24-81		
Do	China	Natural menthol	7-2-80	1-7-81	6-4-81 - No injury.
Do	Colombia	Fresh cut roses			6-25-81 - Dismissed.
Do	East Germany	Montan wax	9-24-80	3-12-81	8-25-81 - Definitive duty.
Do	France	Anhydrous sodium metasilicate	6-9-80	9-5-80	1-7-81 - Definitive duty.
Do	do	Sorbitol	7-10-81	11-30-81	
Do	Hungary	Truck-trailer axles	3-11-81	9-10-81	
Do	India	Metal castings	12-12-80		8-5-81 - No dumping.
Do	Italy	Strontium nitrate	9-30-80	2-11-81	6-25-81 - Definitive duty.
Do	Japan	Clad steel plates	10-15-81	11-13-81	
Do	do	High-powered amps	8-17-81	12-31-81	
Do	do	Nails			8-11-81 - Case withdrawn.
Do	Romania	Carbon steel plate	11-18-81		
Do	Republic of Korea.	Nails	7-2-81		11-23-81 - Postponed.
Do	Taiwan	Fireplace mesh	9-8-81		
Do	do	Motorcycle batteries	5-27-81	10-14-81	12-15-81 - Postponed.
Do	United Kingdom	Secondary aluminum alloy	4-13-81		5-8-81 - No injury.
Do	West Germany	Tubeless tire valves	4-27-81	9-15-81	11-30-81 - No dumping.
Do	do	Precipitated barium carbonate	9-30-80	2-11-81	6-25-81 - Definitive duty.
Do	Yugoslavia	Nails	7-2-81		8-11-81 - No injury.

1/ Only applied to some producers; no injury found on other producers.

Source: Compiled from documents of the General Agreement on Tariffs and Trade.

no final determinations before yearend 1981. Canada initiated 23 antidumping actions, made 24 determinations, and imposed antidumping duties in 13 cases; two cases which Finland had initiated in 1980 were finally resolved in 1981, but antidumping duties were not assessed. Of the 33 antidumping cases the EC initiated in 1981, 22 were against nonmarket economy countries of Eastern Europe. The EC made 19 final determinations during the year, imposing definitive duties in seven instances. The United States initiated action on 12 antidumping cases in 1981, making 14 final deteminations and imposing antidumping duties in four cases.

Agreement on technical barriers to trade

The purpose of the agreement on technical barriers to trade (Standards Code) is to eliminate the use of standards and certification systems as obstacles to trade among signatory countries. The agreement further seeks to open national-standard-setting procedures to international scrutiny and to encourage signatories to accept test results, certificates, or marks of conformity issued in the country of export. A key provision of the agreement requires that any new technical barrier treat foreign suppliers in other participating countries and domestic suppliers equally.

In 1981, the Committee on Technical Barriers to Trade (CTBT) met three times. One issue the committee discussed was whether the Standards Code applies to processes and production methods (PPM's) used to make a product as opposed to applying only to the end product itself. The United States advocates the view that PPM's qualify as standards under the code; the EC opposes this interpretation. The issue arose when the EC required the use of a poultry-chilling system not commonly used in the United States, and the United Kingdom gave domestic suppliers 2 years to meet the requirement, while foreign suppliers had to do so immediately. The U.S. delegation maintained that this United Kingdom practice violates the principle of treating both foreign and domestic suppliers equally.

The EC contends, however, that because the code does not cover PPM's, the United States has no basis upon which to complain to the CTBT. Because agreement could not be reached in the CTBT on the issue of PPM's in the Code, the Committee requested signatories to submit voluntarily examples of other countries' PPM's that create trade barriers. This list is to be published and will serve as a basis for further discussions on the issue.

Another issue raised in 1981 was the role of regional standardizing and certifying bodies. The United States is concerned that such bodies will assume the standardizing activities of governments and thereby escape from some of the provisions of the Code. The Committee agreed to send questionnaires requesting additional information to major regional bodies.

During 1981, a number of countries acceded to the Code; however, the CTBT could not agree on the terms of accession for Bulgaria--a noncontracting party to the GATT. Bulgaria proposed language in the accession agreement that permitted unilateral action on technical barriers without consulting with the CTBT. Because of this proposed language, a number of signatories have resisted Bulgaria's accession. A Working Group was established by the CTBT to negotiate satisfactory terms with Bulgaria, but it did not complete its work in 1981.

The U.S. delegation has also held bilateral discussions with trading partners on standards-related problems. For example, the United States has raised the question with Japan of expediting the certification of U.S. automobiles exported to Japan. 1/ With the French Government, the United States has protested the lack of advance notice on new standard regulations.

Unfinished Agreements

This section contains a discussion of the progress made in 1981 toward completing the unfinished agreements on safeguards and on commercial counterfeiting.

Safeguards

Among the unfinished business from the Tokyo round MTN is an agreement on the implementation of article XIX of the GATT. Article XIX deals with the use of safeguards, that is, import relief actions to protect domestic producers from injury. Many contracting parties to the GATT fear that because of the recent and frequent resort to safeguards without reference to GATT rules or procedures--especially bilateral agreements such as orderly marketing agreements (OMAs) and voluntary export restraints (VRAs)--the restraints imposed under article XIX are no longer being heeded. A report by the GATT Secretariat shows the extent of the problem: in 1980, safeguard measures taken under article XIX affected approximately $1.6 billion in imports and measures taken outside article XIX affected about $19.9 billion in imports.

Because article XIX is frequently ignored, several important principles of the GATT are being neglected. For example, existing GATT procedures require that in part relief actions meet the serious injury provision of article XIX, and that they be administered in accordance with the most-favored nation provisions of article I. OMAs and VRAs are seldom subject to the same GATT discipline. Another GATT principle is that any country being substantially affected by a GATT safeguard action may be compensated, and furthermore, the affected countries may demand consultations under GATT procedures if they feel they have been unjustly treated. More generally, many observers fear that ignoring the GATT and article XIX by relying on bilateral agreements to restrict trade will lead to the increased cartelization of international commerce. Hence, a large number of countries in the GATT support attempts to seek a general understanding on how article XIX is to be interpreted. Nonetheless, countries differ greatly on the specifics of such an understanding, and the progress of the negotiations has been slow.

Three specific areas have been discussed in the context of the safeguard negotiations. One is to create a permanent safeguards committee at the GATT. Considerable difference of opinion exists as to the precise responsibilities of such a committee. The United States has proposed that the committee would initially examine all safeguards actions over a recent period and develop a firmer consensus as to the general range and effect of safeguard actions.

1/ For more information on these discussions, see the subsection on Standards in the Japan section of this report.

A second area of discussion is to enhance the "transparency" of actions taken on safeguards. Again, considerable differences exist among the Contracting Parties over how to promote this goal. Some delegations have stated that transparency, to be effective, requires all formal agreements on trade restraints be notified to the GATT. Another proposal to enhance transparency is to require that procedures for safeguard actions take place openly.

A third area of discussion is whether the nondiscrimination requirement (embodied in the most-favored-nation clause of art. I) should be relaxed with respect to safeguard actions. The EC especially would like to see this prohibition removed, and argues that, until it is relaxed, the GATT safeguard clause will be largely ignored. 1/ Developing countries, fearing that they will be the parties to suffer such discrimination, have strongly resisted such efforts.

In 1981, the GATT committee on safeguards met once, and also several small informal group discussions were held. Because of extensive differences among the various parties to these meetings, an agreement could not be reached.

Commercial counterfeiting

Another Code that remained uncompleted in 1981 is the Commercial Counterfeiting Code. The main purpose of the Code is to deny the economic benefits of trading in counterfeit goods. The preferred means of achieving this in the draft Code is by compelling the seizure, forfeiture, and disposal of counterfeit goods. The Code also provides for settling disputes by protecting against the use of anticounterfeiting laws to harass legitimate trade and for resolving conflicts over lax implementation or enforcement of Code obligations.

As part of the Tokyo round MTN, the United States and the EC completed negotiations on a draft Code in 1979. However, the Code was not included in the final MTN, because there were no additional signatories. In the years subsequent to 1979, generating interest among other countries has proven difficult.

In September 1981, the United States and the EC held meetings with other countries on the draft agreement. During these meetings, the Code was redrafted to suit the concerns of several countries that indicated they were prepared to sign as a result of the changes. However, a large number of less developed countries refused to join the accord, because they felt that the World Intellectual Property Organization, and not the GATT, was the appropriate body for such an agreement.

If the agreement can be enacted, a Committee on Trade in Counterfeit Merchandise composed of representatives from each of the signatories will be established. The Committee will meet at least once each year to give signatories the opportunity to consult on matters relating to the operation of the agreement.

1/ The "selectivity" concept would apply safeguard actions to one or more selected countries; other countries exporting the product would not be affected.

CHAPTER 3

TRADE AGREEMENTS ACTIVITIES OUTSIDE OF THE GATT

Although the GATT is the principal multilateral forum for dealing with trade issues, the United States also participates in a number of other organizations that deal with trade and investment, notably the Organization for Economic Cooperation and Development (OECD) and various commodity organizations. The work of these organizations complements the work done in the General Agreement on Tariff and Trade (GATT). Often, exploratory discussions on trade and investment issues are held in the OECD; commodity organizations aim to regulate and normalize the supply and demand for internationally traded commodities. The following sections deal with U.S. participation in the OECD and in international commodity organizations.

The Organization for Economic Cooperation and Development

The OECD was founded in 1961 as a forum for economic policy discussion and coordination for the industrialized countries. 1/ The objective of the Organization is to promote economic and social welfare throughout the OECD area. It fulfills this mission by helping build consensus on the nature of problems facing industrial countries and by charting strategy on how to solve those problems. The OECD is active in many areas, including trade, agriculture, energy, financial and fiscal affairs, manpower and education, science and technology, and relations with developing countries. The OECD frequently acts to coordinate and promote its members' efforts on behalf of the developing countries, particularly in relations with the U.N. Conference on Trade and Development (UNCTAD).

During 1981, the organization carried out technical and policy studies in a number of areas of interest to the United States such as investment, services, agriculture, high technology, and export credits. Most of these areas are not yet subject to the kind of multilateral discipline provided for in the GATT. The organization has served as the starting point for examining the issues and obstructions to free international exchange in these areas.

The OECD Council meets at the Ministerial level once a year. The 1981 meeting was held on June 16 and 17 in Paris. The Ministers met in an atmosphere of economic decline; high unemployment, high inflation, and exchange-rate uncertainty plagued the member nations, with structural adjustment problems taking a heavy toll on both the European and the American economies. Despite the generally poor economic conditions, the Ministers found that member countries "managed to keep the general orientation of their policies in line with the objectives of the Declaration on Trade Policy adopted in June 1980." 2/ However, they expressed concern about the more

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1/ The members of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities and Yugoslavia also take part in the work of the organization.

2/ The Declaration on Trade Policy, the so-called "Trade Pledge," was adopted in 1980, calling upon member governments to avoid protectionist actions and to work towards the multilateral solution of problems not yet subject to international discipline. For a more detailed discussion, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, p.72.

frequent resort to bilateral, piecemeal actions to resolve structural imbalances, particularly voluntary restraint on the part of exporting countries and government subsidies for certain sectors.

In July 1981, the OECD Ministers agreed to give the issues of trade in services and export credits priority attention. They also directed the Secretary-General to pinpoint issues that will be important in the trade arena in the coming decade and to evaluate how the existing international forums can be adopted to meet the challenges ahead. The Secretary's work will be discussed at the 1982 OECD Ministerial meeting, and will cover such areas as services, investment, export promotion, safeguard mechanisms, government support of promising industries, restrictive business practices, relations with the developing countries--in particular, the integration of the more advanced developing countries into the multilateral trading regime--and agricultural trade.

A study of the problems of agricultural trade was begun during 1981 in response to a mandate given by the OECD Ministers. The study will be done by the Directorate for Food, Agriculture and Fisheries and will be presented to the OECD Ministers in 1982. It will examine agricultural income supports, export subsidies, and other practices that distort competition in the agricultural arena.

A summary of the work of the OECD on trade issues of concern to the United States follows.

Agriculture

The Committee on Food, Agriculture and Fisheries continued its work on positive adjustment policies in the agricultural sector in 1981. During the year, the group focused on (1) adjustment policies in the dairy sector and (2) agricultural income supports. The study of agricultural issues in the coming decade was one of the priority activities during the course of the year. At yearend, the study was under review by the specialized committees. Work on analyzing public expenditure in the agricultural sector continued in 1981. Finally, it was decided that another meeting of the Committee for Agriculture would be held at the Ministerial level in 1982.

The United States expressed concern about the volume and impact of competitive export subsidies for agricultural products, particularly those of the EC. Such subsidies tend to depress world prices for agricultural commodities and limit sales of American-grown farm products in third-country markets.

The Arrangment on export credits

For the past 3 years, the United States has been urging its OECD partners to adjust the Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement) to bring under control the recent rapid growth of export credit subsidies and to avoid distortions of the conditions of international competition. After ending 1980 in a negotiating impasse, the participants finally reached agreement on new terms, which came into force on November 16, 1981, for a period of 6 months. Following extensive negotiations, they agreed to raise interest rates on export credits generally, and to allow countries to charge rates below the interest rate floor if their

domestic interest rates were lower. The revised arrangment brings the allowable rates under the Arrangement closer to those prevailing in the free market. However, the United States is still seeking a higher interest rate floor and changes in the categorization of borrowing countries to reflect changes in national income that have taken place since the Arrangment was originally negotiated.

The original Arrangement.--The Arrangement was adopted in April 1978 by the 22 members of the OECD's Group on Export Credits and Credit Guarantees. The minimum interest rates to be charged on official export credits by participants in the Arrangement were set from 7.25 to 8 percent, depending on the term of the loan and the development status of the borrowing country. 1/ The guidelines also established minimum cash payments of 15 percent of export value of the goods being financed. Maximum repayment periods were set at 8 years for loans to relatively rich and intermediate countries and at 10 years for loans to poorer countries. The guidelines do not apply to exports of military products, aircraft, agricultural goods, or nuclear energy products. 2/

Problems with the Arrangement.--The guidelines were set before market interest rates soared in late 1978 and 1979 and provided no automatic mechanism for adjusting export credit interest rates to changing world financial market conditions. Also, the minimum interest rates apply uniformly to lending in all currencies, despite differing inflation and exchange rate prospects.

The major U.S. complaint against the present Arrangement is that, at current (high) market interest rates, it results in significant export credit subsidies. Total subsidies by exporting countries were estimated at $55 billion in 1980, 3/ and there is no sign of forthcoming decreases.

For the official export credit agency of the United States, the Export-Import Bank (Eximbank) of the United States, the increasing cost of funds has made it even more difficult and expensive for the Bank to meet foreign credit financing competition. 4/ At the same time, financing was

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1/ This system of rates is called the static matrix, since it lacks provisions for changing the matrix of minimum rates over time to take account of free-market interest rates or the cost of funds to the lending agencies.

2/ However, the United States is seeking to improve international discipline on export financing in these areas. In May 1981, the United States, Britain, France and West Germany adopted a "common line" on export credits for sales of large commercial aircraft (i.e., 747's). In the informal understanding, the four nations set minimum interest rate levels at 12 percent and maximum repayment terms of 10 years. The understanding also outlined specified percentages of export values that could be financed. Prior to May 1981, the 4-nations had agreed to a "stand still," in other words, that they would not change terms of their export loans in favor of increased subsidization.

3/ Estimated by the OECD.

4/ Lending rates are roughly 9 percent; the Eximbank's average cost of money is roughly 10.5 percent, and its marginal cost is about 14 percent. (Statement of Robert A. Cornell, Deputy Assistant Secretary of the Treasury for Trade and Investment Policy, in hearings before the Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing and Urban Affairs, U.S. Senate, July 20, 1981).

emerging as a major determinant in export sales. Along with these competitive difficulties, the Reagan administration declared a moratorium on Eximbank lending in early 1981. The moratorium was lifted on July 16. At that time, it was announced that a 2-percent fee would be applied to new and renewed credit, and the annual interest rate on Eximbank loans was raised from 8.75 to 10.75 percent.

Changes in the Arrangement.--At a meeting on October 6 and 7, 1981, the participants in the Export Credit Arrangement agreed to increase the rates charged on officially supported credits and to differentiate slightly between currencies. The revised Arrangment also allows for some adjustments to reflect financial market conditions.

The revisions are as follows:

(1) The minimum interest rates were increased by 2.5 percent, with the exception of credits to the borrowers from the relatively poor countries that are to be repaid over a period longer than 5 years. For these countries, the minimum interest rates were raised by 2.25 percent. Interest rates by repayment periods are presented in the following tabulation (in percent):

Country classification	2 to 5 years	Over 5 to 8.5 years	Over 8.5 years
Relatively rich	11.00	11.25	-
Intermediate	10.50	11.00	-
Relatively poor	10.00	10.00	10.00

(2) A specific provision for countries with market interest rates below the lowest miniumum rate was included. Official funding of export credits in the currencies of those countries (Japan) would be subject to a minimum interest rate of 9.25 percent.

(3) A strengthening of the discipline of the Arrangement for mixed credits--those which combine export credits and development aid. Such credits will be subject to the prior notification procedures outlined in the Arrangement. 1/

1/ According to the Chairman of the Export Credits Group, Axel Wallen, the use of tied aid credits with grant elements between 15 and 25 percent has increased dramatically in recent years.

Outlook for 1982.--The compromise reached in 1981 represents an interim solution to the subsidization of export financing. The United States intends to seek further increases in the minimum rates in future negotiations and will continue to strive for the realinement of country categories to reflect the rising national incomes of the recipient countries.

Investment

Diminishing the trade-distorting effects of governmental restrictions on international direct investment has been placed high on the U.S. trade policy agenda for the 1980's. 1/ As the world's leading international investor, the United States is naturally concerned with the treatment of U.S. assets and enterprises abroad, either by individual foreign governments or in multilateral rules for international investors. The growing intervention by governments in investment decisions, including the application of performance requirements, 2/ has caused some members of the international trading community to see investment distortions as potentially the most formidable obstacle to the free exchange of goods, services, and technical know-how to be faced in the future. This concern reflects a growing appreciation that present investment decisions may create future trade problems. 3/

Previous OECD work on international direct investment.--In June 1976, after 18 months of negotiation, the Council of the OECD adopted a Declaration and three accompanying Decisions on international investment and multinational firms. The Declaration and Decisions (1) recommended guidelines of business practice for multinational enterprises; (2) established procedures for consultations on the guidelines; (3) recommended that organization members apply "national treatment" 4/ to foreign-controlled enterprises operating in their territories; and (4) provided for consultations within the the Committee on Investment and Multinational Enterprises (CIME) on measures (incentives or disincentives) that affect the flow of international direct investment. A formal review of the Declaration and the Decisions took place in 1979.

Following the review, the CIME initiated followup work in several areas covered by these instruments. Of particular interest to the United States was a medium-term work program, carried out within the CIME Working Group on International Investment Policies, including a study on international investment incentives and disincentives (including performance requirements). 5/ During 1980, the Working Group focused on cataloging and describing investment incentive practices, based on a survey of member countries.

1/ See the section on trade agenda for the 1980's in ch. I of this report.

2/ A performance requirement is a condition--e.g., that a specified percent of the output of a plant be exported--attached by a host country to the granting of permission to a firm to invest or operate in that country.

3/ For a discussion of the evolution of U.S. policy concerns and negotiations in this area, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, p. 77.

4/ National treatment was defined in the Declaration as "treatment under their (member states') laws, regulations, and administrative practices, consistent with international law and no less favorable than that accorded in like situations to domestic enterprises."

5/ The study was conducted in accordance with directives given by the OECD Ministers in 1979 and 1980. The scope of this work was limited to practices of OECD members, though it was recognized that gathering information on nonmembers' policies towards investments might be very productive.

Activity in 1981.--This work was completed in early 1981, and the Group then began to evaluate the economic implications of investment incentives. The Committee also finished its study on recent trends in international investment. The full CIME and the working Group on International Investment Policies also examined the question of Canada's National Energy Program. 1/

The proposed U.S. investment initiative.--At an October 1981 OECD Executive Committee meeting, the United States proposed a work program for the OECD in the area of performance requirements and investment incentives. The United States believes that promising avenues for work on investment exist in the OECD, perhaps by building on the 1976 Understandings on Incentives and Disincentives and National Treatment. The United States suggested that the OECD undertake an expanded and coordinated work program on investment issues involving not just the Investment Committee, but other Committees of the OECD as well. The OECD Trade Committee subsequently endorsed the idea.

The OECD Trade Committee will examine investment performance requirements that are directed specifically at influencing trade, including import substitution requirements and mandatory export levels. The Trade Committee will focus on the trade effects of these measures in order to round out the ongoing work of the CIME and the Committee on Capital Movements and Invisible Transactions (CMIT).

Within the OECD, the United States is seeking to strengthen and expand the national treatment principle, to develop consensus on controlling incentives and disincentives, to explore what the OECD can do to reduce obstacles to private investment flows outside the OECD area, and to find ways to increase private sector financial flows to developing countries.

U.S. action on the bilateral front.--Although the United States is directing its most vigorous efforts toward reaching consensus on removing investment distortions in multilateral fora, it continued in 1981 to develop a Bilateral Investment Treaty (BIT) program to complement such work. The objective of these treaties is to clarify and stablize the environment for international direct investment. Although the content of such treaties remains to be finalized in negotiations with each individual country, essentially the BIT will deal with issues like national and most-favored-nation treatment for established investors; prompt, adequate, and effective compensation in the event of expropriation, repatriation and other transfers of assets; and dispute settlement.

Outlook for 1982.--The current U.S. administration intends to press for discussions on investment in all forums, both bilateral and multilateral. Work on this issue is, however, in very preliminary stages. Consensus on the importance of investment flows to the functioning of the trading system has not yet been reached. Thus, the prospect in the near term is for continued discussions in the OECD and other suitable arenas.

Relations with developing countries

The Tokyo round of the MTN established the principles of differential treatment of developing countries and of graduation of advanced developing countries to increased obligations within the GATT system. The assumption of more responsibility inherent in the full participation of developing countries in the world trading sytem is an issue of major importance, both for the least

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1/ See Canada section of this report.

developed countries and for the industrialized countries that must compete with the newly industrialized countries (NIC's).

The United States is seeking improved access to developing country markets, increased discipline on export subsidies by these countries, and greater reliance by those countries on market mechanisms. Of particular concern is the issue of participation by the NIC's in various Generalized System of Preference (GSP) schemes and relatively high tariff and nontariff barriers to trade imposed by the NIC's. The United States is seeking to use the OECD as a forum for consensus building and strategy making among the developed countries in this area, and through this work, to begin discussions with the developing countries on their future role in the international trading system. During 1981, technical discussions on ways to harmonize various rules of origin and other GSP requirements were conducted within the OECD.

At the OECD meeting in July 1981, Ministers called the September 1981 United Nation Conference on the least developed countries "an important opportunity to provide impetus to international action for strengthening the development of those countries." They declared their intention to "play a constructive role in working towards realistic measures to achieve this objective." During the year, preparatory work for the September 1981 meeting was conducted. Preliminary studies on trade questions that might arise in proposed United Nations-sponsored global negotiations were also begun. However, no definite decision on whether to hold Global Negotiations, or on the principles, agenda, or procedures for such negotiations was reached by OECD countries in 1981. 1/

Services

The exchange of services has become a vital element in international trade, particularly in the OECD area. According to official OECD estimates, "40 to 55 percent of the GDP of the OECD countries and 40 to 70 percent of civilian employment was being generated by service industries by the late 1970's. Services are a major element in international trade, with receipts increasing by 400 percent during the 1970's and accounting for about 25 percent of all trade flows." 2/ Often referred to as invisibles, services are intangible economic output sold by establishments. Among the industries in the service sector are telecommunications, banking, insurance, transportation, health care, and construction/engineering. No international framework currently exists that specifically addresses the problems and obstacles confronted by service firms in conducting their international business. Since

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1/ Global Negotiations were recommended by the United Nations General Assembly in 1974, as part of its proposed program to develop a New International Economic Order. (For further information, see: A New International Economic Order: Selected Documents 1945-1975, UN Institute for Training and Research, Document Service No. 1, 1975). At the October 1981 North-South summit in Cancun, and at the July 1981 Ottawa summit, the possibility of conducting global negotiations in the future was accepted in principle by OECD countries under specified conditions.

2/ "Trade in Services," OECD Observer, July 1981, p. 18.

there is no established body of international agreements concerning fair trade in services, service trade problems are often worked out on a case-by-case basis through bilateral channels.

OECD activity in 1981.--In recognition of the importance of services trade, the OECD Ministers at their July 1981 meeting stressed that work on services should be given priority attention. The 1980 OECD Trade Declaration had established a political commitment by members to make efforts within the organization to reduce obstacles to services trade. Though the OECD is not a negotiating body, agreement on principles in the OECD for the governing of services transactions could go a long way towards liberalizing the flow of services across national borders. In time, OECD efforts may provide the basis for broader negotiations in the GATT or some other suitable forum.

Certain aspects of services trade are already dealt with in three OECD codes. The OECD "Code of Liberalization of Current Invisible Operations" places some limits on national restrictions on services. In addition, some service industry trade comes within the purview of the OECD "Declaration on International Investment and Multinational Enterprises" and the "Code of Liberalization of Capital Movements."

As a first step, the OECD will identify the problems that constitute obstacles to trade in services. In light of the results of that study, efforts are to be made to reduce or eliminate such obstacles and to improve international cooperation in this area. So far, activities of the OECD have concentrated on collecting information on obstacles and other problems encountered in international services transactions. An examination of barriers to services trade continued in 1981.

The examination of barriers to trade in services is being conducted by the Trade Committee. 1/ The Committee is focusing on four sectors important in international trade: insurance, banking, maritime transport, and construction/engineering. A questionnaire on the construction and engineering sector was distributed to member Governments in 1980. After receiving responses, the Secretariat began to compile a report on the results of the construction survey in 1981.

The United States submitted an updated inventory of barriers to trade in services in January 1981. The United States also drew up, and submitted for discussion within the OECD, a paper of U.S. objectives for services negotiations. Sectoral studies are also being prepared by the American Government for consideration by the relevant OECD Committees. The United States submitted a paper on the banking sector at the April meeting of the OECD Trade Committee Working party, and a U.S. paper on the trade effects of conditions attached to investment and on technology acquisition was submitted to the Trade Committee for consideration in 1981.

Problems facing the insurance industry are currently being examined by a Joint Working Group on Insurance of the CMIT and the Insurance Committee. A detailed questionnaire on regulation of insurance in member countries that includes questions on trade and right of establishment issues was distributed by the group to the member Governments in 1981.

1/ The studies are being undertaken with the help of the OECD Maritime Transport Committee, the Insurance Committee, and the Committee on Capital Movements and Invisible Transactions.

Future outlook.--The OECD is likely to be the main forum for substantive discussion on obstacles to international services transactions for some time. Because the organization is a useful vehicle for gathering and developing appropriate information, it is likely to be the forum for building a conceptual framework and a practical plan of action to resolve impediments to the free flow of services. The United States will also seek to have services included on the agenda for the November 1982 GATT Ministerial meeting.

Technology

Discussions on science and technology policy take place within the OECD's Committee for Scientific and Technological Policy. The Committee met at the Ministerial level in March 1981 and discussed innovation policies, the future impact of science and technology on employment, industrial structures, energy consumption, and international cooperation in research and development. A group was set up to prepare country profiles of member Governments' policies, including fiscal and financial measures in force, that may have a bearing on innovation. Also, the group began work on the issue of patent protection.

During 1981, it was decided that the Working Party on transborder data flows (TBDF) would be elevated to full OECD Committee. The group will examine such issues as privacy guidelines for transborder flows of personal data, regulation on nonpersonal flows of data, and unjustified obstructions to the flow of information that have the effect of distorting comparative advantage.

Restrictions on the free flow of information across borders may have potentially large effects on trade and comparative advantage. The main U.S. concern in this area is that national restrictions on TBDF may impede the ability of U.S. firms to carry out normal business operations in the international environment. This issue is of particular concern since many emerging high-technology and service industries depend on rapid, integrated data transmission.

Privacy guidelines on the treatment of personal data, voluntarily subscribed to by member Governments, were adopted in 1980. A review of member Government's efforts to implement these guidelines was conducted in 1981. Although acceptance of the guidelines is strictly voluntary within theUnited States, the U.S. delegation presented the group with a list of 100 American companies that had agreed to abide by the guidelines at the October 1981 review.

The OECD Experts Group on TBDF is currently in the process of examining the economic and legal issues inolved in TBDF. The United States is also seeking to obtain agreement on adoption of a "data pledge" similar to the OECD Trade Declaration, in which member Governments would express their determination to resist imposing protectionist restrictions on the flow of data. The push to adopt such a declaration was very preliminary in 1981, and no concrete action was taken by yearend.

International Commodity Organizations and Working Groups

U.S. policy on participation in international commodity agreements and organizations

International commodity agreements, negotiated between net exporting and net importing countries, generally aim to reduce fluctuations in the prices of the commodities covered by the agreements, improve producer earnings over the long run, and deliver a reliable, adequate, and reasonably priced supply of the commodity to consumers.

Generally, international commodity agreements provide for interference with market forces by one or more means. One method is to provide for buffer stocks, buying for the stocks when prices are below a certain level and selling from them when prices are above that level. Another means of market interference is the use of production and export quotas.

The U.S. Government is aware of the limitations, and even the contradictions, of international commodity agreements. Over the long run, it is unlikely that such agreements significantly alter the terms of trade for commodity producers. Raising commodity prices by market interference tends to result in increased production both in countries that are commodity agreement members and in nonmembers. Not only do inflated prices discourage consumption, but they also encourage competition from substitute products, including synthetics. U.S. policy has generally preferred research (including market research) and development funding and activity to interference with market forces.

Where an international agreement provides for the use of a buffer stock, the United States takes the position that the stock should be adequately financed, and that it should be large enough to significantly affect world prices.

There are six international intergovernmental commodity organizations where the United States is or was a member, and/or participated in the negotiations that preceded the agreement. The subject commodities are coffee, sugar, tin, wheat, cocoa, and natural rubber. With the exception of natural rubber, all of these commodity organizations became active before the UNCTAD initiated its Integrated Program for Commodities (IPC). Under UNCTAD's sponsorship, there are working groups or preparatory meetings on several commodities. The United States is an active participant in their activities.

U.S. participation in international commodity agreements

Coffee.--The International Coffee Agreement of 1976 (ICA) is administered by the International Coffee Organization (ICO) under rules and regulations established by the International Coffee Council. The United States is an ICO member and, like all other members, is represented on the Council. In 1981, the Council agreed to extend the 1976 agreement to September 1983.

Unlike most agreements that are oriented to price stabilization measures, the ICO does not provide for buffer stocks. However, it does provide for export quotas whose activation is based on a system of formulas under article 33 of the agreement. The imposition of export quotas is not required

unless the 15-day moving average of the composite indicator price 1/ is at or below $1.30 per pound, the trigger price. This formula, effective on October 1, 1981, represents a change. During October 1, 1980-September 30, 1981, export quotas were not triggered unless the 20-day moving average of the composite indicator price declined to $1.35 per pound. During that period, there were three 1.4 million-bag reductions in export quotas because of falling prices.

In addition to changing the ICO's price stabilization mechanism for the coffee year 1981/82, the Council agreed to establish a global export quota of 56.0 million 60-kilogram bags for that year. 2/ If the 15-day average indicator price is at or below $1.20, the global export quota can be reduced in stages to 52.0 million bags. If the average indicator price is at or above $1.40 per pound, the export quota can be increased to 60.6 million bags. This quota includes 600,000 bags to be released if the average price is at or above $1.35.

The following table indicates that during 1977-81, the yearly average of the ICO's composite indicator price ranged from $1.1542 per pound in 1981 to $2.2994 per pound in 1977. In 1981, the monthly average composite indicator price ranged from $0.9859 per pound in June to $1.2480 per pound in January.

Table 9 shows monthly composite indicator prices for the years 1977 through 1981.

Table 9.--Green coffee: ICO monthly average composite indicator prices, on the basis of the 1976 agreement, 1977-81

(Per pound)

Month	1977	1978	1979	1980	1981
January	$ 2.1761	$ 1.9165	$ 1.3093	$ 1.6562	$ 1.2480
February	2.5493	1.8608	1.2776	1.6342	1.2018
March	3.0485	1.6637	1.3276	1.7714	1.1993
April	3.1496	1.6168	1.4022	1.7186	1.2057
May	2.7741	1.5286	1.4874	1.8230	1.1715
June	2.4305	1.5982	1.9099	1.7522	.9859
July	2.0900	1.3017	1.9978	1.5181	1.0413
August	2.0136	1.3334	1.8970	1.3402	1.0726
September	1.9578	1.5112	1.9836	1.2542	1.0746
October	1.7248	1.5189	1.9297	1.2579	1.1767
November	1.8213	1.4521	1.9219	1.1561	1.2460
December	1.8570	1.3158	1.8563	1.1987	1.2264
Average	2.2994	1.5515	1.6950	1.5067	1.1542

Source: Compiled from ICO data reported by the U.S. Department of Agriculture, Foreign Agricultural Service.

1/ The indicator price is a composite of the ex-dock New York and Hamburg-Bremen prices of "Other Mild Arabica" and ex-dock New York and Marseilles-LeHavre prices of Robusta-type green coffee. The ex-dock price of a commodity includes the costs of making the goods available at dockside of the port named.

2/ The global export quota includes 53.2 million bags for members having basic quotas and 2.8 million bags for members exempt from basic quotas. Shortfalls from export entitlements are redistributed among members having basic quotas.

Because of a long-term decline in coffee consumption in the United States, the ICO selected the National Coffee Service Association to begin, on April 1, 1981, a promotion and research program to improve the quality and consumer acceptance of coffee.

Sugar.--The International Sugar Agreement, 1977 (ISA), is the fifth in a series of international intergovernmental agreements on this commodity. Its term originally was to end on December 31, 1982, but the International Sugar Organization (ISO), which implements the agreement, has extended it for 2 years. The ISA became provisionally effective for the United States on January 1, 1978. Following the U.S. Senate's giving advice and consent to the President for ratification, the Congress, on April 22, 1980, enacted the International Sugar Agreement Act to allow full U.S. participation in the agreement.

Among the objectives of the ISA are the following: (1) avoidance of excessive price fluctuations; (2) increased international trade to improve the export earnings of developing sugar-producing countries; (3) growing imports, by developed countries, of sugar originating in developing countries; (4) adequate supplies of sugar; and (5) scrutiny of developments in the use of artificial sweeteners and other sugar substitutes.

The ISA provides for both a buffer stock and export quotas. They are subject to change to dampen fluctuations in the free-market price (as defined in the ISA) of sugar. Reflecting two 1-cent-per-pound increases, the ISO established a buffer stock price range of 13 to 23 cents per pound in November 1980. Following a review in 1981, the International Sugar Council decided to retain this range.

Major exporting members are assigned export quotas that are percentages of their basic export tonnages (BET's). For the 1977 agreement, BET's werecalculated according to the export history of each country and estimated world net import requirements. Minor exporting members (those shipping less than 70,000 metric tons per year) receive export entitlements. On the basis of the present buffer stock price range, export quotas can be used to support a minimum free-market price of 13 cents per pound. In a range of 13 to 17 cents per pound, export quotas are gradually reduced when prices are falling and gradually enlarged when prices are rising. When the prevailing price 1/ reaches 17 cents per pound, export quotas are to be removed. The Council has discretion to reintroduce export quotas when the prevailing price falls below 17 cents per pound. Export quotas are mandatory when the prevailing price goes below 16 cents per pound.

The ISA requires major exporters to acquire buffer stocks up to a combined total of no more than 2.5 million metric tons, with buffer stock holdings in proportion to the BETs. The buffer stock was exhausted by the end of 1980. In May 1981, the Council decided to rebuild the buffer stock, and it established a goal of 1 million metric tons, to be reached by July of that year.

The ISO's Stock-Financing Fund provides financial assistance to help exporting members maintain their buffer stocks. The fund is financed by imposing fees on free-market sugar being imported into or exported from ISA members. (The fund came into effect when the United States deposited instruments of ratification of the ISA, July 1, 1980). Effective July 1, 1981, the fee is $1.65 per metric ton.

1/ The prevailing price is the moving average of the ISA's world market price for 15 consecutive market days.

It is difficult for buffer stock management to make much of an impact on the volatile free-market price of sugar. Production is influenced not only by weather, but also by outbreaks of crop disease. The supply response to price is hampered, because it takes several years to obtain efficient new production and the related large-scale refining capacity. When production is taking place, it may overshoot quantities demanded. Moreover, the demand for sugar is price inelastic. Consequently, moderate changes in supply can have a substantial impact on prices. Many countries try to cushion the effect of market forces by the use of subsidies.

The volatile nature of sugar prices in recent years is reflected by data in table 10. The data indicate that in 1977-81, the average annual price of raw sugar ranged from 7.82 cents per pound in 1978 to 28.66 cents per pound in 1980. In 1981, the monthly average declined from 27.78 cents per pound in January to 11.65 cents in September, and rose irregularly to 12.98 cents per pound in December.

For almost 50 years, the U.S. Government has attempted to stabilize prices received by domestic producers through a series of price-support loan programs protected against import competition by a combination of import duties, fees, and quotas. In 1981, the United States had an annual import quota of 6.9 million short tons (almost 6.3 million metric tons), of which over 98 percent was allocated to imports from ISA members. The amount of imported ISA sugar entitled to enter the United States in 1981 was equivalent to roughly 40 percent of the global export quota established for ISA exports in that year.

Table 10.--Raw sugar: Monthly world market prices per 1977 agreement, 1/ 1977-81

(In cents per pound)

Month	1977	1978	1979	1980	1981
January	8.34	8.77	7.57	17.16	27.78
February	8.59	8.48	8.23	22.75	24.09
March	8.98	7.74	8.46	19.64	21.81
April	10.04	7.59	7.82	21.25	17.83
May	8.95	7.33	7.85	30.94	15.06
June	7.87	7.23	8.14	30.80	16.38
July	7.39	6.43	8.52	27.70	16.34
August	7.61	7.08	8.85	31.77	14.76
September	7.31	8.17	9.90	34.74	11.65
October	7.09	8.96	11.94	40.55	12.04
November	7.07	8.01	13.68	37.81	11.97
December	8.09	8.00	14.93	28.79	12.98
Average	8.11	7.82	9.66	28.66	16.89

1/ International Sugar Agreement, monthly average prices (f.o.b., Caribbean ports, bulk basis) calculated in accordance with art. 61 of the 1977 agreement.

Source: Compiled from data reported by the United Nations Conference on Trade and Development.

The European Community (EC), a major exporter of beet sugar, is not a member of the ISA. In order for the EC to join, it would be necessary for it to substantially modify its policy on sugar. Although the EC is not a member, it has observer status, and it has engaged in discussions in ISO forums.

Tin.--The Fifth International Tin Agreement (ITA) remained in effect in 1981. This agreement entered into force provisionally in July 1976 and definitively in 1977 for a term of 5 years. The Fifth ITA is the first of which the United States was a member. The Fifth ITA expired on June 30, 1981, but was extended for 1 year to allow for further negotiation. The Sixth ITA was scheduled to go into effect on July 1, 1982. Negotiations for the Sixth ITA were concluded in June 1981, and ratification by participating governments was begun. The United States has not signed the agreement principally for two reasons: concern over the size and financing of the buffer stock, and disagreement over the question of export controls.

As the principal tin-consuming nation, the United States is greatly interested in a tin agreement which would prevent volatile price behavior of the kind experienced in July-December 1981, when the price of tin exceeded the upper limit of the buffer stock price range in every month. During 1981, on the London Metal Exchange, the price of tin soared from a low of $5.80 per pound, earlier in the year, to a high of $7.50 per pound in December of 1981, despite a period of world recession and generally falling metals prices. 1/

In order to prevent volatile price behavior under the Sixth ITA, the United States proposed (in a March 1981 meeting of the United Nations Tin Conference in Geneva) an increase in the buffer stock limit, from 20,000 metric tons (provided in the Fifth ITA) to 70,000 metric tons. A buffer stock limit of this amount would better enable the buffer stock manager to stabilize the market prices of tin. The United States views a buffer stock of 20,000 metric tons as too small to significantly affect world tin prices. (In 1977, the buffer stock manager had sold all 20,000 metric tons of tin in the buffer stock with little effect on the upward price spiral.) On the other hand, tin producers argued that a buffer stock of 70,000 metric tons would suppress prices too severely.

In an effort to seek a compromise, most negotiating countries agreed to a buffer stock limit of 50,000 metric tons at the June 1981 tin conference. Under the Sixth ITA, the "normal" stock of 30,000 metric tons is to be financed by members' cash contributions, and the additional 20,000 tons by stock warrants and borrowing backed by government guarantees. In the negotiations, the United States argued that this arrangement would not provide adequately for financing all of the costs of supporting buffer stock operations. Therefore, it was maintained, the buffer stock limit of 50,000 metric tons would not be reached.

Export controls were another issue that contributed to the United States refusal to sign the Sixth ITA. The United States has traditionally resisted the use of export controls by foreign suppliers (implemented through production cutbacks) as a device for maintaining prices. In connection with tin, the United States has felt that buffer stock operations should be the primary means of stabilizing market prices. Under the Sixth ITA, export

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1/ This anomalous price behavior is attributed to the activities of an unidentified buyer of huge quantities of tin.

controls may be imposed by a decision of two-thirds of a distributed (producer and consumer members) majority of the Tin Council if the buffer stock has at least 35,000 tons of tin. Such controls may be imposed by a simple distributed majority if the buffer stock has at least 40,000 tons of tin. In the tin negotiations, among other things, the United States argued against the imposition of export controls unless the market price were below the floor price, and unless there were a provision for automatically rescinding export controls at the end of the quarter or when market prices improved. Export controls were not much of an issue under the Fifth ITA, as the price of tin generally increased during the agreement, providing little need to invoke controls. 1/

On October 9, 1981, the United States Trade Representative announced that the text of the Sixth ITA had been reviewed and that the United States would not become a signatory. Since then, however, the United States has continued to consult with the International Tin Council, particularly with regard to U.S. stockpile disposals. (Before joining the Fifth ITA, the United States had consulted with the Council). In 1981, Japan and Norway were the only consuming-nation signatories to the Sixth ITA. 2/ In response to the lack of support for a Sixth ITA, some producers, led by Bolivia and Brazil, spoke openly of forming a tin cartel under which production would be allocated among producers to support prices. However, most consuming nations did not worry about such a threat because of the ability of the United States to sell tin from its massive stockpile.

In 1979, the U.S. Congress authorized the General Services Administration (GSA) to sell 30,000 long tons out of a stockpile of 200,000 long tons of tin, over a 3-year period. By December 1981, only 5,020 long tons of tin had been sold under that authorization. Both the threat and the reality of GSA sales apparently have had depressing and restraining effects on tin prices.

At its October 1981 meeting, the Tin Council increased the buffer stock price range by 6.85 percent. The lowest sector is between the U.S.-currency equivalent of $12.50 and $13.75 per kilogram. The highest sector is between $15.01 and $16.26 per kilogram.

Wheat.--The International Wheat Agreement of 1971 (IWA), unlike most intergovernmental commodity agreements, has no provisions for buffer stocks, intervention price ranges, or export quotas. The IWA consists of a Wheat Trade Convention and a Food Aid Convention, and it has been extended six times. The sixth extension is for 2 years from June 30, 1981.

The IWA is administered by the International Wheat Council, the only commodity organization in which the United States has membership as an exporting nation. 3/ In the absence of market intervention provisions, the

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1/ As the price of tin began to fall in the early part of 1982, export controls again became a subject for concern. Export controls were approved by the International Tin Council in May 1982 as a device for maintaining the floor price for tin. The export control plan called for a 10-percent, across-the-board production cutback to last until the end of June 1982.

2/ The Sixth ITA entered into force on July 1, 1982.

3/ In 1980-81, the United States accounted for 45 percent of the world's exports of wheat and wheat flour; in 1981-82, for 49 percent.

principal activities of the organization consist of exchanging trade data, collecting information on food needs, and providing food aid to developing country members.

Under the Food Aid Convention, 11 countries and the EC are pledged to donate at least 7.60 million metric tons of wheat (or other grains, or the cash equivalent) to member developing countries. For the United States, the pledge is a minimum of 4.47 million metric tons.

Generally, developing country members favor the negotiation of a new IWA that would provide for buffer (or reserve) stocks, and buying or selling activities intended to keep a composite indicator price within a specified price range. The most recent formal negotiations (in 1979) were unsuccessful. Late in 1980, the Council received a report containing an outline for use in possible future negotiations. During 1981, formal negotiations did not begin, and they are unlikely to begin unless the United States is willing to accept provisions for some degree of intervention with market forces.

Cocoa.--The Third International Cocoa Agreement (ICCA) 1/ came into effect provisionally on August 1, 1981. The agreement is administered by the International Cocoa Organization (ICCO). 1/ The United States has never been a member of the ICCO, but it participated actively in the negotiating sessions that produced the new agreement.

During the negotiations, the United States sought adequate funding for buffer stock operations and advocated that the ICCO be associated with UNCTAD's Common Fund. The United States also considered (1) supply assurances and (2) terms and conditions, were the buffer stock to be liquidated, to be key issues. The United States also favored a lower "lower intervention price" at which the buffer stock manager is to start buying cocoa beans.

One of the objectives of the ICCA is to stabilize the indicator price between $1.10 and $1.50 per pound. As in the earlier agreements, the new ICCA limits the buffer stock to 250,000 metric tons, but if this 3-year agreement is extended to a 5-year agreement, the limit can be raised to 350,000 metric tons.

As indicated above, one of the concerns of the United States during negotiations was adequate funding of the buffer stock. This concern turned out to be well founded. The buffer stock fund amounted to $235 million when the third ICCA came into effect. By yearend 1981, it had been largely depleted to $86 million. The buffer stock manager had purchased 61,325 metric tons of cocoa.

In December 1981, the buffer stock manager indicated that he wanted to negotiate an 85 million-dollar loan from a group of Brazilian banks. Market analysts, however, said that the buffer stock manager's financing problems had depressed cocoa prices at the time he was trying to support them.

1/ The two "C's" in the abbreviations for the International Cocoa Agreement (ICCA) and the International Cocoa Organization (ICCO) are used to distinguish them from the International Coffee Agreement and the International Coffee Organization, respectively.

The Integrated Program for Commodities and the Common Fund

At its fourth conference, held in 1976, the UNCTAD sponsored an undertaking to stabilize and/or improve the export earnings of developing countries. The result was the UNCTAD Integrated Program for Commodities (IPC). In laying the foundation for the IPC, UNCTAD IV focused on 10 core commodities (or groups). 1/ These commodities are noted for having highly unstable prices, and for being produced principally in developing countries. Other commodities envisaged as part of the IPC are bananas, meat, tropical hardwood timber, vegetable oils, manganese, tungsten, iron ore, bauxite, and phosphates.

One of the aims of the IPC is the provision of a Common Fund for Commodities. The Fund would have two basic accounts (or "windows"). The first account would help participating commodity organizations finance their buffer stock operations. The purpose of the second account is to finance research and development, diversification, and improvement of productivity. 2/

As of early 1982, the agreement for the Common Fund had not yet come into force. Only 22 countries had ratified it. An additional 60 countries, including the United States, 3/ had signed it. No legislation, in connection with ratification and implementation, has been introduced in the Congress. For the agreement to come into force, 90 countries must ratify it, and two-thirds of the contributed capital must be paid up.

Natural rubber.--Natural rubber is among the strategic and critical materials in the National Defense Stockpile. Because it is resistant, both to heat and cutting, it is required in several heavy-duty applications, such as aircraft and truck tires. In May 1982, the U.S. stockpile contained 120,508 metric tons of natural rubber compared with the goal of 864,000 metric tons calculated by the Federal Emergency Management Agency, with inputs from other agencies.

Developing countries account for virtually all of the world's production and exports of natural rubber. The significance of natural rubber in international trade between developed and developing countries led UNCTAD to convene a negotiating conference for the purpose of formulating an international agreement on natural rubber.

The International Natural Rubber Agreement (INRA) was finalized and opened for signature in October 1979. It is the first new commodity agreement concluded under the IPC. INRA's term is 5 years, and it can be extended for 2 years. It entered into force provisionally for the United States on October 23, 1980, and definitely in May 1981. On April 15, 1982, it entered into force definitively after two important producers (Brazil and Thailand) and a consumer (Italy) indicated their acceptance, taking both sides above the necessary 80 percent approval level.

1/ Cocoa, coffee, copper, cotton, hard fibers (sisal, abaca, and coir), jute, natural rubber, sugar, tea, and tin.

2/ For more details about the Common Fund, see Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, pp. 83 and 84.

3/ The United States signed the agreement in 1980.

The INRA provides for a bureaucracy to manage the operation of the buffer stock, and to oversee and support the operation of the agreement. The maximum permissible size of the buffer stock is 550,000 metric tons, divided between a "normal stock" of 400,000 metric tons and a "contingency stock" of 150,000 metric tons.

The operation of the buffer stock is governed by a daily indicator price, which is a composite weighted average of official current-month prices on the Kuala Lumpur, Singapore, London, and New York markets. The agreement also specifies the types/grades of natural rubber whose prices go into the composite price, with equal weighting for the prices of the types/grades included.

Various adjustments in the buffer stock can occur when, for 5 consecutive market days, the average of the daily indicator price reaches key prices that are 15 and 20 percent above and below the "reference price" of 210 Malaysian/Singapore cents per kilo (45.4 U.S. cents per pound). 1/ The prices that are 15 percent below and above the reference price are referred to as intervention prices, the prices that are 20 percent below and above the reference price are trigger action prices, and the lower and upper price limits of the price range are indicative prices. The price-support action to be taken when these prices are reached is described in table 11.

Every 18 months the reference price will be reviewed by the Council for adjustment. If the average daily market indicator price for the 6 months prior to the review is at or between the upper and lower intervention prices, there will be no adjustment. If the 6-month indicator price is above the upper intervention price, or below the lower intervention price, the reference price will be adjusted upward or downward, respectively, by 5 percent, unless the Council decides on other action. Following each change of 100,000 metric tons in the buffer stock, the Council will meet to decide on appropriate action, including revisions of the reference price. When net buffer stock purchases or sales reach 300,000 metric tons, there is provision for an automatic 3 percent revision of the reference price, unless the Council decides otherwise. Indicative prices will be reviewed every 30 months, and, if necessary, revisions will be made on the basis of market trends and conditions. Revisions of the indicative prices can also be considered in exceptional circumstances or when there has been a revision of the reference price. If the world market price is outside the price range, the Council can adjust the price range by special vote.

During 1981, the buffer stock price range remained unchanged. In recent months, certain natural-rubber-producing countries have intervened directly by support buying on the physical (spot) and future markets. 2/ This practice is

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1/ The exchange rate incorporates a simple average of the Malaysian currency exchange rate and the Singapore currency exchange rate. The rate used is 210 Malaysian/Singapore cents for $1.00, and is an estimate of the average exchange rate over the course of the agreement, as projected by the U.S. Department of State. In connection with the average of Malaysian and Singapore currencies, art. 30 of the agreement uses the term "cents."

2/ See Commodity Week, Apr. 17, 1982, p. 1.

Table 11.--International Natural Rubber Agreement: operation of the buffer stock

Price-support action 1/	Price		Agreement's term for each price
	U.S. cents per pound 2/	Malaysian/ Singapore cents per kilo	
Must sell all of the buffer stock to keep the indicator price below the upper indicative price.	Above 58.3	Above 270.0	----
Must sell a portion of the buffer stock to bring the indicator price back down to the upper trigger action price. 3/	58.3	270.0	Upper indicative price.
	56.4	261.0	Upper midway price.
	54.5	252.0	Upper trigger action price.
Option to sell a portion of the buffer stock to keep the indicator price from rising to the upper trigger price.	52.3-54.4	241.6-251.9	
No action	52.2	241.5	Upper intervention price.
	45.4	210.0	Reference price.
	38.6	178.5	Lower intervention price.
Option to buy additional stocks to keep the indicator price from falling to the lower trigger price.	36.4-38.5	168.1-178.4	----

See footnotes at end of table.

Table 11.--International Natural Rubber Agreement: operation of the buffer stock--Continued

Price-support action 1/	Price		Agreement's term for each price
	U.S. cents per pound 2/	Malaysian/ Singapore cents per kilo	
Must buy additional stocks to keep the indicator price from falling below the lower trigger price.	36.3	168.0	Lower trigger action price.
	34.4	159.0	Lower midway price.
	32.4	150.0	Lower indicative price.
Must buy the maximum amount as provided for in the agreement (550,000 metric tons).	Below 32.4	Below 150.0	———

1/ An average, over 5 consecutive market days, of the daily indicator price is the price used to activate price-support measures.
2/ Based on an exchange rate of 210 Malaysian/Singapore cents for $1.00.
3/ In addition to sales of the normal stock, portions of the contingency stock may be sold (in the upper range) or bought (in the lower range) by special vote of the Council. If the Council does not decide on action, portions of the contingency stock may be sold by the buffer stock manager when the indicator price reaches the upper midway price, or bought when the indicator price falls to the lower midway price.

Source: Compiled from the International Natural Rubber Agreement, 1979.

potentially upsetting to the consumer signatories of the INRA, because it bypasses the activities of the buffer stock manager.

Other commodities.--In 1981, the United States participated in study groups, preparatory meetings, or negotiating sessions, on various commodities. On cotton, hard fibers, jute and jute products, tea, and tungsten, there was a lack of substantial progress in connection with proposed commodity agreements. The United States opposed price stabilization measures, and it generally had the support of consumer delegations. A stalemate on a variety of issues was reached between producers and consumers of hard fibers.

The United States also was active in the work program of the Lead and Zinc Study Group, which engages in research and the dissemination of economic, statistical, and technical information.

Bilateral Trade Agreements

Most U.S. trade agreement activity takes place within the multilateral framework of the GATT. There are, however, instances when the resolution of certain trade questions is addressed in a bilateral context. Product-specific trade arrangements are often negotiated bilaterally with principal producers. Examples of such arrangements are orderly marketing agreements and textile export restraints. Countries which are not members of the GATT, but which agree to extend similar treatment on a country-by-country basis, are often signatories to bilateral agreements reflecting this commitment.

U.S. trade with most Communist countries is specifically regulated under title IV of the Trade Act of 1974. The extension of most-favored-nation tariff treatment to such countries is only allowed in the context of bilateral commercial agreements.

U.S. bilateral trade agreement activities in 1981 were few. A number of agreements specifying textile export restraints came about as a result of the extension of the Multifiber Arrangement. 1/ Two significant agreements became effective during the year: (1) an agreement with Japan to accelerate the reduction of tariff duties on semiconductors, 2/ and (2) the agreement with China on grain trade. The United States-China accord provides for the sale of a minimum amount (6 million tons) of grain over a 4-year period. It was signed at Beijing on October 22, 1980, and entered into force January 1, 1981.

1/ The arrangement is discussed in detail in ch. 1.
2/ See section on U.S.-Japanese bilateral issues and policy developments, "Semiconductors," ch. 4.

CHAPTER 4

DEVELOPMENTS IN MAJOR TRADING PARTNERS

Economic conditions in the rest of the world and policy decisions made by the United States' trading partners help form the environment in which U.S. trade policy decisions are made. This chapter provides information on economic and trade policy developments for the United States' major trading partners during 1981. Bilateral trade issues are also discussed. Sections are included on the EC, Canada, Japan, Mexico, and nonmarket economy countries (NME's). U.S. merchandise trade with these countries and total U.S. merchandise trade in 1981 are shown below:

U.S. merchandise trade with selected countries and country groups, and total U.S. merchandise trade, in 1981 (f.a.s. value basis

(In millions of dollars)

Country/country group	Imports	Exports	Trade balance
European Community	41,624	52,363	10,739
Canada	46,414	39,564	-6,850
Japan	37,612	21,823	-15,789
Mexico	13,765	17,789	4,024
NME's	3,452	7,951	4,499
Other countries	118,438	94,249	-24,189
Total	261,305	233,739	-27,566

Source: Highlights of U.S. Export and Import Trade, U.S. Department of Commerce, Bureau of the Census, December 1981.

The European Community 1/

The economic situation in 1981

The second round of oil price rises in 1979 and 1980 left the European Community's economy weak but showing faint signs of recovery at the beginning of 1981. During the year, the continued application of relatively restrictive monetary policies by most countries stalled the European economic upturn, and the EC's real Gross National Product (GNP) fell 0.5 percent, to about 2.5 trillion. This was the first overall GNP decline since 1975. Of all EC members, only Ireland and France showed some positive economic growth.

Most EC countries have large Government deficits, and the only way they can stimulate their economies without making the deficits worse is through monetary measures. High interest rates in the United States inhibited EC countries from using stimulative monetary policies, because the lower interest rates that result from such policies would have weakened European currencies further against the dollar. Weak currencies would then have tended to increase EC members' inflation rates, because the prices of imported

1/ In 1981, Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany were members of the Community.

commodities (such as oil) would increase in terms of those currencies. European protests against high U.S. interest rates contributed to trade tensions during the year. 1/

For 1982, the EC Commission optimistically predicted that the EC's GNP would grow 1.6 percent, with slow growth early in the year and an annual growth rate of 2.5 percent by yearend. The Commission expected the growth to result from a rise in exports, greater private investment, and an increase in private consumption.

Unemployment in the Community rose 30 percent in 1981 over 1980 levels, reaching nearly 8 percent of the EC labor force. Unemployment rates among young people, higher than those for older workers, caused deep concern. Belgium, the United Kingdom, and Ireland had the highest unemployment rates, and Luxembourg, Greece, 2/ and West Germany the lowest. The EC predicted that unemployment would grow to 9.1 percent of the EC labor force in 1982, in spite of the predicted economic upturn. EC officials noted that "the improved outlook . . . expected for 1982 will be far from sufficient to reverse the unemployment trend [or] absorb the increase in the labor supply." 3/

The EC made little progress toward reducing inflation during 1981, as consumer prices rose by 11.4 percent. Inflation was highest in Greece, Ireland, Italy, and France and lowest in West Germany, the Netherlands, and Belgium. In 1982, the EC Commission predicted that consumer prices would rise by only 10.6 percent, owing to a fall in raw material prices and slow income growth.

The EC Commission recommended certain economic policy measures to help move EC members toward economic recovery in 1982. Countries with high inflation rates and government budget deficits were encouraged to limit income growth and government expenditures. The Commission advised countries whose fiscal and monetary policies were more disciplined (West Germany, the United Kingdom) to ease restrictions on government budgets and money supply growth. In fact, the Commission warned that countries with strong balances of payments should not be "prudent to the point of hindering the recovery" of countries with large deficits.

International performance

Balance of payments.--The European Community's aggregate current account deficit 4/ decreased during 1981. Expressed as a percentage of GNP, the deficit decreased from 1.3 percent in 1980 to 0.9 percent in 1981. A 16.4 percent drop in the volume of oil imports was largely responsible for the

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1/ Some economic observers claim that the main cause of Europe's lagging economic performance is large government deficits, not high U.S. interest rates.

2/ Greece has a large agricultural sector, and substantial agricultural underemployment is not reflected in unemployment statistics.

3/ Fifteenth General Report on the Activities of the European Communities in 1981, Commission of the European Communities, p. 70.

4/ Combined total of trade in goods and services and transfers.

improvement; in 1981, the EC reduced its dependence on imported oil to 39.5 percent (against 45 percent in 1980) of the oil consumed in the Community. The tabulation below shows EC members' current account balances in billions, as a percentage of GDP for each, in 1981.

Country	Current account balance in 1981	Current account balance as a percentage of GPP in 1981
	(Billion dollars)	(Percent)
Belgium	-6.3	-6.6
Denmark 1/	-1.7	-3.1
France 1/	-8.1	-1.4
Greece 1/	-1.6	-4.0
Ireland 1/	-1.8	-12.9
Italy 1/	-7.4	-2.1
Luxembourg 1/	1.0	19.7
Netherlands 1/	2.8	2.0
United Kingdom 1/	11.1	2.2
West Germany	-8.2	-1.2
Total 1/	-22.2	-.9

1/ Estimate.

Note.--Because of rounding, totals may not add to the totals shown.

The EC Commission predicted some improvement in the EC current account in 1982, forecasting a deficit of 0.5 percent of GDP. The Commission expected that increased EC exports and stable commodity prices would benefit members' current account positions. Commission predictions indicated that the German current account deficit would improve substantially in 1982, but that the French deficit might deteriorate somewhat. They expected the United Kingdom's surplus to decline sharply, the Netherlands' surplus to increase, and the deficits of other Community members to remain broadly unchanged.

Merchandise trade with major trading partners.--European Community imports fell by 11 percent in 1981 to $337 billion. Steady oil prices and weak consumer demand contributed to the decline. EC imports from the United States in 1981 also decreased by 11 percent.

Due to depressed economic conditions worldwide, EC exports were nearly flat in 1981, falling about 2 percent below 1980 levels to $305 billion. Helped by the strong dollar, EC exports to the United States showed a reverse trend in 1981, growing 10 percent.

Because EC imports showed a larger drop than EC exports during the year, the EC's trade deficit fell by 53 percent to under $32 billion. Reduced oil costs and energy conservation allowed the 1981 EC trade deficit with oil exporting countries to fall by 42 percent. The EC's deficit in trade with the United States in 1981 showed a 43-percent decline.

Major U.S. exports to the EC in 1981 were soybeans (and soybean products), gold bullion, automatic data processing equipment, coal, aircraft, corn, engine parts, oil and gas equipment, corn gluten feed, and wood pulp. Top U.S. imports from the EC were crude petroleum, passenger cars, nonpiston engines, aircraft, oilwell casings, gasoline, liquor, diamonds, wine, and steel sheet.

Table 12.--European Community: imports, exports, and trade balance for selected countries and for country groups, 1979-81

(In millions of U.S. dollars)

Country/region	1979	1980	1981
	Imports		
Industrial countries:			
Canada	7,111	8,767	7,264
Japan	14,326	18,558	17,350
United States	46,758	60,805	54,239
EC 1/	312,609	352,245	304,999
Other	68,308	80,866	71,914
Subtotal 2/	136,503	168,996	150,767
Developing countries:			
Oil-exporting countries	66,332	92,633	83,182
Mexico	630	1,448	2,140
Other	64,597	75,946	65,998
Subtotal	131,559	170,027	151,320
Nonmarket economy countries:			
China	1,847	2,628	2,544
U.S.S.R	11,148	14,648	14,922
Other	14,306	15,963	12,671
Subtotal	27,301	33,239	30,137
Total 2/ 3/	298,538	376,871	336,544
	Exports		
Industrial countries:			
Canada	4,704	4,738	4,994
Japan	6,397	6,383	6,457
United States	34,483	37,000	40,780
EC 1/	314,641	356,455	308,197
Other	74,244	87,796	77,277
Subtotal 2/	119,828	135,917	129,508
Developing countries:			
Oil-exporting countries	39,047	51,014	59,032
Mexico	2,128	3,025	3,536
Other	64,763	76,412	75,109
Subtotal	105,938	130,451	137,677
Nonmarket economies:			
China	2,882	2,412	2,255
U.S.S.R	8,711	10,529	8,843
Other	18,323	19,232	16,127
Subtotal	29,916	32,173	27,225
Total 2/ 3/	262,610	309,441	304,747

See footnotes at end of table.

Table 12.--European Community: imports, exports, and trade balance for selected countries and country groups, 1979-81--Continued

(In millions of U.S. dollars)

Country/region	1979	1980	1981
	Trade balance		
Industrial countries:			
Canada	-2,407	-4,029	-2,270
Japan	-7,929	-12,175	-10,893
United States	-12,275	-23,805	-13,459
EC 1/	-	-	-
Other	5,936	6,930	5,363
Subtotal 2/	-16,675	-33,079	-21,259
Developing countries:			
Oil-exporting countries	-27,285	-41,619	-24,150
Mexico	1,498	1,577	1,396
Other	166	466	9,111
Subtotal	-25,621	-39,576	-13,643
Nonmarket economies:			
China	1,035	-216	-289
U.S.S.R	-2,437	-4,119	-6,079
Other	4,017	3,269	3,456
Subtotal	2,615	-1,066	-2,912
Total 2/ 3/	-35,928	-67,430	-31,797

1/ Intra-EC trade.
2/ Excludes intra-EC trade.
3/ Total imports and exports are International Monetary Fund estimates; subtotals do not add up to totals, because totals include special categories.

Source: Direction of Trade Statistics Yearbook, 1982, International Monetary Fund.

Major policy developments affecting trade

EC enlargement.--On January 1, 1981, Greece became the 10th EC member, and accession negotiations with Spain and Portugal continued. The EC Commission now expects Spain and Portugal to become EC members no sooner than January 1, 1984, but some observers feel this date is overly optimistic. Portugal's ailing economy poses problems for its absorption into the EC, and negotiations with Spain have encountered serious obstacles.

The main block to fast progress on negotiations with Spain has been bringing Spanish agriculture under the Community's Common Agricultural Policy (CAP). Spain is an abundant producer of olive oil, wine, fruit, and vegetables, and higher EC prices for these products under current CAP programs would stimulate surplus production and raise CAP costs. However, attempts to alter programs for these products draw fire from EC members with Mediterranean regions (France, Italy) as well as Spain. The EC Commission recently outlined a plan to reform CAP programs for Mediterranean products (see below, under Common Agricultural Policy).

Greek accession.--As of January 1, 1981, 20 years after signing an association agreement with the EC, Greece became the 10th member of the European Community. The accession agreement provided for a 5-year transition period for elimination of remaining trade barriers between Greece and other EC members, 1/ alinement of the Greek tariff with the EC Common Customs Tariff, Greek participation in trade agreements with other countries, 2/ inclusion of the Greek drachma in the European Monetary System (EMS), and Greck participation in EC agricultural programs. 3/ The agreement provided a transition period of 7 years to eliminate duties on certain farm products and for free movement of workers between Greece and other EC countries.

The EC Commission reports that, despite great economic progress made by Greece since the 1961 association agreement was signed, the gap between Greece's average productivity and income and that of other EC members is still significant. If Greece is to withstand the greatly increased pressure of international competition after becoming an EC member, the Commission warned, large-scale structural changes in the Greek economy will be necessary. Compared with other EC countries, the Greek economy still depends heavily on agriculture, has a low level of concentration and specialization in trade and industry, depends on heavier external protection, and has a closely regulated financial system that allows little flexibility for exchange and interest rates.

1/ Terms of a prior EC-Greece association agreement gave duty-free treatment to imports of most industrial products from Greece.

2/ Greece will apply provisions of the Multifiber (textiles) Arrangement and the EC's preferential agreements from the date of accession. Transitional measures will be negotiated with trading partners receiving preferential treatment.

3/ Under these programs, Greek farmers will receive production aids to help modernize farms and improve food processing facilities. An EC processing subsidy scheme for Greek raisins has formed part of the basis for a case under section 301 of the Trade Act of 1974 involving EC production subsidies on canned peaches, canned pears, and raisins. A further discussion is contained in chapter 5 of this report.

Enlargement negotiations.--During 1981, Portugal and the EC held talks on customs union, capital movements, transport, the European Coal and Steel Community, policies to help depressed regions, taxation, social affairs, and agriculture. The EC Commission sent proposals to the Council on external relations and fisheries to speed up negotiations in these areas.

The EC gave Portugal pre-accession aid under an agreement that entered into force on January 1, 1981. In March 1981, the EC Commission sent the Council a proposal for a financial regulation to implement this aid. The Council, however, did not impose specific plans on how the aid was to be used. Then, in early 1982, European Commission President Gaston Thorn voiced concern at Portugal's failure to modernize its economy during the pre-accession phase, and stated that Portugal was not making full use of EC aid to prepare for accession.

At accession negotiations during 1981, the EC and Spain exchanged statements enabling examination of the following sectors to be undertaken or pursued: agriculture, external relations, capital movements, economic and financial questions, investment, services, transport, policies to help depressed regions, Community finances, harmonization of laws, customs union, free movement of goods, and social affairs.

During negotiations, the EC refused to hold any talks on subjects likely to be involved in the reform of the CAP, namely wine, fruit, vegetables, and olive oil. In September, the EC Economic and Social Committee delivered an opinion on the agricultural aspects of negotiations for the accession of Spain. The opinion stated that Spain must accept the Community agricultural system in its entirety, including any reforms that take place to reduce CAP costs, and that all EC members should share the cost of funding the EC's expenditure on the same basis. The statement also stressed that balanced production and consumption of agricultural products within the EC must be achieved. If the EC holds fast to these views, agreement with Spain on agricultural matters will prove difficult.

Industrial policies.--Steel and textile industries in the EC have faced problems for several years. Economic recession, rising energy costs, world overcapacity, outmoded manufacturing plants, and competition from recently-industrialized low-wage countries have contributed to the industries' difficulties. The European Community has taken steps to support its declining industries. EC restructuring programs aim at gradually reducing inefficient production capacity while preventing a sudden increase in unemployment. Some observers complain that the programs only serve to delay adjustment of these weak industries to world economic conditions.

Steel.--In 1977, the EC Commission adopted a package of "anticrisis" measures--including mandatory minimum prices and bilateral arrangements to limit steel imports--to help the flagging EC steel industry. The package was developed by the EC Commissioner in charge of industrial affairs, Etienne Davignon, and is sometimes referred to as the "Davignon Plan." The measures were originally intended to be temporary, but they have been extended or renewed each year since their institution.

In 1980, worsening conditions in the EC steel industry led the EC Commission to declare that a "manifest crisis" existed and to invoke, for the first time, article 58 of the European Coal and Steel Treaty. 1/ Under

1/ Founding treaty of the European Coal and Steel Community (ECSC).

article 58, the Commission established a system of mandatory steel production quotas designed to bring supply and demand for EC steel nearer balance.

Depressed conditions continued in the EC steel industry in 1981, and the Commission declared that a "manifest crisis" still existed; voluntary and mandatory systems to cut back EC steel production were extended for most steel products through mid-1982. The Commission also stepped up price surveillance to prevent steel producers from lowering prices to an extent that would endanger market stability.

To protect EC steel producers from foreign competition, the EC has concluded bilateral agreements with major steel suppliers to restrain shipments to the EC. In addition, all steel products imported into EC countries must be priced above "basic prices"--floor prices established by the EC Commission for imported steel.

Citing the deepening crisis in the EC steel industry, in early 1981 the EC Commission negotiated with suppliers to cut back steel shipments to the Community by 15 percent in 1981 from the amounts previously set under bilateral agreements; later, the size of the cutback was reduced to 12.5 percent. During 1981, the EC Commission extended bilateral agreements with 13 countries for 1982, 1/ and concluded an agreement with the Republic of Korea to restrain steel shipments to the Community.

Observers say U.S. antidumping and countervailing duty actions on steel 2/ could hamper a recovery of the EC steel industry in 1982, and might make the steel industry restructuring process now going on within the Community more difficult. Until the U.S. firms' complaints are resolved, importers in the United States will be hesitant to place new orders because they cannot be certain at what price the steel could eventually be supplied. Therefore, the U.S. investigations (which cover steel products from seven EC and four non-EC countries) are expected to force a glut of steel onto world markets outside the United States, as steel is deflected away from the U.S. market. The glut on available world markets for steel is expected to hurt the volume and price of sales by EC steel firms in 1982.

Textiles.--To help the declining EC textile industry, the EC Commission has negotiated bilateral agreements with textile-exporting countries to regulate textile shipments to the EC. During 1981, the EC continued to apply 27 such agreements and initialed a 28th agreement with Czechoslovakia.

Most of the Community's bilateral agreements were negotiated within the context of the GATT Multifiber Arrangement (MFA), 3/ which sets guidelines for operating such agreements. The MFA was due to expire at the end of 1981, and negotiations for extending the arrangement occurred throughout the year.

1/ Australia, Austria, Brazil, Bulgaria, Czechoslovakia, Finland, Hungary, Japan, Norway, Poland, Romania, Spain, and Sweden.
2/ See below; bilateral issues section, steel.
3/ For a description of the Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement), see The Multifiber Arrangement, 1973 to 1980, USITC Publication No. 1131, March 1981.

EC textile producers wanted stricter limits on imports than those permitted under the current MFA. To deal with protectionist pressures at home, EC negotiators insisted that the new MFA allow consuming countries to reduce access for some of the more developed and competitive supplier countries and include provisions for a mechanism to be incorporated in bilateral agreements to cope with sudden and substantial rises in imports within quotas. Supplier countries resisted the changes, but EC negotiators insisted that they be adopted. In late 1981, the EC made a preliminary decision to adopt the Protocol to extend the Multifiber Arrangement from January 1, 1982 to July 31, 1986, which met the objectives stressed by EC negotiators. The EC gave formal approval to the Protocol in early 1982. This approval, however, was subject to the understanding that future EC participation in the MFA was conditional on the conclusion of satisfactory bilateral agreements, and that if this proved impracticable, the EC would withdraw from the arrangement.

European Monetary System (EMS).--The EMS entered force on March 13, 1979. All nine EC countries except the United Kingdom joined. Designed to improve monetary stability in Europe, the EMS system replaced the failed European currency "snake." 1/ Exchange rate instability during 1981 strained the system, and plans for expanding EMS functions were delayed.

The basis of EMS operations is the European currency unit (ECU), a weighted average of EC currencies (including the British pound). 2/ Greece does not yet participate in the EMS, and the Greek drachma is not scheduled to be included in the composition of the ECU until 1985. Central rates denominated in ECU's are assigned each participant, and member central banks are required to intervene in the exchange market when their currency's exchange rate diverges from its ECU-denominated central rate by more than 2.25 percent. 3/

In 1981, the EMS exchange-rate mechanism was subject to prolonged periods of strain. Wide fluctuations in the exchange rates of the major non-EC currencies, especially appreciation of the U.S. dollar against European currencies, required massive intervention in currency markets by member central banks. As in the past, differences in economic performance among EMS members, particularly diverging inflation rates, also caused strains. However, the EC Commission stated that the system operated fairly well despite the strains; the Commission underlined that realignments of currency exchange rates were decided on with agreement among members, and that countries with weak currencies agreed to take steps to try to reduce inflation and strengthen their economies.

Two realignments of EMS currencies took place during 1981. On March 22, 1981, reflecting soaring relative costs and prices in Italy, the Italian lira was devalued 6 percent against currencies of other EMS participants. Following the realignment, Italy took some monetary and domestic stabilization measures to try to reduce inflation; but, in July 1981, the EC Commission sent a recommendation to Italy, strongly urging more stringent anti-inflation efforts, especially slower income growth.

1/ An earlier, largely unsuccessful currency stabilization plan.
2/ For further description of EMS mechanisms, see Operation of the Trade Agreements Program, 32d Report, USITC Publication No. 1307, p. 116.
3/ Six percent for Italy.

A second realignment, triggered by the rise of the German mark and the problems of the French franc, occurred on October 4, 1981. The German mark and Dutch guilder were revalued by 5.5 percent, and the French franc and Italian lira devalued by 3 percent, against the Danish krone, Belgian and Luxembourg francs, and Irish pound. The EC Commission stressed to France and Italy--the countries with weak currencies--that for the realinement to be successful, it must be followed by appropriate measures of economic and monetary policy, especially control of government budget deficits and limitations on income increases.

Although the EMS exchange-rate mechanism functioned adequately during 1981, participants made no further progress toward achieving the goals set when the EMS was created. Besides maintaining more stable exchange rates, original plans called for expanding the system to use the ECU as a European reserve currency, and setting up a new European Monetary Fund (EMF) as a European central bank with pooled reserves of EMS members. Also, there was hope that the United Kingdom might decide to join, but the United Kingdom has made no moves in that direction.

In mid-1981, the EC asked the United States to join with EMS participants in a new system for intervention in currency markets to moderate fluctuations between the dollar and European currencies. Throughout the year, EC members protested that high U.S. interest rates caused currency instability in the EC, and said that the United States should take into account the effect of its economic policies on the economies of other countries. The dollar gained nearly 30 percent against the ECU in 1981.

The EC wanted to develop a new swap credit arrangement between the U.S. Federal Reserve and the EC European Monetary Cooperation Fund (EMCF) to finance intervention in exchange markets. The Federal Reserve already has bilateral swap credit arrangements with each of the European central banks. U.S. officials said they favored free movement of exchange rates and declined to participate in greater efforts to intervene in exchange markets.

The May 30 mandate and the EC budget.--For several years, rising levels of EC farm spending and imbalances among EC members of their net contributions to the EC budget have provoked an escalating series of disputes within the EC. Since most EC spending 1/ centers on farm programs, but all members contribute to the budget on about the same basis, 2/ countries with larger agricultural sectors (like France) come out as net beneficiaries of the EC budget, while others (especially the United Kingdom and West Germany) are net contributors. The United Kingdom and, recently, West Germany have protested strongly that this is unfair. In early 1980, British discontent with EC budget policies reached a crisis.

On May 30, 1980, after long debate, the EC Council issued the "May 30 mandate"--a plan that mainly provided for a temporary arrangement to settle the dispute over the British contribution to the Community budget and called for the EC Commission to produce proposals for the reform of the EC's CAP (Common Agricultural Policy, see below) to reduce the growth of farm spending--the underlying cause of the budget difficulties.

1/ Spending from the EC budget, as distinct from the spending of member states.

2/ Less developed members pay a little less.

In June 1981, the EC Commission presented the Council with a report required by the mandate that described a broad spectrum of plans to "revitalize common policies, refurbish the CAP, and resolve budget problems." 1/ The report described measures for increasing EC employment levels and economic growth, consolidating a zone of monetary stability, increasing energy research, and developing new industries and technologies, as well as proposing reforms for the CAP and measures to continue providing the U.K. with temporary budget rebates.

The net British contribution to the EC budget in 1981 was much smaller than expected, 2/ due to high world prices for certain farm products that reduced 1981 CAP costs and a relatively large budget rebate accorded the United Kingdom by other EC members before it was known that 1981 farm spending would be so low. Other EC members believed that the United Kingdom should moderate its demands in view of the generous 1981 rebate. But the United Kingdom continued to push for a multi-year rebate agreement because, when the temporary respite provided by the high farm prices ended, continued rises in CAP costs were expected that would again lead to large United Kingdom budget contributions.

The EC was unable to make any real moves toward instituting new policies by yearend 1981, and in the spring of 1982 the United Kingdom-EC budget controversy again reached a crisis. This time, actions resulting from the budget dispute may have done irretrievable harm to the Community as a whole.

The budget dispute has blown up into a major rift that reportedly could lead the United Kingdom to withdraw from the EC, and might have even wider implications for the future of the EC. "This dispute could propel Britain out of the EC in 1984 or 1985, and it is already giving rise to serious second thoughts in Spain and Portugal about their own commitments" 3/ to become EC members.

To pressure other EC members to give in to its budget demands, the United Kingdom blocked implementation of farm price increases until more than 6 weeks into the 1982-83 season. Then, a majority of other EC members, responding to their angry farmers, overrode the United Kingdom veto and enacted the farm price package. This action violated the "Luxembourg compromise"--a 16-year-old precedent that allows any EC member to veto any measure vital to its national interest.

After that, to force the United Kingdom to accept a much smaller (and shorter-term) budget rebate than it had been bargaining for, other members threatened not to continue to implement economic sanctions against Argentina. Compelled to cooperate because of the Falklands crisis, the United Kingdom agreed to a budget settlement that has been described as "humiliatingly less generous than the terms Britain had been seeking;" 4/ under the agreement, the

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1/ Fifteenth General Report on the Activities of the European Communities in 1981, Commission of the European Communities, p. 21.

2/ The Economist (Nov. 21, 1981, p. 59) estimated that the net United Kingdom EC contribution in 1981 (with rebate included)--$28 million--would be the lowest since the United Kingdom joined the EC in 1973. At the end of 1980, $430 million was the predicted figure for the net British contribution to the EC budget in 1981 (including rebate).

3/ Business Week, June 7, 1982, p. 38.

4/ The Economist, May 29, 1982, p. 64.

U.K. will have to pay an estimated $750 million more into the EC budget than it will get back in benefits. British Prime Minister Thatcher stated that the recent events constituted "the most serious crisis" since the United Kingdom's entry into the EC; the British Labor Party, which is committed to leaving the EC, is "grateful for being handed what may be a potent election issue." 1/

The violation of the Luxembourg compromise principle has implications beyond problems with the United Kingdom. Observers have said that the recent decision "will probably go down as a turning point in the European Community's history." 2/ Denmark and Greece chose to abstain from voting when seven other EC members pushed through the 1982 and 1983 farm package against the United Kingdom veto; reportedly, both countries were disturbed by the threat to their own national sovereignty posed by a turn to majority rule within the EC.

Common agricultural policy (CAP).--The European Community's CAP, which absorbs about 70 percent of the EC budget, uses price supports, variable levies on imports, and export subsidies to protect Community agricultural markets from world competition. The expensive CAP practice of maintaining artificially high farm prices by buying and stockpiling products until supplies to EC consumers are reduced enough to raise prices to support levels has led to accumulation of substantial surpluses of milk, sugar, and cereal products, among others. CAP spending grew an average of 23 percent per year during 1975-79 and 11 percent in 1980, when it was feared that CAP costs would soon approach EC budgetary limits under the current system. 3/ High world prices for milk products, cereals, and sugar 4/ helped reduce CAP costs during part of 1980 and 1981 (by reducing the amount of money the EC had to pay its farmers in export subsidies), and EC farm price support spending rose by only 2.3 percent in 1981.

Tempted by the retreat from budgetary crisis, the EC Council gave in to farm interests and allowed more than the usual "prudent" support price increases to EC farmers at annual price negotiations in 1981. An average farm price increase of 11 percent was set for the 1981/82 season. 5/ However, observers have warned that the high world prices for EC farm products will not last, and that the CAP is again heading for budgetary trouble. Needless to say, in 1981 there was little movement toward making structural changes in the CAP to control the Community budget, as called for in the May 30 mandate (see below).

The EC's surplus milk production has been a major issue for several years. High price support levels have encouraged production while discouraging consumption, leading to the accumulation of surplus stocks of powdered milk and butter. Spending on milk accounted for about 33 percent of CAP outlays for price support programs in 1981.

1/ Business Week, June 7, 1982, p. 38.

2/ European Report, No. 868, May 20, 1982, p. 5.

3/ EC members pay 1 percent of a VAT (value-added tax) plus all import duties to finance EC activities.

4/ Through April 1981.

5/ The 1981/82 season average support price increase was nominally 9.4 percent, but currency adjustments decided at the same time raised the real average increase to 11 percent.

The EC made some progress toward reducing the imbalance in 1981, as the rate of growth of EC milk production declined from 3 percent in 1980 to 0.4 percent in 1981. The EC Commission attributed the decline to the high cost of certain cattle feed components, "cautious" increases in support prices for milk, and an April 1981 increase in the levies EC farmers are charged for their excess milk production. Increased exports of whole-milk powder, cheese, concentrated milk, and casein also helped in dealing with surplus stocks. The EC's stocks of surplus butter were practically eliminated in 1981. Still, EC consumption of milk continued to lag behind production, and stocks of skimmed milk powder grew from 240 thousand tons in 1980 to 290 thousand tons in December 1981.

After the milk surplus, the EC's persistent sugar surplus has been the Community's most troublesome CAP-related problem. In 1981, EC sugar production again far outstripped consumption. The EC produced 12.3 million tons, consumed 9.6 million tons, and was required to import under preferential agreements 1.1 million tons of sugar.

During most of 1980 and part of 1981, world sugar prices rose above EC support prices for sugar. As a result, the EC charged export levies on sugar amounting to the difference between the world sugar price and the EC support price. In the spring of 1981, when world sugar prices fell, export refunds (subsidies) were reintroduced. The switch from paying out export subsidies to sugar producers to taking in levies from them was one of the factors that helped cut CAP costs in 1981 (see above).

Perhaps brought on by the shock of again having to pay sugar export subsidies, the EC Council soon took measures to bring the cost of financing price supports for sugar under control. In June 1981, the EC Council finally adopted a production quota system for sugar that required EC sugar producers to bear the full cost of exporting the surplus sugar they produce. 1/ The new system was instituted for a period of 5 years beginning July 1, 1981.

Greece became the 10th EC member on January 1, 1981. About 30 percent of Greece's workforce is involved in agriculture, and almost half its farm output consists of fruit, vegetables, olive oil, tobacco, and wine. In October 1981, the EC Commission proposed changes in CAP programs for some of these Mediterranean products to try to prevent the growth of surpluses following enlargement of the Community to include Spain and Portugal as well as Greece (see below). The proposed measures for Mediterranean products also included provisions for supplementing farmers' incomes. To support Greek farmers, the EC Council also included certain areas of Greece in the Community list of less-favored farming areas, which will give benefits to poorer farmers, and agreed to allow Greece to continue on a transitional basis some Greek national measures for agricultural aid.

The May 30 mandate (see above) called for steps to address EC budgetary problems and reform the CAP. In an attempt to conform to the goals of the May 30 accord, the EC Commission submitted proposals to negotiate long-term agricultural export agreements and to reform Mediterranean agricultural programs to the EC Council during 1981.

In July 1981, the EC Commission repeated proposals that the Community negotiate bilateral "framework agreements for multi-annual supplies of

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1/ The plan had been under discussion for some time.

agricultural products" with nonmember countries to promote increased exports of EC farm products. EC policymakers hoped the new agreements would make it easier to export surplus farm products, especially cereal grains. While the Commission claimed that the agreements could reduce the costs of some CAP programs, some EC members have said that the proposed agreements might lead to increased agricultural spending and more surplus production. Some have also contended that the agreements might increase trade frictions with the United States and other trading partners. U.S. officials are reportedly extremely concerned about the proposed agreements.

On October 16, 1981, the EC Commission sent the Council a series of proposals to change price support policies on Mediterranean agricultural products--olive oil, wine, fruit and vegetables, and citrus fruit--so that surpluses of these products would not develop in response to high CAP prices when Spain and Portugal, as well as Greece, join the EC. Large Spanish surpluses of olive oil, wine, and other products were anticipated if Spanish farmers were allowed to operate under existing EC rules. Besides measures to support farmers' income while discouraging increased olive oil production, olive oil proposals included a possible tax on imported and domestic vegetable oils to stimulate olive oil consumption and fund CAP programs for olive oil. U.S. officials have objected strongly to the institution of a vegetable oil tax (see below), that could hurt U.S. soybean exports.

To neutralize the effect of exchange-rate changes on trade, farmers' income, and consumer prices for certain commodities, 1/ in 1969 the EC instituted a system of border taxes and rebates known as monetary compensatory amounts (MCA's). Eliminating the MCA's, and returning to common prices for farm products, 2/ is an important CAP goal.

Two realinements of EC currencies took place during 1981. After the first realignment in March, the EC Council avoided increasing or reintroducing MCA's by making appropriate changes in the "representative" exchange rates used in computing MCA's; MCA's were kept at zero for France, Denmark, and Ireland and abolished for the Benelux countries. 3/ At the same time, MCA's for the United Kingdom, West Germany and Italy were also reduced. Then, after a major realignment in October, MCAs were reintroduced for the Netherlands and increased for West Germany, the United Kingdom, and Italy.

Common fisheries policy.--After 5 years of negotiations, in 1981, EC members still could not agree on a common policy for distributing and preserving EC fishery resources. However, members did agree on some aspects of a common policy in September. As part of a compromise formed at the September fisheries meeting, the United Kingdom agreed to stop blocking implementation of certain bilateral fisheries agreements with third countries. 4/ But, members remained divided about conditions of access to

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1/ Prices of the following commodities are adjusted through application of MCA's: beef and veal, milk and dairy products, certain processed foods, pigmeat, sheepmeat, sugar and isoglucose, grains, eggs, poultry, meat, and albumins.

2/ For a more detailed explanation, see the EC section of the Operation of the Trade Agreements Program, 32d Report, USITC Publication No. 1307.

3/ Belgium, the Netherlands, and Luxembourg.

4/ In 1979 and 1980, the United Kingdom blocked signature of several bilateral fisheries agreements to try to push other EC members to give in to British fisheries demands.

one another's fishing zones (especially French access to British waters), allocation among member states of catch quotas, and certain conservation measures. Because agreement could not be reached on adopting a fisheries plan, the EC Commission issued a ruling that members should conduct their fisheries activities according to measures it proposed in July 1981, until a permanent plan is adopted.

In September 1981, EC members agreed on a "mini-package" for fisheries that the EC fisheries Commissioner 1/ described as "a huge step forward." The United Kingdom agreed to stop blocking the institution of an important fisheries agreement with Canada, as well as agreements with the Faeroe Islands and Sweden, in exchange for a commitment by other EC members to update the common organization of the market in fisheries products. 2/

The agreement with Canada is very important to German fishermen, whose deep-sea fishing fleet has customarily fished in Canadian waters. Under the new agreement, for a period of 6 years Canada will give fishing rights to Community fishermen in Canadian fishing zones in exchange for tariff concessions on Canadian fishery products sent to EC countries.

Preferential trading arrangements.--The European Community conducts most of its trade and development aid within the context of the Lomé Convention, a blanket agreement with 60 3/ African, Caribbean, and Pacific (ACP) countries. The EC also has bilateral agreements with eight Mediterranean countries and gives preferential trade treatment to less developed countries under a generalized preference scheme (GSP).

Lomé II, a 5-year extension of the first Lomé Convention, entered force on January 1, 1981. As did Lomé I, Lomé II provides duty-free access for most ACP products entering the EC, subject to ceilings and quotas, with stricter restrictions retained for some sensitive products. Lomé II provides new concessions for some agricultural products, expands the Stabex system 4/ to cover more products, and creates a "Stabex-type" scheme--Sysmin--to encourage mining investment in ACP countries. 5/

On October 8, EC members and ACP Lomé participants signed protocols to Lomé II and to an EC-ACP agreement related to the ECSC to take account of Greece's accession to the Community. The protocols adjusted the provisions on trade cooperation to establish transitional arrangements to allow Greece to aline its tariff with the EC Common Customs Tariff. The pacts permitted the terms of the convention to be gradually phased in. Eventual elimination of tariff duties in Greece on ACP imports is planned, although the protocols

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1/ Georgios Contogeorgis.

2/ A CAP-type price support system for fish begun in 1976.

3/ The Republic of Vanuatu (formerly New Hebrides) acceded to the Lomé Convention on March 18, 1981, becoming the 60th ACP member.

4/ The Stabex (system for stabilization of export earnings) program gives loans or grants to ACP countries to help stabilize income from agricultural exports (to compensate for price drops, crop failures, and so forth)

5/ Sysmin (system for mineral products) contains measures to give financial aid when a country's mineral production capacity is damaged by economic factors or other "accidental" circumstances. The aid is given in the form of special loans to help renew or maintain production plants for certain mineral products (copper, cobalt, phosphates, manganese, bauxite, alumina, tin, iron ore, roasted iron pyrites).

contained measures allowing Greece to place specific quotas on imports under certain circumstances.

In 1981, for the first time since Stabex was set up, available funds fell short of the total of transfers called for under the program. In mid-June, the EC reduced transfer entitlements by over 40 percent for least developed ACP states and by nearly 54 percent for other participants. Loss of export earnings on coffee, groundnuts, and groundnut products was blamed for the heavy call on Stabex funds. Although the terms of the Lomé Convention did not require it to do so, by early 1982 the EC had arranged to provide some additional funding for Stabex.

At high-level meetings between ACP countries and the EC in 1981 and early 1982, ACP members said the EC "sidestepped" issues of vital importance to the economic and social development of the ACP group. Although the EC had provided some additional funding for the Stabex program by early 1982, ACP countries wanted increased funding and coverage of more products under the scheme. ACP members also had complaints about the operation of the Sugar Protocol, under which Lomé members' sugar receives preferential access to EC markets. ACP states wanted speedier procedures for the annual setting of sugar prices and reallocation of sugar quotas; they also repeated a request that transport costs for various countries' sugar be taken into account when setting sugar prices. In addition, ACP participants asked the EC to consider using its farm surpluses as food aid.

The EC claimed it was already providing more Stabex financing than it was bound to give under the Lomé Convention. The EC declined to add any new products to the Stabex program and said ACP sugar prices could not be set until CAP prices for the 1982 and 1983 season had been determined.

During 1981, Mediterranean countries expressed their concern at the prospect of EC enlargement. These countries export to the EC large quantities of fresh and processed fruit and vegetables, citrus fruits, olive oil, and wine. They are concerned that their access to EC markets will be more limited following enlargement, particularly when Spain becomes a member. Consequently, they are trying to persuade the Community to set up procedures for consultation on these problems before negotiations are completed.

In December 1981, the EC Council adopted certain regulations and decisions concerning the EC's generalized tariff preferences for 1982. These form part of the new GSP scheme for 1981-85 adopted in December 1980.

Under the new plan, the Council approved an increase in quotas and ceilings for some industrial products of between 5 and 15 percent, depending on the sensitivity of the product. However, a freeze was imposed on the more sensitive items--for instance, in the steel sector. Ten products were added to the list of sensitive products subject to strict import controls, including such items as chemicals, steel goods, and ceramics. Eight products were removed from the sensitive list, including some chemical goods and pocket calculators.

Certain changes were also made in the GSP treatment accorded Romania and the People's Republic of China. In 1981, 81 industrial products from Romania and 22 products from China were prevented from receiving GSP treatment. The new plan gives GSP status to 27 Romanian products and 12 Chinese products, although some of these fall in the sensitive category and are subject to strict controls.

The 1982 GSP plan adds 14 new agricultural products to the GSP list, bringing to a total of 320 the number of agricultural products that receive GSP benefits. An additional 10 new products will be given GSP treatment if they are exported from least-developed ACP countries.

Relations with Japan.--The growing EC deficit in trade with Japan, which has increased from $7.1 billion in 1979 to about $14 billion in 1981, continued to cause strong bilateral tensions between Japan and the EC during 1981. The EC and Japan held several bilateral consultations during the year, but little progress occurred toward mutually acceptable solutions to trade problems.

In strong statements delivered to the Japanese Government in November 1980 and during 1981, the EC expressed its grave concern at the state of trade between Japan and the EC and demanded Japanese action to open its markets to European products, limit Japanese exports of sensitive products (automobiles, televisions, and machine tools) to the EC, strengthen the yen, and make positive efforts to import more European products (especially manufactured goods).

In early 1981, the EC began to prepare for action against imports of Japanese products. In February 1981, the EC Council instituted a program of surveillance of imports of Japanese automobiles, color television receivers, and machine tools.

In May, the EC reacted strongly to the news that Japan intended to restrict exports of automobiles to the United States by promptly sending off a demand that Japan implement similar limits on auto imports to the EC. Japan resisted promising to limit EC-wide auto shipments but, in June, Japan did agree to voluntary restrictions on a bilateral basis with West Germany and Belgium. 1/

In June, Japanese Prime Minister Suzuki toured the EC in an attempt to reduce trade frictions. Visiting both EC headquarters and six EC nations, 2/ he appealed for free trade and pledged that Japanese industries would control their exports to European markets. He pointed out that Japanese car exports to the EC in 1981 would be moderate given the limitation of exports to West Germany and Belgium, the existing import restrictions in other EC countries, and a likely strengthening of the yen. He further stated that given this situation, it was unlikely that the measures taken to limit auto shipments to the United States would divert shipments of Japanese cars to the EC.

Following this, on July 14, Japan's Minister of International Trade and Industry, Tanaka, recommended that Japanese businessmen increase their imports of manufactures. The Japanese authorities indicated that a number of practical steps would be taken to encourage such imports.

The promised Japanese action to increase imports of manufactured products did not materialize, and toward yearend a growing EC trade deficit led to increased friction. In October, a group of high-level Japanese businessmen and public officials visited seven EC countries to try to improve trade

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1/ Japan was already employing restraints on shipments to the United Kingdom, and France and Italy had already taken unilateral action to restrict auto imports from Japan.

2/ West Germany, Italy, the United Kingdom, the Netherlands, Belgium, and France.

relations with the EC by promoting industrial cooperation. European officials told the visitors that Japan would have to follow up on its promises to open up its markets to European products or the EC would resort to "international trade rules allowing it to stem the flow of imports from Japan." 1/

Bilateral talks in December produced no results. In early 1982, the EC made good its threat and entered a complaint under article XXIII of the GATT against Japanese trade practices.

Proposed changes in EC foreign investment laws.—Proposed new EC measures to regulate the operations of multinational corporations within the EC have attracted the concern of U.S. companies with EC subsidiaries. These measures include the Davignon/Vredeling proposal on worker information and consultation, the draft seventh directive on consolidated accounting for groups of companies, and the proposed ninth directive on corporate groups. According to EC sources, the measures are intended to safeguard the interests of workers, shareholders, and creditors in EC subsidiaries of large companies. U.S. firms protest that some of the measures could place obligations not only on European affiliates, but on U.S.-based parent corporations, and that some of the information disclosure that would be required by the proposed legislation would greatly hamper business operations.

Several bills were introduced in the U.S. Congress during 1981 that would counter the proposed EC legislation. One of these bills would give the U.S. President the power to retaliate if U.S. investments abroad were discriminated against or "otherwise unreasonably or illegally burdened" under the legislation of a foreign state. Others would provide means of ordering U.S. citizens abroad not to disclose confidential information. If adopted, such a law could prevent compliance with proposed requirements that local workforce representatives have to be kept informed of the "global plans" of business enterprises.

U.S./EC bilateral issues

Trade difficulties between the United States and the European Community centered on steel and agriculture during 1981. U.S. steel producers protested vigorously against EC shipments of low-priced steel to the United States, while the EC said U.S. import policies on steel were unfair. The EC complained about "constant sniping" 2/ by the United States at its common agricultural policy, as U.S. farmers protested that the EC was using export subsidies to take an unfair share of world agricultural markets. In early 1982, U.S. steel producers caused a large number of antidumping and countervailing duty suits to be initiated against EC steel firms. Soon after, the EC took steps to limit U.S. agricultural exports to the Community, beginning with a proposed tariff quota on corn gluten feed. Some observers have stated that, at this point, it will take great skill on the part of the United States and the EC to prevent a serious trade war and resulting damage to the world economy. To avoid this, the United States and the EC have agreed to abide by GATT rules in working toward resolving the bilateral trade disputes on steel and agriculture.

1/ Europe, January-February 1982, p. 52.
2/ Fifteenth General Report on the Activities of the European Communities in 1981, p. 224.

Steel.--Conflict over EC steel exports to the United States continued to strain bilateral relations during 1981. The United States and the European Community held frequent consultations on steel, but a serious problem remained at yearend.

Helped by the strong dollar, which lowered the price of imported steel relative to U.S.-produced steel, in 1981 steel imports took 20 percent of the U.S. market. Steel imports from EC countries increased about 11 percent in 1981, and accounted for 6.7 percent of the steel consumed in the United States during the year.

U.S. steel producers claimed that foreign firms were using unfair trading practices--subsidies and less than fair value sales--to boost their share of U.S. markets. They charged that EC subsidies to steelmakers allowed Europeans to sell steel abroad at unfairly low prices that were below TPM (Trigger-Price Mechanism) levels. 1/ In the fall of 1981, the U.S. Steel Corp. threatened to file antidumping and anti-subsidy suits against European steel producers unless the EC took steps to reduce the volume or raise the prices of steel shipments to the United States. The company also said it would file similar suits against other foreign steel suppliers unless progress was made toward reducing imports of low-priced steel.

To ward off the steel industry petition filings and gain time for U.S. trade officials to develop bilateral solutions to the steel problem, in November 1981 the Commerce Department undertook six self-initiated antidumping and countervailing duty investigations on steel products from Belgium, France, and non-EC steel suppliers. When announcing the step, Secretary of Commerce Baldrige warned that if U.S. steel producers filed antidumping and antisubsidy petitions, the TPM would be suspended, something that neither the U.S. nor the European steel industries wanted. 2/

U.S. producers wanted to keep the TPM because it provided some protection from low-priced imports, but they wanted stricter enforcement of trigger prices. Although they often complained that the trigger price levels were set unfairly high and put EC steel at a disadvantage on U.S. markets, EC steel producers wanted to keep the TPM because it maintained some order in the U.S. steel market and allowed them to avoid antidumping actions. The United States consulted with the EC and other supplier countries when it was developing the TPM, and the plan represented what both foreign and domestic steel interests considered a workable compromise, for the most part. So, the threat to suspend the TPM was intended to encourage foreign steel suppliers to abide by the trigger prices, as well as to persuade domestic firms to delay filing antidumping and antisubsidy petitions.

However, in 1981 various factors led to a breakdown of TPM operations between the United States and the European Community. Under the TPM, trigger prices set in dollars were intended to form a "floor" under which low-priced steel imports would be deterred from entering the United States. To comply with the TPM, European steel producers had to raise prices in terms of their own currencies as the dollar appreciated relative to those currencies in 1981. At the same time, weak U.S. domestic demand for steel lowered U.S. steel prices well below trigger levels. European steel producers complained

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1/ The Trigger-Price Mechanism was set up in 1977 to screen steel imports for possible sales at less than fair value.

2/ Steel trigger prices were suspended in March 1980 when U.S. Steel filed a number of antidumping complaints against EC steel producers and were reinstituted in September 1980 when U.S. Steel Corp. withdrew its complaints

that this situation was unfair, and prevented them from selling steel at competitive prices on the U.S. market. When the United States would not change the TPM, the EC began violating the trigger price levels.

In December, President Reagan met with the chairman of U.S. Steel Corp. and requested that he delay filing the steel petitions until bilateral consultations with steel suppliers had progressed and the investigations instituted by the Commerce Department had time to work. U.S. Steel Corp. agreed to delay the filing, 1/ and on December 22, 1981, the Commission issued a preliminary finding that there was a reasonable indication that an industry in the United States was being materially injured or threatened with material injury by reason of imports of the steel products under investigation. The decision allowed the Commerce Department to continue investigations on products from these countries.

In December, the United States met with EC representatives to try to secure firm undertakings by European steel suppliers to abide by the provisions of the TPM and keep the prices of EC steel sent to the United States above trigger levels. The talks did not achieve results, and in January 1982 U.S. Steel Corp. and other U.S. steel producers filed the petitions.

On January 11, 1982, U.S. Steel Corp. and six other U.S. steel producers filed petitions seeking initiation of 132 antidumping and countervailing duty actions against steel firms in eleven countries, including seven EC members. U.S. Steel announced that despite concerted efforts by the United States to achieve a workable trigger price mechanism with the European Community, it was "abundantly clear" that no foreseeable relief was forthcoming from the continuing abuses of the European steel producers.

Following the filing of petitions, the Commerce Department suspended the trigger price mechanism. The Department also terminated the six antidumping and countervailing duty investigations that it had begun in November, because they were duplicated by the steel industry petitions. After examining the steel industry submissions, the Commerce Department announced that it would initiate 109 steel antidumping and countervailing duty investigations involving producers of nine products in eleven foreign countries. 2/

Shortly after the petitions were filed, the European Community requested bilateral consultations on the upcoming investigations. At the January 1982 talks, EC representatives argued that the petitions were weak on evidence and

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1/ In an action not directly connected with the U.S. Steel petitions, on Dec. 2, 1981, the U.S. specialty steel industry and the United Steelworkers of America filed a petition under sec. 301 of the Trade Act of 1974 with the Office of the United States Trade Representative. The petition asked the President to curb surging imports of specialty steel from government-subsidized steel mills in seven countries. The complaint named four EC members: Belgium, France, Italy, and the United Kingdom.

2/ The countries involved in the investigations are Belgium, Brazil, West Germany, France, Italy, Luxembourg, the Netherlands, Romania, the Republic of South Africa, Spain, and the United Kingdom. The products are structural shapes, plate, hot-rolled carbon bar, hot-rolled alloy bar, cold-rolled carbon bar, cold-rolled alloy bar, hot-rolled sheet and strip, cold-rolled sheet and strip, and galvanized sheet.

did not justify the initiation of investigations. The EC claimed that there was no basis to any alleged causal link between imports and injury, stating that lost production in the United States can only be ascribed to a drop in demand. EC representatives further stated that the EC saw the filing of the cases as "harassment in a global attack by the U.S. industry on foreign steel producers." The EC also objected strongly to the idea of imposing retroactive countervailing or antidumping duties that was proposed in some petitions.

The United States said the EC had brought about the demise of the trigger-price mechanism by refusing to abide by the trigger prices. The EC said that EC producers had recently been unable to comply with the trigger prices because they were set so high that they priced imported steel out of the U.S. market. U.S. representatives claimed that the TPM was operated fairly and promised the EC a full and fair hearing on the investigations.

Late in the spring of 1982, U.S. steel producers filed an additional set of antidumping and antisubsidy petitions covering more steel products. Serious problems in EC-U.S. steel trade seem likely to continue for some time.

Agriculture.--Agricultural policies in the United States and the European Community have begun to collide. Deputy United States Trade Representative David R. Macdonald stated that a row over trade in farm products is developing that "dwarfs all other controversies with the European Community." In 1981, agricultural trade problems began attracting notice in the United States because the strong dollar contributed to reduced U.S. farm exports. Then, a tariff-quota on corn gluten feed proposed by the EC brought to a head growing U.S. dissatisfaction with EC agricultural policies.

The EC's Common Agricultural Policy (CAP) with its artificially high support prices for grains, milk, and other products, has led to formation of large surplus stocks of farm products. The EC uses export subsidies to dispose of the surpluses on world markets, often displacing U.S. exports. In addition, the EC Commission has asked the Council for a mandate to conclude long-term supply agreements with nonmember countries to sell subsidized surplus EC farm products, which may further encroach on traditional U.S. markets. The Commission mentioned the signing of long-term export contracts for farm products in its November 1980 suggestions for reforming EC policies to achieve "May mandate" goals. 1/ Then, in July 1981, the Commission sent the Council a more detailed proposal in support of the agreements, outlining the scope and content of the instruments and describing the role of long-term agreements in the CAP.

Observers report that "European farm exports into America's traditional markets . . . have helped to intensify the worst incomes crisis American farmers have suffered in half a century" and "have forced [the United States] reluctantly to reintroduce the system of paying farmers to grow less wheat, feed grains, and other crops." 2/ So, U.S. farmers are being paid to limit production, while EC farmers are being paid to increase production. As U.S. policies cause U.S. surpluses to contract, EC surpluses are gearing to expand.

1/ On May 30, 1980, the EC Council issued the "May 30 mandate," which instructed the Commission to submit proposals for major reforms of EC policies, particularly the CAP, to help reduce budget costs (see discussion in this chapter entitled, "The May 30 mandate and the EC budget").

2/ The Economist, Apr. 17, 1982, p. 16.

The use of export subsidies to enlarge markets beyond traditional shares is illegal under General Agreement on Tariff and Trade (GATT) rules. EC export subsidies have already provoked the United States to open cases for GATT arbitration (under the GATT subsidies agreement) against EC exports of wheat flour, sugar, poultry, and pasta. 1/

U.S. reaction to CAP.--In a series of bilateral U.S.-EC meetings during 1981, the United States reacted strongly to certain EC agricultural policies and practices. The United States said it opposes an expansive EC export program based on continued export subsidies, long-term supply agreements, or increased export credits for agricultural products. U.S. officials stated that the United States will continue to challenge unfair export competition in third markets, including making full use of GATT dispute settlement procedures. The United States will also seek to encourage reform of the CAP by reducing the EC's ability to substitute exports for meaningful reforms. Further, U.S. officials emphasized that the United States will continue to take vigorous measures to protect U.S. access to the EC market, and will seek to improve that access by arguing for reducing barriers that interfere with marketing U.S. farm products within the Community.

On December 11, U.S. Secretary of State Haig and Secretary of Agriculture Block and United States Trade Representative Brock together called on European Commission President Thorn and other Commissioners in Brussels to discuss agricultural trade. The U.S. officials stated that while they were not challenging the fundamental principles of the CAP, the United States was opposed to certain aspects of the policy that were affecting U.S. agricultural interests. The EC Commissioners responded that the Community attaches great importance to maintaining the CAP to achieve social and food security goals and stressed that the EC would not seek to obtain more than an equitable share of trade in third markets.

Following the meeting, U.S. officials said they believed they had made the EC Commission understand how important the United States considered it to be that the EC make efforts to reduce the adverse impact of the EC Common Agricultural Policy on U.S. farm exports. They said they had let the EC know that impaired access to the EC market and "insuring that agricultural trade in third markets reflects comparative advantage" 2/ were very important to the United States. The unprecedented presence of so many high-level U.S. officials was designed to demonstrate the level of U.S. concern. However, subsequent EC actions in early 1982, described below, showed how far from agreement on agricultural issues the United States and the European Community remained.

Nongrain feeds.--The EC claims that increases in imports of grain substitutes for use as cattle feed (such as manioc, bran, corn gluten feed, and soybean meal) are displacing domestic demand for EC grain and aggravating the Community's cereals surplus. High EC support prices for grain have led European farmers to produce much more grain than EC consumers will buy at the prices charged, if they have any alternative. In May 1981, at the annual meeting of the EC Association of Traders in Grains and Feeds, EC Commission

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1/In early 1982, EC farm ministers were reportedly about to grant a double-digit increase in support price levels for EC farm products, which could encourage even more surplus production. But proposed actions against grain substitutes, especially corn gluten feed, caused the greatest immediate concern to the United States.

2/ Department of State Bulletin, March 1982, p. 45.

spokesmen expressed concern about EC imports of nongrain feeds and said they would like to bring these products under some sort of import controls. In early 1982, the EC Commission requested a mandate from the Council to negotiate a tariff-quota on corn gluten feed, the United States' fastest-growing agricultural export to the EC. U.S. exports of corn gluten feed were worth $444 million in 1981.

The Commission proposed applying a tariff on imports of corn gluten feed above 3 million tons, the amount of U.S. corn gluten feed exported to the EC in 1981. 1/ This action would violate a GATT zero tariff binding on corn gluten feed that the United States paid for with counterconcessions in the Kennedy Round of trade negotiations.

Following the Commission proposal, U.S. officials stated that they objected strongly to any EC action against corn gluten feed, emphasizing that the United States regards the request for a negotiating mandate with deep concern and is not prepared to negotiate trade concessions on corn gluten feed. U.S. representatives went on to state that if the EC Council grants the mandate, the action could spark the unraveling of trade concessions that could have consequences for world trade that no one presently anticipates.

Soon after, the U.S. Senate passed a resolution urging President Reagan to "take appropriate action to protect United States' exports of corn gluten feed," stating that the proposed tariff-quota would "threaten United States corn gluten exports and adversely affect the income of United States corn producers and processors and soybean producers." The resolution went on to state that "restrictions on these American exports could seriously affect United States and European relations."

Some observers have suggested that the EC may be considering import restrictions on other feed products as well. Deputy United States Trade Representative Macdonald warned that levies on feeds would ease financial pressures on the EC to overhaul the CAP and stem surplus grain production. He stated that "the Common Agricultural Policy has become a common export policy" and " to have to finance it to the detriment of our farmers is like buying the rope that hangs us."

The EC might also move against U.S. soybean exports (worth $4 billion annually) if the Community lets its grain surplus go even more out of control. U.S. officials have often warned that any change in the EC's GATT-bound zero duty on soybeans will meet strong retaliation. U.S. soybean exports are also threatened by a proposed EC tax on imported and domestic vegetable oils, discussed below.

Tax on vegetable fats and oils.--Periodically, the European Community has considered taxing imported and domestic vegetable fats and oils to help stimulate sales of competing EC products, which have high prices due to CAP support programs. In the past, some EC members have proposed such taxes to deal with the EC dairy surplus by encouraging butter consumption. Since 1979, the EC has considered using a tax on imported and domestic vegetable fats and oils to cope with the olive oil surplus expected when Spain joins the EC. In the past, observers have said that adoption of such a tax was fairly unlikely, due to strong U.S. opposition to the measure. Then, in

1/ The EC buys 75 percent of U.S. output of corn gluten feed, and the United States supplies 95 percent of the corn gluten feed imported by the EC.

1981, the EC listed a possible tax on vegetable fats and oils as part of its proposed program to reform CAP policies for Mediterranean agriculture and to prepare for EC enlargement.

The United States strongly opposes the tax, maintaining that any tax on vegetable fats and oils would nullify and impair the GATT binding on soybeans that the EC agreed to during past trade negotiations. U.S. officials have repeatedly stated that any impairment of the GATT bindings on soybean products would lead to a major U.S.-EC confrontation.

In the fall of 1981, the EC Council voted to reject using the proposed vegetable oil tax, for the present. Future implementation, connected with reform of Mediterranean agriculture, was not ruled out. U.S. officials were satisfied with the decision, but said they were still concerned that the subject might arise in the future. They also stated that the United States will pursue its rights in the GATT, and will continue to oppose any efforts to impair negotiated U.S. trade rights for soybeans.

Oil, natural gas, and naphtha.--In recent years, the EC has protested that imports of cheap synthetic fibers and petrochemical products from the United States, helped by U.S. price controls on oil and natural gas, were giving unfair competition to EC producers. This situation eased somewhat in 1981 as the U.S. dollar gained strength against EC currencies, contributing to reduced U.S. shipments of these products to the EC in 1981. In January, the United States began deregulating oil prices, easing tensions in this area. During the year, President Reagan also announced that he intended to take steps to deregulate natural gas prices. Observers warned that this might take several years.

The EC has also objected to U.S. controls on exports of naphtha, a feedstock for both the European petrochemical and synthetic fiber industries. U.S. export controls on naphtha have been a persistent irritant in EC-U.S. relations since they were imposed during the 1973 oil crisis. Most European synthetic fiber producers use technology based on naphtha. In early 1981, President Reagan began the process required to end the naphtha export quotas.

Canada

The economic situation in 1981

Following a very strong finish in October-December 1980, the Canadian economy began 1981 with the largest quarterly gain in economic output in over 3 years, and it continued upward at a substantial rate in April-June. By mid-1981, real gross domestic product (GDP) had risen 5.1 percent from the low point of the 1979 and 1980 recession. This strength was surprising, given that it was led by investment, especially residential construction, and occurred in the face of record high interest rates. However, at about mid-year the economy began to weaken. The decline was steep and continued throughout the second half of the year. By the end of 1981, output stood 2.2 percent below the peak reached in June 1981. (This decline was much larger than the total 1.6 percent drop in output from peak to trough recorded in the 1979 and 1980 recession.) During July-September, expenditures on consumption, fixed investment, and exports fell faster than production, and inventories accumulated. During October-December, demand recovered partially and, as production continued to fall and imports plummeted, inventories were sharply run down. Key sectors of the economy that are sensitive to interest

rates--such as automobiles and housing--were very weak. In addition, growth of business investment in machinery and equipment was held down because of sharply falling profits, record high interest rates, persistent excess capacity, and uncertainties generated by the Federal Government's National Energy Program. For 1981 as a whole, year-over-year growth in the economy was 2.5 percent, well below the average annual growth of 4.2 percent during 1971-79.

In line with Canada's poor July-December economic performance, employment reached a peak in August, but then declined continuously so that, by January 1982, employment was 2 percent below the August peak. Because of growth during January-June 1981, employment was up 2.6 percent for 1981 as a whole; however, since this was about equal to the growth rate for the economy during the year, there was virtually no increase in labor productivity (output per worker). Unemployment remained at 7.5 percent for the year, the same as the average rates in 1979 and 1980. However, unemployment moved above 8 percent in September 1981 and reached a 3-year peak of 8.6 percent by December. For 1982, the Bank of Montreal forecasts a 0.5-point increase in employment, with unemployment rising to 9 percent during January-March and averaging 8.5 percent for the year as a whole. This would be the highest for any post-war year.

The overall lackluster performance of the Canadian economy in 1981 is reflected in the country's external trade (table 13). Total trade turnover (exports plus imports) increased by only 9 percent, well below the rate of inflation for the year. Imports outpaced exports, increasing by 11 percent, while Canadian shipments abroad were up nearly 8 percent. Although the overall trade balance remained positive, it fell by over one-fourth from the 1980 level. Imports from all of Canada's major trading partners were up: from the United States, by 10 percent; from the EC, by 11 percent; and from Japan, by 41 percent.

Canadian exports to the European Community were off by more than 10 percent from 1980 to 1981; exports to Japan declined as well. The overall increase in Canadian shipments to developed countries was more than accounted for by the 13 percent increase in exports to the United States, its major trading partner. There were no significant shifts in the distribution of Canadian trade during the year.

Canada recorded a current account deficit of $5.5 billion in 1981, substantially higher than the 1.6 million dollar deficit in 1980. There were two major reasons for this. First, the trade account deteriorated, mainly because of the slack in world business conditions. Although the merchandise trade account did register a surplus of $4.9 billion, this was $1.8 billion lower than the 1980 merchandise surplus. Second, the traditional services deficit ballooned from $9.4 billion in 1980 to over $12.3 billion in 1981, mainly because of higher interest payments on Canada's approximate $100 billion of net foreign debt. A major contributor to the increasing services debt is the Canadianization policy being followed by the Canadian government through its National Energy Program. 1/ As part of this policy, Canadian

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1/ See section on Canada's energy policy later in this chapter.

Table 13.--Canada: Imports, exports, and trade balance for selected sources and country groups, 1979-81

(In millions of U.S. dollars)

Country/region	1979	1980	1981
	Imports		
Developed countries:			
EC	4,785	4,736	5,258
Japan	1,838	2,384	3,368
United States	38,607	41,201	45,224
All developed countries	46,678	50,031	55,567
Developing countries:			
Oil-exporting countries	2,906	4,416	4,660
Other	2,976	3,397	4,362
All developing countries	5,882	7,813	9,022
Nonmarket economy countries:			
China	143	132	183
U.S.S.R	54	51	62
Eastern Europe	202	182	197
All nonmarket economies	488	500	606
Total 1/	55,307	60,892	67,762
	Exports		
Developed countries:			
EC	6,108	8,134	7,246
Japan	3,501	3,751	3,641
United States	37,658	41,068	46,454
All developed countries	48,569	54,742	59,162
Developing countries:			
Oil-exporting countries	1,341	1,741	1,975
Other	3,949	5,573	5,684
All developing countries	5,290	7,314	7,659
Nonmarket economy countries:			
China	507	742	776
U.S.S.R	646	1,303	1,492
Eastern Europe	339	448	325
All nonmarket economies	1,713	2,833	2,616
Total 1/	58,298	67,557	72,627

1/ Figures do not sum to total shown because the total includes special categories.

Table 13.--Canada: Imports, exports, and trade balance for selected sources, 1979-81--Continued

(In millions of U.S.dollars)

Country/region	1979	1980	1981
	Trade balance		
Developed countries:			
EC	1,323	3,398	1,988
Japan	1,663	1,367	273
United States	-949	-133	1,230
All developed countries	1,891	4,711	3,595
Developing countries:			
Oil-exporting countries	-1,565	-2,675	-2,685
Other	973	2,176	1,322
All developing countries	-592	-499	-1,363
Nonmarket economy countries:			
China	364	610	593
U.S.S.R	592	1,252	1,430
Eastern Europe	137	266	128
All nonmarket countries	1,225	2,333	2,010
Total 1/	2,991	6,665	4,865

1/ Figures do not sum to total shown because the total includes special categories.

Source: Direction of Trade Statistics Yearbook, 1982, International Monetary Fund, pp. 108-110.

firms have been encouraged to take over foreign firms. In many cases, this has resulted in changing foreign-held equity into foreign-held debt, which generally adds to the servicing cost. 1/

High inflation accompanied Canada's poor growth performance and record current account deficit. The Canadian consumer price index (CPI) rose 12.5 percent in 1981, a 33-year record, compared with a 10.3-percent rise in the United States. Although the Canadian government pursued rather restrictive fiscal and monetary policies, these policies were not successful in curbing inflation, given the nature of Canadian inflation in 1981. The components of this inflation were a 30-percent increase in energy prices, higher domestic food prices, a 12.2-percent increase in the average weekly wage in manufacturing, and very low productivity growth.

Because inflation was so high, the Bank of Canada tried to keep money supply growth (M1) within a relatively restrictive growth target range of 4 to 8 percent. In general, the Bank of Canada experienced no difficulty in keeping M1 growth well within the target range. However, monetary policymakers in Canada, as elsewhere, continue to be faced with a dilemma: if they stick to a slow money growth target, inflation will eventually subside. But, the other result of this policy is a monetary squeeze with high nominal and real rates of interest that choke off growth in the economy.

Interest rates in the United States have a great effect on interest-sensitive short-term capital flows, which may exert pressure on the Canadian dollar and force the Bank of Canada either to raise Canadian interest rates and/or to intervene heavily in the exchange market. In 1981, the chief operating concern of the Bank of Canada was to keep the Canadian dollar from declining too rapidly or from going below what was apparently a policy-determined floor rate of about 82 U.S. cents. In 1980, with the Canadian dollar relatively stable at an average 85.5 U.S. cents, there was little pressure on the Canadian monetary authorities, and they were thus able to resist some of the upward interest rate pressure emanating from the United States. As a result, during much of 1980, the Canadian prime rate was below the U.S. prime rate, reaching a spread of 4 percentage points at one time. In 1981, however, the Canadian dollar was much weaker, falling to a 50-year low of 80.32 U.S. cents in August and averaging 83.43 U.S. cents for the year. The Bank of Canada, therefore, came under considerable pressure to raise interest rates in order to stimulate short-term capital inflow and thus to take the pressure off the Canadian dollar. During the year, the differential between representative money market interest rates in Canada and the United States increased to over 3 percentage points in favor of Canada. This was the highest level in the past 30 years, except during 1976, when the Canadian dollar was last above par with the U.S. dollar. At its height, the Bank of Canada rate reached 21.25 percent on August 6. 2/

1/ Bank of Montreal, Business Review, February 1982, p. 4.

2/ The Bank of Canada rate is a floating bank rate introduced in March 1980. It is set 0.25 percentage point above the weekly average yield on 91-day Treasury bills. For more information, Operation of the Trade Agreements Program, 32d Report, USITC Publication No. 1307.

United States/Canada merchandise trade

The following tabulation shows the five leading U.S. imports from Canada by TSUS item number (in millions of U.S. dollars):

No.	Description	1980	1981
47515	Natural gas, methane, ethane, propane, butane	4,131	4,515
69211	Passenger automobiles	3,815	4,277
25265	Standard newsprint paper	2,579	2,808
69203	Trucks valued at $1,000 or more	1,331	1,895
25002	Wood pulp, rag pulp, and other pulps	1,610	1,654

These five items accounted for 33 percent of total U.S. imports from Canada of $46 billion. 1/ Other important U.S. imports from Canada in 1981 included gold or silver bullion and ore, parts of motor vehicles, crude petroleum, spruce lumber, and iron ore.

The following tabulation shows the five leading items exported to Canada by the United States by 5-digit Schedule B number (in millions of U.S. dollars):

No.	Description	1980	1981
69229	Parts (not of cast iron) of motor vehicles, except chassis and bodies	3,180	3,813
69210	Passenger cars	3,066	3,178
52131	Coal	905	1,018
66048	Piston-type engines	728	789
69440	Aircraft	438	709

These five items accounted for 25 percent of total U.S. exports to Canada of $38 billion. Other principal U.S. export items to Canada in 1981 included gold or silver bullion, machines for soil preparation, mechanical shovels, crude petroleum, and automatic data processing machines. 2/

Canadian Investment Policy

Throughout Canada's history, external capital and external markets have contributed heavily to its economic development. Several factors account for this continuing heavy inflow of foreign capital, including Canada's wealth in natural resources (particularly energy), its highly sophisticated service sector, its well-developed communications and transportation infrastructure, its political stability, and its proximity to the large U.S. market.

1/ Published U.S. trade figures differ significantly from published Canadian trade figures. Differences arise for a number of reasons. These include nonreceipt of export documents, differences in the definition and valuation of trade, inclusion of transportation charges in the valuation of imports, the time lag between the recording of exports in the exporting country and the recording of the same flow as an import in the importing country, and the possibility that the country of destination shown by the exporting country may in fact differ from the actual importing country (as in transshipments).

2/ For more information on leading imports and exports, see the appendix to this report.

Foreigners controlled 36 percent of nonfinancial corporate assets in Canada in 1970, 30 percent in 1978, and an estimated 26-28 percent in 1981. 1/ In 1978, foreigners controlled 55 percent of Canada's manufacturing, 72 percent of its oil and gas, and 58 percent of mining and smelting. The United States is by far the largest foreign investor in Canada, and accounted for 72 percent of total foreign investment in 1978. U.S. companies own 32 percent of Canada's pulp and paper industry, 36 percent of its mining and smelting industry, and 39 percent of manufacturing. 2/ Of the 100 largest companies in Canada, 37 are U.S.-owned or controlled.

Over the past decade, the Trudeau Government has attributed many of its economic problems to the high degree of foreign ownership of Canadian industries and to the increasing integration of the Canadian economy into the economy of its larger, more industrialized neighbor. Moreover, Canadians began to perceive that their economy had become the branch-plant, raw-material-producing periphery of the U.S. industrial base. Only extraction and occasionally refining or semiprocessing of natural resources were located in the Canadian periphery, while the later stages of processing, manufacturing, and marketing were all under U.S. management and control.

In the early 1970's, Canada declared a new industrial strategy that would shift the processing of Canadian resources from the United States back to Canada, with the objective of building a high-technology Canadian industrial structure. The rationale for this strategy was outlined in a report compiled by a task force led by then Canadian Minister of Consumer and Corporate Affairs Herbert Gray. The Gray Task Force report, Foreign Direct Investment in Canada, 3/ defined the economic and political costs to Canada of remaining a resource economy: the overemphasis on resource development at the expense of an "industrial development policy geared to Canada's own particular growth and employment objectives;" 4/ the creation of a high-cost industrial structure that could not compete internationally; and the establishment of "truncated" enterprises that would not facilitate the advancement of Canadian capacities and skills, particularly in the area of technological innovation. According to Gray, Canada could not remain a branch-plant economy and develop a high-technology industrial base because foreign-owned companies do not provide their subsidiary operations with benefits equal to those provided by indigenous companies. This point is made in the Gray report: "But the essential point—and one that is central to an understanding of this study--is that truncated subsidiary operations usually lack the capacity and opportunity over time to develop the full range of activities normally associated with a mature business enterprise." 5/

1/ This measure of the level of foreign control in the Canadian economy uses data on "assets" as collected under the Corporations and Labour Unions Return Act of Canada.

2/ "Trudeau's War on U.S. Business," Fortune, Apr. 6, 1981, p. 76.

3/ Canada. Gray Task Force. Foreign Direct Investment in Canada. Ottawa: Information Canada, 1972.

4/ Ibid., p. 6.

5/ Ibid., p. 6.

Foreign Investment Review Agency

As part of its campaign to gain greater control over its economic development, Canada enacted the Foreign Investment Review Act in 1973. In so doing, Canada modified its traditional open policy toward foreign investment by establishing a comprehensive screening procedure intended to insure that acquisitions and new investments by foreigners be of "significant benefit to Canada." The act requires the screening of takeovers of Canadian firms by "noneligible persons" (a foreign individual, a Canadian citizen who has settled in a foreign country, a foreign government, or a foreign-controlled corporation whether or not incorporated in Canada). The act also requires screening of new direct investments and expansions by existing foreign-controlled firms into new activities, but at the present time exempts from screening expansions into related activities by existing foreign-controlled firms. Noneligible persons wishing to invest in Canada must apply to the Foreign Investment Review Agency (FIRA), which evaluates investment proposals.

During 1980, legislation was proposed which would expand FIRA's mandate to strengthen the Canadian-controlled sectors of the economy. As set out in the Governor General's April 14 Speech from the Throne, this legislation would include amendments to the Foreign Investment Review Act to provide for periodic reviews of all large foreign firms to assess their performance in such areas as export promotion and research and development. The Speech from the Throne did not define how large firms would have to be in order to be subject to review, whether all existing large firms would be reviewed or only firms approved since FIRA's establishment, the frequency of the reviews, or the nature of the reviews. Next, under the legislation, large takeover bids by foreigners would be published before FIRA makes a decision to allow or disallow them. Finally, the legislation proposed to make financial assistance, probably through loan guarantees, available to Canadian-controlled firms that want to repatriate the assets of foreign-controlled firms in Canada or that want to compete with foreign firms for the takeover of Canadian business enterprises.

However, in contrast to the aggressive economic nationalism displayed during 1980, the Canadian budget introduced on November 12, 1981, indicated that foreign capital and technology would continue to play an important role in Canada's economic development in the 1980's and beyond. It rejected the idea of increased Government intervention, noting that the government's role is to support private sector efforts by strengthening the economic base and the performance of markets. The budget reaffirmed the Canadian Government's commitment to the National Energy Program, but stated clearly that the special measures to achieve Canadian ownership and control of the oil and gas industry would not be extended to other sectors. In addition, two of the proposals made during 1980 to strengthen the FIRA were postponed until an assessment is made of progress on the major initiatives already undertaken by the Government. One of these proposals would have permitted the Government to publicize foreign takeover bids, and would also have allowed the Government to provide financing to assist in Canadian buy-back efforts. The other proposal would have provided for mandatory performance reviews and reporting mechanisms for major corporations. Instead, the Canadian government proposed, as part of its regular government-business dialogue, to consult with major Canadian corporations, irrespective of ownership, concerning development opportunities.

U.S. concerns with FIRA.--The United States has not challenged the basic premise of FIRA's existence--to screen foreign investment, but it believes

that FIRA should operate in ways that are consistent with accepted international principles, particularly with regard to national treatment. To obtain FIRA approval, the foreign investor frequently must make legally-binding commitments to insure that significant benefits accrue to Canada. These commitments (or performance requirements) take the form of potentially market-distorting Canadian sourcing requirements, export commitments, import restrictions, requirements to hire specified proportions of Canadian management and labor, obligations to move productive facilities from the United States to Canada, obligations to transfer patents and technology to Canada without charge, and so forth. 1/ The United States has expressed to Canada its belief that Canada's performance requirements have the potential for seriously distorting investment and trade flows between the two countries. Furthermore the United States maintains that such legally enforceable commitments that FIRA extracts from potential investors constitute requirements to accord treatment to imported products less favorable than that accorded to like products of national origin, and that these requirements are therefore contrary to Canada's international obligations under article III of the GATT.

The United States has also informed Canada that other FIRA practices raise major issues of international policy and principle. Such practices include seeking undertakings by firms that effectively require the relocation of business activity from other countries to Canada; undertakings that contain obligations to transfer to Canada, without charge, or at less than fair price, assets such as patents; the absence of clear guidelines on FIRA's objectives and requirements; the imposition of new performance requirements by FIRA when ownership of a Canadian corporation has simply been transferred from one foreign corporation to another (i.e., the degree of foreign ownership has not increased); the lengthy time required for approval or disapproval of FIRA applications after an applicant makes his initial representation; and the low threshold levels for assets and employment, which make even small businesses subject to the FIRA process.

U.S. responses.--U.S. policy toward foreign investment supports the general principle of national treatment for foreign enterprises. Because the United States believes that market forces rather than Government fiat result in the most efficient distribution of investments, the U.S. Government neither encourages nor discourages foreign investment. However, growing concern in the United States regarding Canada's investment policies gave rise during 1981 to a number of proposals on how best to respond to these policies. These proposals included restricting foreign investment in specific sectors, greater screening of foreign investment, and similar measures to establish reciprocity or to retaliate.

Several pieces of legislation specifically directed at Canada were introduced in Congress. H.R. 4033, introduced on June 25, 1981, by Representatives Robert Whittaker and Mike Synar, would extend the Securities and Exchange Act margin requirements to foreign companies. Under current law, U.S. companies are required to back at least 50 percent of a loan drawn to finance a corporate takeover with collateral other than the securities they intend to buy. The proposed legislation would make the 50-percent margin

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1/ Officially, more than 80 percent of all applications have been approved since FIRA's inception in 1974; however, the United States believes that this does not accurately reflect the number of applicants that had to agree to undertake various performance requirements before their initial applications were approved.

apply also to foreign investors. The bill would also impose a 9-month moratorium on Canadians acquiring, purchasing, or trading more than 5 percent of the voting stock of a U.S. energy resources corporation with assets of more than $100 million as of June 25, 1981. On the same day, Senator Nancy Kassebaum introduced an almost identical bill (S. 1429) in the Senate. As of yearend 1981, both of these bills were still in committee.

Because the Canadian budget address on November 12, 1981, did not fully address U.S. concerns with FIRA's operation, the United States found itself at yearend 1981 still in the process of determining the best means of reaching a satisfactory bilateral resolution of its problems with Canada. Although bilateral discussions had not yet resolved any of the major U.S. concerns, the United States believed that senior-level bilateral consultations should be continued as long as there was an indication that the Canadian government was seriously considering U.S. concerns with a view to resolving differences between the two governments. In addition, the U.S. Government was considering initiating an investigation under section 301 of the Trade Act of 1974. 1/ This investigation would recommend appropriate responses that the United States would be prepared to implement in response to FIRA. Furthermore, the United States believed that it should continue to raise its concerns over the FIRA in such multilateral fora as the GATT and the Organization for Economic Cooperation and Development (OECD). 2/

Canadian Energy Policy

National Energy Program.--The goals of Canada's National Energy Program (NEP), announced on October 28, 1980, are to promote conversion from oil use to natural gas, to boost exploration activity in frontier areas, to encourage development of nontraditional oil sources, and to increase Canadian ownership of energy resources with a view toward establishing energy self-sufficiency by 1990. To accomplish these goals, the NEP contains a series of measures concerning oil and gas prices, taxes and other charges to business, incentives favoring Canadian firms and encouraging the takeover of foreign firms by private Canadian firms, and a discriminatory "Canadianization" program designed to increase Canada's ownership and control of its energy industry to 50 percent by 1990. The cumulative effect of these measures will be to increase the role of the central government in energy development, to make operations by foreign (largely U.S.) firms less profitable, and to keep Canada's energy prices permanently below world levels. 3/

The NEP is to be implemented through two pieces of legislation: (1) the Canada Oil and Gas Act, introduced on December 10, 1980, and passed by the

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1/ Under sec. 301, the United States may retaliate against foreign nations whose policies "unreasonably" or "unjustifiably" burden U.S. commerce.

2/ On Jan. 5, 1982, the United States requested consultations with Canada on the FIRA under article XXII:1 of the GATT. The objective of these consultations is to discuss U.S. concerns about the consistency of practices under the FIRA with Canada's obligations under the GATT, with the aim of reaching a mutually satisfactory solution. These talks do not involve any arbitration or dispute settlement by the GATT. At the time it asked for the art. XXII consultations, the United States had made no decision to invoke article XXIII of the GATT, which can lead to an adjudication procedure.

3/ For more background information, see the Operation of the Trade Agreements Program, 32d Report, USITC Publication No. 1307.

House of Commons on December 9, 1981, and (2) the Energy Security Act of 1982, introduced on February 25, 1982. The Canada Oil and Gas Act contains two key provisions. One calls for 50 percent Canadian ownership in any company or group producing oil and gas in the Canada Lands. 1/ Second, under the act, the Government of Canada will receive a 25-percent interest in all exploration rights in the Canada Lands. However, this Crown interest, or so-called back-in provision, pertains only to lands under exploration and will not be claimed if the acreage was producing oil or gas on or before December 31, 1980. 2/

The Energy Security Act will implement the final major elements of the NEP, and is designed to give Canadians control of their energy future and insure self-sufficiency in oil by 1990. It sets out provisions for the Petroleum Incentives Program (PIP), which establishes a system of direct incentive payments to replace the depletion allowances formerly available for exploration and development. The PIP will pay up to 80 percent of exploration costs, the exact percentage depending on the degree of Canadian ownership. The announced objective of the PIP is to stimulate massive new investments for petroleum resources, particularly by Canadian-controlled companies. In addition, the legislation authorizes the capital necessary to expand the Federal Government's role in the energy industry and establishes a Canadian Ownership Account to help finance acquisitions.

U.S. concerns with the NEP.--U.S. Government concerns with the NEP fall into three basic categories:

(a) Energy policy and summit decisions: The NEP's below-world-market pricing policy is at variance with declarations at the Tokyo and Venice Summits favoring the linkage of domestic and world energy prices as an incentive to conservation and additional energy development.

(b) Investment policy and the OECD: The NEP discriminates against foreign firms. This is contrary to the usual U.S.-Canadian way of doing business and is inconsistent with the principle of national treatment for foreign investment, which Canada has accepted within the OECD. The negative impact of the NEP on foreign firms, which have contributed so much to the development of Canada's energy resources, is likely to slow down oil and gas exploration and development. In so doing, it may also introduce serious uncertainties into Canada's ability to meet its goal of energy self-sufficiency, with consequent effects on the global energy balance.

In particular, the United States is concerned that under the back-in provision foreign firms will receive inadequate compensation when the Canadian Government assumes its retroactive 25-percent interest in all production on Federal lands. In many cases, U.S. firms had undertaken significant exploration expenditures at considerable risk to establish the existence of commercially significant quantities of oil and gas. The United States and Canada have held a series of bilateral consultations involving the highest levels in both governments. Among other things, the United States sought

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1/ The Canada Lands are the areas under direct Federal Government control in the Yukon, Northwest Territories, and off Canada's coasts. This comprises approximately 4 million square miles.

2/ The United States is seriously concerned about the back-in provision. For a further discussion, see "U.S. concerns with the NEP."

provisions to "grandfather" or exempt from this law all holders of exploration agreements, permits, or leases that have already established or have made a substantial financial investment to establish the existence of commercially significant quantities of oil and gas, or have leases in which the Canadian government already has a 25 percent or larger interest.

The United States has also been concerned about Canada's campaign to acquire foreign-owned firms in order to meet its goal of 50-percent Canadian ownership of its oil and gas industry by 1990. The takeovers embittered U.S. energy companies, which charged that the NEP was forcing them to sell their oil and gas interests in Canada to local concerns at prices well below market value. Moreover, the U.S. companies maintained that the situation had been aggravated by the midsummer slump in U.S. oil stocks, which had made it easier for Canadian companies to buy large shareholdings in U.S. oil companies and then force the U.S. companies to exchange their Canadian assets for the shares accumulated by the Canadian groups. An example of this kind of transaction was Dome Petroleum's June 1 acquisition of 22 million shares of Conoco (a U.S. oil firm), which Dome subsequently swapped for Conoco's 53-percent interest in Hudson's Bay Oil and Gas (a Canadian firm). Dome was later able to acquire the remaining 47 percent of Hudson's Bay Oil and Gas, becoming the largest Canadian oil company and one of the largest corporations in Canada.

Most of the major takeover deals in 1981 were made by the Canadian government through Petro-Canada. In deals worth nearly $4 billion, the state-owned company acquired Atlantic Richfield Canada, the Canadian affiliate of Phillips Petroleum of the United States, and Petrofina Canada, owned previously by the Belgian Fina group. In addition, the Canadian Development Corp. (CDC), 49 percent owned by the Government, completed a $1.2 billion purchase of Aquitaine Co. of Canada from the French Government's Elf Aquitaine group. The arrangement will also give CDC ownership of Texasgulf Metals Corp., Toronto, the nonferrous arm of Texasgulf.

In addition to the previously noted congressional response to these measures, the U.S. Administration asked the Interior Department to review whether, under provisions for reciprocal treatment in the Mineral Lands Leasing Act of 1920 (MLLA), Canadian firms are entitled to mineral, oil, and gas leases on U.S. Federal lands. U.S. oil companies argued that the disparity of treatment between domestic and foreign firms in Canada justified loss of Canada's reciprocal status under the MLLA, which says that citizens of a country that denies similar privileges to U.S. corporations "shall not by stock ownership, stock holding, or stock control, own any interest in any lease acquired under the provisions of this act"—i.e., mineral leases on Federal lands. However, on February 3, 1982, the Interior Department released its finding that Canadian laws, customs, and regulations do not deny U.S. citizens or corporations the privilege of acquiring an interest in the mineral resources of Canada. In a statement issued by the department at the same time, Interior Secretary Watt said that "the United States Government is extremely concerned about the potentially discriminatory energy and investment policies that have been or might be adopted by Canada but, for the purposes of the department's review mandated under the Mineral Lands Leasing Act, Canada continues to be a reciprocal nation."

(c) Trade policy and the GATT: The original NEP requirements for the "use of Canadian goods and services in exploration, development, and production programs on the Canada Lands, and in major nonconventional oil projects" raised international concerns because of their inconsistency with

Canada's obligations under article III of the GATT. For the United States, such a "Buy Canada" policy would have had the effect of impairing the value of many significant tariff concessions made by the United States during the Tokyo round. Beginning in November 1980, the United States and Canada held several high-level bilateral consultations on this issue and in December 1980, the U.S. Government presented a diplomatic note to the Government of Canada detailing key U.S. concerns in trade, investment, and energy policy. In May 1981, the Canadian Energy Minister announced that Canada intended to modify its implementing legislation so that Canadian suppliers of goods and services would have a fair but competitive opportunity to share in procurement without at the same time discriminating against non-Canadian suppliers. Nevertheless, the United States is monitoring the system closely to insure that the Canadian practice does not result in trade discrimination.

Federal-Provincial Dispute.--The NEP has also met with strong opposition from some provincial governments, chiefly from the Government of Alberta. The impasse arose because the Federal and provincial Governments differed in their interpretation of how resource revenues should be managed. (In Canada, natural resources belong to the provinces, and because these resources are unequally distributed among provinces, so also are the increasing revenues from producing them.) Alberta and the other producing provinces wanted greater influence in pricing and taxation decisions to insure that they would receive what they regarded as a fair share of the revenues. These would be used to finance diversification of their economies so as to maintain their current prosperity when their petroleum resources are depleted. To realize this goal, Alberta and the other producing provinces proposed that wellhead prices should be allowed to rise toward world prices more quickly than the Federal Government wanted, with the benefits being distributed throughout the country through faster economic growth and job creation. In contrast, the Federal Government feared that the provincial proposition would result in a radical shift in economic activity from Eastern to Western Canada. Viewing itself as reponsible for managing the entire economy, the Federal Government sought, though the NEP, to provide a mechanism for distributing the benefits of Canada's petroleum resources among all Canadians. To do this, the Federal Government has held the wellhead producer price below the consumer price. In addition, it has imposed taxes on both production and consumption in order to raise revenues to meet its commitments to subsidize oil imports, to achieve equalization, and to pay exploration and development incentives. 1/

On September 1, 1981, following several years of discussion, the Government of Canada and the Government of the Province of Alberta signed a 5-year agreement on the pricing and taxation of Canada's energy resources. The essence of the agreement is a two-tier oil price. Although the new pricing policy will allocate resources more efficiently and provide more incentives than under the original NEP pricing plan, it still results in domestically produced oil subsidizing more expensive imported oil. Under the agreement, the wellhead price of "conventional old oil"--fields discovered in 1981 or before--would rise from C$18.75 a barrel to C$21.25 on October 1, 1981. 2/ A further increase was scheduled for January 1, 1982, and every 6 months thereafter until the wellhead price reaches C$57.75 a barrel in July 1986. The Federal Government estimates that this will be 75 percent of

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1/ Operation of the Trade Agreements Program, 32d Report, USITC Publication No. 1307, 1982.

2/ At the prevailing exchange rate, C$21.25 was equivalent to US$17.66. By comparison, world oil prices were about US$34 a barrel in September 1981.

international prices at the time, and the agreement specifies that the Canadian price will not be allowed to exceed that ratio. In addition, the agreement sets forth a new reference price that will apply to all new oil (conventional new oil in Alberta, synthetic oil, and oil from the Canada Lands in the north, northwest, and offshore) discovered after January 1, 1982. This reference price will increase twice yearly until it reaches $79.10 a barrel by July 1986. The aim is to increase the price of the new oil to 85 percent of world levels by 1985, but the agreement specifies that the price is not to exceed the international price.

The agreement also establishes a new formula for dividing the anticipated C$212.8 billion in energy revenues yielded by the new pricing policies. The Federal Government will impose higher taxes on oil and gas revenues, thereby increasing its share of the revenues from about 11 percent in 1979 to 25 percent (C$54.3 billion) over the next 5 years. However, because the Federal Government will allow more tax deductions, the industry's share, estimated at 45 percent or C$94.2 billion, will remain stable. The Province of Alberta will receive C$64.3 billion, decreasing its revenue share from 42 percent to 30 percent. However, Alberta won a major concession from the Federal Government: the Federal Government will drop its export tax on natural gas, which was intensely disliked in Alberta because it reduced the province's control over its resources.

Reaction of Canadian industry to the NEP.--When the NEP was announced in October 1980, Canadian oil companies held a 28-percent share of the industry. As a result of an aggressive campaign to acquire foreign-owned firms, this share had increased to 35 percent by the end of 1981. However, the pace of acquisitions had been slackening during the latter part of 1981, and it is expected to decrease further in 1982, mainly because companies have been reluctant to borrow at the prevailing high interest rates. In addition, during the final months of 1981 the Government was encouraging a slowdown in acquisitions in general to help relieve pressure on the Canadian dollar (worth about 83 cents in U.S. currency in the fourth quarter of 1981). About $6.5 billion in Canadian currency was spent to increase the level of Canadian ownership of its oil industry by 7 percentage points.

Many Canadian companies have reacted to the NEP's pricing and taxation policies by moving their operations to the United States. Of Canada's fleet of 434 active oil-drilling rigs, 214 left Canada for the United States during the first year of the NEP. For several reasons it is considered unlikely that these rigs will be returning to Canada in the near future. First, the industry has complained that its expected C$94.2 billion revenues over the next 5 years will be insufficient to stimulate exploration for new sources of energy ("new oil") in Canada. According to one multinational firm active in exploration in the Canada Lands, after tax profits on "old oil" will decrease by 30 percent because of the increased taxes under the pricing formula agreed to by Alberta and the Federal Government. Second, the after-tax profit on a barrel of oil is 3 to 5 times greater in the United States than in Canada. 1/ Third, transportation costs for moving a rig can exceed $200,000, making it extremely costly to move from one site to another. Finally, many of the rigs have been leased in the United States under long-term contracts.

1/ For more information on the reasons for this profit differential, see the 32nd report on the Operation of the Trade Agreements Program.

Canadian proposals on a "basic price" system in antidumping cases

In July 1980, the Canadian government circulated a discussion paper proposing, among other things, changes in Canada's procedures for carrying out antidumping and countervailing duty investigations. 1/ The legislation would shorten the time limits for various stages of antidumping and countervailing duty investigations, permit suspension of investigations upon acceptance of price undertakings, make antidumping and countervailing duty procedures parallel, and augment the criteria for determining injury. Also, the legislation establishes a "basic price system" when imports are being dumped by several suppliers from one or more countries and these imports are causing injury. Functioning as a minimum import price, the basic price is to be determined by the "lowest normal price" in any supplying country where normal conditions of competition appear. If imports are priced below the basic price, an antidumping duty equal to the difference between the basic price and the export price would be levied.

U.S. and Canadian officials discussed these proposals on several occasions, beginning in September 1980. In addition, the United States sent two aide-memoires to Canada in January and March 1981, which detailed U.S. concerns about the proposals. It was the position of the United States that certain of the provisions proposed for use in Canadian antidumping and countervailing duty proceedings would be inconsistent with Canada's international obligations under the Agreement on Interpretation and Application of articles VI, XVI, and XXIII of the GATT (the Subsidies Code) and the Agreement on Implementation of Article VI of the GATT (the Antidumping Code). Specific aspects of the Canadian proposal about which the United States is most concerned include the proposal for a basic price system, the shortened time frame for preliminary determinations in dumping investigations (which may increase the number of preliminary affirmative determinations and lead to high preliminary dumping margins), the lack of transparency in the procedures, and certain terminology which the United States believes Canada has defined in a manner significantly different from that intended by the subsidies and antidumping codes.

In June 1981, the Canadians attempted to address these concerns in an aide-memoire sent to the United States. In the aide-memoire, the Canadians expressed their belief that the Antidumping Code itself contains ambiguities with regard to basic price systems. The Canadians further indicated that they are actively participating in discussions with the GATT Antidumping Committee to work out a common interpretation of these ambiguities. In addition, the Canadians attempted to explain their rationale for shortening the time limit for certain segments of investigations, to detail how they are making their procedures more transparent, and to elaborate on their definitions of various terms.

However, the Canadian aide-memoire did not resolve the U.S. concerns, and the two sides have since held further discussions on this issue. In early 1982, the Canadians were still reworking their position.

1/ Ibid.

Canadian duty-remission schemes

The Canadian Government operates a number of duty-remission schemes open for use by firms that agree to meet certain performance requirements. Duty-remission schemes are available for automotive products, color televisions, front-end loaders, and pleasure cruisers. 1/ Also, a duty remission program is available that provides for a one-time waiver of duties to relieve a cash flow burden on manufacturers who intend to re-export, following additional processing, dutiable products imported into Canada. These manufacturers are permitted to post a bond in lieu of payment of duty when the value of further processing in Canada is small relative to the value of the duty, or when goods must remain in Canada for a considerable length of time before being re-exported. The objectives of these programs (which differ among programs) include stimulating exports, rationalizing domestic production, and providing financial relief to importers.

The Automobile Components Remission Order (1975) provides for a reduction in the value for duty of imported automobiles based on the fair market value of eligible parts in the country of destination. Only original-equipment automobile parts that return or could have returned to Canada in imported automobiles are eligible for remission purposes.

Because of the limitations of the Automobile Components Remission Order, an Expanded Remission Program was developed in 1978 and 1979. This program is designed to stimulate exports of automobile parts by making the remission of duty on vehicle imports an increasing function of the level of Canadian value-added in exports of both original equipment and replacement parts. Remission of duty is based on a "threshold" level, below which only a partial remission of duty is obtainable. Above the threshold, full remission is granted. The threshold level increases over time, thus providing an increasing stimulus to exports. Remission of duty may not be claimed on that portion of vehicle imports that exceeds the Canadian value added of the firm's parts exports. There is no link between the destination of parts exported and the origin of vehicles imported.

The first company to request a duty remission scheme under the Expanded Remission Program was Volkswagen of Canada Ltd., a subsidiary of Volkswagenwerk AG of West Germany. The request came soon after Volkswagen opened its first North American assembly plant in Pennsylvania in early 1978. It was signed on August 23, 1978. The program was substantially expanded on February 8, 1980, when agreements for duty remission schemes were signed with four more firms--Fiat, BMW, Mercedes-Benz, and Nissan.

On October 5, 1981, the Government of Canada and Volkswagen concluded a new duty remission agreement that will substantially improve market access for Volkswagen over its 1978 agreement with the Canadian Government. Under the agreement, Canada will waive its 12.8-percent import duty on Volkswagen automobiles produced both in the United States and elsewhere. In return, Volkswagen has agreed to establish an automotive parts production plant in Canada and to increase its purchases from independent Canadian parts suppliers. Volkswagen received a grant of $9.2 million (Canadian) from the

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1/ The duty remission scheme for color televisions was scheduled to expire on Dec. 31, 1981.

Ontario government to assist in the parts plant start-up costs. The plant is expected to come onstream by August 1, 1983. During plant construction, the 1978 duty remission agreement will be amended so that Volkswagen will be allowed to import duty-free assembled automobiles whose value is equivalent to the Canadian value added in Volkswagen parts exported. When the Volkswagen parts facility becomes operational, Volkswagen's imports into Canada of automobiles and light duty trucks from the United States and elsewhere will be accorded duty-free entry provided that the company meets specified levels of Canadian value added as a percentage of the cost of its sales in Canada of automobiles and light duty trucks.

The United States is concerned about this agreement because it establishes a new mechanism affecting bilateral automotive products trade that is outside the framework of the 1965 Automotive Products Trade Agreement (APTA), 1/ and because it has the potential for displacing sales of U.S. parts manufacturers. Furthermore, the United States is concerned that the Volkswagen arrangement could be a precedent for future agreements with other foreign automotive manufacturers that establish assembly operations in the United States. Because this would place an increasing portion of bilateral automotive trade outside the APTA, it could erode the APTA and U.S. benefits arising from Canada's international obligations.

Also the U.S. Government has periodically expressed its concern to the Canadian government that its duty-remission schemes appear to be an export subsidy in violation of paragraph (i) of the subsidies codes' illustrative list of export subsidies. This paragraph lists as a subsidy: "The remission or drawback of import charges in excess of those levied on imported goods that are physically incorporated (making normal allowance for waste) in the exported product . . . ."

Takeover of Asbestos Corp.

In an effort to exercise greater control over its asbestos resources, the Quebec Government decided in 1978 to take over Quebec's second-largest asbestos-mining company, Asbestos Corp.. 2/ This company, which is 54.6 percent owned by General Dynamics Corp. of the United States, was selected for government acquisition because it is the only company engaged solely in asbestos mining and the only one that is not tied to processing operations outside Quebec.

Quebec, which has 40 percent of the world's asbestos reserves, has five foreign-controlled companies operating in the asbestos field. The provincial government has been concerned that these companies have done little except to mine the asbestos and to send it elsewhere for processing. By assuming a direct role in the industry, the government seeks to expand local processing of asbestos in Quebec and thereby to increase jobs.

Originally, the Quebec government planned to buy out the U.S. share of the company. General Dynamics was not interested in selling and argued that the sale would not create any jobs. This prompted the Quebec government to introduce a bill on December 15, 1978, empowering it to expropriate most of

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1/ For background information on the APTA, see the section entitled "The United States-Canada Automotive Agreement" in ch. 5 of this report.
2/ The largest producer is Johns-Manville, Inc., also U.S.-controlled.

the assets of Asbestos Corp. The bill, passed in June 1979, left General Dynamics with the option to sell, and the U.S. company conceded that it would rather sell at a negotiated fair price that at one set unilaterally by the Province of Quebec.

For a time, the two sides negotiated on a fair price, but the talks broke down in late 1979 with the two parties far apart on terms. The Quebec government offered $42 (Canadian) per share on the basis of a formula incorporating a basic price and the expected increase in profits by Asbestos Corp. during the next 20 years. General Dynamics rejected this offer, demanding $99.75 (Canadian) per share.

While the two sides negotiated on price, however, General Dynamics brought suit in a Quebec court challenging the constitutionality of Quebec's expropriation law. On May 26, 1980, the Quebec Superior Court announced that it upheld the constitutionality of Quebec's laws giving the province the power to expropriate the assets of Asbestos Corp. The company appealed the lower court judgment, but the Quebec Court of Appeal rejected its appeal on March 5, 1981. The court also canceled a 1979 injunction that prevented any provincial takeover until a final court ruling. The company then asked the Supreme Court of Canada for permission to appeal the judgment, but was denied.

On March 31, 1981, General Dynamics indicated that it was prepared to negotiate the sale of the Asbestos Corp. and avoid expropriation of its majority interest in the company by the government of Quebec. However, when the talks had failed to produce an agreement by October 1981, the Quebec government threatened to expropriate the company's Quebec assets on November 30 if no agreement had been reached by that time.

On November 9, 1981, the two sides announced a compromise agreement. Under the agreement, the Quebec government will purchase for $16 million (Canadian) 51 percent of the voting shares of General Dynamics Canada Ltd. 1/ The agreement does not give the provincial government any equity in Asbestos Corp., but provides it with an option to buy, in a separate transaction at the end of 5 years, the 1.6 million shares of Asbestos Corp. now held by General Dynamics Canada. Also, the agreement stipulates that after 2 years from the date of the agreement and up to 90 days before the end of 5 years, General Dynamics can sell its remaining shares of General Dynamic Canada Ltd. to the Quebec government for $42 per share, increased by 16 percent interest compounded annually. If General Dynamics does not sell to the Quebec government within 5 years, the government can exercise its option to buy all the remaining shares at $42 a share plus 17 percent annual interest. In the event that both parties decide to carry on with their association following the original 5-year period, the U.S. parent company and the government of Quebec will then have a right of first refusal, should the other party wish to sell its stock interest in General Dynamics Canada Ltd.

Both General Dynamics and the Quebec government expressed pleasure with the agreement. The government's price is generally considered to be reasonable since markets for asbestos have been depressed over the past 2 years owing to the world economic slump and concern about asbestos-related diseases. However, some observers have warned that there may be some negative impact on investment in Canada, given the fact that the agreement was worked out under the threat of expropriation.

1/ General Dynamics Canada Ltd. is the wholly owned subsidiary of the General Dynamics Corp. that holds 54.6 percent of the Asbestos Corp. stock.

Border industries

A number of small U.S. industries located near the U.S.-Canadian border have expressed concern that they are being injured by increasing imports fromCanada. These industries, which include lumber, potatoes, fish, and maple syrup, have agreed that the problem of increased imports from Canada begins with the exchange rate--the Canadian dollar is worth about 83 U.S. cents. However, they charge that Canadian success in penetrating the U.S. market has been increased by the large number of subsidies the Canadian government provides. Moreover, these industries have stated that their weak financial positions have precluded them from seeking redress through the various channels available to assist damaged U.S. industries under U.S. trade legislation.

On November 17, 1981, the Senate Subcommittee on Oversight of Government Management held a hearing on Canadian trade policies that adversely affect small U.S. businesses located in border states and on the U.S. Government response to these policies. Witnesses from the wood products, potato, fish, and maple syrup industries urged the subcommittee to consider restricting imports that are damaging small U.S. agricultural producers and other small domestic businesses.

On December 16, 1981, following the receipt of requests from the Committee on Finance of the U.S. Senate and the Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives, the Commission instituted an investigation under section 332 of the Tariff Act of 1930. 1/ The study focused on conditions relating to the importation of Canadian softwood lumber into the United States, as well as the competitive status of the U.S. and Canadian softwood lumber industries. 2/

Lumber.--In 1981, the U.S. lumber industry experienced a serious slowdown, as residential housing construction declined sharply starting in late 1979 in the face of high interest rates. U.S. consumption of softwood lumber was 29.8 billion board feet in 1981, 6 percent below 1980 consumption, and well below 1978 when consumption peaked at 41.2 billion board feet.

Canada supplies virtually all U.S. softwood lumber imports. The ratio of imports to apparent U.S. consumption has increased markedly in recent years--from 18.7 percent in 1975 to 30.3 percent in 1981. U.S. producers contend that this increase in the import/consumption ratio has exacerbated the industry's economic difficulties. They further maintain that Canada has been successful in penetrating the U.S. market because it enjoys a substantial price advantage. Of particular concern to U.S. producers is the fact that stumpage fees for lumber from provincial lands are assessed on a noncompetitive basis at rates below the price that U.S. independent producers pay through competitive bidding for timber on U.S. National Forests. In

1/ Investigation No. 332-134: Conditions relating to the Importation of Softwood Lumber into the United States, USITC Publication 1241, April 1982.

2/ On March 15, 1982, the Comission received a letter from the United States Trade Representative requesting that the Commission institute a section 332 study to investigate the competitive conditions affecting the potato industry in the State of Maine.

addition, they claim that Canada enjoys lower energy costs, cheaper transcontinental rail costs, and cheaper water-borne shipping to the U.S. east coast. However, one of the most significant problems facing U.S. producers in dealing with this issue is that many of the major U.S. forest products companies also have manufacturing operations in Canada, and these companies are benefiting directly from the difference in the price of standing timber in the United States and in Canada.

Canadian producers, concerned about mounting pressures in the United States to restrict exports of Canadian forest products, assert that stumpage rates in Canada and the United States cannot be directly compared. In addition, they emphasize that, like their U.S. counterparts, they have been severely affected by the current economic downturn in the industry and have suffered production curtailments, plant closures, and layoffs. Canadian production of softwood lumber was 16.4 billion board feet in 1981, compared with an average 17.7 billion board feet during 1977-81.

Potatoes.--The United States and Canada have for years engaged in a substantial amount of two-way trade in potatoes. During 1971-81, the value of two-way trade in certified seed and tablestock potatoes increased from nearly $11 million to over $37 million. In general, the United States exports potatoes from Idaho, Montana, and Washington to western Canada while importing potatoes from the Maritime Provinces into the eastern United States. Although the United States generally has had a trade in potatoes, the surplus has been decreasing in recent years, as competition from Canadian seed potatoes has become increasingly intensive, especially in the northeastern markets traditionally served by Maine potato growers. 1/ Canadian success in penetrating the U.S. market has been attributable, at least in part, to an intensive program, supported by the Canadian government, to improve the certification and quality of seed potatoes, and to a favorable exchange rate for the Canadian dollar.

A major point of contention is that the United States maintains two tariff-rate quotas for potatoes: tablestock (45 million pounds) and seed stock (114 million pounds). Seed and tablestock potatoes are indistinguishable. Thus, once the tablestock quota is filled, tablestock imports tend to enter the United States under the seed quota, thereby allowing importers to avoid paying the higher over-quota duty rate. Maine potato producers also complain that the United States negotiated too low a duty on potatoes during the Tokyo round.

In November 1981, the State of Maine proposed to implement restrictions on the importation and transit of seed potatoes through the State. The proposed regulations would have required importers to obtain import licenses and transit permits, as well as to pay substantial fees for inspection and the sealing and unsealing of individual shipments. Ostensibly, these restrictions would have protected the quality of Maine's seed potato stock.

The Canadian government strongly protested the proposed action, pointing out that it would have a serious adverse effect on the Canadian seed potato

1/ On a quantity basis, the United States sustained a deficit for the first time in 1980 in its bilateral potato trade with Canada. U.S. exports to Canada in 1981 were 2.8 million hundredweight, compared with imports of 3.9 million hundredweight.

trade and charging that it was in violation of U.S. international obligations. For these reasons, the Canadian government requested that the United States take all necessary and appropriate measures to insure that Maine's proposed regulation would not be imposed. The U.S. Government was also concerned that Maine's proposed action raised serious questions regarding U.S. compliance with articles III and VIII of the GATT and with the Standards Code. 1/ In addition, the U.S. Government objected that Maine's proposed regulations unlawfully discriminated against interstate and foreign commerce in violation of the Interstate Commerce Clause of the U.S. Constitution. In December, the U.S. Department of Justice requested and won a preliminary injunction from the United States District Court in Portland, Maine, preventing enforcement of the regulations. A final decision on the case is not due until the spring of 1982.

Fisheries: East Coast dispute.--U.S. and Canadian extension of fishery jurisdiction to 200 miles in 1977 resulted in the creation of four overlapping maritime boundaries (two in the Pacific, one in the Arctic, and one in the Gulf of Maine area of the Atlantic), none of which had been resolved by agreement at the end of 1981. The most seriously disputed of these boundaries is the one in the Atlantic, which includes the northeastern portion of Georges Bank, and is of interest both for its rich fisheries and for its hydrocarbon potential. After difficult negotiations on the East Coast boundary and related fishery and mineral resources, Canada and the United States signed two linked treaties in March 1979. One of these treaties was a fisheries agreement covering stocks in the disputed boundary area as well as other stocks. The agreement would have established a joint fisheries commission to implement the agreement and to provide for cooperative management of fish stocks of mutual interest. Provisions were established for allocating shares of cod, haddock, pollock, and certain other stocks, including redfish off Nova Scotia and loligo squid off the United States.

The other treaty, a boundary treaty, provided for settlement of the boundary dispute by referral to a special chamber of the International Court of Justice. The boundary settlement and fisheries treaties were expressly linked, and neither could enter into force until the instruments of ratification for both had been exchanged. The fisheries treaty was ratified by the Canadian government soon after it was signed, but in the United States there was stiff opposition, particularly from Senator Claiborne Pell of Rhode Island and Senator Edward Kennedy of Massachusetts. Soon after his inauguration, President Reagan determined that the fisheries treaty, which had been stalled in the Congress for nearly 2 years, had no chance of Senate approval. Therefore, on March 6, 1981, he wrote Chairman Percy of the Foreign Relations Committee asking that the Committee move expeditiously on the boundary treaty and return to him the fisheries agreement. On April 29, 1982, the Senate voted 91 to 0 to approve the boundary treaty with Canada (with a

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1/ Art. III embodies the general principle that internal charges and other laws and regulations shall not be applied in such a manner as to afford protection to domestic production. Art. VIII says that fees and charges, other than customs duties and certain internal taxes, imposed in connection with importation or exportation shall be limited in amount to the approximate cost of services rendered and shall not represent indirect protection. The Standards Code provides that generally standards shall be applied to imported products in a manner no less favorable than that in which they are applied to the domestic products.

modification allowing it to enter into force without reference to the fisheries agreement) with the provision that the International Court of Justice be asked to settle the dispute. The treaty was ratified by both Canada and the United States, and it entered into force on November 20, 1981. On January 20, 1982, pursuant to the boundary treaty, the Court constituted a special chamber to hear the boundary case. The Court proceedings are expected to last for about 2 years. Both countries will be bound by the result.

In the meantime, fishermen of both countries are fishing in the disputed area. Each country regulates its own fishermen and does not enforce its laws against fishermen of the other country.

Fisheries: West Coast dispute.--On August 31, 1979, the U.S. Government imposed an embargo on imports of tuna and tuna products from Canada. This action was taken pursuant to section 205 of the Fishery Conservation and Management Act. Under this law, imposition of an embargo is required if the Secretary of State determines that a U.S. fishing vessel has been seized in a jurisdiction claimed by another country, but which claim the United States does not recognize. This particular U.S. prohibition was taken after Canada, in August and September 1979, seized 19 U.S.-flag vessels that were fishing for albacore tuna, a highly migratory species of tuna, off the coast of British Columbia. The United States had contended that fishing rights for highly migratory species of tuna should be under international management.

In January 1980, Canada told the GATT Council that bilateral consultations on this matter had failed to produce a satisfactory solution. Since Canada considered the U.S. action against Canada to be contrary to the obligations of the United States under the GATT and to have impaired benefits accruing to Canada under the GATT, it requested the establishment of a panel under article XXIII:2 to examine the compatibility of the U.S. restrictions with the General Agreement. 1/ The Council agreed to set up a panel, which examined the issue.

On July 29, 1981, the United States and Canada signed a treaty ending their 2-year dispute over tuna fishing rights in the Pacific Ocean. Under the treaty, Canadian and U.S. ships have free and unlimited access to albacore tuna in the other country's territorial waters. In addition, they can sell their catches in either Canadian or U.S. ports.

Maple syrup.--The U.S. maple syrup industry experienced problems in 1981 owing to unusually heavy production coupled with a 24-percent increase in the quantity of imported maple syrup from Canada. 2/ Much of the increase in imports is attributable to the growing exchange-rate differential, which gives Canada a price advantage. The unit value of imports from Canada decreased from $1.12 per pound in 1980 to $1.06 per pound in 1981. However, the industry believes that in addition to the exchange rate burden, the fact that

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1/ For more information on the GATT dispute, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, p. 43. Also see ch. 2 of this report.

2/ The United States imported 11.5 million pounds of maple syrup from Canada in 1981, compared with 9.3 million pounds in 1980 and an average of 9.4 million pounds during 1976-80. Canada supplies virtually all U.S. maple syrup imports.

alleged subsidies and interest-free loans provided by the Canadian Government to its maple syrup producers has given Canadian producers an unfair advantage.

In search of relief from increased maple syrup imports from Canada, the Vermont Maple Sugar Makers' Association decided on October 14, 1981 to file a petition with the International Trade Commission under section 201 of the Trade Act of 1974. However, no petition was filed before yearend.

Transborder data flows

The United States has been watching with interest the evolution of Canada's policy with respect to transborder data flows. The only legislation Canada currently has in place directly affecting transborder data flows is its Bank Act, which was adopted in December 1980. 1/ Section 157 of the Bank Act requires banks to process in Canada all data that might be required by banking inspectors or regulators. In practice, this would mean that all bank data would have to be processed in Canada. However, banks are generally free to transmit outside of Canada data needed by their home office or other banking authorities. Section 174(2)(j) prohibits all banks, domestic and foreign, from providing data processing services other than those that are banking related. This has been interpreted as limiting data processing activities by banks to routine activities such as check clearing, settlements, payroll, and deposit and loan accounts. Section 302 forbids banks not located in Canada from operating automatic teller machines or automatic data transmission machines in Canada.

It is uncertain, at present, whether these restrictions portend a general trend in Canada toward restricting transborder data flows. The Canadians have indicated that their general policy is not so much to restrict foreign producers operating in Canada, as it is to insure that Canada develops a competitive data services industry. The Canadians have also indicated in several studies and speeches that they recognize the need to cooperate with the United States and other countries to formulate policies to regulate transborder data flows.

U.S./Canada border broadcasting dispute

The U.S/Canada border broadcasting dispute began in 1976 when Canada enacted legislation (Bill C-58) to deny Canadian businesses a tax deduction for advertising purchased on U.S. television and radio stations if the advertising is aimed at a Canadian audience. Efforts to persuade Canada to modify or repeal the law have been unsuccessful.

In 1978, 15 affected U.S. border broadcasting stations filed a petition under section 301 of the Trade Act of 1974. Section 301 is one of the few legal mechanisms that U.S. exporters of services can invoke to gain relief from foreign trade practices. 2/ On August 1, 1980, President Carter

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1/ For more information on the Bank Act, see the 32nd report on the Operation of the Trade Agreements Program.

2/ Sec. 301 authorizes the President to take all appropriate and feasible action within his power to obtain the elimination of unjustifiable, unreasonable, or discriminatory foreign trade practices that burden or restrict U.S. commerce.

determined that the Canadian practice is unreasonable within the meaning of section 301. He said "the law, in effect, places the cost of attaining its objectives on U.S. companies and thus unreasonably and unnecessarily burdens and restricts U.S. commerce." He, therefore, proposed tax legislation to the Congress that would mirror the Canadian law (House Doc. N. 96-369, Sept. 9, 1980). However, the 96th Congress adjourned without acting on the President's proposal. 1/

On November 17, 1981, President Reagan sent a message to the Congress recommending similar mirror image legislation to that proposed by President Carter as an appropriate response to the Canadian practice. The legislation would amend the Internal Revenue Code to deny a tax deduction for expenses of advertisements placed with a foreign broadcast undertaking and directed primarily at a market in the United States. This restriction would apply only if the laws of the country in which such foreign broadcast undertaking is located deny a similar deduction to advertisers in that country. It would, therefore, be applicable to Canada. However, should Canada repeal its discriminatory law, the U.S. restriction would cease to apply to Canada. In his message to Congress, the President stated that "the intent of such legislation is not to erect new barriers to trade, but rather to encourage the Canadians to eliminate their unreasonable and restrictive practice."

Legislation to implement the President's recommendation was introduced in the House of Representatives on December 14, 1981 by Representative Barber B. Conable (H.R. 5205) and in the Senate on February 2, 1982 by Senator John C. Danforth. As the first section 301 service sector case in which the President has recommended a reciprocal response, the border broadcast case is being closely watched by U.S. service industry exporters.

Japan

The economic situation in 1981

Stunted by weak domestic demand, and despite strong exports during most of the year, the Japanese economy grew only 2.9 percent in 1981, down from 4.2 percent in 1980. Japan's 1981 GNP was $1,127 billion.

Oil price increases during 1979 and 1980 led Japan to take strong anti-inflation measures and caused serious damage to some sectors of Japan's economy. Wage increases for Japanese workers were kept to a minimum in 1980 and 1981, leading to a decline in real income for Japanese workers. 2/ As a result, even though business investment showed some growth, weak domestic demand lingered and hampered Japan's economic recovery during 1981. For the year as a whole, consumer spending was virtually flat (rising 0.6 percent), housing construction showed a small drop (-1.0 percent), business fixed investment rose slightly (1.6 percent), and exports rose strongly (18 percent).

1/ For more information on the background of this dispute, Operations of the Trade Agreements Program, 31st Report, USITC Publication 1121, p. 18.

2/ Japan's income tax structure has not been changed since 1977. As nominal wages have risen, Japanese workers have been pushed into higher tax brackets ("bracket creep"), increasing individual tax burdens and reducing real income. So even though the Japanese workers' wage increase in 1981--7.7 percent--was above inflation rates, real income to workers still declined.

For the past several years, export growth has sustained the Japanese economy, making up for weak domestic demand and high oil prices. Japan experienced strong export growth during January-June 1981, but after midyear export growth diminished, with sharp dips in August and November. Then, in January 1982, Japan's exports fell 28 percent from December 1981 levels. 1/ Reflecting diminished foreign demand for Japanese goods, Japan's GNP fell in October-December 1981 at an annualized rate of 3.5 percent. Official Japanese forecasts for real GNP growth in fiscal 1981 (ending March 1982) were dropped to 4.1 percent. 2/

The bright spot in Japan's economic performance during 1981 was the great progress made in reducing inflation. Consumer prices rose only 4.9 percent in 1981, compared with 8 percent in 1980. Wholesale prices increased only 1.7 percent in 1981, down from a high 17.8 percent in 1980. The low inflation rates were especially remarkable in view of the weak yen, which tends to raise the yen prices of imported goods. The inflationary impact of the low-valued yen was countered during 1981 by flat domestic demand and stable prices for oil and other commodities.

The weak Japanese yen was often cited as the root cause of Japan's recent large trade surpluses with the United States and Europe. Japan said high U.S. interest rates weakened the value of the yen relative to the dollar.

During 1981, the value of the yen reached a high point of 200 yen per dollar early in the year, but then declined steadily until midyear, reaching a low point of 246 yen per dollar. The yen then began to appreciate as Japan's current account surplus grew larger and U.S. interest rates declined, reaching about 220 yen per dollar by yearend. But by early 1982, the yen was trading at about 230 yen per dollar.

Toward yearend, the Japanese Government attempted to improve economic conditions. Japan took steps to stimulate domestic demand, announcing plans to increase public works expenditures (especially in hard-hit regions) and to form "recession cartels" to help with restructuring depressed industries (aluminum, paper and pulp, petrochemicals, and oil refining). 3/ As depressed conditions continued, on December 11, 1981, the Bank of Japan lowered the official discount rate by 0.75 percent to 5.5 percent. In addition, some tax incentives and measures to increase the availability of government-subsidized mortgage financing were announced for Fiscal Year 1982.

Forecasters predicted that Japan's economic growth in 1982 will have to rely more on domestic demand and less on external demand, in view of slumping overseas economies and protectionist pressures. Observers believe that stronger measures, perhaps an income tax cut, will be needed to help domestic demand recover strongly.

1/ The Bank of Japan attributed the decline in exports to sluggish economic activity in the United States and Europe and a deterioration in the foreign exchange position of developing countries.

2/ In view of yearend conditions, observers reported that another downward revision was expected.

3/ In 1978, the Japanese Government passed legislation designed to promote recovery of certain depressed industries. The new legislation allowed smaller firms to combine to form more efficient, larger firms (often termed "recession cartels") while phasing out inefficient production capacity.

Unfortunately, Japan's scope for using fiscal and monetary measures to strengthen domestic demand is limited. The Japanese Government has a large budget deficit, amounting to about 7.8 percent of GNP in 1981 (as opposed to 2.7 percent of GNP for the United States). This limits the possibility of tax cuts and increased Government spending. Alternately, adopting a more expansionist monetary policy and further reducing Japanese interest rates when other countries' rates are so high could weaken the yen relative to currencies of major trading partners, leading to an even stronger export performance, weaker imports, and an intensification of trade frictions. Japan is already receiving criticism in the United States and Europe for not taking stronger measures to prop up the sagging yen.

International performance

Balance of payments.--After showing large current account deficits in 1979 and 1980, Japan recorded a current account balance surplus of $4.7 billion in 1981. This was due to a large increase in exports (up 18 percent in 1981) and weak import growth. The slow growth in imports, which increased only 4 percent during the year, reflected Japanese efforts at energy conservation, stable prices for oil and other commodities, and weak consumer demand in Japan.

In January 1982, reflecting falling exports (see above), Japan's current account dipped to a deficit of nearly $2 billion. If this trend continues and strong export growth cannot be relied upon to sustain Japan's economy in 1982, a substantial current account deficit may result.

Merchandise trade with major trading partners.--Japan's imports grew only 1 percent to $143 billion in 1981, which was down from an increase of nearly 30 percent in 1980. The low rate of import growth in 1981 was due to stable oil prices and energy conservation, as well as weak consumer demand. Japanese imports from oil exporting countries fell 2.5 percent during the year; oil price increases had accounted for about 70 percent of the 1980 import increase. Japan's imports from the United States increased only 3 percent in 1981 after growing 21 percent the previous year.

Japanese exports increased 16 percent in 1981, reaching almost $152 billion by yearend, about half the nearly 30 percent rate of increase in 1980. However, the 1981 increase was not offset by import increases, as occurred in 1980. The weak yen contributed to strong Japanese exports in 1981. Japanese exports to the United States grew 22 percent in 1981.

Low growth of Japanese imports and strong export growth in 1981 caused Japan's merchandise trade balance to change from a deficit of $10.8 billion in 1980 to a surplus of $8.6 billion in 1981. The Japanese trade surplus with the United States in 1981 grew 85 percent to almost $14 billion, leading to serious strains in economic relations between Japan and the United States.

Major U.S. exports to Japan in 1981 were corn, coal, soybeans, airplanes, wheat, cotton, grain sorghum, logs, and natural gas. Top 1981 U.S. imports from Japan were motor vehicles, tape recorders, steel products, photocopy machines, and cameras.

Table 14.--Japan: imports, exports, and trade balance for selected countries and country groups, 1979-81

(In millions of U.S. dollars)

Country/region	1979	1980	1981
	Imports		
Industrial countries:			
EC	7,598	7,911	8,566
Canada	4,074	4,752	4,449
United States	20,313	24,567	25,275
Other	9,296	10,240	11,080
Subtotal	41,281	47,470	49,370
Developing countries:			
Oil-exporting countries	37,330	58,220	56,769
Mexico	479	939	1,435
Other	22,755	25,400	24,878
Subtotal	60,564	84,559	83,082
Nonmarket economies:			
China	2,933	4,346	5,283
U.S.S.R	1,895	1,873	2,020
Other	627	670	559
Subtotal	5,455	6,889	7,862
Total 1/	109,833	141,284	142,868
	Exports		
Industrial countries:			
EC	13,346	17,286	18,834
Canada	1,725	2,449	3,387
United States	26,452	31,910	38,883
Other	5,174	7,479	9,179
Subtotal	46,697	59,124	70,283
Developing countries:			
Oil-exporting countries	13,244	18,582	22,933
Mexico	835	1,228	1,699
Other	28,084	34,992	39,078
Subtotal	42,163	54,802	63,710
Nonmarket economies:			
China	3,674	5,109	5,076
U.S.S.R	2,443	2,796	3,253
Other	1,350	1,555	1,392
Subtotal	7,467	9,460	9,721
Total 1/	102,293	130,435	151,500

1/ See footnote at end of table.

Table 14.--Japan: Imports, exports, and trade balance for selected countries and country groups, 1979-81--Continued

(In millions of U.S. dollars)

Country/region	1979	1980	1981
	Trade balance		
Industrial countries:			
EC	5,748	9,375	10,268
Canada	-2,349	-2,303	-1,062
United States	6,139	7,343	13,608
Other	-4,122	-2,761	-1,901
Subtotal	5,416	11,654	20,913
Developing countries:			
Oil-exporting countries	-24,086	-39,638	-33,836
Mexico	356	289	264
Other	5,329	9,592	14,200
Subtotal	-18,401	-29,757	-19,372
Nonmarket economy countries:			
China	741	763	-207
U.S.S.R	548	923	1,233
Other	723	885	833
Subtotal	2,012	2,571	1,859
Total 1/	-7,540	-10,849	8,632

1/ Total imports and exports are International Monetary Fund estimates; subtotals do not add up to listed totals, because totals include special categories.

Source: Direction of Trade Statistics Yearbook, 1982, International Monetary Fund.

Major policy developments affecting trade

Japan's measures to liberalize trade.—On July 14, 1981, responding to insistent complaints from major trading partners, Japanese Minister of International Trade and Industry Tanaka committed Japan to a policy of "implementing its economic growth mainly through expansion of domestic demand, further promoting the open trade system, and stimulating the import of manufactured goods." He also pledged that Japan would support foreign efforts to sell in Japan's markets and suggested that more industrial cooperation would be sought.

On December 16, Japan adopted a five-point program designed to ease trade frictions and to answer foreign complaints about trade barriers. Observers said most of the measures were described in such general terms that it was impossible to determine what effect they would have on trade. The following measures were included in the package:

-Import testing procedures and other standards problems: Japan promised to put together a package to deal with these nontariff barrier problems by the end of January 1982 (see below).

-Import restrictions: Japan promised to review its 27 remaining import quotas (mostly agricultural and leather items), and to accelerate Multilateral Trade Negotiations duty reductions. What action would result from review of quotas was uncertain, due to the strong support in Japan for limiting imports of some products. However, Japan did announce on December 21 that it had decided to move up to April 1, 1982, the Tokyo round tariff reductions that had been scheduled for 1983 and 1984.

-Stockpiling: Japan said it would stockpile oil, rare metals, and foreign grain. Some of the foreign grain would be used for food aid.

-Export policy: Japan said it would tell exporters to avoid surges of sensitive products.

-Industrial cooperation: Japan promised to promote industrial cooperation with other countries "in such forms as exchange of investment, technology exchange, joint technology research and development, cooperation in third country markets, etc."

On January 30, 1982, Japan released the package of measures to reduce nontariff barriers mentioned in the December announcement. The package claimed to contain action on 67 of 99 complaints about nontariff barriers that Japan has received from trading partners. The announced measures principally involve Japanese standards, testing and certification procedures, and customs practices. Specific products mentioned in the package included athletic equipment, chemicals, cosmetics, electrical appliances, medical devices, pharmaceuticals, and processed foods.

On February 16-18, trade officials of Japan and the United States met for a comprehensive review of the Japanese package. Based on these talks, the Commerce Department made the following assessment of the measures in the package, as reported in Business America, March 22, 1982:

> Overall, only about 10 percent of the . . . measures represent changes that will be made soon. An additional 10 percent are of potential benefit, but depend on Japanese implementation some time in the future. The remaining 80 percent have either been implemented in the past or are of no importance to U.S. trade interests.

However, the January 30 package also announced creation of a Japanese Trade Ombudsman's office to provide improved, centralized handling of trade-related complaints, and included measures to improve Japanese customs procedures. U.S. officials said these measures might be very helpful in resolving trade problems.

In response to Japanese trade measures during 1981, U.S. officials repeatedly stressed that the steps taken were "in the right direction," but that much more liberalization was needed before the United States had the same access to Japanese markets that Japan has to U.S. markets. They said that measures taken so far are really barely a start, and urged that substantial steps be taken by mid-1982. 1/

Economic sources report that removing Japanese trade barriers would have little or no impact on Japan's trade surplus in the near term. Reportedly, the only actions that would increase Japan's imports significantly would be strong measures to raise the value of the yen (attempts to do this would be hampered by high U.S. interest rates) and measures to stimulate Japanese domestic demand.

New rules for foreign banks.--Under Japan's new banking law, passed by the Japanese Government on May 25, 1981, foreign banks will be given about the same treatment as domestic banks for the first time. Japan's old banking law contained no provisions for supervising foreign banks, only a licensing requirement; foreign banks were governed without a legal framework by Japanese Ministry of Finance (MOF) officials. The move to codify rules for foreign banks was prompted by complaints by foreign banks that they have been forced to operate at a competitive disadvantage relative to Japanese banks.

1/ In early 1982, Japan was reportedly putting together another package of measures, to be released about mid-year. Observers reported that strong factions in Japan oppose many of these measures, and stressed that the Japanese Government would find it very difficult to put them into effect. Some of the measures being considered were:

- Relaxation or elimination of residual import restrictions on agricultural products.
- Liberalization of regulations governing banking, insurance, and security transactions.
- Stimulation of domestic demand through issuance of additional amounts of public construction bonds.

The new rules contain restrictions as well as benefits for foreign banks. Like Japanese banks, foreign banks will be required to set aside large amounts of reserves. Also, loans to any one borrower will be limited to 20 percent of a bank's equity and reserves—with the bank's total capital, not just that of its branches in Japan, used to calculate this limit.

Foreign banks will be allowed to establish additional branches and to buy existing branches of Japanese banks. In addition, they will be able to establish local subsidiaries in Japan. 1/ One "privilege" allowed Japanese domestic banks—being compelled to buy new issues of Japanese government bonds when told to by the MOF—will not be required of foreign banks.

Bilateral issues and policy developments

Japan's trade surplus with the United States: underlying factors.—Conflict over Japan's large surplus in merchandise trade with the United States in 1981 resulted from the way each country views the causes of the trade imbalance. Japan said economic conditions, not trade barriers, caused Japan's trade surplus. The weak yen, recent sluggish Japanese consumer spending, and productivity differences between Japan and the United States were cited as major factors. 2/ "The failure of U.S. exporters to work hard enough to understand the Japanese market," some said, was also a factor. 3/ Japan claimed that high U.S. interest rates caused yen weakness, but some observers have said that Japan's Ministry of Finance (MOF) enforces banking practices that have prevented the yen from reflecting the strength of Japan's trade performance. 4/

U.S. trade officials have claimed that the main cause of the imbalance is unfair trading practices used by Japan. They have asserted that U.S. exporters do not have the same access to the Japanese market that Japan's manufacturers have to U.S. markets. Many U.S. officials and businessmen claimed that Japan has blocked entry of U.S. products with a formidable array of nontariff barriers, including Japanese standards and testing requirements, government procurement practices, customs procedures, the Japanese distribution system, and a "buy-national" attitude held by Japanese consumers. On the basis of its view of the causes for the trade imbalance, the United States made strong requests to Japan to improve market access for U.S. products in 1981.

1/ Japanese Finance Ministry officials reportedly speculated that foreign banks might hesitate to establish Japanese subsidiaries because (1) they would be in a much more disadvantageous position than being a branch in terms of funding of foreign currencies, and (2) the subsidiary's lending to any one borrower would be limited to 20 percent of the subsidiary's equity and reserves (instead of the combined equity and reserves of the branch and head office).

2/ The "Wisemen's Group" (see later section on the Japan-United States Economic Relations Group) agrees with the Japanese view that eliminating trade barriers would not significantly affect the trade balance under current economic conditions.

3/ JEI Report, No. 7A, Feb. 19, 1982, p. 3.

4/ JEI Report, No. 9A, March 5, 1982, p. 8. The article quoted a description of the MOF as a "one-ministry nontariff barrier."

U.S. market access shopping lists and reciprocity legislation.--In 1981 and early 1982, the United States presented Japan with lists of Japanese trade impediments that block access to Japanese markets for U.S. products and requested that Japan act to remove the trade barriers. U.S. officials said that if Japan failed to remove impediments to U.S. trade, protectionist pressures in the United States would build, and the U.S. Congress might pass so-called "reciprocity" legislation that could limit Japanese access to U.S. markets.

Before trade discussions in December 1981, the United States presented Japan with "market-access shopping lists" covering a wide range of trade issues. The lists included both tariff and nontariff barriers. U.S. officials requested greater access to Japanese markets for a number of items, including computers, plywood, leather, auto parts, and agricultural products. The nontariff list included requests for Japanese action to streamline customs procedures, to resolve a large number of problems related to Japanese standards for imported products, 1/ and to remove quotas on beef, citrus, and citrus products.

Although U.S. officials said they appreciated Japan's efforts to take some trade liberalization steps in late 1981 and early 1982 (see above), they said the measures did not go far enough to eliminate trade barriers. After warning that Congress was pushing for legislation to assure equal access to foreign markets through unilateral U.S. action, in early 1982 the United States sent Japan another list of trade requests. U.S. officials said it was vital for Japan to take significant action on market-access problems soon.

The 14-point list, which repeated some items on earlier lists, included requests for liberalization of trade restrictions on oranges and citrus juices, beef, and leather; expansion of quotas on fishery products; increased imports of soda ash, paper, pulp, and tobacco; changes in standards and inspection procedures; participation in Japanese computer technology development; and increased access to Japanese services markets.

Autos.--The United States and Japan began 1981 locked in a stormy conflict over Japanese auto exports to the United States. Despite a November 1980 ruling by the Commission that Japanese cars were not a substantial cause of serious injury to the U.S. auto industry, industry representatives and some members of the U.S. Congress demanded action to limit auto imports. The United States and Japan held bilateral consultations to try to find a solution that would block pressure for protectionist action.

Following bilateral consultations, on May 2, 1981, Japan announced that it would restrict shipments of passenger cars to the United States to 1.68 million units for the 12-month period beginning April 1, 1981, and to 1.68 million units plus 16.5 percent of any increase in the U.S. market during the following year. For a third year, Japan promised to monitor shipments to eliminate any surges in auto exports to the United States. As a result of the restraint agreement, automobile imports from Japan dropped from 1.99 million units in 1980 to 1.88 million units in 1981.

1/ Products for which the United States has noted problems with Japanese standards included plywood, automobiles, live slaughter cattle, frozen bull semen, processed chicken meat, processed foods, cherries and papayas, wild rice, sake, cosmetics, and athletic equipment.

Even though imports fell in 1981, the auto dispute remained strong as the U.S. industry's slump continued. Although economic recession and high interest rates were broadly acknowledged to be important causes of the U.S. auto industry's difficulties, calls for further restrictions on imports of Japanese cars continued. The United Autoworkers Union (UAW) began a drive for legislation requiring that a certain percentage of the parts and labor in imported cars be of U.S. origin—a "local-content" requirement. 1/ U.S. government and auto industry representatives also pushed for Japan to establish manufacturing or assembly plants in the United States and to purchase more U.S. auto parts.

Responding to growing pressure, in early 1982 Japan announced that it would restrain shipments of passenger cars to the United States in the year beginning April 1, 1982, to the previous year's level of 1.68 million units. Japan's Minister of International Trade and Industry Shintaro Abe said that Japan made the decision "on the basis of political considerations." 2/ Observers reported that pending protectionist legislation in Congress was a key Japanese concern. 3/

Semiconductors.—In April 1981, the United States asked Japan to agree to mutual acceleration of Tokyo round tariff rate reductions on semiconductors. One purpose of the U.S. proposal on semiconductors was to take reciprocal liberalization steps in an increasingly important area of U.S.-Japan trade before trade frictions intensified. Following bilateral consultations, on May 12, 1981, Japan agreed in principle to accelerate the semiconductor tariff cuts, with the understanding that details of the agreement would be worked out subsequently in bilateral technical discussions.

Bilateral talks on staging the tariff reductions and product coverage of the agreement were held, and on September 29, 1981, the United States and Japan exchanged letters, with product list annexes, on the mutual acceleration of MTN tariff reductions on semiconductors. Under the terms of the agreement, the United States agreed to accelerate the reduction of its tariffs on semiconductors from a rate of 5.6 percent ad valorem to a rate of 4.2 percent ad valorem in two stages. The first stage would be in January 1982 and the second in January 1983. Japan agreed to lower its duty on semiconductors from 10.1 to 4.2 percent in April 1982, subject to necessary domestic procedures and approval by the Japanese Diet. After these measures are complete, tariff rates on semiconductors will be essentially the same in Japan and the United States.

Policy developments related to MTN implementation.—By January 1, 1981, Japan had begun implementing tariff concessions and the six agreements on nontariff measures negotiated during the Tokyo round of Multilateral Trade

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1/ On Dec. 8, 1981, local content legislation was introduced in the Congress.

2/ U.S. Import Weekly, Mar. 31, 1982, p. 653.

3/ Over 20 measures that either set auto import limits, promoted negotiations for limiting auto imports, or set domestic-content requirements for imported autos had been introduced in the U.S. Congress by early 1982.

Negotiations. Developments and bilateral discussions concerning Japanese implementation of agreements on government procurement and standards (and the understanding on tobacco) developed or originated during the Tokyo round are described below.

Nippon Telegraph & Telephone Public Corp. (NTT) and Government procurement.--Long and difficult negotiations on including Japan's government-run telecommunications monopoly, NTT, under the MTN Government procurement agreement ended on December 18, 1980 when Japan agreed to let U.S. firms compete on an equal basis with Japanese firms to supply NTT with telecommunications equipment. If by the end of a 3-year trial period (ending December 1983) NTT has not met the terms of the agreement, allowing fair opportunities for U.S. telecommunications suppliers, the MTN Government procurement agreement between the United States and Japan will be terminated, and Japanese firms will find it much more difficult to bid on U.S. government contracts. Failure of the agreement would be a serious blow to trade relations between the United States and Japan.

NTT officials stated that as of mid-August 1981 4 U.S. firms had won or were participating in contracts worth approximately $1.5 million. However, more and bigger contracts were expected to be let in early 1982, and it was "reported that 8 to 12 U.S. firms will probably qualify as NTT bidders and that U.S. firms are reportedly being considered as suppliers of such major items as echo suppressors, car telephones, etc." 1/ In December 1981, members of the U.S. Congress stated that although the NTT agreement showed few results to date, they were "impressed with the changes [in NTT procurement practices] that are being made and the new attitude at NTT." 2/

Standards.--In April 1980, the Japanese Diet ratified the MTN Standards 3/ agreement, making its provisions part of Japanese law. During 1981, the United States and Japan held bilateral discussions to attempt to resolve the remaining disagreements on standards issues. Following the discussions, many problems were still unresolved.

Strong feelings remain in the United States that Japanese standards procedures discriminate against imports, making many recent Japanese tariff reductions nearly useless. Major U.S. problems with Japanese standards and their testing, labeling, and certification procedures are: (1) most Japanese standards are defined in terms of design specifications rather than performance criteria; (2) Japanese standard formulation procedures do not allow foreign input and do not provide for notification of foreign suppliers about standards changes; (3) Japanese ingredient and formula requirements are excessive and require disclosure of proprietary information; (4) Japanese restrictions on ingredients in processed foods and cosmetics are too strict; (5) testing procedures, requirements, and timetables for obtaining product approval are unclear, and no English-language document is available to explain them; (6) Japan refuses to accept test data developed outside Japan for many products; (7) testing procedures are subject to long delays, sometimes years;

1/ Report on Trade Mission to the Far East, Committee on Ways and Means, U.S. House of Representatives, Dec. 21, 1981, p. 12.

2/ Ibid.

3/ Agreement on Technical Barriers to Trade.

(8) certain products are subject to individual as well as type testing; and (9) shipments of some products must be opened in Japan and given individual labels listing date of importation, ingredients, and other information.

Problems remain in the following specific product areas: metal baseball bats, plywood, frozen bull semen; papayas and cherries; sake; dried fruit; fresh fruits and vegetables; wild rice; concentrated fruit juice; processed foods; medical and scientific instruments; pharmaceuticals; cosmetics; automobiles; inflatable athletic balls; telecommunications equipment; chemical substances; and pressure vessels.

In January 1982, Japan announced a package of 67 trade liberalization measures, some of which involved standards issues (see above). U.S. officials stated that the standards measures included in the package mostly described actions that had already been taken, and that they did not represent significant progress toward resolving bilateral standards problems.

Tobacco.--On November 21, 1980, after nearly 2 years of difficult negotiations, Japan and the United States reached an understanding allowing greater access to Japanese markets for U.S. tobacco products. 1/ The Japanese tobacco industry is controlled by the Japanese Tobacco & Salt Public Corporation (JTS), which administers pricing, distribution, marketing, and advertising of domestic and imported tobacco in Japan. In the past, access to Japanese markets for U.S. manufactured tobacco products has been very limited, a situation that has led to investigations under section 301 of the Trade Act of 1974, a U.S. complaint under provisions of the GATT, and a "statement of principles" in the December 1979 joint statement on standards concerning Japan's import restrictions on manufactured tobacco products.

The United States and Japan held bilateral discussions on manufactured tobacco products on December 11, 1981. U.S. participants stated that they did not dispute that Japan has faithfully implemented specific provisions of the 1980 tobacco understanding, but said they were disappointed that the market share for U.S. products had not increased significantly. They reminded the Japanese that in accepting specific provisions of last year's agreement, the United States clearly stated that the ultimate measure of success would be an increase in market share for U.S. manufactured tobacco products.

Japanese negotiators asserted that JTS had not violated the terms of the 1980 agreement and claimed that for the period April-October 1981 sales in Japan of U.S. cigarettes increased 20 percent while sales of Japanese cigarettes increased only 1.4 percent. Japanese officials promised further negotiations on pricing and an announcement during 1982 of improvements in the distribution of U.S. tobacco products in Japan.

United States-Japan Trade Subcommittee.--At high-level bilateral consultations held in September 1981, the United States and Japan formed a new forum for the discussion of trade issues. The new trade subcommittee was intended to handle trade matters that fall outside the scope of the United States-Japan Trade Facilitation Committee (TFC), a bilateral trade panel staffed by members of the U.S. Department of Commerce and Japan's

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1/ For a description of the tobacco understanding, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, section on Japan.

Ministry of International Trade and Industry (MITI). The new subcommittee would handle problems involving other U.S. government agencies and the Japanese Ministries of Foreign Affairs, Finance, Transportation, Health and Welfare, etc. 1/ The Office of the United States Trade Representative (USTR) chairs the U.S. side of the group.

At its first working session, the new trade subcommittee decided to have a major meeting to discuss a wide range of trade issues in December. During talks held December 9 and 10, U.S. representatives stressed that Japan must open up its markets so that U.S. firms can "enjoy the same kind of access in Japan as Japanese firms enjoy in the U.S." The widening bilateral trade deficit and economic conditions in the United States, they said, are causing "an upsurge in protectionist pressure." U.S. negotiators stressed that if the United States public and Congress do not perceive that Japan's market is open to competitive U.S. products, Japan might "face the possibility of losing its free access to the U.S. market." After the December meeting, U.S. negotiators reported that the Japanese "showed an understanding of the importance of these trade problems, and appeared to gain a new appreciation" of the need for visible action by Japan to remove both tariff and nontariff barriers to U.S. products. A brief summary of major topics discussed at the meeting is given below. Some subjects are covered in more detail later in this report.

Agriculture.--The United States repeated a request for Japan to remove 22 remaining quotas on agricultural and marine products and permit lower wheat prices in Japan. Japan replied that since 1968, the number of items subject to quota has been reduced from 70 to the current 22, and that removing the remaining "hard core" items might be difficult.

Market access.--The United States protested "buy Japanese" consumer preferences and "depressed industry cartels [that] restrict trade and force importers to pay for restructuring" of the Japanese economy. Japan replied that "good market studies" would help U.S. firms to compete in Japan, and maintained that depressed industry cartels do not necessarily restrict imports.

High-technology/nuclear products.--The United States proposed bilateral talks in early 1982 to discuss high-technology issues and promised U.S. efforts to lift bans on reprocessing U.S. nuclear materials for "such reliable countries as Japan." Japanese representatives said Japan has no plans to restrict high-technology imports.

Tariffs.--The United States welcomed Japan's action to accelerate MTN tariff cuts, but noted that high tariffs remain in "problem areas" such as computers, leather, tobacco, beef, and citrus. Japan claimed that about half the items on which the United States recently requested reductions were included in the proposed cuts.

Customs.--U.S. complaints about Japan's customs system included the following: lack of an appeal mechanism, inconsistent classification procedures, problems with refund of duties on re-exported items, and difficulties with inspection methods.

1/ Representatives from the Commerce Department and MITI did participate in trade subcommittee talks, however.

Standards.--Japan agreed to meet with the United States in the near future to discuss standards problems. The United States expressed concern over auto standards, processed food test data, product testing procedures, plywood standards, certain standards procedures involving agricultural products, and standards for athletic equipment. Japan replied that solving standards problems in agriculture and food additive areas will be difficult, but that progress has been made on athletic equipment standards. Japan also announced that its Ministry of Health and Welfare intends to broaden its test guidelines for pharmaceuticals and cosmetics during 1982.

Services.--The United States asked Japan to participate in mutual deregulation of data communications and in the analytical work now being done in the OECD on services. U.S. representatives expressed specific concern over Japanese reserve requirements for U.S. insurance companies operating in Japan, saying that the requirements prevent repatriation of profits. Japan replied that it intended to work toward communications liberalization, and that reserve increases imposed on U.S. insurance firms were the result of "experience and actuarial data" and were not intended to restrict remittance of profits.

Other issues.--Other issues discussed included tobacco, leather, and forest products (covered below); U.S. problems in seafood trade; investment; government procurement; and restraints on exports to third countries.

Topics introduced in the Trade Subcommittee discussions by Japan included several "Buy-American" practices at the state level, the proposed amendment of U.S. communications law to require reciprocity in exchange for trade privileges, certain state tax practices, proposed U.S. restrictions on log exports, and the U.S. customs reclassification in August 1980 of cab chassis (that resulted in a large increase in the duty imposed on imports of these products into the United States).

More talks were held in early 1982. Besides repeating a request for Japan to eliminate the import restrictions it maintains on 22 agricultural products, the United States asked for greater market access in 12 critical areas--nuclear-energy equipment, electrical machinery, chemicals, computers, paper and pulp, soda ash, forestry products, drugs, cosmetics, cigarettes, medical instruments, and telecommunications equipment.

The Joint United States-Japan Trade Facilitation Committee.--The Joint United States-Japan Trade Facilitation Committee (TFC) was established in September 1977 by the U.S. Department of Commerce and Japan's Ministry of International Trade and Industry. The TFC provides a forum for resolving U.S. exporters' complaints about Japanese trade practices or procedures that impede market access for U.S. products. 1/ In July 1981, the Commerce Department announced the creation of a new TFC Executive Council, to include higher level Commerce Department and MITI trade officials. The Executive Council is designed to broaden the scope of the TFC's work beyond narrow, product-specific trade problems to include industrial policy issues, such as

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1/ For a description of the types of trade impediments brought to the attention of the TFC, see Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, p. 147.

obstacles to U.S. investment in Japan. Under Secretary of Commerce Lionel Olmer, who co-chairs the new group, said he was particularly interested in discussing issues related to high-technology products, including computers, semiconductors, and telecommunications equipment.

Past TFC cases have covered such diverse products as potato chips, airport lights, medical equipment, flashlight batteries, shock absorbers, manufactured tobacco, fish vaccine, hang gliders, and computer timesharing services. The Japanese Government trade practices and procedures involved in these investigations included product-approval (standards) problems, the use of administrative guidance, tariff classification, and trade restrictions. The TFC also served as a forum for discussing Japanese standards and their application to U.S. products.

As of early 1982, the TFC had received a total of 111 inquiries. Fifty-six had been discontinued after investigation in the United States, 13 were resolved informally with Japan, 9 cases were under consideration in the Commerce Department, and 33 cases had been formally submitted to Japan. Of those submitted, 20 were favorably resolved, 3 were withdrawn and not resolved, and 10 cases were under review in Japan.

Japan-United States Economic Relations Group.--The Japan-United States Economic Relations Group, or "Wisemen's Group," was formed in June 1979 pursuant to a joint communique issued by former President Carter and the late Prime Minister Ohira. The group issued reports in January and October 1981 suggesting ways to improve economic relations between the United States and Japan.

The Wisemen advised both countries to avoid protectionist measures and to hold frequent high-level bilateral consultations to defuse trade frictions, instead of allowing bilateral tensions to build. They said the United States needed to improve domestic productivity and control inflation, and that "many U.S. industries need to develop a longer-term and more internationally oriented perspective," and "make more determined efforts to enter the Japanese market."

Japan, they said, should work to eliminate remaining nontariff barriers to imports, improve the efficiency of its agricultural sector, and remove barriers to imports of agricultural products. The group stated that "medium-term supply and purchase commitments between the Two governments on agricultural products [would not interfere with] market conditions and [would provide] real and symbolic assurance to Japan that the United States is [a] dependable supplier of food."

On July 30, 1981, members of the U.S. House of Representatives introduced a bill designed to implement some of the recommendations made by the Wisemen's Group. The provisions of the bill included support for cabinet level bilateral consultations, long-term agreements to supply Japan with U.S. agricultural products, establishment of an interparliamentary union with Japan, energy cooperation, bilateral coal agreements, liberalization of world trade in semiconductors, a Government Accounting Office study on Japanese productivity, funding for the United States-Japan Trade Study Group, 1/ and programs to teach U.S. Government employees about Japan.

1/ A private group of U.S. and Japanese businessmen and Government officials who consult on trade problems.

In reviewing U.S.-Japan economic relations in the past year, the Wisemen's final report pointed out two contrasting trends in resolving trade problems. The voluntary restraints on shipments of automobiles to the United States undertaken by Japan in May 1981 were viewed as protectionist measures that "constituted an undesirable interference in the marketplace" and increased costs to U.S. consumers. The group strongly advised that such measures not become the precedent for dealing with future trade problems.

The mutual reduction of semiconductor duties to 4.2 percent, as recommended in the first Wisemen's report, was cited as a good example of constructive bilateral action to prevent future trade friction. The group also advised Japan and the United States to make "combined investments in each other's [semiconductor] industry" and allow access to one another's government research and development and procurement programs in semiconductors "on the basis of equal national treatment."

The U.S.-Japan Economic Relations Group disbanded on September 30, 1981, just before its final report was released. The group had been scheduled to disband once its reports were complete. In a final summary of potential trade difficulties, the group correctly predicted that although the United States and Japan had no urgent sectoral trade dispute at that time, the growing Japanese trade surplus with the United States would probably generate strong protectionist pressure. The report pointed out that the Japanese surplus would not disappear even if all Japanese trade barriers were removed. The surplus, they contended, "appears to reflect a number of cyclical and special factors, such as appreciation of the dollar, caused in part by high U.S. interest rates." They said that as these factors change, the bilateral imbalance will be reduced from current levels.

Cab chassis.--In August 1980, the U.S. Treasury Department changed the customs classification of certain light truck cab chassis from "cab chassis" to "unfinished automobile trucks," effectively raising tariff rates applied to these items from 4 to 25 percent. 1/ The action raised duties on Japanese light-weight trucks, which had been entering the United States as separate cab chassis and cargo-beds to take advantage of the lower 4-percent duty on cab chassis.

Japan and the United States held informal bilateral discussions under GATT procedures on cab chassis in January 1981. 2/ Japan claimed that the U.S. decision violated a General Agreement on Tariff and Trade (GATT) binding of the 4-percent duty on cab chassis. The United States insisted that the action corrected an earlier mistaken classification of certain items under the bound duty, but did not alter the duty for products correctly classified as cab chassis.

1/ For more information on the August 1980 customs reclassification of cab chassis, see the section on Japan in the Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307.

2/ Also, in January 1981 Toyota Motor Sales, U.S.A., Inc. (importer of Toyota cars and trucks) appealed the U.S. Customs Service's tariff reclassification of cab chassis to the U.S. Court of International Trade (formerly the Customs Court).

At the December meeting of the United States-Japan Subcabinet Trade Group, Japan informed the United States that it intended to file a formal GATT complaint against the United States on the cab chassis issue. This will be the first time Japan has ever used formal GATT procedures to settle a trade dispute.

Aluminum.--After energy price increases greatly raised the cost of producing aluminum in Japan, in 1978 the Japanese primary aluminum smelting industry was designated "structurally depressed" by the Japanese Government. At the same time, Japan's MITI 1/ drafted a plan for restructuring the industry. The plan called for reducing domestic capacity, consolidating of smaller firms into a cartel, and undertaking joint ventures to build aluminum-smelting plants in countries with lower energy costs. 2/ Lowering electric power prices for aluminum ingot producers was also considered, but that would require a change in Japan's Electric Power Industry Law, which forbids differential rates.

To help secure a stable supply of aluminum ingots and to obtain funds for industry restructuring, MITI advocated setting a temporary annual quota (for a 3-year period) under which ingots sold under long-term contracts would be allowed to enter Japan duty free. The current 9-percent duty would still be charged on imports of ingots sold on the spot market and those sold under long-term contracts in excess of quota limits. The plan required that money saved by Japanese purchasers of duty-free ingots be used to buy domestically produced Japanese ingots.

The proposed Japanese tariff quota on imported aluminum ingots drew criticism from the United States during 1981. U.S. officials protested that the plan violates GATT rules, discriminates against many U.S. suppliers of aluminum ingots, and sets a dangerous precedent for future attempts to shelter other declining industries.

In a related development, in March 1981 the Japanese primary aluminum ingot industry protested a 195-percent increase in 1980 in shipments to Japan of low-priced, U.S.-made aluminum ingots. The industry reportedly was considering asking the Japanese Government for some form of import relief, but no such relief was implemented by yearend 1981. However, the Japanese MOF suggested, as an alternative to MITI's tariff-quota restructuring plan, raising duties on all aluminum ingot imports from the current 9 percent to 13 to 14 percent. MOF officials said the move would be legal under GATT article XIX if Japan could prove that aluminum ingot imports had damaged Japan's domestic producers.

1/ Ministry of International Trade and Industry.

2/ Such joint ventures are now established in New Zealand, Canada, and Venezuela; two additional joint ventures in Indonesia and Brazil are scheduled to go into production in the late 1980's.

Observers said that one reason why the MOF favored raising duties, and disapproved of reducing duties under a tariff quota, was Japan's large fiscal deficit, which is reportedly the MOF's primary concern in most situations. Although reduced aluminum duties probably would not have much impact on Government revenues, a policy of dealing with Japan's other depressed materials industries 1/ in a similar manner could indeed have such an impact.

Agriculture.--Japan's agricultural trade barriers attracted increased U.S. criticism during 1981, partly because of the large Japanese trade surplus with the United States and the record 1981 U.S. agricultural harvest. Japan is the largest market for U.S. agricultural exports. The United States supplies Japan with 59 percent of the wheat, 91 percent of the corn, and 96 percent of the soybeans imported by Japan, and imports account for almost all of Japanese consumption of these items.

Japan uses price supports and import restrictions to protect its inefficient agricultural sector, forcing Japanese consumers to pay very high prices for food--more than double world prices for many commodities. Japanese fears about the security of food supplies 2/ and the great political power of Japan's farm sector make changing farm policy very difficult in Japan.

The United States has strongly requested that Japan remove trade barriers that impede U.S. access to Japanese food markets. A recent Congressional report states that: 3/

> A major, gradual restructuring of Japan's agricultural system is the single most important step Japan can take to remove its worldwide reputation as an unfair, one-way trading partner."

Rice.--During 1981, the United States and Japan held consultations on administration of a bilateral understanding on rice reached in April 1980. In the understanding, Japan agreed to limit its rice sales on world markets and gradually bring its rice price down to world levels.

Japan sells heavily subsidized domestic rice on world markets, displacing unsubsidized U.S. rice exports. Meanwhile, Japan limits the entry of wheat and other grain products to boost domestic consumption of rice. The United States has objected strongly to this protectionist practice, claiming damage to U.S. rice and wheat growers. However, Japan has begun to make

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1/ Other depressed Japanese materials industries include oil refining, petrochemicals, ferroalloys, and chemical fertilizers.

2/ The Supplemental Report of the Japan-United States Economic Relations Group (October 1981) states that "the perception of the United States as a reliable supplier [of agricultural products] was damaged both by the 1973 soybean embargo [when the United States stopped overseas shipments of soybeans due to short domestic supply] and the agricultural embargo against the Soviet Union following the Afghanistan invasion."

3/ Report on Trade Mission to the Far East, Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives, Dec. 31, 1981, p.8.

progress toward bringing its domestic rice price in line with world prices; the Japanese domestic price for rice fell from 4.2 times the international price in 1978 to 2.8 times the international price in July 1981.

Beef and citrus.--During the Tokyo round of Multilateral Trade Negotiations, Japan agreed to increase its import quotas on high-quality beef by 14,000 metric tons and on citrus products (fresh oranges and orange juice) by 17,000 metric tons by the end of 1983. The MTN agreement also provided for further beef and citrus negotiations in the spring of 1983. During 1981, the United States repeatedly asked for accelerated negotiations on expanding the quotas, and requested that discussions begin no later than October 1982. The United States believes that current quotas are unfairly restrictive, while Japanese beef and citrus producers are strongly opposed to any further liberalization of import quotas.

Annual bilateral consultations on agriculture.--U.S. Secretary of Agriculture Block visited Tokyo on October 12 to 15, 1981, arriving immediately before the third annual U.S.-Japan agricultural products consultation held on October 15. Secretary Block asked Japan to increase imports of grains and other products, citing the widening bilateral trade imbalance, mounting Congressional pressure for protectionist action, and dissatisfaction among U.S. farm groups. Japan refused the request, claiming it already had a 2.5 months grain stockpile. 1/

At bilateral consultations on October 15, the United States again requested an increase in grain reserves; pushed for an accelerated start for the quota negotiations on beef, oranges, and citrus juice; and requested Japanese action to hold down the wholesale price of wheat in Japan in order to maintain steady demand. Japan then refused to speed beef-citrus talks (see below), but promised further discussion on grains in connection with Japanese work toward a comprehensive food security plan. Japan asserted that Japanese consumption of wheat has been stable.

Trade frictions intensified in late 1981 as the United States made more vigorous demands for better access to Japanese markets. In November, the United States asked Japan to eliminate tariffs on beef, pork, oranges, grapefruit, fruit juices, and several other agricultural products. The United States then demanded that Japan remove quotas on 22 agricultural and marine commodities, stating that the United States is prepared to take this case to the GATT unless Japan takes steps to liberalize its import quotas. Japan refused to eliminate the quotas, but in early 1982 agreed to move up beef and citrus negotiations to October 1982.

Medfly.--In August 1981, during the Mediterranean fruit fly infestation in California, Japan banned entry of certain California produce into Japan. The measure affected a large portion of total U.S. exports of fresh fruits and vegetables, because Japan is the second-largest buyer of this produce and because California supplies most of the fresh citrus fruit (especially lemons), much of the fresh noncitrus fruit, and a large portion of the fresh vegetables shipped to Japan from the United States.

1/ On Aug. 19, 1981, President Reagan had asked Japan to build up its reserves of U.S. grain to the equivalent of at least 2 month's consumption.

In September, following bilateral discussions, Japan agreed to permit entry of California fruits and vegetables from outside Federally regulated quarantine areas if the U.S. Department of Agriculture certified that they had been fumigated or held in extended cold storage (or both, for some products) before leaving the United States. Imports of all California melons and strawberries remained effectively banned because the required fumigation and/or cold storage would ruin the fruit.

During continuing bilateral discussions, the United States pressed Japan to modify restrictions on California produce, pointing out that several products that are not host to the medfly are included on the restricted list. U.S. officials also protested that Japan's policy required treatment of products for the whole state of California rather than just the medfly infested areas. The United States also asked Japan to allow cold treatment of produce while on board ship to overcome the critical shortage of fumigation facilities in California growing areas. An agreement was not reached by the end of 1981. More negotiations were scheduled for early 1982.

Forest products.--The 1978 Strauss-Ushiba Agreement 1/ directed that action be taken to expand and upgrade U.S. forest products exports to Japan. A United States-Japan Forest Products Committee was formed pursuant to the agreement to resolve trade-inhibiting standards problems and to promote U.S. sales of finished lumber to Japan. Central issues in U.S.-Japan forest products talks have been the large quantity of logs exported to Japan in contrast to the small amount of finished lumber, and Japanese plywood standards that make it difficult to sell U.S. plywood in Japan.

In March 1981, citing depressed conditions in Japan's housing industry, Japan called for a 50-percent cutback in log and lumber shipments from the United States during 1981. The action shocked many U.S. lumber producers, who had begun cutting lumber to Japanese specifications on the basis of assurances from Japan at forest products meetings that healthy growth of U.S. lumber exports to Japan was likely. A representative of the Northwest Independent Forest Manufacturers 2/ protested that: "At a time when we have U.S. mills built to cut lumber to Japanese specifications, they come out with an announcement that strikes at the heart of any effort to increase our exports and improve sales."

U.S.-Japan relations on forest products trade improved somewhat when it became apparent later in the year that Japan was not cutting back purchases of U.S. lumber more than purchases of logs. This defused U.S. fears that the restrictions might be aimed chiefly at lumber in an attempt to shelter Japanese lumber producers from the effects of slowed domestic construction. However, important areas of disagreement remain.

At the third meeting of the U.S.-Japan forest products group held in December 1981, the United States asked Japan to eliminate tariffs on certain wood products. However, most of the discussion at the meeting concerned Japanese plywood standards.

1/ For more information on the Strauss-Ushiba Agreement signed in January 1978, see Operation of the Trade Agreements Program, 30th Report, USITC Publication 1021, p. 83.

2/ A U.S. lumber manufacturers' trade association.

U.S. and Japanese participants disagreed on the meaning of a 1979 MTN commitment to reach agreement on plywood standards by the end of 1980. U.S. participants were disappointed when Japanese members said an additional 3 to 6 months of consultations with Japan's domestic industry would be necessary before a new plywood standard could be proposed to the United States. The United States wants Japan to base its new standard on performance criteria, rather than design criteria. U.S. plywood meets the strength and durability objectives of current Japanese standards, but does not conform with the design criteria. For that reason, the United States was displeased when the Japanese indicated that their proposal would be for a modification of their current design standard rather than for the creation of a performance standard. In early 1982, the United States informed Japan, that the U.S. Government planned to take the plywood issue before the GATT Standards Committee unless real progress was evident very soon.

During bilateral negotiations, Japan reiterated its past concern about possible U.S. limits on log exports to Japan. The U.S. lumber industry, particularly in Northwestern states, has advocated limiting log exports to Japan to promote increased lumber exports. In response to Japanese questions about possible restraints, U.S. negotiators said the way to make sure the measures are not implemented would be to give better market access to U.S. lumber.

Leather.--Under a bilateral understanding on leather reached in February 1979, Japan agreed to increase its quota of dollar-denominated import licenses to permit entry of 22.5 million square feet of leather during April 1979-March 1980. A 10-percent increase would be allowed in each of the following two agreement years (April-March). Japan agreed to facilitate the entry of the amounts of U.S. leather specified in the understanding. Bilateral tensions have increased because U.S. leather shipments have fallen far short of quota amounts.

During April 1978-March 1979, the year before the agreement, the United States shipped 5.4 million square feet of leather to Japan. Then, in the first agreement year (April 1979-March 1980), U.S. leather shipments to Japan fell 28 percent to 3.9 million square feet, 17 percent of the quota amount for that year. In the second agreement year (April 1980-March 1981), U.S. leather shipments to Japan rose to 8.1 million square feet, improving somewhat but still filling only 33 percent of the permitted quota. Finally, during the first 10 months of the third quota year (April 1981-January 1982), the United States shipped only 5.6 million square feet of leather to Japan--about 20 percent of the third year's quota.

The United States and Japan held informal consultations on leather in December 1981. The United States accused Japan of not trying hard enough to facilitate Japanese consumption of U.S. leather products. U.S. negotiators denied Japanese claims that depressed demand for leather in Japan was responsible for the below quota leather shipments, stating that Japanese restrictions on leather imports have made "the strength or weakness of the leather market [in Japan] an irrelevant factor in determining U.S. exports of leather to Japan."

Japanese officials argued that U.S. producers have made insufficient efforts to penetrate the market. U.S. negotiators responded that the current small-scale efforts of U.S. producers are related to the belief that Japan has

decided to allow the United States no more than 1 percent of Japan's leather market. Other factors leading to low U.S. leather exports to Japan include frequent complaints by the Japanese about the poor quality of U.S. leather and Japan's 20-percent import duty on leather.

In concluding remarks, U.S. negotiators said the United States does not believe that Japan has complied with the terms of the leather understanding. They asked that Japan eliminate its 20-percent import duty on leather, improve the quota allocation system used for distributing leather import licenses, and and make greater efforts to facilitate Japanese imports of U.S. leather.

Civil aviation.--In 1981, divergent philosophies on civil aviation policy in Japan and the United States led to intensified conflict over the bilateral accord governing civil air traffic between the two countries. Japan favors Government regulation of air traffic and fares (to protect its aviation industry, which is far less competitive than the U.S. aviation industry), and objects strongly to what it views as high-handed U.S. attempts to force regulatory policy changes in other countries. The United States has been pushing for less Government regulation in aviation policy worldwide, especially since deregulation of the U.S. aviation system in the late 1970's. 1/

Japan claims the current agreement, put in place in 1952 at the end of the post-World War II occupation of Japan, is unfairly structured in favor of the United States. Japan wants the right to fly to more U.S. cities, additional rights to fly beyond the United States to other countries, continued government control of fare prices, and increased capacity restrictions on airline routes.

The United States, on the other hand, says that routes and charter flights for U.S. airlines in Japan have been severely limited and demands a freer policy. The United States also insists that periodic revisions of the agreement have kept its terms fair to Japan.

New route capacity restrictions suggested by Japan (see below) are strongly opposed by the United States. The United States also wants its carriers to have the freedom to set lower fare prices, a policy opposed by Japan. Assistant Secretary of State for Economic and Business Affairs Robert D. Hormats summarized the U.S. position as follows: "clearly, we are not going to agree to give Japan the important rights it wants while it seeks to restrict the rights of American carriers." 2/

At bilateral talks in January 1981, the United States proposed that Japan be allowed to fly to four more U.S. cities and add on one more "beyond" route 3/ in return for more liberal pricing policies and more access for U.S.

1/ In 1978 and 1979, the U.S. Congress passed the Air Transportation Deregulation Act and the International Air Transportation Act. The new laws deregulated domestic airlines and gave the U.S. Civil Aeronautics Board (CAB) authority to restrict operations of foreign airlines if foreign governments imposed discriminatory restraints on U.S. airlines.

2/ The Journal of Commerce, Jan. 20, 1982, p. 2A.

3/ The right to fly beyond a city to other places is called a "beyond" right in aviation negotiations.

charters to Japan. Talks stalled in May when Japanese negotiators proposed increased capacity restrictions and specific percentage limits on "fifth freedom" traffic. 1/

Then, in July, Japan refused to approve a request by United Air Lines for certain landing rights in Japan, pending revision of the civil aviation accord. Japanese authorities said they took the stand that expanding United's operations would "further enlarge the imbalance of benefits in favor of U.S. carriers" 2/ under the current U.S.-Japan civil aviation agreement.

United then filed an appeal with the CAB under the International Air Transportation Act requesting a retaliatory suspension of Japan Air Lines' (JAL) operation of its Tokyo-Anchorage-New York route. Japan threatened that a counter measure would follow if JAL's New York run were suspended.

When the CAB sought opinions on United's appeal, other U.S. airlines (Pan American, Northwest Airlines, Flying Tiger Lines) opposed retaliatory steps against JAL, claiming that such measures would only lead to Japanese retaliation. The CAB decided to defer its decision on the case until after more bilateral aviation talks were held later in the year. At November talks, some progress was reported on the issue of fare prices, but less on other issues, and the United Airlines conflict remained unresolved.

In December, the CAB ruled that Japan's refusal to grant United's request was a serious violation of the 1952 United States-Japan civil aviation agreement, which grants the United States the right to designate additional airlines for Japanese routes and requires Japanese authorization of these carriers. The CAB then asked JAL to file flight schedules for existing or planned service to all points in the United States, a possible preliminary step to restricting JAL routes.

No immediate action was taken against existing JAL routes, but the CAB decided to defer several recent requests by JAL for expanded service in the United States. Japan retaliated by refusing to act on any new U.S. route change requests and introducing some new technical requirements that will cause inconvenience for U.S. airlines. Further talks were scheduled for 1982.

Mexico

The economic situation in 1981

Major domestic economic developments.--In 1981, Mexico's real GDP 3/ rose about 8 percent, one of the largest increases in the world. Mexico's economic expansion continued despite the economic slowdown that most of the industrialized countries, Mexico's principal trading partners, were experiencing. Following similar sharp increases in real GDP in 1979 and 1980, 1981's increase continued a trend of unusually rapid economic growth.

1/ "Fifth freedom" traffic is traffic carried by an airline between two points outside its own country. Japan has complained about abuse of this right by Northwest Airlines under the current agreement.

2/ The Journal of Commerce, Dec. 23, 1981, p. 1A.

3/ GDP, discounted to offset the effects of inflation.

Economic growth was sustained by growing earnings from oil exports, increased Government investment in para-statal 1/ enterprises and public works, and increased investment by the private sector. Because of buoyant expections by foreign bankers, at least until midyear, Mexico's public and private sectors were able to greatly increase their foreign debts.

The value of Mexico's exports of crude oil rose from $9.4 billion in 1980, or 61.6 percent of total merchandise exports, to $13.3 billion in 1981, or 68.7 percent of total merchandise exports. 2/ The values of crude oil exports and total exports would have been considerably higher than they were in 1981 if the worldwide demand for oil had not fallen. Early in June of 1981, Petroleos Mexicanos (Pemex), the Mexican Government's oil producer, took the lead in an international wave of price reductions. Pemex's initial price cut was restricted to the heavier grade of oil, Maya crude; the price of the lighter, premium Isthmus grade was unchanged. At the time of the initial price reduction, Pemex's export mix was 40 percent Isthmus grade and 60 percent Maya grade. 3/ The Director of Pemex resigned because of the domestic repercussions over the price cut.

The initial reduction in the price of Maya crude was from $32.00 per barrel to $25.33 in early June. In the first week of July, Pemex increased the price of Maya crude to $28.67 per barrel. Pemex reduced its total crude oil production rate from 2.7 million barrels per day (mbpd) to 2.0 mbpd because contracts were cancelled. To stimulate exports and production, Pemex reduced the price of Maya crude to $27.50 and the price of Isthmus crude to $35.00 per barrel, in early August. At that time, the export mix was 50 percent Maya and 50 percent Isthmus. These prices remained in effect for the balance of the year.

Mexico's economic growth was also affected by price declines in other commodities that Mexico exports: silver, coffee, shrimp, cotton, and lead. 3/ For example, the average price of silver declined from $20.58 per troy ounce in 1980 to $10.52 in 1981.

The Government of Mexico continued to take action to eliminate transportation bottlenecks. Highways and the Government-owned railway system were upgraded, freight terminals were expanded, and maritime port facilities were developed. In addition, the railway embargo on the movement of freight through gateways at the U.S.-Mexican border, imposed in late December 1980, was phased out during the first few months of 1981. 4/ To reduce the need for future embargos on the movement of freight by rail, the Mexican Government placed greater emphasis on the growth of maritime transportation. As a result of this policy, Mexico's port-development plans and projects increased in importance. Rail traffic at the U.S.-Mexican border is more congested than it

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1/ Companies of mixed Government-private ownership.
2/ Reported by U.S. Embassy, Mexico City, June 1982.
3/ Export "mix" means the share of crude oil exports accounted for by each of the two grades.
4/ Mexico is the world's leading producer of silver.
5/ This embargo was imposed by the National Railways of Mexico because of acute tieups of rolling stock and merchandise at border gateways and Mexican freight terminals.

would be otherwise, because a part of Mexico's trade with third countries is through ports in the United States. These ports are linked with Mexican origins and destinations by railways.

During 1981, the Mexican peso was under heavy selling pressure. Even before midyear, many experts believed that the peso was over valued in terms of the U.S. dollar. This belief was widely held because the exchange rate between the two currencies did not reflect differences in the rates of inflation in the United States and Mexico. During 1981, the United States' consumer price index (CPI) increased at an average annual rate of 8.9 percent, while Mexico's CPI increased at an average annual rate of 28.9 percent. Over the same period, the value of the peso fell by only 11.2 percent vis-a-vis the U.S. dollar. Frequent intervention in the exchange markets by the Bank of Mexico prevented the peso from falling to its market-determined level.

Rapid growth in Mexico's money supply, 1/ helped by the growth in dollar earnings from exports of oil, contributed to sustained inflation. Inflation, in turn, continued to weaken the international competitiveness of Mexico's non-oil exports. The over-valued peso stimulated imports, Mexican consumer purchases in stores on the United States side of the border, and vacation trips abroad. The over-valued peso made investments in U.S. real estate and money market funds more attractive. Moreover, the softening of export prices of Mexican crude oil created expectations of future balance-of-payments problems and aggravated the flight of capital to the United States. At its peak, capital outflows amounted to $100 million per day.
The following tabulation shows the number of pesos per dollar and the dollar value of the peso at the end of the years indicated:

Year	Pesos per dollar	Dollar per peso
1975	12.500	$.08000
1976	19.950	.05013
1977	22.736	.04398
1978	22.724	.04401
1979	22.803	.04385
1980	23.256	.04300
1981	26.229	.03812

During 1981, Mexico was able to borrow funds abroad because of its proven oil reserves and Pemex's drilling plans. Part of the borrowing was to support deficit spending by the Government, and part was to enable the Bank of Mexico to support the peso.

In 1981, downward pressure on the peso was so great that its dollar value declined more rapidly than in any year since 1976. (In the latter part of 1976, the Bank of Mexico had permitted the peso to float.) Finally, to curb capital outflows, promote tourism and nonoil exports, and reduce foreign borrowing needs to support the peso, the Bank of Mexico permitted the peso to float freely again, beginning in mid-February 1982. On the first day of the float, the peso declined from a value of about 3.71 cents to about 2.67 cents.

1/ An upsurge in government spending contributed greatly to the growth in the money supply. In 1981, public sector spending increased by 52.8 percent. Currency in circulation plus bank deposits increased by 45.5 percent.

Public investment and employment policies.--Mexico's growth strategy and political philosopy are embodied in its Global Development Plan (PGD) published in 1980. (The sectoral plans are implemented by development decrees). Before the prices of oil exports fell, the Government of Mexico gave a much higher priority to economic growth and job creation than to curbing inflation.

The PGD initially anticipated an average real rate of growth of gross domestic product of 8 percent per year during 1980-82; this rate was about equalled in 1979-81. Within the PGD (a combination of 13 sectoral plans) the National Employment Plan originally called for the creation of about 750,000 jobs per year during 1980-82. However, because the labor force grows by at least 750,000 persons each year, and because Mexico has high unemployment, the Mexican Government later raised its sights. It now wishes to create between 800,000 and 1 million jobs per year, in order to reduce unemployment even while the labor force is growing. In 1981, employment is believed to have increased by about 800,000 persons. Because accurate data on immigration and emigration are lacking, it is difficult to obtain precise data on unemployment. Unemployment probably was reduced slightly in 1981.

The PGD initially estimated that revenues from oil ($41 billion) would represent 22 percent of public sector revenues in 1980-82. Of the revenues from oil, 32 percent would be reinvested in Pemex. Of the remainder, 25 percent is programmed for agriculture and rural development, 24 percent for the social sector (with a high proportion going to education), 20 percent for transportation and communication, 16 percent for basic industries (other than Pemex), and 15 percent for support of programs of states and municipalities.

One of the PGD's sectoral programs is implemented through the Mexican Alimentary System (SAM), designed to improve the nutrition of the population. 1/ The 1981 budgetary allocation was about 276 billion pesos. The allocation for industrial ports was 15.3 billion pesos. These funds were to cover continued progress in dredging, the construction of rail and road access facilities, and the construction of certain buildings.

Among other sectoral goals for 1981 were the following: (1) generation of 74,769 gigawatt-hours 2/ of electricity (14 percent more than in 1980), (2) production of 3.2 million metric tons of fertilizer (45 percent more than in 1980), (3) a sugar-cane harvest yielding 2.6 million metric tons of sugar, and (4) steel production amounting to 3.7 million metric tons (18.6 percent above the 1980 level).

International Economic performance

Balance of payments: trend and prospects for 1982.--Mexico's balance of payments on current account grew negatively from the equivalent of -$4.9 billion to -$6.8 billion in 1980, and to -$11.7 billion in 1981. The balance on capital account grew positively. It amounted to $4.5 billion in 1979, $9.8 billion in 1980, and $18.2 billion in 1981. Mexico's international reserves (consisting of gold, silver, foreign exchange, and reserve position

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1/ For details about the SAM, see Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, p. 168.

2/ One gigawatt equals 1 billion watts.

in the International Monetary Fund) had a value of $3.1 billion in 1979, $4.0 billion in 1980, and $5.0 billion in 1981. These data reflect revaluation of certain reserve assets.

Following the peso-float of February 17, 1982, the Mexican Government adopted an austerity program. 1/ Under that program, the Government wishes to reduce the country's current account deficit by between $2.7 billion and $3.7 billion. For 1982, the Government also has targeted a reduction of imports by $6.0 billion. This reduction is to be divided equally between imports by the public sector and those by the private sector.

For 1982, the Government has placed an $11 billion limit on the net addition to the external debt of the public sector. In addition, it intends to limit the increase in Bank of Mexico notes in circulation to the increase in the bank's net international reserves.

Merchandise trade with major trading partners.--Mexico's merchandise exports rose from $15.3 billion in 1980 to $21.2 billion in 1981, with an increase of 38.4 percent (table 15). Imports of merchandise increased from $19.5 billion in 1980 to $29.1 billion in 1981, with an increase of 49.2 percent. The merchandise trade deficit, consequently, increased from $4.2 billion to $7.9 billion. 2/

In 1981, for at least the seventh consecutive year, the value of crude oil exports increased in absolute and relative terms. They were valued at $13.3 billion (68.7 percent of merchandise exports), compared with $9.4 billion (61.6 percent of the total) in 1980. The data indicate (1) that despite the world wide oil glut, Mexico was able to increase its earnings from oil exports, and (2) Mexico was not realizing a trade policy goal of becoming relatively less dependent on oil for export earnings.

Total exports of products other than crude oil were stagnant in 1981. Among the factors that have prevented Mexico from realizing less oil dependence are lack of international price competitiveness in many manufactured products, weakness in the agricultural sector 3/ and transportation bottlenecks. 4/

1/ This section was written before the second peso-float of 1982, which occurred on Aug. 5, 1982. In negotiating a loan from the International Monetary Fund, and the refinancing of debts to foreign commercial banks, the Government of Mexico may have to make its austerity program more stringent than originally intended.

2/ In compiling the data for 1981, the International Monetary Fund (IMF) derived preliminary data on Mexico's exports and imports from statistics reported by trading partners on their imports and exports. For prior years, the IMF used the trade data actually reported to it by the Government of Mexico.

3/ Largely because of growing domestic demand, Mexico has become a net importer of certain food products for which it used to be a net exporter.

4/ Petroleos Mexicanos (Pemex) apparently is a pace-setter in increasing the proportion of its shipments by water and by pipelines.

Table 15.--Mexico: Imports from and exports to selected countries and country groups, 1979-81

(Millions of U.S. dollars)

Country/region	1979	1980	1981
	Imports		
Developed market economies	11,113	17,858	27,391
United States	7,563	12,814	19,568
European Community	1,955	2,687	3,890
West Germany	769	1,021	1,625
France	381	543	711
Japan	790	1,039	1,869
Canada	198	371	670
Spain	223	445	587
Nonoil developing countries	833	1,073	1,040
Total world	12,086	19,529	29,132
	Exports		
Developed market economies	7,598	12,537	18,730
United States	6,252	9,688	12,730
European Community	522	1,014	1,945
West Germany	213	256	274
France	72	272	666
Japan	248	563	1,305
Canada	75	163	797
Spain	458	1,062	1,808
Nonoil developing countries	1,020	2,043	1,676
Total world	8,983	15,340	21,233

Source: International Monetary Fund, _Direction of Trade Yearbook_, 1982.

On the import side, reflecting continued economic growth and development, Mexico's imports of capital goods increased from $5.3 billion in 1980 to $7.5 billion in 1981. Imports of nonprocessed agricultural products were valued at 3.5 billion dollars in 1981, compared with 3.3 billion in 1980.

Mexico has not yet reported its 1981 trade data by country of origin and destination. However, the (IMF) has estimated the 1981 data; they are included in table 14. 1/ They are not strictly comparable with the IMF-published data for other years, because the earlier data are official Mexican statistics that were reported to the IMF. The estimated data, however, are useful in compiling the percentage distribution of trade.

Among other things, the estimated data indicate that in 1981, developed, market-economy countries ("Industrial Countries") supplied 94.0 percent of Mexico's imports. Countries that the IMF identified as "Non-Oil Developing Countries" supplied 3.6 percent of Mexico's imports. Imports from other sources were negligible. The developed, market-economy countries received 88.2 percent of Mexico's exports, and the "Non-Oil Developing Countries" received 7.9 percent. Exports to other classes of countries were negligible.

The IMF-compiled data indicate that, in 1981, the United States supplied 67.2 percent of Mexico's imports and received 60.0 percent of Mexico's exports. Japan was Mexico's second-leading supplier (6.4 percent of imports) and third-leading customer (6.1 percent of exports). West Germany, the third-leading supplier (5.6 percent) was the eighth-best customer (1.3 percent). Spain, Mexico's seventh-ranked supplier (2.0 percent of imports), was Mexico's second-best customer (8.5 percent of exports). In 1981, Canada achieved increased rank among Mexico's trading partners. It was in fourth place as both a supplier (2.3 percent of Mexico's imports) and a customer (3.8 percent of Mexico's exports). The members of the European Community supplied 13.4 percent of Mexico's imports and received 9.2 percent of Mexico's exports.

U.S. Government-compiled data indicate that, U.S. imports 2/ from Mexico were $8.8 billion in 1979, $12.5 billion in 1980, and $13.7 billion 1981. U.S. exports to Mexico were $9.7 billion in 1979, $14.9 billion in 1980, and $17.4 billion in 1981. Mexico's deficit on merchandise trade with the United States thus increased sharply in 1981.

U.S. exports to Mexico exceeded U.S. imports from that trading partner by $0.9 billion in 1979, $2.4 billion in 1980, $3.7 billion in 1981. In 1981, exports to Mexico accounted for 7.6 percent of total U.S. exports; imports from Mexico, for 5.3 percent of total U.S. imports. Mexico continued to rank as the third largest trading partner of the United States, after Canada and Japan. As previously indicated, a very high proportion of Mexico's international trade is with the United States.

The leading imports from Mexico in 1981 compared with data for 1979-80, are shown in Table 16.

1/ IMF made its estimates by (1) deriving Mexico's imports and exports from the full-year export and import data reported by developed and certain other countries, and (2) extrapolating partial-year data of other trading partners.

2/ In the official U.S. statistics, imports are imports for consumption at customs value; exports are U.S. domestic exports at f.a.s. value.

Table 16.--10 leading items in U.S. imports for consumption from Mexico, 1979-81

(In millions of dollars)

TSUS Item No.	Description	1979	1980	1981
475.10	Crude petroleum (including reconstituted crude petroleum) with or without additives, testing under 25 degrees A.P.I.	3,011	4,572	3,942
475.05	Crude petroleum (including reconstituted crude petroleum), with or without additives, testing 25 degrees A.P.I. or more	28	1,423	2,240
475.15	Natural gas, methane, ethane, propane, butane, and mixtures thereof	6	552	652
653.22	Metal coins 1/	124	196	423
114.45	Shellfish other than clams, crabs and oysters. 2/	317	338	316
685.15	Printed circuit boards and ceramic substrates with components assembled thereon for color television receivers; subassemblies (not having apicture tube) containing oneor more of such boards or substrates. 3/	150	230	266
160.10	Coffee, crude, roasted or ground	411	302	246
605.20	Gold or silver bullion dore, and gold or silver precipitates	248	268	209
685.90	Electrical switches and certain other apparatus for making or breaking electrical ciruits.	119	146	190
137.60	Tomatoes entered Mar. 1-July 14 or Sept. 1-Nov. 14, any year. 4/	89	82	177

1/ Coins not in current circulation and not imported for monetary purposes.
2/ Fresh, chilled, frozen, prepared or preserved (including pastes and sauces).
3/ Entered with components, (except tuners or convergence assemblies enumerated in headnote 3(b)(i) of Part 5, TSUS.
4/ Imports from Mexico, irrespective of season, were $153 million in 1979, $131 million in 1980, and $237 million in 1981.

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

Among other important U.S. imports from Mexico in 1981 were certain parts of motor vehicles; other television apparatus and parts; ignition wiring sets for motor vehicles; certain other printed circuit boards and ceramic

substrates; sulfur; cabinets, antennas, deflection yokes, and certain other parts of television receivers; parts of calculating machines, cash registers, automatic data processing machines, and certain other equipment; certain generators and parts, parts of transformers and certain motors; and certain insulated electrical conductors, with fittings.

A significant share of U.S. imports from Mexico consists of articles entered under TSUS items 806.30 and 807.00, which provide for duty-free treatment of U.S. components or processing that is incorporated in an imported product. Item 806.30 applies to nonprecious-metal articles, (1) made or processed in the United States, (2) exported for more processing abroad, and then (3) returned to the United States for further processing. Item 807.00 applies to articles that are assembled abroad in whole or in part of U.S.-made components, and then imported into the United States. The dutiable value in these cases is only the value added abroad. 1/

In 1981, U.S. imports from Mexico under item 806.30 totaled $53.7 million, of which the dutiable value (value added in Mexico) was $15.4 million. The duty-free value (U.S. content) was $38.4 million. In the same year, U.S. imports from Mexico under item 807.00 totaled $2.7 billion, of which $1.3 billion was dutiable value and $1.4 billion was duty-free value.

Also in 1981, Mexico continued to benefit from preferential access to the U.S. market for many items eligible for duty-free tariff treatment under the GSP. 2/ In 1981, duty-free U.S. imports from Mexico under GSP were valued at $633.0 million.

Of the five countries (Taiwan, Hong Kong, the Republic of Korea, Mexico, and Brazil) that were affected by the administration's Policy of discretionary "graduation" of more advanced developing countries from GSP preferences in 1981, Mexico was the least affected. It was graduated on two items: TSUS item 147.98, mangoes entered during November 1-April 30 of any consecutive years; and TSUS item 652.84, springs and spring leaves, suitable for motor vehicle suspension. Mexico had been excluded from GSP eligibility on both of these items in 1980 under the mandatory "competitive need" tests of the GSP law. Both items had been eligible for redesignation on March 31, 1981.

The leading U.S. exports to Mexico in 1981 are shown in table 17.

Among other important U.S. exports to Mexico in 1981 were certain structures and parts, of iron or steel; television apparatus; soybeans; wheat; certain machinery, equipment and parts for farm operations; certain machine tools; generators; parts of calculators and of automatic data processing machines; certain sugars, sirups, or molasses; and certain mobile construction equipment, including cranes and trucks mounted with derrick assemblies or similar drilling equipment.

1/ For an in-depth statistical treatment of imports under these items, see the U.S. International Trade Commission's report, Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1977-80. Publication 1170, July 1981).

2/ For more details on the operation of the GSP system, see ch. 5 of this report.

Table 17.--10 leading items in U.S. exports to Mexico, 1979-81

(In millions of dollars)

Schedule B No.	Description	1979	1980	1981
692.29	Chassis and parts, n.s.p.f., for motor vehicles (except motorcycles).	672	963	1,334
694.40	Aircraft	198	364	641
130.34	Corn, seed for planting	116	680	452
664.05	Mechanical shovels, n.s.p.f.	350	349	428
130.40	Grain sorghum	160	331	340
685.90	Electrical switches and certain other apparatus for making or breaking electricial circuits.	165	236	306
140.08	Pinto beans, excluding seeds.	8	175	262
687.60	Electronic tubes, not TV	176	227	242
660.54	Parts of compression-ignition engines.	263	281	237
652.91	Iron or steel structures and parts	58	142	235

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

Major trade issues and policy developments

Deliberalization of policy on regulation of imports.--For balance-of-payments reasons, Mexico reversed its policy (initiated in 1977) of gradual liberalization of its customs treatment of imports.

On March 24, 1981, Mexico announced the reestablishment of the prior import licensing requirement for, or imposition of an embargo on, 63 import classifications regarded as luxury items.

On June 26, 1981, Mexico announced the reimposition of its import licensing system on several hundred import classifications, including certain capital goods and certain automobile parts. In late July and early August, the Government announced reimposition of licensing for 38 additional import classifications.

On December 30, 1981, Mexico announced a 2-year extension of import-licensing requirements for 834 import classifications that had been due to expire at the end of 1981. (On Dec. 22, 1981, the Government had also announced a 2-year extension from Dec. 31, 1981, of the prior export licensing requirement for 365 export classifications.)

As of January 1, 1982, 5,794 import classifications, that accounted for an estimated 20 percent of the value of 1981 imports, were not subject to the prior import licensing requirement; 2,083 classifications, representing an estimated 80 percent of the value of 1981 imports, were subject to import licensing.

In bilateral discussions in 1981, the United States recommended the removal of many import classifications from Mexico's import licensing list. Among them were milk pasteurizers; cotton harvesters; cane harvesters; hydraulic drilling equipment for water wells; automatic machines for data information, weighing in excess of 40 kilograms; peripheral equipment for certain data processing machines; various classifications of telephone, telegraph, radio, and television transmitting and receiving equipment; fresh beef and veal (U.S. interest: high-quality meat for the hotel trade); frozen beef and veal (same interest); several classifications of nuts; apples; pears; cherries; and unspecified food preparations (U.S. interest: canned fruits and vegetables). At the time of the bilateral discussions, some of these products were not produced in Mexico, or were not produced in sufficient quantities to satisfy domestic demand.

Mexico also increased import duty rates on hundreds of tariff items during the year. Mexico has no international obligations that would interfere with its raising its duty rates. Most of the tariff changes occurred after Pemex reduced its export price for Maya-grade crude oil in early June. During July 18, 1981-January 18, 1982, Mexico changed its rates of import duty on 1,198 tariff items. Although duties were reduced on a small number of items, most of the new rates were 60 to 80 percent higher than the old rates.

"Local content" and export requirements for the automobile industry.--Mexico's 1977 Decree for the Promotion of the Mexican Automotive Industry 1/ furthers a policy of (1) protecting domestic manufacturers of automobile parts and components; (2) promoting their growth through exports, to achieve economies of scale, and (3) of aiming for a positive balance of trade in automobiles, parts, and components. 2/

For each of Mexico's seven automakers--Volkswagen, Chrysler, Ford, General Motors, Nissan, Vehiculos Automotores Mexicanos (VAM), and Renault--there are "local" (domestic) content requirements. 3/ The degree of Mexican content (local integration) is defined by each car model, not by a company's average for its total output of vehicles.

Each Mexican producer (assembler) of a complete automobile must have an annual foreign exchange budget authorized by the Automotive Industry Regulatory Commission (established by the 1977 Automotive Decree). Each company's foreign exchange budget is derived from a complex formula based on:

1. The historical foreign exchange position of each company;
2. The extent of Mexican ownership;
3. Mexican content;
4. Export performance.

1/ The 1977 decree is the successor to the Automotive Integration Decree, published in 1962.

2/ For the purpose of at least balancing exports with imports, imports include both goods and services (interest, royalties, and so forth).

3/ All of the Mexican assemblers are affiliated with multinational corporations. VAM is affiliated with American Motors and has a joint venture with Banco Somex and another with Renault of France.

The 1977 decree identifies approved models. Mexican-majority-owned firms may produce additional models without seeking approval, but foreign-majority-owned firms must first obtain the approval of the Foreign Investment Commission. If a company meets its balance of payments and local content goals, the Government continues its export incentives, duty exemptions, and tax credits.

Because the Mexican demand for automobiles generally has outpaced domestic production in recent years, 1/ and because auto operations in Mexico have been profitable, the incentive for producers to expand their manufacturing capacity in Mexico has been strong. In the latter part of 1980 and during 1981, U.S. auto producers announced plans to build more manufacturing facilities in Mexico. They also revealed plans to import certain car components, production equipment, and materials from the United States. Investment plans included a General Motors engine plant, a Chrysler engine plant, a Ford aluminum cylinder head plant, a Ford window plant, and a Ford plastics plant. In addition, General Motors announced that it was negotiating with a Mexican company to establish a joint venture for the production of heavy-duty diesel engines. Presumably, these engines will be used in large trucks and intercity buses.

A new plant, owned by an affiliate of Eaton Corp., was expected to be completed by the end of 1981. The plant is designed to produce automotive engine valves and axle housings. Eaton indicated that the valves would be made for engines produced in Mexico and exported to the United States for final assembly; that the customers would be Chrysler, General Motors, and Volkswagen. An Eaton spokesman said that the company's 40-percent-owned affiliate would double its production of rear axles, and that the added production must take place in Mexico, not the United States, to enable the affiliate to meet Mexico's content requirements. 2/

Content requirements for computers.--In December 1981, under its Computer Industry Development Program, Mexico's Ministry of Patrimony and Industrial Development began to negotiate agreements with various manufacturers of computers and parts. The agreements contain commitments on the use of Mexican-made components, and on the relationship of the manufacturers' imports to their production. Mexican manufacturers of mainframes and minicomputers may be 100-percent foreign-owned if the Mexican operations use a high proportion of Mexican-made components. However, makers of small business and personal computers must be of majority Mexican ownership.

The agreements provide that, for each manufacturer of computers, the ratio of its import quota to its production in Mexico is four-to-one for the first 2 years that the agreement is in effect. The ratio is two-to-one for the next 2 years, and one-to-one for the third 2-year period.

For the first 3 years, the ratio of imports by manufacturers to imports by distributors is 50-50 during the first year, 60-40 during the second year, and 70-30 in the third year.

1/ During 1976-79, for example, output grew at annual rates between 15 and 25 percent.

2/ American Metal Market, Aug. 18, 1980.

For importer/distributors, the ratio of their import quotas to their sales of Mexican-made products is three-to-one during the first 2 years, two-to-one during the next 2 years, and less than one thereafter. The program also embodies recommended local content percentages for individual types of computers and for certain peripherals.

U.S.-Mexican bilateral issues

Domestic content and export performance requirements.--Mexico's domestic content and performance requirements have been and are an important issue on the agenda of bilateral discussions between the United States and Mexico. The Mexican requirements contain an obligation to maintain a certain relationship of local content to the value of output, and/or a certain ratio of exports to imports of related products.

In 1981, in bilateral discussions, the United States indicated its opposition to performance requirements. It was and is the position of the United States that such practices distort markets and capital flows, and that they shift the burden of employment adjustment to workers in the United States. In registering its opposition in 1981, the United States focused on Mexico's auto decree. The Mexican delegation stressed the impact of Mexico's imports of auto parts on its trade deficit, and the need to achieve economies of scale to enter export markets. In a spirit of accommodation, the delegations agreed to establish a sector working group for automobiles.

U.S. countervailing duty investigations and Mexico's desire for an injury test.--As indicated in the Commission's previous report on the operation of the trade agreements program, Mexico wants a material injury test in connection with any countervailing duty investigation of its products. However, Mexico is not a signatory to the GATT subsidies code, and it has not made commitments that would parallel the GATT code. Currently, Mexico has various subsidies for the purposes of stimulating exports and industrial development. The subsidies issue has continued to be on the agenda of bilateral meetings.

Mexico's system of subsidies includes tax related subsidies, credit related subsidies, and subsidies on inputs. The tax rebate that most affects exports is embodied in the system of "CEDIs" (Certificados de Devolucion de Impuestos). 1/ Another tax rebate is called "CEPROFI" (Certificates of Fiscal Promotion), a nontransferable tax credit that can be used to liquidate tax liabilities. These certificates serve a variety of purposes; some CEPROFI's are used to promote exports.

Credit programs to stimulate exports are run by FOMEX, a dependency of the central bank that helps finance export sales and imports of goods used in the production of exports. Interest rates are below market rates.

The U.S. Department of Commerce considers these subsidies as elements to be taken into account in its countervailing duty investigations of imports from Mexico.

1/ A CEDI is granted as a percentage of the f.o.b. value of an export shipment.

The Government of Mexico regards its program of subsidies as important stimuli to exports and/or means for restraining certain inflation indices. Although subsidies have had these effects, they have also contributed importantly to public sector deficits.

During 1981, the U.S. Department of Commerce completed a CVD investigation concerning imports of leather wearing apparel from Mexico, rejected a petition for a CVD investigation of toy balloons and playballs from that country, and initiated a CVD investigation of imports of Mexican ceramic tile.

In the leather wearing apparel case, Commerce made an affirmative determination and imposed countervailing duties in the amount of 5 percent of the f.o.b. value of these items retroactive to March 24, 1981.

Countervailing duties are imposed on duty-free items only after there is an affirmative determination of injury to a U.S. industry, provided the products are from a country with which the United States has an international obligation to prove an injury test. Toy balloons from Mexico enter duty-free under the GSP. A petition to the Department of Commerce for a countervailing duty investigation of toy balloons from Mexico was rejected by Commerce as deficient because it did not contain an allegation of injury, together with supporting information. The petitioner challenged Commerce's action in the Court of International Trade on the basis that the United States had no international obligation to provide an injury test for Mexican products. Commerce subsequently revised its position to agree with the petitioner. 1/

On October 5, 1981, Commerce instituted a CVD investigation of ceramic tile from Mexico. At yearend, this investigation was still in progress.

Renewal of agricultural purchase agreement.--On December 3, 1980, Mexico agreed to purchase between 6.1 million and 8.2 million metric tons of U.S. agricultural commodities in 1981. During 1981, Mexico actually imported 8.2 million metric tons of agricultural products from the United States.

On June 9, 1981, the two Governments agreed that Mexico would purchase at least 4.57 million metric tons of U.S. agricultural commodities during 1982. The 1982 agreement is for much smaller quantities than the 1981 pact because of improved harvests in Mexico.

The 1981 agreement provides for the following minimum levels of U.S. sales to Mexico:

1/ In 1982, a second petition was submitted and Commerce instituted a countervailing duty investigation on June 1, 1982.

Commodity	Quantity 1,000 metric tons
Sorghum	2,200
No. 2 corn	1,500
Wheat	500
Soybeans	100
Cotton seed	100
Non-fat dry milk	75
Rice	50
Tallow	45
Total	4,570

Mexican purchases under this agreement are shared by CONASUPO (the Government's basic commodities agency) and the private sector. For the United States, the Department of Agriculture provides certain amounts of free telex time to enable U.S. companies to learn of marketing opportunities, and to submit bids. Otherwise, the U.S. Government is not involved in these transactions.

Bilateral meetings and consultations

Establishment of the U.S.-Mexico Joint Commission on Commerce and Trade and the Binational Secretarial Commission.--In June 1981, during a meeting at Camp David, Presidents Reagan and Lopez Portillo agreed to establish the aforementioned commissions. They superseded the Consultative Mechanism that President Carter and President Lopez Portillo had established in 1977. The Joint Commission (JCCT) is headed by U.S. Secretary of Commerce Malcolm Baldrige and U.S. Trade Representative William Brock, for the United States, and by Minister of Commerce Jorge de la Vega for Mexico. The Secretarial Commission was headed by U.S. Secretary of State Alexander Haig and Mexican Minister of Foreign Affairs Jorge Castaneda de la Rosa.

The JCCT held its first meeting on September 21-22, 1981 in Mexico City. The two delegations included high-level officials with responsibilities in the areas of trade, energy, labor, international relations, agriculture, finance and economic development.

The two delegations agreed to establish a framework for dealing with the issue of Mexican export incentives and U.S. countervailing duty laws. The two sides also discussed Mexico's export performance and domestic content requirements, and their impact on the U.S. auto industry. They agreed to establish working groups on automobiles, computers, petro-chemicals, and textiles. 1/

The issues of transportation and delays to border-crossing traffic were discussed. It was agreed that the Joint Commission would form a group to find means for streamlining Mexican visa regulations and customs and border procedures.

1/ In 1982, it was agreed that the working group on textiles would not be established.

Other issues discussed in this meeting were Mexico's exports of steel products, U.S. sales of silver from the National Defense Stockpile, the GSP program, and cooperation in the field of nuclear energy. 1/ The two delegations agreed to continue their meetings on all problems at the technical level. They also drafted a work program to be implemented before the Commission's next meeting, expected to be held in the spring of 1982. Later, a meeting of the Commission's Technical Secretariat was scheduled for February 15 to 16, 1982.

Since the September meeting, the JCCT has established the Sectoral Studies Working Group, with subgroups (ad hoc study groups) on computers, automobiles, and petrochemicals.

The computer group (now known as the Electronics Sector Study Group) will provide information on the development of the industry in the two countries, and on technology and research, policies of the two Governments in the areas of trade and investment, U.S. restrictions on the transfer and use of technology, policies for product standards, and various policies of the principal electronic firms of the two countries.

The Automotive Sector Study Group's work program includes an examination of the legislation and policies of the two Governments, government support for domestic manufacturers of automobiles and parts, policies on and results of fuel-saving programs, regulations on reducing air pollution, automotive safety measures, and statistical projections for the auto industry for the next 5 years.

The Petrochemicals Sector Study Group's work program consists of the exchange of information on the development and outlook for the basic and secondary petrochemicals industries in each country.

The Binational Secretarial Commission met at the ministerial level in September and November 1981, and scheduled its next meeting for March 1982. This Commission deals with overall relations between the two countries.

Among the trade-related issues that this Commission has discussed have been President Reagan's Caribbean Basin Initiative, the still-unsettled fishing dispute between the United States and Mexico, border area relations (border-crossings, sanitation, water use, housing and urban development, natural disaster preparedness, and so forth), countervailing duties, GSP,deliberalization of tariff and licensing regulations, business visas, the Multifiber Arrangement, and market access for agricultural products.

Mexico's observer status in GATT.--Although Mexico is not a member of the GATT, it holds observership status in GATT code committees on import licensing, technical barriers to trade (standards), antidumping, and subsidies and countervailing duties. It also is an observer in the International Council for Bovine Meats and the International Council for Dairy Products.

1/ The staffs of the Joint Commission have identified 25 issues or topics that one or both governments wish to discuss.

Status of bilateral trade agreements

Textiles.--By an exchange of letters on December 23 and 24, 1981, the two Governments extended the term of their bilateral textiles agreement for 4 years to December 31, 1985. 1/ As amended and extended, the agreement provides specific restraint levels, for certain products of cotton and man-made fiber wearing apparel made in Mexico and exported to the United States. These articles are women's, girls' and infants' cotton coats; men's and boys' cotton trousers; women's, girls', and infants' cotton trousers; and woven blouses of man-made fibers for women, girls, and infants.

Oil and gas.--During 1981, the U.S.-Mexico agreement that provided a framework for the pricing of Pemex's natural gas exports to the United States was unchanged. Pursuant to the escalation formula in a contract between Border Gas, Inc., and Pemex, the price was increased during the year, from $4.47 per 1,000 cubic feet to $4.94 2/.

In August 1981, the U.S. Department of Energy and Pemex signed an agreement for the purchase of Mexican crude oil for the U.S. Strategic Petroleum Reserve. The agreement originally provided that the prices paid for the oil would be Pemex's regular export prices for Maya crude and Isthmus crude, subject to change each calendar quarter. Later, the agreement was amended to make prices subject to change on a monthly basis.

The oil purchase agreement provided that Pemex would supply the U.S. Government with 200,000 barrels of crude oil per day during September 1-December 31, 1981, and with 50,000 barrels per day during January 1, 1982-July 31, 1986. Over the life of the agreement, Pemex is to supply 110 million barrels of crude oil to the U.S. Government.

During September 1-December 1981, Pemex supplied 18 million barrels of Maya crude and 6 million barrels of a blend of Maya and Isthmus crudes. It was agreed that, after 1981, the U.S. Government would purchase both Maya and Isthmus-grade crudes in the unblended condition.

Nonmarket Economy Countries

Developments in East-West Trade

The year 1981 was marked by a number of events that illustrate the changeable nature of the East-West trading relationship. It began with the economic sanctions previously imposed by President Carter following the Soviet

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1/ The Bilateral Cotton, Wool, and Man-Made Fiber Textile Agreement of Feb. 26, 1979. In negotiating this agreement, the provisions of the Arrangement Regarding International Trade in Textiles (Mulfiber Arrangement of MFA) were taken into account.

2/ Border Gas, Inc., a consortium of six U.S. pipeline companies, is the sole U.S. importer of natural gas from Mexico. From time to time, the Economic Regulatory Administration, U.S. Department of Energy, has authorized Border Gas to pay increased prices. The Department's Federal Energy Regulatory Commission regulates Border Gas' prices to its customers.

invasion of Afghanistan still in effect. 1/ During 1981 there was a lessening of East-West tensions, and then the year came to a close with a resumption of sanctions against both U.S.S.R. and Poland in response to the December imposition of martial law in the latter country.

Relaxation of the trade embargo on the U.S.S.R.--On April 24, 1981, President Reagan suspended the economic sanctions that had been imposed against the Soviet Union 15 months earlier by President Carter. The sanctions limited U.S. exports of agricultural products and fertilizers affecting Soviet feed and livestock production. A partial embargo was in effect for grains, limiting these exports to the 8-million-ton-a-year minimum stipulated in the 1975 U.S.-U.S.S.R. grain supply agreement. A full embargo covered U.S. sales of soybeans and phosphatic fertilizers. The April action permitted sales of the previously restricted products to resume and restored commercial relations in grain trade--the most significant sphere of commerce between the two countries.

Extension of grain agreement with Soviets.--With the April relaxation of the economic sanctions, the possibility for the resumption of grain sales above the 8 million ton minimum allowed for the 1980/81 agreement year was opened. The first consultation on grain trade following the lifting of the embargo took place in June. At this time the United States authorized the Soviets to purchase an additional 6 million tons of U.S. grain for the then-current "agreement year" (i.e. for delivery prior to Sept. 30, 1981.) An additional 6 million tons was authorized for delivery after September 30, 1981 as well. The long-term grain supply agreement was scheduled to expire on that date, so the 6 million ton authorization provided the Soviets with the assurance of some U.S. grain to meet their severe domestic supply problems, occasioned by their second successive poor grain harvest.

Grain sales by the United States to the Soviet Union have been governed in recent years by the terms of the 1975 U.S.-U.S.S.R. grain supply agreement. The agreement was devised to smooth out the wide fluctuations in Soviet grain purchases, which had been affecting the U.S. market. Under the agreement, the United States is committed to offer to sell at least 8 million metric tons of grain in each October 1-September 30 agreement year, through September 30, 1981. Sales above this level were subject to U.S. Government authorization. The Soviet Union was committed to buy at least 6 million metric tons per agreement year.

The prospects for any new grain supply agreement to replace the one expiring in September 1981 were clouded by the embargo. Although negotiating conditions may have been enhanced by the termination of the trade ban, agreement on a new pact was not reached. Instead, in August 1981 the United States and the Soviet Union agreeded to extend the terms of the 1975 agreement for one year. Grain sales through September 30, 1982, thus came under the terms of the existing agreement. A September 1981 meeting of the parties resulted in the United States making an additional 15 million tons available for Soviet purchase. The offer raised the volume of U.S. grains the Soviets could buy during the 1-year extension to 23 million tons.

1/ For a more complete discussion of the sanctions imposed in early 1981, see 25th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1980, hereafter 25th Quarterly Report . . ., USITC Publication 1136, March 1981, pp. 49 and 53ff.

Martial law and additional sanctions.--Following the imposition of martial law in Poland on December 13, 1981, President Reagan took a number of economic steps against both Poland and the Soviet Union.

Among the actions against Poland outlined on December 23rd were (1) the suspension of U.S.-financed shipments of agricultural and dairy products; 1/ (2) the withdrawal of Poland's fishing privileges in U.S. waters; (3) the suspension of Poland's civil aviation privileges in the United States; and (4) the prohibition of renewed Eximbank export credit insurance for loans to Poland.

On December 29th a number of economic sanctions directed toward the Soviet Union were announced. These measures included: (1) the suspension of all export licenses (either issuance or renewal) for electronic equipment, computers, and other high-technology materials; (2) an expansion of the list of oil and gas equipment for which licenses for export are required, accompanied by a suspension in the issuance of all such licenses; (3) the postponement of negotiations on a new long-term grains agreement; and (4) suspension of negotiations on a new U.S.-Soviet maritime agreement. In addition, civil aviation privileges were suspended, and any exchange agreements slated for renewal were also postponed.

Textile agreements.--In 1981, the United States concluded bilateral textile accords with two Eastern European countries. A 4-year agreement with Poland covering U.S. imports of cotton, wool and manmade-fiber textiles and textile products was concluded in January 1981. Another 4-year agreement with Romania covering trade in wool and manmade fiber textiles and textile products was concluded in March 1981. A 5-year agreement with Romania covering cotton textiles and apparel, originally signed in 1978, remained in force during 1981. These bilateral agreements are patterned after those concluded with other countries under the Multifiber Arrangement (MFA).

The 3-year textile agreement with China signed in September 1980 continued in effect during 1981. It covers products similar to those encompassed by the textile agreements with Poland and Romania.

Settlement of Czech claims.--In late 1981, a commercial dispute that had been pending for more than 30 years was finally settled. At issue was an agreement under which U.S. financial claims against Czechoslovakia (claims that resulted from the nationalization of U.S. property in that country in 1948) were settled in return for the release of Czech gold held by the allies after its recovery from Germany in World War II. The link between the return of the gold and the settlement of U.S. claims was made by the United States shortly after World War II in an effort to provide leverage in negotiating a settlement for the U.S. corporate investments, bank accounts and other property of U.S. citizens that had been nationalized or confiscated by the Communist Government of Czechoslovakia. A settlement between the United States and Czechoslovakia was reached in November and was approved by Congress in December.

The settlement removes a hurdle, specifically erected by section 408 of the Trade Act of 1974, to consideration of granting MFN tariff treatment to

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1/ In fiscal year 1981 (Oct. 1, 1980-Sept. 30, 1981) the Commodity Credit Corporation used nearly one-third of its entire annual credit authorization to guarantee food and grain exports to Poland. This amounted to some $670 million.

Czechoslovakia. Congressional approval of the 1981 agreement does not mean that such status will be granted, but only that the President may now consider a request for MFN tariff treatment should the Czechs make one.

Extension of MFN treatment to Romania, Hungary, and China.--Under the provisions of title IV of the Trade Act of 1974, the United States may grant most-favored-nation (MFN) status to a Communist country only if special conditions, including progress toward a liberal emmigration policy, are met. The principal benefit of receiving MFN status is the application of column 1 duty rates, the most favorable general duty rate, on sales to the United States. The generally higher rates in column 2 of the TSUS apply to imports from Communist countries that do not have MFN status.

In June 1981, the President recommended that Congress extend for 1 year his authority to waive the freedom of emigration requirements of the Trade Act of 1974 and requested a continuation of the specific waivers extending MFN tariff treatment to Romania, Hungary and China. Congress held hearings on the matter, but no resolution of disapproval of the waiver extensions was adopted by either house. MFN was therefore automatically extended to the three countries through July 3, 1982. Poland also has MFN status, but because it was granted before enactment of the Trade Act of 1974, no yearly congressional review is required. 1/

U.S.-NME trade in 1981

The trade turnover (exports plus imports) between the United States and the nonmarket economy countries (NME's) rose by almost 12 percent in 1981, reaching $11.2 billion. This was a significant increase over the 3-percent gain recorded in 1980, but considerably below the 53-percent rise of 1979. Dramatic earlier increases in U.S.-NME trade were accounted for by a sizable expansion in U.S. trade with China. This development of trade and commercial relations culminated in China's becoming the principal NME trade partner of the United States in early 1980; it remained first in 1981.

The 1981 increase in U.S.-NME trade was led by a 39-percent increase in U.S. imports from the NME's. U.S. exports to the NME's increased slightly, by 3.3 percent compared to a 5.7-percent increase in total U.S. exports to all markets for the year. The rise in the value of the dollar during the year made imports more attractive to U.S. consumers and exports more difficult to sell abroad. The positive merchandise trade balance that the U.S. traditionally enjoys with the nonmarket economies also declined in 1981, to a level of $4.5 billion. This was a 13.6-percent drop, which was much less than the change in the global trade balance of the United States last year. Nevertheless, this was the lowest positive trade balance with this group of countries in 3 years. The positive balance with the NME's reflects the dependence of a number of these countries on U.S. exports of agricultural products and certain technologically sophisticated items.

1/ The United States applies the generally higher col. 2 rates of duty to imports from the U.S.S.R., Bulgaria, Czechoslovakia, East Germany, Albania and Mongolia. Trade embargoes continue to be in force against the Communist countries of Cuba, the People's Republic of Korea, Vietnam and Democratic Kampuchea.

The NME's accounted for 3.4 percent of total U.S. exports in 1981 and were the source of 1.3 percent of U.S. imports during the year. The value of U.S. trade with the major NME's during 1979-81 is shown in table 18.

China.--The United States in 1981 continued to be a significant trading partner of China; among developed countries it is second only to Japan. The value of U.S.-Chinese trade doubled in 1979 and again in 1980. Trade turnover increased by 13.4 percent in 1981 to a level of $5.4 billion. Exports to China declined slightly during the year while imports increased by 76 percent (table 18). The U.S. surplus in bilateral trade was $1.8 billion, almost $1 billion less than the surplus recorded in 1980. This still represents about 40 percent of the total surplus that the U.S. enjoys with the NME's as a group. In 1981, the United States accounted for 17 percent of China's overall imports and 9 percent of her total exports. 1/

The 4-percent decrease in U.S. exports to China in 1981 can be attributed in part to China's continuing readjustment of its economic development plans. A combination of domestic economic problems, including rapid inflation and a shortage of foreign exchange, resulted in cutbacks in a number of investment projects originally approved as part of China's modernization plan. The financial austerity has caused cancellation of almost all major capital construction projects with a concomitant decrease in imports of capital goods. Given the continuing Chinese emphasis on controlling spending and curbing inflation, it is unlikely that U.S. exports to China will soon return to the growth levels of the recent past.

U.S.S.R.--U.S. trade with the Soviet Union in 1981 continued to be influenced by the partial grains embargo originally applied in 1980 in response to the Soviet invasion of Afghanistan. Trade between the United States and the Soviet Union increased by 39 percent, from $1.9 million in 1980 to $2.7 billion in 1981. Part of this increase is the result of the previously discussed suspension of the embargo in April, 1981. U.S. exports to the Soviet Union in 1981 were valued at $2.3 billion, an increase of nearly 55 percent over those of 1980; U.S. imports from the Soviet Union amounted to $357 million, a decrease of 17 percent from those of the previous year (table 18). Neither sales to the Soviet Union nor purchases from the country have yet returned to their pre-embargo levels of 1979. The nearly 2 billion dollar trade surplus that the U.S. enjoyed with the U.S.S.R. in 1981 accounted for 44 percent of the overall positive balance registered with the nonmarket economy countries.

Since over 60 percent of bilateral trade is accounted for by agricultural goods--mostly U.S. grain shipments to the Soviet Union--developments in this area contribute significantly to changes in the volume of commerce between the two countries. In 1981, the Soviet Union experienced its worst grain harvest since 1975, resulting in the need for massive imports. Over $1.6 billion in U.S. grain was delivered to the U.S.S.R. in 1981 under the grain supply agreement and other provisions. Grain exports constituted 64 percent of all U.S. exports to the Soviet Union.

In 1979, the United States ranked second as a Western supplier of goods of all types to the Soviet Union. In 1980, owing to the effect of the sanctions, that position dropped to seventh. A partial recovery took place in

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1/ Business China, June 16, 1982, p. 85.

Table 18.--U.S. exports, imports and trade balance with selected NME trading partners, 1979-81

(In millions of United States dollars)

Country/region	Exports			Imports			Trade Balance		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
China	1,717	3,749	3,599	549	1,039	1,830	1,168	2,710	1,769
U.S.S.R	3,604	1,510	2,339	873	430	357	2,731	1,080	1,982
Eastern Europe	2,056	2,332	1,899	983	957	1,185	1,073	1,375	714
Poland	786	710	681	426	415	360	360	295	321
Hungary	78	79	78	112	104	128	-34	-25	-50
East Germany	355	477	296	36	43	45	319	434	251
Czechoslovakia	281	185	82	50	61	67	231	124	15
Romania	500	720	504	329	311	559	171	409	-55
Bulgaria	56	161	258	30	23	26	26	138	232
Total	7,377	7,591	7,837	2,405	2,426	3,372	4,972	5,165	4,465

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

Note:--Because of rounding, figures may not add to the totals shown.

Table 19.--China: Imports, exports with major trading partners and with the world, 1979-81

(in millions of United States dollars)

Country/region	1979	1980	1981
	Imports		
Developed countries:			
EC	3,171	2,653	2,480
Canada	558	816	854
Japan	4,041	5,620	5,584
United States	1,896	4,131	3,963
All developed countries	11,180	14,849	14,116
Developing countries:			
Oil-exporting countries	80	216	186
All developing countries	3,071	4,828	5,252
Total 1/	14,252	19,677	19,368
	Exports		
Developed countries:			
EC	1,679	2,389	2,313
Canada	143	132	183
Japan	2,667	3,951	4,803
United States	597	1,059	1,875
All developed countries	5,588	8,147	9,884
Developing countries:			
Oil-exporting countries	955	1,182	1,238
All developing countries	6,429	8,939	10,005
Total 1/	12,018	17,087	19,889

1/ The data do not reflect trade among nonmarket economies.

Source: Direction of Trade Statistics Yearbook, 1982, International Monetary Fund, pp. 119 and 120.

Table 20.--U.S.S.R.: Imports, exports with major trading partners and with the world, 1979-81

(In millions of United States dollars)

Country/region	1979	1980	1981
	Imports		
Developed countries:			
EC	8,711	10,528	8,842
Canada	646	1,303	1,492
Japan	2,443	2,796	3,253
United States	3,616	1,513	2,431
All developed countries	19,164	21,523	22,025
Developing countries:			
Oil-exporting countries	222	314	282
All developing countries	8,427	12,453	14,168
Total	27,591	33,976	36,194
	Exports		
Developed countries:			
EC	10,134	13,317	13,566
Canada	54	51	62
Japan	1,723	1,703	1,836
United States	824	442	343
All developed countries	17,440	21,470	21,679
Developing countries:			
Oil-exporting countries	703	1,017	955
All developing countries	8,148	10,269	10,764
Total 1/	25,588	31,738	32,443

1/ The data do not reflect trade among nonmarket economies.

Source: Direction of Trade Statistics Yearbook, 1982, International Monetary Fund, pp. 387 and 388.

1981 and the United States finished the year as the fourth most important Western supplier behind Finland, West Germany, and Japan. The United States has never accounted for a significant share of Soviet exports. In 1981, this share was only one percent.

Eastern Europe.--Trade turnover between the United States and the countries of the region 1/ declined by 6.2 percent from 1980 to 1981. U.S. exports to each of the countries (except Bulgaria) declined during the year, at the same time that U.S. imports from each of the countries (except Poland) were rising (table 18). The traditional positive balance of trade was thus diminished to $714 million, just over half its 1980 level. Two countries--Romania and Poland--each accounted for more than one-third of U.S. trade with the region in 1981.

The economies of the region were marked by slowdowns in economic growth, increased costs of energy and a worsening of their hard-currency deficits and debt burden in 1981. The difficulties in Poland, although the most extreme and attracting the greatest amount of attention in the West, are typical of the problems facing a number of the countries of the area.

Inflation in Western industralized countries has meant increasing costs for hard-currency imports, including petroleum. These increases, coupled with a restriction of Soviet oil deliveries to the area in 1981 and the uncertainly of deliveries of Polish coal, have further contributed to economic stagnation.

Nearly three-quarters of all U.S. shipments to the region in 1981 consisted of grain. U.S. imports from the countries of Eastern Europe were more diversified, consisting mainly of manufactured goods (65 percent), food, and mineral fuels and lubricants.

1/ Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania.

CHAPTER 5

ADMINISTRATION OF UNITED STATES TRADE LAWS AND REGULATIONS

The U.S. International Trade Commission plays a key role in the administration of U.S. trade laws. Other entities with responsibility for enforcing certain portions of these laws include the U.S. Departments of Commerce and Labor and the Office of the United States Trade Representative (USTR). The following chapter outlines activities related to enforcing U.S. trade laws during 1981. Sections are included on U.S. actions under provisions for import relief (safeguard actions, adjustment assistance, market disruption), U.S. actions in unfair trade matters (antidumping investigations, the trigger price mechanism for steel, countervailing duty investigations, unfair practices in import trade, and certain practices of foreign governments and instrumentalities), and import administration programs, including the United States-Canadian automotive agreement and the Generalized System of Preferences (GSP).

U.S. Actions Under Provisions for Import Relief

Safeguard actions under sections 201 and 203, Trade Act of 1974

In 1981, the U.S. International Trade Commission (ITC) made determinations and gave advice regarding the provision of relief from import-induced serious injury to a domestic industry, and the effect of modification or termination of such relief. Such determinations and advice were the result of investigations under sections 201 and 203 of the Trade Act of 1974. The Commission made one determination under section 201 and six determinations under section 203.

The United States also participated in a number of orderly marketing agreements under which supplier countries have agreed to limit their exports of certain products to the United States. These arrangements have generally been negotiated following findings under safeguard actions of import-induced injury to a U.S. industry.

In accord with the Multifiber Arrangement (MFA), the United States continued to negotiate bilateral agreements under which foreign governments agreed to limit their exports of textiles to the United States.

Section 201 of the Trade Act of 1974 specifies the procedures and conditions under which the U.S. International Trade Commission conducts investigations ". . . to determine whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing an article like or directly competitive with the imported article." Sections 202 and 203 provide for Presidental action after affirmative Commission findings under section 201. Section 203 also provides for Commission investigations "as to the probable economic effect on the industry concerned of the extension, reduction, or termination of the import relief provided pursuant to this section."

In 1981, the Commission initiated and completed one investigation under section 201, investigation No. TA-201-45, Fishing Rods and Parts Thereof. On November 13, by a vote of 5 to 1, the Commission made a negative finding.

During the same year, the Commission completed six investigations under section 203--Nonrubber Footwear; High-Carbon Ferrochromium; Certain Mushrooms; Porcelain-on-Steel Cooking Ware; Bolts, Nuts, and Large Screws of Iron or Steel; and Clothespins.

Nonrubber Footwear (Investigation No. TA-203-7).--On April 22, 1981, the Commission advised the President that termination of the orderly marketing agreement (OMA) with the Republic of Korea (Korea) would not have an adverse impact on the domestic industry concerned but that termination of the OMA with Taiwan would have an adverse impact. Accordingly, the Commission recommended that with respect to Taiwanese nonrubber footwear, other than athletic footwear, relief be extended for an additional two years. 1/ The President decided to take no action, and the OMA's lapsed on June 30, 1981.

High-Carbon Ferrochromium (Investigation No. TA-203-8).--On September 16, 1981, the Commission advised the President that import relief should be extended in modified form for a 3-year period. The relief consisted of temporarily replacing the 1.9-percent duty rate on ferrochromium, provided for in Tariff Schedules of the United States item 606.24, with the rate of 4.625 cents per pound on the chromium content of such ferrochromium valued less than 38 cents per pound. The proposed modification would have consisted of increasing the breakpoint price from 38 cents per pound to one of several options suggested for the President's consideration.

On November 13, 1981, the President signed Proclamation No. 4884, in which he extended import relief at the current level until the close of November 15, 1982, unless modified or terminated sooner. The 1-year extension is intended to allow time for completion of the Department of Commerce's national security investigation of ferrochromium imports under section 232 of the Trade Expansion Act of 1962, and for the President's taking the results of that investigation into account in making his next decision on this product.

Certain Mushrooms (Investigation No. TA-203-9).--On September 11, 1981, the Commission determined that exclusion of four categories of mushrooms from import relief would have an adverse economic effect on the domestic industry producing prepared or preserved mushrooms, but that the exclusion of five other categories of mushrooms would not have such an effect on that industry. By yearend, the President had taken no action. At the time of the Commission's determination, import relief was scheduled to expire on October 31, 1983.

1/ For further discussion of OMA's, see the following section.

Porcelain-on-Steel Cooking Ware (Investigation No. TA-203-10).--On October 28, 1981, the Commission advised the President that reduction of import relief would have an adverse impact on the domestic industry. The Commission indicated that relief was scheduled to end not later than January 16, 1984. At yearend, the President had taken no action.

Bolts, Nuts, and Large Screws of Iron or Steel (Investigation No. TA-203-11).--On November 5, 1981, the Commission advised the President that termination of import relief would not have a serious adverse economic effect on the domestic industry producing articles like or directly competitive with the imported articles. Following receipt of that advice, the President decided to let the import relief terminate as scheduled (Jan. 5, 1982).

Clothespins (Investigation No. TA-203-12).--On December 7, 1981, the Commission advised the President that termination of import relief would have an adverse economic effect on the domestic industry producing clothespins and that the relief then in effect should be extended, at the current level, for a 3-year period (the maximum legally permissible extension). The President decided to extend the current level of relief for a 2-year period (through Feb. 22, 1984).

Orderly marketing agreements and negotiated export restraints

For several years, the United States has negotiated bilateral orderly marketing agreements (OMA's) with the governments of supplying countries, in which the latter agreed to limit their exports of certain products. Such agreements have been used in lieu of unilaterally imposed increased tariff rates or quotas on imports into the United States. Under the OMA's, the exporting countries not only restrict their exports (subject to U.S. monitoring), but they also forego seeking compensation or retaliating against U.S. exports. All OMA's have been negotiated in accordance with U.S. domestic legislation. During all or part of 1981, OMA's were in effect for color television receivers, nonrubber footwear, and textiles.

Nonrubber footwear.--As indicated previously, following the Commission's Investigation No. TA-203-7, the President decided not to extend the OMA's on nonrubber footwear with Korea and Taiwan beyond their termination date, June 30, 1981.

Color television receivers.--During 1981, OMA's were in effect for color television receivers originating in Taiwan and Korea. Each bilateral agreement was scheduled to expire on June 30, 1982. For the period July 1, 1981-June 30, 1982, exports of complete color television receivers from Taiwan had an export-restraint level of 425,000 units; those from Korea, 575,000. As these OMA's received a 2-year extension (following the Commission's investigation No. TA-203-6) in 1980, they were not eligible for further extension.

Textiles.1/--Under the authority of section 204 of the Agricultural Act of 1956, the President has directed that bilateral agreements be negotiated with foreign governments to limit their exports of textiles and textile products to the United States. 2/ In negotiating these agreements, the provisions of the Arrangement Regarding International Trade in Textiles, (also known as the Multifiber Arrangement (MFA))--on flexibility of administration, growth rates for restraints, and so forth--are taken into account. 3/

Most of the bilateral textile agreements negotiated by the United States cover articles of cotton, wool, and manmade fiber. Articles wholly of, or in chief value and in chief weight of, silk or a vegetable fiber other than cotton are not subject to the provisions of these agreements or the MFA. Exports of certain hand-loomed or traditional folk-lore handicraft products, if properly certified, are not limited.

In 1981, the United States monitored bilateral textile agreements with 24 countries. Eleven agreements contain aggregate limits on textile exports to the United States, in addition to having limits on specific categories or groups of categories. Other agreements provide limits on specific categories, but no aggregate limit. All of the agreements provide for consultations to remedy or prevent market disruption. In some of the agreements, consultation is called for when U.S. imports in certain categories reach or approach specified quantities. Bilateral textile agreements in effect in 1981 are listed in table 21.

Adjustment Assistance

Title II of the Trade Act of 1974 provides for adjustment assistance for workers, firms, industries, and communities adversely affected by increased imports. Programs of adjustment assistance for workers, administered by the Department of Labor, consist of payment of trade readjustment allowances, the provision of training (and payment of transportation and subsistence expenses where appropriate), and payment of job search and relocation allowances. Programs for firms and industries (and until Oct. 1, 1981, for communities) are administered by the Department of Commerce.

1/ For more detail on the nature and implementation of the textile agreements, see Operation of the Trade Agreements Program, 31st Report, USITC Publication 1121, and Operation of the Trade Agreements Program, 32nd Report, USITC Publication 1307.

2/ When agreements with supplying countries cover a significant part of world trade in the subject articles, sec. 204 also authorizes the President to control the imports from countries that have not signed agreements with the United States.

3/ The text of the MFA is reproduced in vol. 2 (Statistical Appendix and Supporting Documents), pp. A-2 to A-18 of The History and Current Status of the Multifiber Arrangement, USITC Publication 1131, March 1981. The final draft of the First Protocol Extending the Arrangement Regarding International Trade in Textiles is on pp. A-19 to A-21. (The Second Protocol did not take effect until Jan. 1, 1982).

Table 21.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1981

Source	Period	Fibers included in agreement	Aggregate limits
			Million equivalent square yards
Brazil	Apr., 1981-Mar. 31, 1982.	Cotton 1/	159.9
China	1981	Cotton, wool, manmade fibers.	2/
Colombia	July 1, 1981-June 30, 1982.	do	2/
Costa Rica	1981	do	2/
Dominican Republic	July 1, 1981-May 31, 1982.	do	2/
Egypt	1981	Cotton	2/
Haiti	May 1, 1981-Apr. 30, 1982.	Cotton, wool, manman fibers.	2/
Hong Kong	1981	do	1,140.6
India	do	do	228.1
Japan	do	do	2/
Republic of Korea	do	Cotton, wool, manmade fibers, down.	703.2 + 8.5 3/
Macau	do	Cotton, wool, manmade fibers	45.6
Malaysia	do	do	2/
Mauritius	Oct. 1, 1981-Mar. 31, 1982	do	2/
Mexico	1981	do	2/
Pakistan	Jan. 1, 1981-June 30, 1982.	Cotton	282.1
Philippines	1981	Cotton, wool, manmade fibers.	278.7
Poland	do	do	53.8
Romania	Apr. 1, 1981-Mar. 31, 1982.	Wool and manmade fibers.	2/
Singapore	1981	Cotton, wool, madmade fibers.	278.3
Sri Lanka	May 1, 1981-Apr. 30, 1982.	do	2/
Taiwan	1981	do	903.9
Thailand	do	do	2/
Yugoslavia	do	Wool and manmade fibers.	4/

1/ Although there are limits applicable to cotton categories only, there are also consultation levels for manmade fiber categories.

2/ No aggregate limit. There are limits on certain categories only; also, consultation categories.

3/ The 8.5 million square-yards equivalent limit applies to men's, women's, and girls' coats and vests made of down.

4/ Limits on 2 categories only.

Source: Compiled from the bilateral agreements.

During 1981, the Department of Labor instituted 1,134 investigations based on petitions for eligibility to apply for adjustment assistance. It completed 2,626 investigations and made 216 complete certifications and 42 partial certifications. During the same year, approximately 120,000 workers received about $841 million in trade adjustment allowances of the kinds enumerated above.

During 1981, the Department of Commerce certified 255 firms as eligible to apply for trade adjustment assistance. Industry groups having more than 10 firms certified in that year were as follows:

Industry group	Number of firms
Apparel	62
Communication equipment (antennas, loudspeakers).	20
Metal products	17
Wood products	15
Textiles	13
Machinery and equipment	13
Electronic components	11

In the same period, Commerce authorized financial assistance, totaling almost $49 million, to 44 firms. This amount was divided about equally between direct loans and guaranteed loans.

Although Commerce did not give direct technical assistance to firms in 1981, 11 Trade Adjustment Assistance Centers (TAAC's), each receiving a Commerce grant, provided such assistance. All of the TAAC's were, and are, operated by non-Federal, nonprofit organizations. During the 1981 fiscal year, 1/ the TAAC's (1) assisted 337 firms prepare their applications for certification, (2) helped 229 certified firms formulate their recovery plans, and (3) assisted 57 firms (which had received financial and/or technical assistance) in implementing their recovery plans. The TAAC's gave more than one major category of assistance to most firms.

As previously indicated, one of the aspects of Commerce's trade adjustment assistance activities is assistance to trade-impacted industries. Among the criteria for actual or potential trade impaction of an industry are declining production or sales, a significant number of certified firms, and a growing ratio of imports to domestic production. The activities funded have two aims: (1) to improve the ability of the industry's firms to compete in their home markets, and (2) to stimulate U.S. exports of trade-impacted products.

Industry wide assistance projects deal with the analysis of problems, followed by the development of improved methods and by recovery plans covering management, technological innovation, productivity and production, product-mix, marketing, and export promotion. All nonconfidential information developed is made available to all firms in the assisted domestic industry.

1/ Calendar-year data on the TAAC's are not yet available.

In 1981, Commerce aided six industry associations whose members manufacture apparel, textile products, footwear, luggage and leather products, shingles and shakes, and pipe fittings. Although Commerce did not directly use the services of consulting firms, some industry associations did use them.

As previously indicated, the Department of Commerce administered a program of community adjustment assistance until October 1, 1981. No funds were appropriated for such assistance for the 1982 fiscal year, which began on that date. During January 1-September 30, 1981, Commerce spent $180,000 in support of three new community projects. The recipients of the grants were Montmorency County, Mich.; Anaconda/Deer Lodge County, Mont.; and the Economic Growth Council of Great Falls, Mont.

Market disruption

Section 406 of the Trade Act of 1974 provides for investigations by the U.S. International Trade Commission to determine whether imports of an article, originating in a Communist country, are causing market disruption with respect to an article produced by a domestic industry. The statute makes no distinction between Communist countries supplying imports that receive most-favored-nation tariff treatment and those that do not. The Commission must submit a report, a transcript of the hearings, and briefs, if any, to the President. If the Commission makes an affirmative determination, it must also find a remedy for the existing or threatened market disruption.

Following receipt of a petition from the only U.S. producer of unrefined montan wax, the Commission, on October 28, 1981, instituted a section 406 investigation of such wax from East Germany (investigation No. TA-406-7). On January 13, 1982, the Commission made a negative determination.

U.S. Actions on Unfair Trade

Unfair trade actions encompass investigations on antidumping, countervailing measures, and unfair practices in import trade.

Under section 731 of the Tariff Act of 1930, the U.S. Department of Commerce completed eight preliminary and seven final antidumping investigations. Under section 701 of that act, Commerce completed six preliminary and six final countervailing duty (CVD) investigations. In making determinations as to injury, the Commission completed 11 preliminary and 5 final antidumping investigations. In making determinations in CVD cases in 1981, the Commission completed two preliminary investigations and one final investigation under section 701, and one final investigation under section 303 of the 1930 Act.

Under section 337 of the Tariff Act of 1930, the Commission also investigated allegations of patent infringement by imported articles, or allegations of other unfair trade practices. Twenty-six such investigations were conducted during 1981.

Under section 301 of the Trade Act of 1974, the interdepartmental section 301 Committee conducted several investigations covering a wide variety of complaints alleging unjustifiable or discriminatory trade practices against United States commerce by a foreign government or instrumentality. During the latter part of 1981, the Office of the United States Trade Representative instituted five such investigations. Among the investigations that were carried over from previous years, three cases were terminated and two were suspended. On four other carryover "301" cases, there was followup activity in the form of (1) bilateral consultations, or (2) use of the dispute-settlement procedures of the GATT, or (3) the introduction of legislation in the U.S. Congress.

Antidumping investigations

Investigations under section 731, Tariff Act of 1930.--Section 731 provides for the imposition of antidumping duties if the "administering authority" (the U.S. Department of Commerce) finds that foreign merchandise is being, or is likely to be, sold in the United States at less than fair value, and the Commission determines that a domestic industry is materially injured, or threatened with material injury, or the establishment of a domestic industry is materially retarded by reason of the less-than-fair-value (LTFV) imports. In 1981, the Commission made determinations in 11 preliminary investigations as to whether there was a reasonable indication of injury or retardation attributable to the complained-of imports. The results of these cases are shown in table 22.

Table 22.--Preliminary antidumping investigations completed by the Commission in 1981

Investigation No.	Article	Commission determination
731-TA-37	Certain iron-metal castings from India	Reasonable indication.
731-TA-38	Truck trailer axle-and-brake assemblies from Hungary.	do
731-TA-40	Secondary aluminum alloy in unwrought form from the United Kingdom.	No reasonable indication.
731-TA-41 1/	Tubeless tire valves from West Germany	Reasonable indication.
731-TA-42	Motorcycle batteries from Taiwan	do
731-TA-44	Sorbitol from France	do
731-TA-46	Certain steel wire nails from the Republic of Korea.	do
731-TA-47	Certain steel wire nails from Yugoslavia.	No reasonable indication.

Table 22.--Preliminary antidumping investigations completed by the Commission in 1981--Continued

Investigation No.	Article	Commission determination
731-TA-48	Certain amplifier assemblies and components thereof from Japan.	Reasonable indication.
731-TA-49	Fireplace mesh panels from Taiwan	do
731-TA-50	Stainless clad steel plate from Japan	do

1/ On Dec. 15, 1981, Commerce notified the Commission of its final determination of sales at not less than fair value.

At the close of 1981, two preliminary investigations, Hot-Rolled Carbon Steel Plate from Romania (731-TA-51) and Sheet Piling from Canada (731-TA-52), were pending. On January 4, 1982, and January 8, 1982, respectively, the Commission found a reasonable indication of injury in each case.

During 1981, the Commission terminated three preliminary investigations, Tubeless-Tire Valves from West Germany (731-TA-39), Fresh Cut Roses From Colombia (731-TA-43), and Certain Steel Wire Nails From Japan (731-TA-45), because the Commerce Department had terminated its related investigations. Commerce had terminated the German tire valve case because of an inadequate petition. After Commerce accepted an improved petition, the Commission instituted investigation No. 731-TA-41 and found a reasonable indication of injury. Toward the close of 1981, Commerce notified the Commission that it had made a final determination that such articles were not being sold at LTFV.

The Commission made five antidumping final determinations in 1981, four in the affirmative and one in the negative. It made affirmative determinations on Sugars and Sirups From Canada (731-TA-3) (a redetermination), Montan Wax From East Germany (731-TA-30), Precipitated Barium Carbonate From West Germany (731-TA-31), and Strontium Nitrate From Italy (731-TA-33). It made a negative determination on Menthol From the People's Republic of China (731-TA-28). The Commission also suspended its final investigation of Hungarian truck trailer axle-and-brake assemblies (731-TA-38), because Commerce suspended its related investigation. Commerce's action was based on assurances from the sole Hungarian producer that it would adjust its prices to prevent sales to the United States at less than fair value (LTFV). 1/ At yearend, three additional final investigations were pending at the Commission: Motorcycle Batteries From Taiwan (731-TA-42), Sorbitol From France (731-TA-44), and Certain Amplifier Assemblies and Parts Thereof From Japan (731-TA-48).

1/ After publishing a final suspension agreement, Commerce allowed interested parties 20 days in which to comment. Having received no request for continuance of the investigation, Commerce terminated it, effective Feb. 4, 1982. Commerce is monitoring the imports. If it finds sales at LTFV, Commerce will reinstitute the investigation at the same stage as when suspended, and the Commission will resume its final injury investigation.

Investigations under section 751, Tariff Act of 1930.--Among other things, section 751 provides for reviews, upon information or request received by the Department of Commerce and the Commission, of countervailing duty and antidumping duty determinations and orders. During 1981, the Commission completed three such reviews dealing with antidumping orders: Television Receiving Sets From Japan (751-TA-2), Potassium Chloride From Canada (751-TA-3), and Synthetic L-Methionine From Japan (751-TA-4).

In investigation No. 751-TA-2, the Commission found that, if the antidumping order on television receivers from Japan were to be modified or revoked, an industry in the United States would be materially injured by reason of imports of the merchandise covered by the subject order.

In investigation No. 751-TA-3, the Commission determined that, if the antidumping order on potassium chloride from Canada were to be modified or revoked, an industry in the United States would not be materially injured or threatened with material injury. (Establishment of an industry was not an issue in this case.)

The Commission instituted investigation No. 751-TA-4 in response to a request for review of an antidumping order as it pertained to synthetic L-methionine from Japan. The order in question covered Japanese-made synthetic methionine, not just synthetic L-methionine. Following its review, the Commission found that if there were modification of the order, to exclude Japanese synthetic L-methionine from its scope, no industry in the United States would suffer the consequences enumerated in section 751 because of imports of synthetic L-menthionine from Japan.

On July 28, 1981, the Commission instituted investigation No. 751-TA-5, Salmon Gill Fish Netting of Man-Made Fibers from Japan, to review an antidumping order. At yearend, this case was pending.

Trigger-Price Mechanism

During 1981, the U.S. Department of Commerce monitored imports of basic steel mill products through the Trigger-Price Mechanism (TPM). The TPM is designed to, among other things, enable Commerce to initiate antidumping investigations on a "fast track" basis without waiting for the receipt of complaints. Its purpose is to alert Commerce to the possibility of sales at LTFV. Moreover, in 1981, the department's TPM-monitoring activities also facilitated its self-initiating five countervailing duty (CVD) investigations.

Each trigger price has several components including (but not limited to) a base price, shipping costs, and interest. Each base price is a composite of the estimated production costs of Japanese steel producers, thought to be the most efficient in the world. The shipping-cost component of the TPM is the cost of shipping from Japan, differentiated among four U.S. regions. Prices to U.S. importers below trigger prices are not necessarily LTFV prices, and prices above trigger prices are not necessarily fair-value prices.

The TPM was in operation throughout all of 1981. 1/ Trigger prices for April-June 1981 were raised by 4.4 percent over those for January-March, quarter. The increased trigger prices were retained for July-September. In August 1981, Commerce announced that, for October-December, it would raise the interest component without changing the base price. This action had the effect of increasing trigger prices by 1 to 2 percent.

On June 26, 1981, Commerce announced self-initiation of antidumping investigations of steel wire nails from Japan, Korea, and Yugoslavia.

On November 18, 1981, the department self-initiated CVD investigations of carbon steel plate from Brazil, Belgium, and the Republic of South Africa, and hot-rolled carbon steel sheet from France. On the same date, it self-initiated an antidumping investigation of carbon steel plate from Romania.

On November 24, 1981, Commerce self-initiated a CVD case on structural steels from Spain and an antidumping case on sheet piling from Canada.

Among other TPM activities in 1981, (1) Commerce continued to examine surges in imports of certain steel products (as initiated in late 1980); (2) tightened administrative procedures; (3) published a procedures manual; and (4) audited documents of importers engaged in related-party transactions, to find whether there were attempts to frustrate the effectiveness of the TPM.

Countervailing duty investigations

Investigations under section 701, Tariff Act of 1930.--During 1981, the Commission completed two preliminary investigations under section 701, in which it determined that there was a reasonable indication that an industry in the United States was being materially injured or threatened with material injury by reason of imports of merchandise that was the subject of a countervailing duty (CVD) investigation by the United States Department of Commerce. The investigations were Sodium Gluconate From the European Communities (investigation No. 701-TA-79) and Lamb Meat From New Zealand (investigation No. 701-TA-80). Late in 1981, the Commission found no reasonable indication of material injury in investigation No. 701-TA-82, Hard-Smoked Herring Filets From Canada (the successor to investigation No. 701-TA-81, which had been terminated).

In 1981, the Commission made an affirmative determination in a final CVD investigation under section 701, Leather Wearing Apparel From Uruguay (investigation No. 701-TA-68). It made no other final determinations.

1/ Owing to the number of major cases resulting from petitions filed by the private sector, Commerce has suspended its use of the TPM on two occasions. The first suspension occurred on Mar. 21, 1980, when the U.S. Steel Corp. filed an antidumping complaint against steel imports from several countries. On Oct. 21, 1980, after U.S. Steel had withdrawn its complaint, Commerce reintroduced the TPM.

On Jan. 11, 1982, when 7 domestic steel producers filed antidumping and/or CVD petitions covering many steel mill products from 9 countries, Commerce suspended the TPM again. The department reasons that the TPM was designed to be a substitute for, rather than a supplement to, the filing of antidumping complaints on steel mill products.

Investigation under section 303, Tariff Act of 1930.--In 1981, the Commission completed one investigation under section 303, investigation No. 303-TA-14, Plastic Animal Identification Tags From New Zealand. The Commission made a final determination that an industry in the United States was not being or likely to be injured, or prevented from being established, because of the imports on which a bounty or grant was paid. The investigation was conducted under section 303 rather than section 701 because New Zealand had not yet signed the GATT Agreement on Subsidies and Countervailing Measures (or otherwise assumed substantially equivalent obligations in an agreement with the United States). However, because the Tariff Schedules of the United States provide duty-free treatment for plastic animal identification tags, those from New Zealand qualified for an injury test under section 303.

Investigations under Section 104 of the Trade Agreements Act of 1979

Under section 104 of the Trade Agreements Act of 1979, the Commission completed three investigations in 1981 as to whether a domestic industry would be materially injured or threatened with material injury, or whether the establishment of a domestic industry would be materially retarded, because of imports subject to the outstanding CVD order, were the order to be revoked. In each instance, the Commission made a negative determination, and the U.S. Commerce Department revoked the CVD order.

The three cases were Optical Liquid-Level Sensing Systems From Canada (104-TAA-2), Certain Spirits From Ireland (104-TAA-3), and Steel Units for Electrical Towers From Italy (104-TAA-4). A fourth case, Ski Lifts and Parts Thereof From Italy (104-TAA-5), was terminated on November 30, 1981, and Commerce revoked the CVD order. At yearend, three section 104(a) investigation were pending: Barley from France (104-TAA-6), Sugar From the European Communities (104-TAA-7), and Molasses from France (104-TAA-8).

In 1981, the Delegation of the European Communities requested that the United States terminate several CVD orders on Italian articles. These orders, previously issued under section 303 of the Tariff Act of 1930, covered the following articles: cap screws; steel welded wire mesh; die presses; compressors and parts thereof; and refrigerators, freezers, other refrigerating equipment and parts.

In response, the Commission published notices requesting comments on the merits of the requests. In each instance, the petitioner (or its successor) for the CVD order informed the Commission that it no longer wanted continuation of that order. There were no adverse comments from any source. Consequently, the Commerce Department revoked the CVD orders.

Unfair practices in import trade

Section 337 of the Tariff Act of 1930 provides that the Commission conduct investigations to determine whether unfair methods of competition exist in the importation of articles into the United States, or in their

sale. They are the only investigations that the Commission is required to conduct under the provisions of the Administrative Procedures Act. To be unlawful, the offending practices must have the effect or tendency to (1) destroy or substantially injure an efficiently and economically operated domestic industry, (2) prevent the establishment of such an industry, or (3) restrain or monopolize trade and commerce in the United States. If the Commission determines that a violation exists and finds that public interest considerations would not override the provision of a remedy, the Commission must then order a remedy for the violation. The remedy may be in the form of an order excluding the offending article from entry into the United States or the issuance of a cease-and-desist order to halt the unfair methods or acts involved. Historically, a preponderance of the complaints have alleged infringement of U.S. patents by imported merchandise. Some of these complaints have alleged additional unfair acts, such as deceptive practices.

Commission orders take effect 60 days after they are sent to the President unless disapproved by the President for policy reasons. If the President disapproves, the Commission's determination has no force or effect. If the President does not disapprove the Commission's affirmative determination within the 60-day period, or if he approves the determination, it becomes a final determination. Persons adversely affected by the Commission's final determination have the right to judicial review.

In 1981, the Commission found violations of section 337 in 9 of the 11 cases where it made determinations. With the exception of investigation No. 337-TA-82, Certain Headboxes and Paper Machine Forming Sections the President did not disapprove any Commission orders. In the case of headboxes, the President's disapproval was based on the scope of the exclusion order: It was directed at the products named in the complaint without limiting the exclusion to offending products supplied by the respondent. Moreover, the President concluded that, were the exclusion order to take effect, it might adversely affect the domestic papermaking industry.

The Commission subsequently (1) instituted investigation No. 337-TA-82A (same title as investigation No. 337-TA-82), (2) again found a violation, and (3) limited its exclusion order to the infringing products made by the respondent named in the original complaint ". . . or any of its affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns." This exclusion order set a precedent for the Commission's patent-based cases: While previous exclusion orders had been directed against foreign-made infringing articles regardless of the manufacturer, this was the first to be directed against such articles only if made by a specific manufacturer, its affiliates, successors, and so forth. The President did not disapprove this limited exclusion order.

Also in 1981, the Commission terminated (without determination) 15 section 337 investigations because of (1) a consent order agreement, (2) the issuance of a license by the complainant to the respondent, and/or (3) a settlement agreement, or (4) for other reasons. On December 31, 1981, 14 cases were pending.

Table 23 shows the Commission's actions on the Section 337 unfair trade practices cases completed in 1981.

Table 23.--Investigations under sec. 337 of the Tariff Act of 1930, completed by the Commission in 1981

Investigation No.	Article	Commission determination or other action
337-TA-54A------	Certain multicellular plastic film----	No violation by Huang Well.
337-TA-64-------	Certain high-voltage circuit interrupters and components thereof.	Terminated following CCPA decision that applicable claims of reissue patent were obvious. 1/
337-TA-74-------	Certain rotatable photograph and card display units and components therof.	Violation.
337-TA-75-------	Certain large video display systems and components thereof.	Violation; part of exclusion order suspended pending outcome of litigation.
337-TA-76-------	Certain food slicers------------------	No violation.
337-TA-77-------	Certain computer forms feeding tractors and components thereof.	Terminated based on license agreement.
337-TA-78-------	Certain poultry disk picking machines and components thereof.	Terminated based on settlement agreement following court decision that imports do not infringe the patent.
337-TA-81-------	Certain hollow-fiber artificial kidneys.	Terminated based on license agreement.
337-TA-82-------	Certain headboxes and papermaking machine forming sections for the continous production of paper and components thereof.	Violation. President disapproved the exclusion order as being too broad. Case returned to the Commission.

Table 23.--Investigations under sec. 337 of the Tariff Act of 1930, completed by the Commission in 1981--Continued

Investigation No.	Article	Commission determination or other action
337-TA-82A------	Certain headboxes and papermaking machine forming sections for the continuous production of paper and components thereof.	Violation. Exclusion order, directed to a respondent, was not disapproved by the President.
337-TA-83-------	Certain window shades and components thereof.	Violation.
337-TA-84-------	Chlorofluorohydrocarbon drycleaning process, machines and components therefor.	Terminated based on license agreements.
337-TA-85-------	Certain slide fastener stringers and machines and components thereof for producing such slide fastener stringers.	Terminated on request of the parties.
337-TA-86-------	Certain shell brim hats---------------	Terminated based on consent order agreement.
337-TA-87-------	Certain coin operated audio-visual games and brochures for the advertisement thereof.	Violation
337-TA-88-------	Certain spring assemblies and components thereof, and methods for their manufacture.	Do.
337-TA-89-------	Certain apparatus for the continuous production of copper rod.	Terminated based on settlement agreement.
337-TA-90-------	Certain airless paint spray pumps and components thereof.	Violation.
337-TA-91-------	Certain mass flow devices and components thereof.	Terminated based on license agreement.
337-TA-92-------	Certain airtight wood stoves----------	Terminated as moot based on consent order issued in 337-TA-106.
337-TA-93-------	Certain universal joint kits, components thereof, and trunion seals used therewith.	Terminated based on settlement agreement.

Table 23.--Investigations under sec. 337 of the Tariff Act of 1930, completed by the Commission in 1981--Continued

Investigation No.	Article	Commission determination or other action
337-TA-94	Certain wet-motor circulating pumps and components thereof.	Do.
337-TA-97	Certain steel-rod-treating apparatus and components thereof.	Violation.
337-TA-98	Certain screw jacks and components thereof including coldworked pinion gears.	Terminated based on settlement agreement
337-TA-102	Certain wheel locks	Do.
337-TA-106	Certain cast-iron stoves	Terminated based on issuance of consent orders.

1/ CCPA--the Court of Customs and Patent Appeals.

Table 24 shows the section 337 cases that were pending before the Commission at yearend.

Certain practices of foreign governments and instrumentalities

Section 301 of the Trade Act of 1974 directs the President to take all appropriate and feasible steps to obtain the elimination of certain trade practices of foreign governments and instrumentalities whenever he determines that such practices are unjustifiable, unreasonable, or discriminatory, and burden or restrict United States commerce. Within this context, "commerce" includes services related to international trade. If his attempts to eliminate such practices are unsuccessful, the President is empowered to (1) deny the offending country or instrumentality the benefits of trade-agreement concessions and (2) impose duties, fees, or other import restrictions on the products or services of the foreign entity.

An interdepartmental section 301 Committee conducts investigations (including hearings if requested), usually on the basis of petitions alleging section 301 violations. If the United States Trade Representative accepts the petition, the statute directs that he consult with the foreign country or instrumentality involved. When appropriate, the GATT is used as a forum for attempts to settle a dispute. On many occasions the United States has relied on the GATT Code on Subsidies and Countervailing Duties, which is formally known as the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade. Article VI deals

Table 24.--Investigations under sec. 337 of the Tariff Act of 1930, pending before the Commission on Dec. 31, 1981

Investigation No.	Article	Final Commission decision due
337-TA-95	Certain surface-grinding machines and literature for the promotion thereof.	Jan. 22, 1982
337-TA-96	Certain modular pushbutton switches and components thereof.	Jan. 28, 1982
337-TA-99	Certain molded-in sandwich panel inserts and methods for their installation.	Apr. 29, 1982
337-TA-100	Certain thermal conductivity sensing gem testers and components thereof.	May 20, 1982
337-TA-101	Certain hot air corn poppers and components thereof.	May 22, 1982
337-TA-103	Certain stabilized hull units and components thereof and sonar units utilizing said stabilized hull units.	June 10, 1982
337-TA-104	Certain card data imprinters and components thereof.	Dec. 12, 1982
337-TA-105	Certain coin-operated audio-visual games and components thereof (viz., Rally-X and Pac Man).	July 1, 1982
337-TA-107	Certain ultrafiltration membrane systems and components thereof including ultrafiltration membranes.	July 15, 1982
337-TA-108	Certain vacuum bottles and components thereof.	Oct. 29, 1982
337-TA-109	Certain multisequential coded radio pagers.	Nov. 3, 1982
337-TA-110	Certain methods for extruding plastic tubing.	Nov. 12, 1982
337-TA-111	Certain vacuum cleaner brush rollers	Dec. 23, 1982
337-TA-112	Certain cube puzzles	Dec. 29, 1982

with antidumping and countervailing duties. Article XVI deals with subsidies. Article XXIII includes procedures that may be used if a contracting party believes that a benefit accruing to it is being nullified or impaired by another contracting party.

During 1981, in connection with section 301, the United States was actively engaged in obtaining the views of interested parties, engaging in bilateral consultations, utilizing the GATT conciliation process, and in monitoring adherence to agreements growing out of dispute settlement. A summary of cases that were initiated before 1981 and were completed or terminated in 1981, or were pending or the subject of followup action at yearend follows:

301-6, Wheat flour (EC)

Petition received: December 1, 1975

Issue: EC payment of export subsidies to wheat flour millers

Status: Bilateral consultations between the EC and the United States were conducted in 1977 and held in abeyance until after the Multilateral Trade Negotiations (MTN). No resolution to the problem was reached, and formal dispute-settlement procedures under the GATT were initiated on July 24, 1980. On August 1, 1980, the President directed the United States Trade Representative to pursue these dispute settlement procedures diligently. GATT article XXII consultations between the EC and the United States were conducted in October 1980. Technical meetings were scheduled for January and September 1981, to evaluate price undercutting data and the extent of EC export subsidization practices. Dispute settlement under the Subsidies Code was initiated in September 1981. As of yearend 1981, the GATT conciliation process had been completed. 1/

301-11, Citrus products (EC)

Petition received: November 12, 1976

Issue: EC's preferential rates of duty on orange and grapefruit juices and other citrus products from certain Mediterranean countries

Status: The U.S. and the EC have held consultations both during and after the MTN. As required by section 301 of the Trade Act of 1974, the United States Trade Representative informed the EC and the GATT Secretariat that the U.S. wished to hold consultations under GATT article XXII and the Framework Agreement of the GATT. These consultations were held in October 1980. No agreement was reached. The United States Trade Representative, in consultation with the Department of Agriculture, has continued to analyze the impact on U.S. interests of the preferences as a necessary precondition to taking the next step in dispute settlement. Although there was no formal action in 1981, the United States requested consultations under GATT article XXIII early in 1982. 2/

1/ In January 1982, a multinational panel was established to hear arguments. As of late August 1982, the panel's report had not been issued.

2/ The consultations were unconclusive; in June 1982 the United States requested formation of a panel under article XXIII:2. to examine the U.S. complaint about EC practices in citrus products.

301-13, Leather (Japan)

Petition received: August 4, 1977

Issue: Japanese quantitative restrictions and excessive tariffs on leather imports

Status: As a result of bilateral negotiations with Japan, an understanding between the governments which would expand the quota on imported leather was reached in February 1979. As of December 31, 1981, the Office of the United States Trade Representative was continuing to monitor the operation of the understanding. Also at yearend, preparations for a new agreement were in progress; the initial agreement was scheduled to terminate on March 31, 1982.

301-14, Marine insurance (U.S.S.R.)

Petition received: November 10, 1977

Issue: Allegation that the Soviet Union requires marine insurance on exports or imports between the United States and the U.S.S.R. be placed with a Soviet state insurance monopoly.

Status: Bilateral negotiations concerning marine insurance resulted in a memorandum of understanding signed by both Governments on April 5, 1979. The case was suspended pending review in 1 year of the operation of the agreement. An interagency 301 committee was to monitor the agreement. However, a review of the operation of the first year of the agreement has not been possible in the current climate of U.S.-U.S.S.R. relations. On July 24, 1980, the United States Trade Representative announced the continued suspension of the case because of the inability to assess the operation of the understanding, to remain in effect until a thorough review and assessment can be conducted. Nothing further has happened.

301-15, Income tax practices (Canada)

Petition received: August 29, 1978

Issue: Provisions of the Canadian Income Tax Act which deny income tax deductions to any Canadian taxpayer for radio or TV time purchased from a U.S. broadcaster for advertising directed at the Canadian market. Deductions are granted for such purchases from Canadian broadcasters.

Status: After bilateral consultations with the Canadian government failed to produce agreement, the President sent a memorandum to the U.S. Trade Representative on July 31, 1980 informing him of his determination that the appropriate response to the Canadian practice would be to propose legislation to the Congress which, when enacted, would

mirror the Canadian practice in U.S. law. The proposed legislation was sent to Congress on September 9, 1980, but it was not enacted. Bills to provide mirror legislation were introduced again in the 97th Congress. As of December 31, 1981, these bills were pending.

301-17, Cigars (Japan)

Petition received: March 14, 1979

Issue: Allegation that the Japanese Government's tobacco monopoly maintains unreasonable import restrictions, imposes internal taxes or charges on imports in excess of those placed on domestic products, and imposes discriminatory restrictions on the marketing, advertising, and distribution of imported cigars.

Status: This case was combined with 301-19 for the purpose of dispute-settlement procedures initiated by the United States in 1979. Japan amended its law to replace the internal tax on imported cigars with a 60-percent ad valorem import duty while the GATT panel was deliberating. Before the GATT panel report was issued, the two Governments reached an agreement under which Japan would reduce the import duty from 60 to 35 percent ad valorem and would liberalize restrictions on imported cigars. The case was terminated on January 6, 1981.

301-18, Marine insurance (Argentina)

Petition received: May 25, 1979

Issue: Allegations that Argentine statutes require marine insurance on exports from and imports into Argentina to be placed with an Argentine insurance firm when the risk of loss is borne by an Argentine national.

Status: The United States Trade Representative suspended the case on July 25, 1980 upon receipt of a commitment from the Government of Argentina to participate in multilateral negotiations, conditioned upon participation by a substantial number of other developing countries, to achieve, among other things, the elimination of restrictive practices in the insurance sector. As of December 31, 1981, the suspended status of this case was unchanged.

301-19 Pipe tobacco (Japan)

Petition received: October 22, 1979

Issue: Allegation that the Japanese Government's tobacco monopoly maintained unreasonable pricing procedures and advertising and distribution restrictions on U.S. pipe tobacco.

Status: Tariffs reduced from 110 to 60 percent ad valorem as a result of bilateral agreement. (See 301-17.) Case terminated January 1, 1981.

During 1981, the United States Trade Representative instituted five section 301 investigations. Early in 1982, it instituted five more cases based on a petition filed in 1981 and refiled in January 1982. Summaries of these cases are as follows:

301-22, Sugar (EC)

Petition received: August 20, 1981

Issue: Export subsidies

Status: On October 9, 1981, the United States requested consultations. The Section 301 Committee held a public hearing on November 4, 1981. There was no additional formal action in 1981.

301-23, Poultry (EC)

Petition received: September 17, 1981

Issue: Export subsidies

Status: On November 13, 1981, the United States requested consultations, which were held early in 1982 without resolution of the issue.

301-24, Cattle hides (Argentina)

Petition received: October 9, 1981

Issue: Argentina's not reducing its tax on exports of cattle hides to the extent called for in the United States-Argentina Cattle Hide-Leather Agreement.

Status: Views of interested parties, to be given to Section 301 committee, were due on December 28, 1981.

301-25, Pasta (EC)

Petition received: October 16, 1981

Issue: Export subsidies

Status: On December 12, 1981, the United States requested consultations with the EC. Views of interested parties were due before the Section 301 Committee on December 31, 1981. 1/

301-26, Canned peaches, canned pears, and raisins (EC)

Petition received: October 29, 1981

Issue: Production subsidies

1/ In April 1982, following unsuccessful consultations, the United States requested formation of a panel under GATT article XXIII:2 to examine the U.S. complaint regarding EC export subsidies on pasta.

Status: Views of interested parties were due before the Section 301 Committee on December 24, 1981. The committee held a public hearing on January 6, 1982. 1/

301-27, Certain stainless steel (Austria)

301-28, Certain stainless steel (France)

301-29, Certain stainless steel (Italy)

301-30, Certain stainless steel (Sweden)

301-31, Certain stainless steel (United Kingdom)

Petition naming the above countries, plus Brazil and Belgium, received: December 2, 1981.

Issue: Production subsidies

Status: As of December 31, 1981, the Section 301 Committee had not initiated the above-entitled cases. On January 12, 1982, petitioner refiled with additional information. Early in 1982, the United States Trade Representative initiated investigations on stainless steel from five of the seven countries named in the petition, and is treating them as five separate cases. The United States Trade Representative decided not to initiate investigations on stainless steel from Brazil and Belgium at that time.

Other Import Administration

Responsibilities for the administration of U.S. imports are divided among a number of Government departments and agencies such as the Departments of Treasury, Commerce, and Agriculture and the U.S. International Trade Commission.

The ITC conducted two investigations under section 22 of the Agricultural Adjustment Act to determine whether imports rendered or tended to render ineffective, or materially interfere with, programs of the U.S. Department of Agriculture.

In 1981, the Meat Import Act of 1979 became effective, and the U.S. Department of Agriculture carried out its responsibilities under that act.

1/ The United States requested consultations with the EC in January 1982 on EC production subsidies on canned peaches, canned pears, and raisins. The consultations were inconclusive and in March 1982 the United States requested formation of a panel under GATT article XXIII:2.

In 1981, the Meat Import Act of 1979 became effective, and the U.S. Department of Agriculture carried out its responsibilities under that act.

Section 232 of the Trade Expansion Act of 1962 provides for the regulation of imports in the interest of national security. At the close of 1981, the U.S. Department of Commerce was conducting two investigations under that section.

Section 603, Trade Act of 1974

Among other things, section 603 permits the Commission to conduct preliminary investigations. From time to time, the Commission has conducted section 603 investigations in order to gather information so that it might determine whether there was a basis for instituting a section 337 (unfair acts) investigation. The Commission did not conduct any 603 investigations in 1981.

Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act is designed to prevent or remedy impairment of U.S. Department of Agriculture programs by imports. The act directs the Secretary of Agriculture, if he believes such impairment exists or is imminent, to advise the President. If the President agrees that there is reason for such belief, he directs the Commission to conduct an investigation and to report to him its findings and recommendations. The Commission can recommend, and the President can proclaim, quantitative restrictions, embargoes, or import fees, in addition to regular tariff duties, if any. Moreover, he can take emergency action pending the completion of the Commission's investigation. Section 22 also authorizes the President to direct the Commission to make an investigation to determine whether a restriction previously imposed under that section can be suspended, terminated, or modified without inducing the conditions that led to the remedial action.

In 1981, the Commission completed two section 22 investigations. 1/ In investigation No. 22-42, the Commission found that the quota of 1.7 million pounds (shelled basis) of peanuts, for the 12-month period ending July 31, 1981, could be increased by 200 million pounds or more 2/ without impairing any program of the U.S. Department of Agriculture. The President, having issued an emergency Proclamation No. 4807 because of a severely reduced domestic harvest, continued the proclamation in effect. That proclamation had temporarily increased the quota by 200 million pounds (shelled basis) for the aforementioned period.

1/ One sec. 22 investigation, initiated in 1981, was completed in January 1982. In investigation No. 22-44, Casein, Mixtures in Chief Value of Casein, and Lactalbumin, the Commission found that these products were not being imported in such quantities as to impair the Department of Agriculture's price-support program for milk. Therefore, the President decided to take no further action on the imports.

2/ The Commission's vote was 5 to 0. Three Commissioners found that the quota could be raised by as much as 300 million pounds (shelled basis) without adverse effect.

In investigation No. 22-43, the Commission found that certain tobacco was not being and was not practically certain to be imported into the United States in such quantities as to render or tend to render ineffective, or materially interfere with, the flu-cured and the burley tobacco programs of the U.S. Department of Agriculture.

On December 23, 1981, the President directed the Commission to conduct a section 22 investigation of sugars, sirups, and molasses derived from sugar cane or sugar beets. The President also stated that he was taking emergency action to impose import fees on these products, and that the fees would continue in effect pending the Commission's finding and his decision. In response to the President's letter, the Commission instituted investigation No. 22-45, effective January 15, 1982.

During 1981, import quotas which had been imposed under the authority of section 22 were in effect on the following products:

Condensed or evaporated milk
Most cheeses made from cow's milk
Butter and butter oil
Powdered milk
Frozen cream
Ice cream
Chocolate
Certain articles containing malted milk and articles, n.s.p.f., of milk or cream
Certain edible preparations containing butter fat
Animal feeds containing milk and milk derivatives
Peanuts, whether or not prepared or preserved, but not peanut butter
Cotton, not carded, not combed, and not otherwise processed, except harsh or rough cotton under 3/4 inch
All spinnable cotton wastes
All fibers of cotton, processed but not spun.

Meat Act of 1964

In order to protect domestic meat producers' share of the U.S. meat market, the Meat Import Act of 1964 provides that the aggregate imports of specified meats 1/ entered in any calendar year after 1964 should not exceed a base quantity which is adjusted annually to assure that imports do not exceed a 7-percent ratio to domestic commercial production. 2/

1/ Fresh chilled and frozen cattle meat; meat of goats and sheep (except lamb); and prepared but not preserved beef and veal.
2/ About the same ratio to domestic commercial production as they did, on the average, in the years 1959-63 (7 percent).

The Meat Import Act of 1979 amends the 1964 act and became effective on January 1, 1981. The amending legislation allows for a countercyclical adjustment of the base level, raising the level of imports permitted when domestic production declines and reducing it when production increases. 1/

Since the bulk of imported meat is of the kind used in producing manufactured meat products, the new act has a greater effect on the prices of manufactured meats than on table cuts. The 1979 act establishes a minimum permissable access level on imports, 1.25 billion pounds, and modifies the President's authority to increase or suspend the quotas if the countercyclical fraction has a quotient of less than 1. In this case, the President may only suspend quotas if a national emergency exists requiring their suspension for security reasons, or if a natural disaster, disease, or major market disruption upsets domestic supplies. The 1979 act broadened the product coverage of the Meat Import Act of 1964 to include prepared or preserved meats and fresh, chilled, or frozen lamb meat.

In late 1980, the U.S. Department of Agriculture estimated that, in the 1981 calendar year, imports of quota meat would amount to 1.46 billion pounds, a quantity that was 11 million pounds above the "trigger" level (1.35 billion pounds) requiring imposition of a quota unless circumstances justified its suspension. On November 28, 1980, the President announced his intention to impose and simultaneously suspend the quota. As there must be a 60-day period between the President's proclamation and suspension of the quota, the suspension took effect early in 1981. In 1981, imports of quota meat amounted to about 1.4 billion pounds, about midway between the trigger level and the previous estimate of the department.

On December 28, 1981, Agriculture estimated that imports of quota meat would amount to 1.21 billion pounds in 1982, about 90 million pounds below the trigger level.

United States actions in connection with national security

Section 232 of the Trade Expansion Act of 1962 authorizes the President to regulate imports in the interest of national security, an authority that he exercised previously under the provisions of section 8 of the Trade Agreements

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1/ The new law establishes a base quota of 1,204.6 million pounds, equivalent to the average annual imports of meat subject to quota shall be 1968-77. For any calendar year after 1980, the annual import quota shall be the base quota multiplied by the product of two fractions. The numerator of the first fraction is the 3-year moving average of domestic production of specifed meat article. The denominator is the average annual production of such meat in 1968-77. The second of the two fractions is countercyclical. The numerator of the second fraction is a 5-year moving average of per capita domestic production of cow beef. The denominator is the 2-year moving average of per capita domestic production of cow beef.

Extension Act of 1958. Before taking action, the President receives advice from the Secretary of Commerce. This advice is based on investigations and studies by Commerce's Office of Industrial Resource Administration (OIRA) (formerly, the Office of Industrial Mobilization). In connection with these investigations and studies, this office obtains information from other government agencies. Although it made no determinations in 1981, two section 232 investigations were in progress at the end of the year.

In March 1981, following a request from the Ceramic Coating Chemical Co., OIRA instituted an investigation of the national-security impact of imports of glass-lined chemical processing equipment. It is used for mixing and storing chemicals and pharmaceutical products. In August of that year, acting on a request from the Ferroalloy Association, OIRA instituted an investigation of imports of certain ferro chromium, ferro manganese, and ferro silicon products. OIRA has a 1-year time limit for each of its section 232 investigations.

In the interest of national security, the U.S. Department of Energy has the responsibility for issuing licenses for the importation of crude and refined petroleum. For supply reasons, OIRA licenses exports of these commodities.

United States-Canadian Automotive Agreement

The Agreement Concerning Automotive Products between the Government of the United States of America and the Government of Canada, signed in 1965 and implemented by the United States through the Automotive Products Trade Act of 1965 (APTA), created the basis for an integrated United States-Canadian automotive industry and market. The agreement provides that each country accord duty-free treatment to imports of specified automotive products, for use as original equipment, made in the other country. 1/ Because the United States did not extend this customs treatment to automotive products of other countries with which it has trade agreement obligations, it obtained a waiver of its most-favored-nation obligations under GATT insofar as they pertain to automotive products. Canada, on the other hand, did not consider it necessary to obtain a GATT waiver, because, at the time the APTA went into effect, it accorded duty-free treatment to specified automotive products on a MFN basis to all manufacturers with production facilities in Canada.

Previous research has identified several problems in accounting for all of the trade in automotive products between the United States and Canada. U.S. export statistics, for example, sometimes fail to capture as automotive items those products having a variety of end uses (e.g., engine parts, nuts, bolts, screws, and so forth). Consequently, a joint-U.S.-Canadian committee studying overall trade statistics agreed that each country should use its own import statistics to report its imports, and use the other's import statistics to report its exports. 1/ The result is the "import/import" method of reporting automotive trade used in table 25.

1/ For a more detailed treatment of the history, terms, and impact of the agreement, see Canadian Automobile Agreement, Committee on Finance, U.S. Senate, 94th Cong., 1st. sess., January 1976.

2/ The committee's study, entitled The Reconciliation of U.S.-Canada Trade Statistics 1970, a Report by the U.S.-Canada Trade Statistics Committee, was published jointly by the U.S. Department of Commerce, Bureau of the Census, and Statistics Canada.

Table 25.--United States-Canadian automotive trade, 1964-81

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports	Canadian imports less U.S. imports
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	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,023
1978	10,493	10,964	471
1979	9,755	12,274	2,519
1980	8,800	10,552	1,753
1981	10,618	12,055	1,437

Source: U.S. Department of Commerce

Note.--Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

Each year, the President submits a report to Congress on the implementation of the APTA.

The Generalized System of Preferences 1/

The United States GSP program is a temporary 2/ tariff preference scheme designed to offer the products of developing countries an advantage over other imports in the U.S. market place. By granting nonreciprocal duty-free treatment to selected manufactured, semi-manufactured, and agricultural goods, the scheme is supposed to help developing countries to become more competitive in international markets and to diversify their economic structures away from production of primary goods. The U.S. GSP scheme is administered by the office of the United States Trade Representative.

1/ For a more detailed discussion of the specifics of the United States GSP scheme and foreign GSP schemes, please consult Operation of the Trade Agreements Program, 32d Report, USITC Publication 1307, p. 226ff.

2/ The U.S. GSP scheme was established under the Trade Act of 1974 for a period of 10 years. The program's current authorization extends until Jan. 4, 1985.

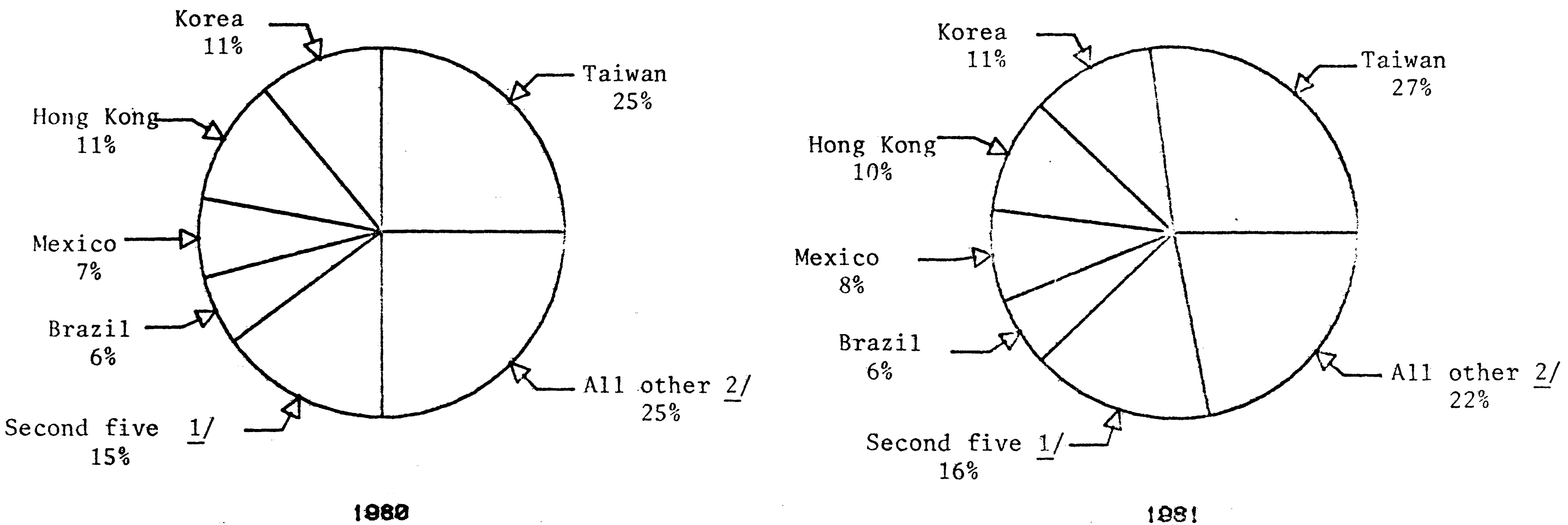
In 1981, 140 countries and territories were eligible for GSP tariff treatment on approximately 2,900 products ranging from copper to CB radios and from sugar to switchboards. The United States imported $8.4 billion duty-free under this system from GSP beneficiaries in 1981--15 percent more in terms of value than in 1980. Still, GSP duty-free imports accounted for only 3 percent of total U.S. imports in the year--about the same share as it has accounted for since the program's inception in 1976.

The countries that supplied the most duty-free imports (in terms of value) in 1981 were Taiwan, Hong Kong, the Republic of Korea, Mexico, and Brazil. These countries together accounted for over 60 percent of GSP duty-free imports in the year (fig. 1). Singapore, Israel, Yugoslavia, Argentina, and India supplied another 16 percent of all duty-free imports under GSP in 1981. All told, the top 10 suppliers accounted for 78 percent of all duty-free imports under GSP. The 10 countries that supplied the highest value of duty-free imports in 1981 are shown below.

Rank	Country	Total imports	GSP duty-free imports	B/A	B/All GSP duty-free imports
		(1,000 dollars)		Percent	
		(A)	(B)		
1.	Taiwan	8,035,916	2,229,88	27.8	27.0
2.	Republic of Korea	5,179,607	890,973	17.2	10.8
3.	Hong Kong	5,343,195	797,208	14.9	9.7
4.	Mexico	13,703,627	633,995	4.6	7.7
5.	Brazil	4,332,582	515,592	11.9	6.2
6.	Singapore	2,084,438	382,536	18.4	4.6
7.	Israel	1,234,976	340,910	27.6	4.1
8.	Argentina	1,123,397	278,926	24.8	3.4
9.	Yugoslavia	445,458	189,983	42.7	2.3
10.	India	1,200,076	161,213	13.4	2.0
Top ten combined		42,683,272	6,421,217	15.0	77.8

The list of items eligible for GSP duty-free treatment is subject to an annual review by the Interagency Trade Policy Staff Committee (TPSC), chaired by the United States Trade Representative (USTR). In the review, which is completed three months after the close of the calendar year, individual TSUS items may be added or deleted from the list of eligible products; also, certain beneficiary countries may be excluded from or reinstated to eligibility for GSP treatment on particular items, either because of statutory requirements--the so-called "competitive need limits," or via the discretionary authority that the President is given in the Trade Act of 1974. Competitive-need limits put both a dollar and a market share (50 percent) cap on GSP imports, in any particular TSUS item from any single supplier, in order to safeguard competing American industries and to allow new or small exporting countries to gain a share of the market. The dollar limit changes yearly to reflect the growth of United States GNP. In 1981, the dollar limit was $50.9 million.

Figure 1.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries, by country, 1980 and 1981



1/ Singapore, Israel, Yugoslavia, Argentina, and India.
2/ All other GSP beneficiary countries.

Source: Based on official statistics of the U.S. Department of Commerce.

As part of the annual GSP review, the Commission is asked to evaluate the probable economic effects of adding items that petitioners have requested to the GSP duty-free list. A Commission investigation is mandatory before an item can be added to the GSP. The results are considered, along with other relevant information, by the TPSC when making decisions on changing the list of eligible items.

In 1981, the Commission also reported to the President on the probable economic effect of designating the People's Republic of China as a GSP beneficiary. That report was submitted in confidence to the United States Trade Representative in June 1981. The United States recognized China as a developing country in 1979 in the Agreement on Trade Relations between the United States and the People's Republic of China, and accorded it MFN tariff treatment in February 1980. Because the United States considers China to be a communist country, U.S. law requires that China must also join the General Agreement on Tariffs and Trade and the International Monetary Fund before it is eligible to be a beneficiary under the U.S. GSP scheme. In any event, no formal request for designation as a GSP beneficary has been received from China.

The President's discretionary authority to "graduate" countries from eligibility for GSP treatment on products in which they are considered to be competitive was exercised in 1981. "Graduation" is intended to allow the less developed beneficiary countries more opportunity to expand exports to the United States by selectively removing other, more advanced, developing countries from the tariff-preference program for specific products. 1/ The President "graduated" 29 items, representing an estimated $510 million in eligible imports, in the review that was concluded in the spring of 1981. Among the "graduated" items were machinery and electrical equipment from Hong Kong and Korea; car parts from Brazil; and fertilizers and chemicals from Korea.

Forty-eight products were added to the list of items eligible for GSP in 1981, representing nearly 0.5 billion dollar's worth of trade in 1980. The top five GSP beneficiares were not eligible to receive GSP treatment on some of the new items. Seven of the newly-eligible products are textile handicraft items of particular interest to the lesser developed GSP beneficiaries. One product, down apparel, was removed from the GSP product list in 1981.

About $5.9 billion in goods from all GSP beneficiaries are removed from eligibility for GSP duty-free treatment in the 1981 review. The top five beneficiaries accounted for nearly 85 percent of the competitive need

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1/ Graduation is implemented on an item-by-item and country-by-country basis. For example, Korea may be "graduated"--or removed from eligibility--on electric capacitators. The President may graduate a country by (1) adding an item to the list of products eligible for GSP benefits for all countries except for the leading LDC supplier, even though this country's imports are below the statutory competitive-need ceilings; (2) removing a country from GSP eligibility for a specific product if the country has demonstrated its competitiveness in the United States without exceeding competitive-need limits, or (3) by not redesignating countries that are eligible again to get GSP treatment on their exports of a product following a year of mandatory exclusion based on competitive need rules.

The first major use by the Administration of the authority to limit or "graduate" countries' eligibility for GSP treatment on products beyond the mandatory competitive need limitations was exercised in 1981.

exclusions. The affected imports were therefore levied duties at the MFN rate during the 1981 GSP year (April-March 31).

In order to be granted duty-free treatment under the GSP, imports must be a product of a beneficiary country. Under the GSP, this requirement is met if at least 35 percent of the appraised value of the product originates in the beneficiary country. For certain designated regional economic associations, value added in any of the member countries counts toward the 35 percent requirement. The President designated two such regional associations for the purposes of GSP in 1981--the Andean Group 1/ and the Association of South East Asian Nations (ASEAN). 2/ The Trade Agreements Act of 1979 amended the GSP in that the competitive need tests will now apply to imports from the individual countries within the association, rather than to imports from the association as a whole. This means, for example, that the total imports from Andean Group nations could exceed 50 percent of U.S. imports from all sources, but an individual Andean group country would not become ineligible for GSP treatment by virtue of the competitive need provisions unless its shipments account for 50 percent of total U.S. imports or $50.9 million in imports of a particular good in 1981.

As illustrated in table 26, advanced GSP beneficiaries accounted for over 80 percent, or $6.7 billion worth of duty-free imports under the program in 1981 (see figure 2). Middle income countries supplied another 14 percent, or $1.2 billion, while low income beneficiaries accounted for 5 percent--just $421 million--of GSP duty-free imports in 1981. Because the list of products eligible for GSP duty-free treatment includes a large number of manufactured and semi-manufactured goods, such a distribution of benefits is not surprising. 3/

Table 27 lists the top 50 items in terms of value of duty-free imports under GSP in 1981, and the leading duty-free suppliers. Among the leading duty-free imports under GSP were office machines, switchboard panels, game machines, fans, c.b. radios, electric heaters, electrical articles, and bicycle tires from Taiwan; metalworking machine tools, microphones, and electrical measuring devices from Korea; piston engines, nonbone chinaware, and fresh cut flowers from Mexico; generators and games from Hong Kong; tape recorders and small motors from Singapore; and sugar from Argentina and the Dominican Republic.

Table 28 shows a breakdown of imports by 2-digit Standard Industrial Classification categories and by leading duty-free suppliers in those categories. GSP duty-free imports accounted for 23 percent of imports from GSP beneficiaries of furniture and fixtures; about 16 percent in miscellaneous manufacturing goods; about 11 percent of fabricated metal products; about 10 percent of food and kindred products; and about 10 percent of rubber and plastic products.

1/ Bolivia, Colombia, Ecuador, Peru, and Venezuela.
2/ Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
3/ The list of items eligible for GSP excludes many labor intensive--and potentially sensitive--industries such as textiles and footwear, and focuses primarily on semi-manufactures and manufactures. However, labor-intensive industries are often the stepping stones used by the least developed countries to reach their economic development goals.

Table 26.--U.S. imports for consumption from GSP beneficiary countries, by development status 1/, 1981

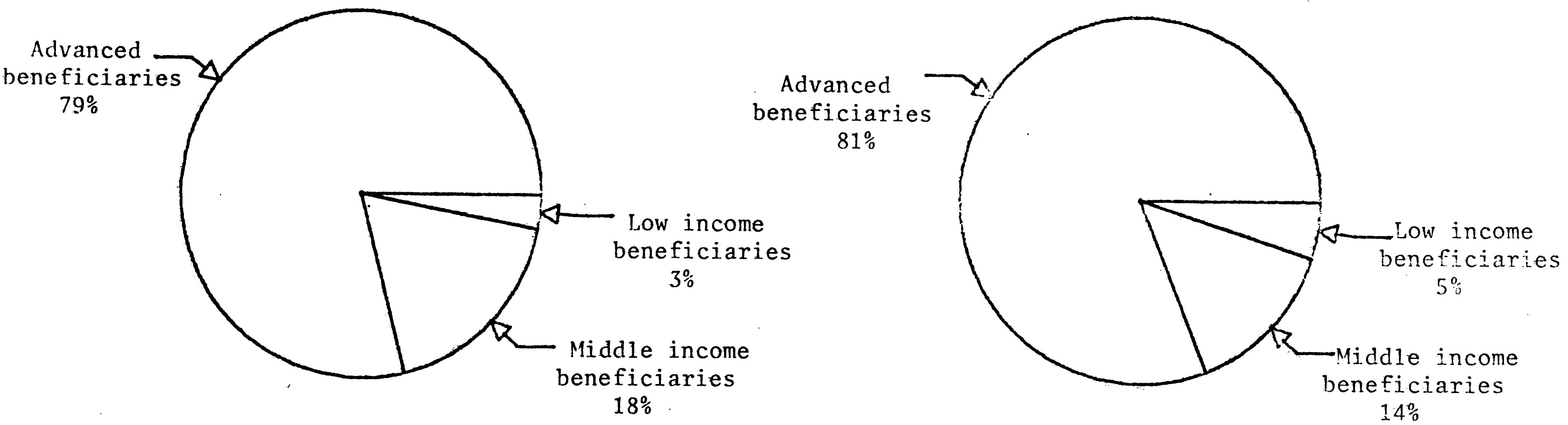
Item	Advanced GSP beneficiaries	Middle income GSP beneficiaries	Low income GSP beneficiaries	Total all beneficiary countries	Total all countries
Total imports-----thousand dollars--	55,983,089	13,736,856	10,107,577	79,827,523	258,984,756
GSP eligible-----------------do----	13,724,797	2,472,110	585,829	16,782,736	16,782,736
Duty free under GSP--------do----	6,680,366	1,156,848	421,187	8,258,402	8,258,402
Competitive need exclusions--do--	5,000,401	881,891	60,674	5,942,967	5,942,967
Other----------------------do----	2,044,028	433,371	103,967	2,581,367	2,581,367
Noneligible imports----------do----	42,258,292	11,264,746	9,521,748	63,044,787	242,202,019
Ratio of:					
GSP-eligible imports to total imports----------------percent--	24	17	5	21	6
GSP duty-free imports to GSP eligible imports-------percent--	48	46	71	49	49
Competitive-need exclusions to GSP-eligible imports---percent--	36	35	10	35	35
Other imports to GSP-eligible imports----------------percent--	14	17	17	15	15
GSP-duty free to total imports----------------percent--	12	8	4	10	3
Country group share of total GSP duty-free imports----------------	81	14	5	-	-
Country group share of total competitive-need exclusions------	84	15	1	-	-

1/ For the purpose of this table, those countries having gross national product per capita in 1979 over $1,405 were classified as "advanced GSP beneficiaries"; those with per capita gross national product of less than $1,405 and more than $345 in 1979 were classified as "middle income GSP beneficiaries"; and, those with gross national product per capita of $345 or less in 1979 were classified as "low income GSP beneficiaries."

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

Note.--Customs-value basis.

Figure 2.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries, by development level, 1980 and 1981



Source: Based on official statistics of the U.S. Department of Commerce.

Table 27.--U.S. imports for consumption of the top 50 eligible articles under the GSP, by TSUS items and by leading duty-free sources, 1981

TSUS item No.	Description	Leading GSP duty-free source	Total imports	GSP-eligible imports	GSP-eligible share of total	GSP duty free	GSP duty-free share of eligible imports	Competitive-need exclusions	Other imports
			----1,000 dollars----		--Percent--	--1,000-- -dollars--	--Percent--	----1,000 dollars----	
155.20	Sugar, sirup and molasses	Argentina	2,141,206	1,809,175	84	679,901	37	1,079,851	49,423
676.52	Office machine parts, n.e.s	Taiwan	1,317,908	447,792	33	43,995	9	294,029	109,766
612.06	Unwrought copper, n.e.s	Zaire	592,260	409,026	69	77,842	19	318,575	12,609
685.90	Switchboard panels	Taiwan	1,084,051	375,303	34	118,700	31	189,888	66,715
734.20	Game machines	do	560,907	350,482	62	29,210	8	306,379	14,893
678.50	Machines, n.s.p.f, and parts	Singapore	1,312,532	323,309	24	34,055	10	216,573	72,680
685.24	Solid state radio receivers	Malaysia	583,348	319,077	54	9,223	2	304,430	5,423
661.06	Fans and blowers	Taiwan	417,802	314,737	75	152,450	48	157,765	4,521
692.32	Parts n.s.p.f. of motor vehicles	do	1,644,743	265,222	16	53,775	20	209,468	1,978
737.95	Toys and parts	Republic of Korea.	301,779	250,649	83	55,295	22	174,980	20,372
176.17	Coconut oil	Papua New Guinea.	249,106	248,584	99	2,705	1	152,290	93,587
685.29	Hand-held citizens band radios.	Taiwan	465,874	248,125	53	68,484	27	65,726	113,914
682.60	Generator, motor generator converters, etc.	Hong Kong	531,870	221,794	41	74,611	33	98,840	48,342
685.40	Tape recorders and dictation transcribing machines.	Singapore	1,701,600	190,036	11	75,508	39	53,118	61,408
684.70	Microphones, loudspeakers	Republic of Korea.	519,195	180,294	34	26,226	14	46,051	108,016
684.50	Electric storage water heater	Taiwan	201,441	159,950	79	33,287	20	107,390	19,271
687.70	Transistors	Singapore	197,181	153,457	77	15,911	10	-	137,546
688.12	Ignition wiring sets	Taiwan	158,733	149,686	94	17,482	11	131,013	1,190
618.02	Unwrought aluminum	Surinam	543,048	140,929	25	35,779	25	-	105,149
727.35	Furniture, wood n.s.p.f	Romania	351,646	139,611	39	66,913	47	68,184	4,514
688.15	Insulated electrical conductors with fittings n.e.s	Taiwan	188,513	134,164	71	18,388	13	97,989	17,787
688.45	Electrical articles	do	296,209	131,873	44	39,708	30	38,338	53,826
772.51	Pneumatic tires, n.e.s	do	1,207,386	129,096	10	44,162	34	83,213	1,720
389.61	Artificial flowers, n.s.f.p	do	129,889	127,404	98	83,452	65	42,403	1,548
735.20	Games, sport, playground, etc.	Hong Kong	152,505	119,830	78	38,731	32	76,732	4,366

See note at end of table.

Table 28.--U.S. imports for consumption of articles under GSP, by SIC Nos., 1981

SIC No.	Item description	Total imports	GSP-eligible imports	GSP-eligible share of total	GSP duty-free imports	GSP duty-free share of eligible imports	GSP duty-free share of total imports
		1,000 dollars		Percent	1,000 dollars	Percent	
01	Agricultural production crops	5,731,515	252,279	4	76,280	30	1
02	Agricultural production livestock.	657,350	11,575	1	10,286	88	2
08	Forestry	956,989	1	-	-	-	-
09	Fishing, hunting and trapping.	1,482,796	29,108	1	18,346	63	1
10	Metal mining	2,282,341	105,490	4	78,592	74	3
12	Bituminous coal and lignite mining.	72,336	-	-	-	-	-
13	Oil and gas extraction	76,336,031	-	-	-	-	-
14	Nonmetallic minerals, except fuels.	1,959,972	114,044	5	70,966	62	4
20	Food and kindred products	12,060,644	2,416,941	20	1,149,239	47	10
21	Tobacco manufactures	202,119	16,648	8	15,380	92	7
22	Textiles mill products	2,418,756	87,466	3	64,284	73	3
23	Apparel and other textile products.	7,727,880	328,976	4	222,983	67	3
24	Lumber and wood products	3,451,339	426,997	12	274,412	64	8
25	Furniture and fixtures	1,655,935	567,138	34	383,257	67	23
26	Paper and allied products	5,588,067	178,665	3	90,818	50	2
27	Printing and publishing	638,996	36,891	5	27,764	75	4
28	Chemicals and allied products.	7,913,723	400,212	5	334,129	83	4
29	Petroleum and coal products	5,104,922	8,416	-	3,353	39	-
30	Rubber and misc. plastic products.	3,202,000	511,523	15	325,690	63	10
31	Leather and leather products	3,899,832	229,053	5	159,630	69	4
32	Stone, clay, and glass products.	2,425,508	304,908	12	204,742	67	8
33	Primary metal industries	20,661,771	1,127,375	5	478,782	42	2
34	Fabricated metal products	6,037,935	970,722	16	640,489	65	11
35	Machinery, except electrical	16,453,966	1,721,324	10	817,067	47	5
36	Electric and electronic equipment.	17,680,691	3,548,363	20	1,171,410	33	7
37	Transportation equipment	32,082,940	657,319	2	318,376	48	1
38	Instruments and related products.	6,092,603	541,371	8	273,727	50	5
39	Miscellaneous manufacturing industries.	6,559,318	2,137,042	32	1,034,707	48	16
91	Executive, legislative and general.	616,264	41,037	6	7,233	17	1
98	U.S. goods returned	4,380,392	-	-	-	-	-
99	Nonclassifiable establishments.	2,649,811	11,838	-	6,446	54	-
	Grand total	258,984,742	16,782,722	6	8,258,388	49	3

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

Note.--Data are on a customs-value basis.

APPENDIX TABLES

Table A-1.—Leading items imported from the EC, by TSUS items, 1979, 1980, and 1981

TSUS item no.	Description	1979	1980	1981
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees API or more.	$1,462,114,034	$1,961,024,451	$5,301,679,755
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles.	4,094,063,539	4,585,913,651	3,667,102,275
800.00	United States goods returned	586,387,354	736,847,427	1,017,613,638
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	1/ 376,028,524	641,894,336	818,936,119
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft.	2/	483,766,530	682,959,428
692.32	Parts, n.s.p.f., of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	3/ 697,444,468	642,863,664	533,881,825
167.30	Still wine from grapes, not over 14% alcohol, in containers not over 1 gal.	441,349,091	480,275,768	505,061,315
692.34	Tractors suitable for agricultural use and parts thereof	613,693,590	595,433,573	474,980,268
475.25	Motor fuel, including gasoline and jet fuel	313,999,687	180,363,207	426,805,999
610.39	Steel api oil well casing and steel pipes and tubes of rectangular cross section, not threaded, advanced or alloyed.	5,426,674	48,357,959	420,455,051
169.19	Irish and scotch whiskey in containers each holding not over 1 gallon.	4/ 341,651,635	281,857,531	389,249,466
772.51	Pneumatic tires, n.e.s	624,435,968	506,199,036	386,776,076
520.33	Diamonds over 1/2 carat, cut, not set, for jewelry	148,722,061	266,569,550	383,217,154
607.83	Plates and sheets of iron and steel, not alloy, not coated or plated with metal and not clad, pickled and cold rolled.	5/	239,064,203	367,037,778
520.32	Diamonds not over 1/2 carat, cut, not set, suitable for jewelry.	197,213,539	232,855,418	340,502,105
700.45	Leather footwear nes, valued over $2.50 per pair, not for men, youths, or boys.	463,316,267	313,523,838	324,397,661
664.08	Mechanical shovels, coal-cutters, etc., stationary or mobile for earth, minerals, or ores, or pile drivers, n.s.p.f.	6/	276,873,815	318,459,782
674.35	Metal-working machine tools, n.e.s	294,754,323	320,618,989	298,974,307
694.62	Aircraft and spacecraft parts, nec, certified for use in civil aircraft (see headnote 3 in tsus).	7/	240,674,182	287,270,709
607.66	Plates other than alloy iron or steel not coated or plated with metal and not clad, not pickled, and not cold rolled.	8/	216,225,257	284,980,577
	Total	10,660,600,754	13,251,202,385	17,230,341,288
	Total, U.S. imports from EC	33,810,596,647	36,409,234,849	41,459,394,814

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 694.40.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 660.46.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 692.27.
4/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 168.45.
5/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 608.85.
6/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 664.05
7/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 694.40.
8/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 608.85.

Table A-2.—Leading items exported to the EC, by Schedule B items, 1979, 1980, and 1981

Schedule B item no.	Description	1979	1980	1981
175.41	Soybeans, except for planting	$2,292,705,434	$2,649,371,440	$2,817,818,797
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel.	1,083,864,050	1,735,119,002	2,357,099,079
694.40	Aircraft	1,430,658,591	2,586,158,348	2,116,491,993
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, and similar units.	1,267,352,327	1,716,006,626	1,934,655,812
605.20	Gold or silver bullion, dore, and precipitates	2,160,796,659	1,921,729,469	1,920,063,217
676.28	Digital central processing units and other automatic data processing machines (and units thereof), n.s.p.f.	1,308,876,082	1,821,861,507	1,830,351,414
694.65	Parts for aircraft and spacecraft	929,593,404	1,219,623,133	1,505,193,756
660.54	Parts of internal combustion engines, n.e.s	735,949,768	965,074,657	1,195,435,916
130.34	Corn or maize, not donated for charity or relief	1,222,167,971	1,385,217,998	1,185,048,006
184.52	Soybean and cottonseed oil cake and oil-cake meal	643,798,463	896,633,129	859,223,070
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	549,268,712	753,652,060	804,677,844
664.05	Mechanical shovel fr earth etc snow plows,etc and parts.	523,905,149	661,631,479	776,702,092
184.80	Animal feeds containing milk or milk derivatives	492,491,025	703,172,082	651,743,736
687.60	Electronic tubes, photocells, transistors, etc. and parts, n.e.s.	544,401,501	736,679,008	600,100,915
712.50	Electrical measuring etc devices nspf and parts thereof.	366,599,219	473,714,996	495,052,616
676.27	Digital machines comprising in one housing the central processing unit and input and output capability.	383,752,688	492,150,477	456,083,930
170.33	Cigarette leaf, not stemmed, nes, phil article, within quota.	410,534,784	472,257,937	442,268,460
433.10	Chemical mixtures and preparations	306,486,391	424,749,274	423,739,653
692.38	Tractors, parts	381,796,233	456,002,990	422,012,798
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	315,484,333	418,712,874	414,092,464
	Total	17,350,482,784	22,489,518,486	23,207,855,568
	Total, U.S. exports to EC	42,020,930,792	53,088,856,085	50,626,028,818

Table A-3.--Leading items imported from Canada, by TSUS items, 1979, 1980, and 1981

TSUS item no.	Description	1979	1980	1981
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof.	$3,020,253,209	$4,130,745,316	$4,514,668,659
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles, APTA.	4,024,788,014	3,814,655,722	4,276,685,765
252.65	Standard newsprint paper	2,249,469,563	2,578,687,024	2,807,548,756
692.03	Trucks valued at $1000 or more each, APTA	1,488,354,586	1,330,989,386	1,894,519,215
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	1,404,802,922	1,610,494,139	1,654,192,493
605.20	Gold or silver bullion, dore, and precipitates	805,246,018	1,832,679,230	1,635,647,092
692.33	Parts,n.s.p.f. of motor vehicles not alloyed nor advanced beyond cleaning,partly machined, APTA.	1/	1,361,157,226	1,573,579,388
800.00	United States goods returned	1,012,083,944	1,190,070,416	1,463,033,283
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees api or more.	1,404,212,917	1,496,465,371	1,299,476,502
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing, under 25 degrees API.	738,771,933	986,081,400	1,204,026,182
202.03	Spruce lumber	1,378,920,475	1,067,488,496	1,047,202,112
601.24	Iron ore, including manganiferous containing not over 10 percent by weight of manganese, and the dross or residuum from burnt pyrites.	683,286,024	581,758,572	707,974,220
480.50	Potassium chloride or muriate of potash	481,795,050	587,563,443	677,416,706
660.49	Piston-type engines other than compression-ignition engines for automobiles(incl. trucks and buses), APTA.	2/	272,739,231	486,917,201
666.00	Agricultural and horticultural machinery and parts.	616,607,051	612,918,002	482,469,778
664.08	Mechanical shovels,coal-cutters,etc,stationary or mobile for earth,minerals,or ores,or pile drivers, n.s.p.f.	3/	95,751,116	395,807,314
620.03	Unwrought nickel	317,475,896	371,431,770	372,581,740
618.02	Unwrought aluminum, n.e.s. other than alloys of aluminum.	179,011,403	309,736,647	371,315,858
618.06	Other unwrought alloys of aluminum	228,936,387	328,398,708	368,184,695
653.22	Metal coins	112,075,957	500,022,152	360,092,094
	Total	20,146,091,349	25,059,833,367	27,593,339,053
	Total, U.S. imports from Canada	37,765,936,847	40,877,070,358	45,776,018,449

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 692.28.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 660.40.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 664.08.

Table A-4.--Leading items exported to Canada, by Schedule B items, 1979, 1980, and 1981

Schedule B item no.	Description	1979	1980	1981
692.29	Automobile truck tractors,imported without their trailers.	$3,572,818,828	$3,179,639,945	$3,812,638,059
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles.	3,344,608,603	3,066,292,172	3,177,619,576
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel.	979,503,961	905,350,930	1,017,849,005
660.48	Piston-type engines other than compression-ignition for automobiles (including trucks and buses).	738,269,047	727,524,294	789,060,856
694.40	Aircraft	509,113,769	438,401,581	708,992,765
605.20	Gold or silver bullion, dore, and precipitates	826,753,166	1,016,192,856	693,043,157
666.00	Agricultural machinery and parts-and horticultural.	504,864,195	554,360,593	643,329,040
664.05	Mechanical shovel fr earth etc snow plows,etc and parts.	741,219,284	745,877,367	639,590,186
475.07	Crude petroleum, crude shale oil, and distillate and residual fuels derived from either.	428,702,763	778,992,142	622,297,456
676.28	Digital central processing units and other automatic data processing machines (and units thereof), n.s.p.f.	314,238,681	403,896,839	515,212,478
692.33	Parts nspf of motor vehicles,not alloyed nor advanced beyond cleaning,partly machined (apta).	350,411,729	337,348,564	507,969,355
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, etc.	343,597,386	408,794,102	504,272,774
692.05	Automobile trucks valued at $1000 or more and motor buses no.	701,419,157	412,095,462	470,576,284
692.20	Automobile truck and motor bus chassis and bodies	463,359,089	326,311,299	394,545,851
660.54	Parts of internal combustion engines, n.e.s	287,734,648	324,593,647	388,083,609
605.70	Precious metal sweepings and other precious metal waste and scrap.	123,338,450	547,283,991	375,376,902
660.41	Compression-ignition internal combustion piston-type engines.	269,771,738	280,816,413	341,604,070
692.38	Parts of tractors, n.s.p.f. waste and scrap.	249,480,175	292,245,769	326,973,738
660.52	Parts of piston-type engines except compression-ignition engines.	228,002,509	203,438,336	286,594,348
687.60	Electronic tubes, not for television	165,428,164	224,794,942	271,387,280
	Total	15,142,635,342	15,174,251,244	16,487,016,789
	Total, U.S. exports to Canada	32,159,865,796	33,984,904,623	38,157,178,778

Table A-5.--Leading items imported from Japan, by TSUS items, 1979, 1980, and 1981

TSUS item no.	Description	1979	1980	1981
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles.	$6,597,263,576	$8,364,355,570	$9,680,507,307
692.02	Trucks valued at $1000 or more each	25,341,111	375,725,789	1,811,976,913
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	740,039,986	892,271,208	1,485,474,266
692.50	Motorcycles	825,909,951	1,038,948,430	1,215,644,230
676.30	Office machines, n.s.p.f	346,523,889	454,857,363	740,285,634
610.42	Steel API oil well casing and steel pipes and tubes of rectangular cross section, threaded or advanced, not alloyed.	129,951,854	345,661,235	602,430,792
678.50	Machines, n.s.p.f., and parts thereof	445,576,442	426,945,376	599,128,465
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter.	299,276,651	336,235,644	523,135,537
692.32	Parts n.s.p.f. of motor vehicles,not alloyed nor advanced beyond cleaning, partly machined.	1/ 354,933,345	349,735,438	457,280,217
722.16	Photographic cameras, other than fixed-focus, over $10 each, lens not over 50% value.	451,846,106	377,384,178	437,134,932
610.49	Iron or steel pipes and tubes, not suitable for use in the manufacture of ball or roller bearings, not alloyed, not hollow bars.	116,675,810	202,249,731	433,632,431
674.35	Metal-working machine tools, n.e.s	257,183,707	328,317,830	428,697,315
676.52	Office machine parts, n.e.s	195,569,791	226,181,882	402,518,793
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	248,608,117	252,084,564	394,563,391
608.13	Sheets of iron and steel,n.s.p.f., not alloy, coated or plated with metal valued over 10¢ per lb.	2/ 540,336,043	387,773,019	360,384,626
772.51	Pneumatic tires, n.e.s	209,821,583	263,959,386	358,607,746
684.70	Microphones,loudspeaker,head phones etc and parts	264,757,405	232,544,606	298,414,724
685.11	Complete monochrome and color television receivers having video display diagonals of all different sizes.	3/	151,004,680	285,468,754
685.90	Electrical apparatus for making or breaking electrical circuits,protection of electrical circuits, making connections to or in circuits.	195,851,981	227,477,150	280,862,579
610.39	Steel API oil well casing and steel pipes and tubes of rectangular cross section, not threaded or advanced, not alloyed.	108,029,063	173,482,491	279,524,922
	Total	12,353,496,411	15,407,195,570	21,075,673,574
	Total, U.S. imports from Japan	26,333,924,306	30,698,299,285	37,471,371,420

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 692.27.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 608.9500.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 685.20.

Table A-6.--Leading items exported to Japan, by Schedule B items, 1979, 1980, and 1981

Schedule B item no.	Description	1979	1980	1981
130.34	Corn or maize, not donated for relief or charity	$1,203,192,797	$1,632,411,126	$1,791,960,558
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel.	971,408,191	1,396,934,718	1,569,612,634
175.41	Soybeans, except seed for planting	1,031,857,996	1,105,237,961	1,137,877,555
200.35	Logs and timber,rough,split,hewn, or roughly sided or squared but not made into lumber.	1,482,642,151	1,300,813,102	831,638,793
694.40	Aircraft	591,659,352	680,842,009	776,299,774
130.65	Wheat unfit for human consumption	537,260,402	596,182,862	615,025,196
300.10	Raw cotton, having a staple length under 1 1/8 inches.	438,660,282	513,885,570	497,101,484
694.65	Parts for aircraft and spacecraft	249,291,909	403,432,532	486,850,644
130.40	Grain sorghum	249,648,872	496,981,049	409,841,240
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, and similar units.	184,975,404	257,750,694	331,197,024
676.28	Digital central processing units and other automatic data proceesing machines (and units thereof), n.s.p.f.	226,043,632	312,150,996	329,378,628
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof.	123,193,276	218,912,257	329,062,845
618.03	Unwrought aluminum, other than alloys of aluminum	79,975,843	408,915,160	310,100,250
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	224,974,870	336,068,041	303,035,143
110.46	Fish, fresh, chilled, or frozen	236,981,599	154,946,972	300,415,139
170.33	Cigarette leaf, not stemmed, nes, phil article, within quota.	226,959,394	194,871,044	297,762,124
120.14	Cattle hides or skins weighing over 12 lbs each when dried or dry-salted, or over 25 lbs each when wet or wet-salted.	298,098,268	250,833,866	255,121,232
200.15	Wood chips other than waste	180,628,825	358,596,113	235,182,178
678.50	Machines, n.s.p.f., and parts thereof	122,757,541	152,310,645	220,295,085
712.50	Electrical measuring etc devices n.s.p.f. and parts thereof.	150,497,747	165,860,956	202,664,025
	Total	8,810,708,351	10,937,937,673	11,230,421,551
	Total, U.S. exports to Japan	17,281,217,164	20,472,001,280	21,333,015,508

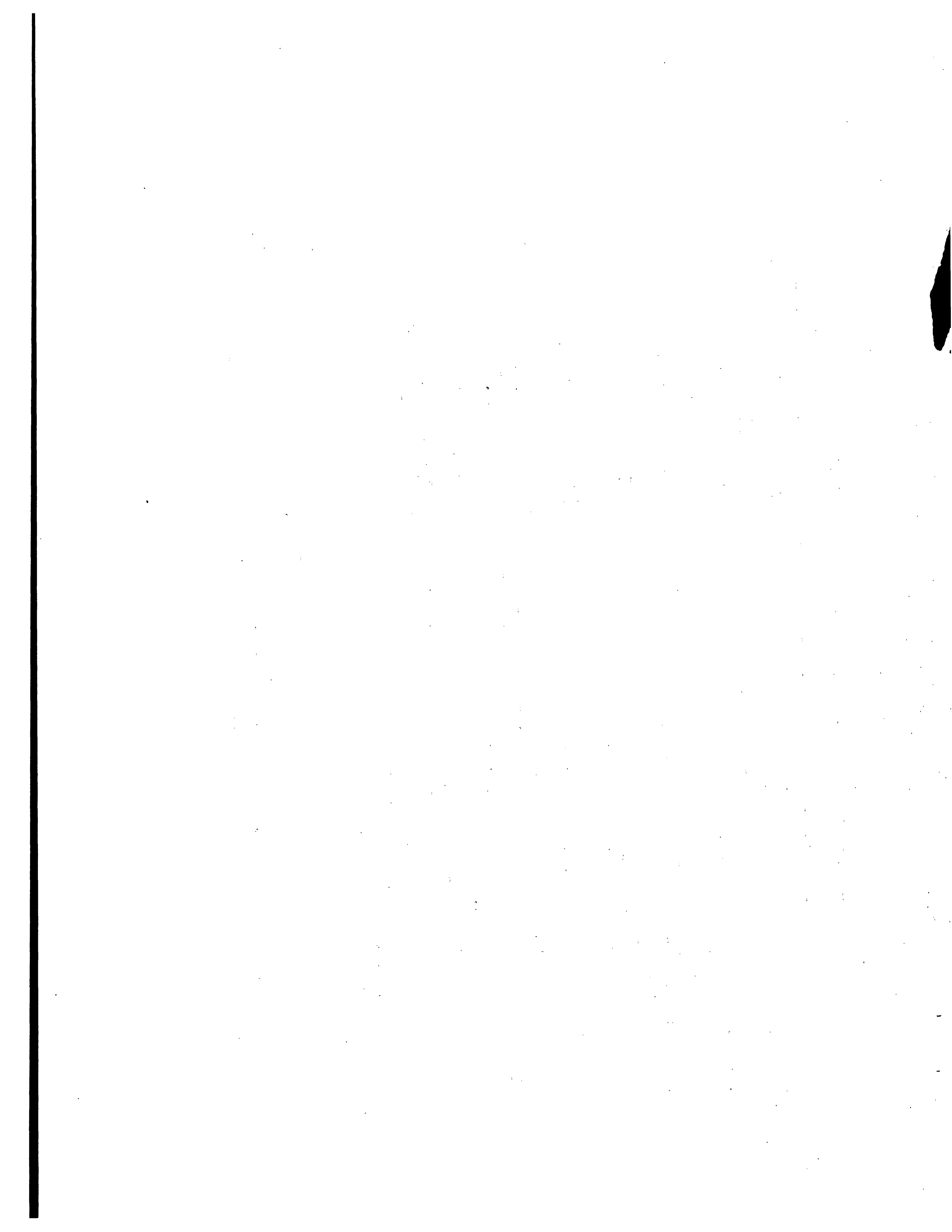
Table A-7.--Leading items imported from Mexico, by TSUS items, 1979, 1980, and 1981

TSUS item no.	Description	1979	1980	1981
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees API or more.	$3,010,591,110	$4,572,047,818	$3,942,203,860
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing, under 25 degrees a.p.i.	28,052,277	1,422,646,458	2,239,568,321
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof.	5,778,425	551,554,761	652,447,857
653.22	Metal coins	123,707,395	196,436,446	423,269,989
114.45	Shellfish other than clams, crabs, or oysters	317,014,066	338,370,320	316,132,983
800.00	United states goods returned	150,743,497	245,281,348	279,457,410
685.15	Main printed circuit boards with specified components for color tv's, except tuners or covergence assemblies (hdnote 3(b)(i)).	1/ 150,379,470	229,594,355	265,988,039
160.10	Coffee, crude, roasted or ground	410,501,914	302,445,674	245,866,189
605.20	Gold or silver bullion, dore, and precipitates	248,208,179	267,693,948	209,478,689
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	119,327,478	145,672,800	189,888,092
137.60	Tomatoes, fresh or chilled, entered Mar. 1 to July 14 and Sept. 1 to Nov. 14, incl., not reduced in size.	88,601,776	82,471,207	177,023,905
692.32	Parts n.s.p.f of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	2/ 163,965,635	149,841,379	157,465,632
685.19	Other television apparatus and parts thereof, n.s.p.f	3/ 84,000,650	106,861,967	142,767,930
688.12	Ignition wiring sets and wiring sets for transportation equipment.	50,126,289	75,451,256	131,013,413
685.16	Main printed circuit boards for color television receivers, except tuners or convergence assemblies, n.e.s.	4/ 74,743,777	78,691,052	110,626,601
415.45	Sulfur	69,648,201	85,316,135	108,220,607
999.95	Under $251 formal and informal entries estimated	116,927,000	80,906,300	107,984,100
685.18	Cabinets, antennas, deflection yokes, convergence assemblies, flybacks, focus coil, etc.; for television receivers.	5/ 232,212,749	192,524,625	100,714,705
676.52	Office machine parts, n.e.s	58,372,083	72,847,399	100,438,383
682.60	Office machine parts, n.e.s	58,406,502	81,526,096	98,840,527
	Total	5,561,308,473	9,278,181,344	9,999,397,232
	Total, U.S. imports from Mexico	8,784,893,926	12,497,653,066	13,703,637,079

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 692.27.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
4/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
5/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.

Table A-8.--Leading items exported to Mexico, by Schedule B items, 1979, 1980, and 1981

Schedule B item no.	Description	1979	1980	1981
692.29	Automobile truck tractors, imported without their trailers.	$671,751,552	$962,866,564	$1,333,901,840
694.40	Aircraft	198,294,988	364,471,308	640,592,867
130.34	Corn or maize, not donated for charity or relief	116,093,704	680,374,569	452,130,303
664.05	Mechanical shovel for earth etc., snow plows, etc and parts.	350,135,084	349,369,322	427,613,101
130.40	Grain sorghum	159,765,465	331,239,356	339,745,150
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	165,089,586	236,437,364	306,183,875
140.08	Pinto beans, except seed	7,998,991	174,744,161	262,281,271
687.60	Electronic tubes, photocells, transistors, etc. and parts, n.e.s.	175,547,857	227,375,101	242,458,686
660.54	Parts of internal combustion engines, n.e.s	262,745,720	281,408,604	237,011,081
652.91	Iron or steel structures or structural parts	58,440,157	141,810,249	234,547,029
685.20	Television apparatus	218,969,835	175,463,444	211,738,931
175.41	Soybeans, except seed for planting	118,277,313	259,410,704	207,918,207
130.65	Wheat unfit for human consumption	197,083,430	122,572,298	206,180,117
666.00	Agricultural machinery and parts - and horticultural implements, n.s.p.f.	87,181,132	165,316,277	157,167,974
674.35	Metalworking machine tools, n.e.s	45,096,003	94,463,161	156,638,270
682.60	Generators	70,005,845	106,956,562	155,582,603
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying and similar units.	98,022,523	132,955,540	154,675,258
155.20	Sugars, sirups, and molasses, derived from sugar cane or sugar beets, principally of crystalline structure or in dry amorphous form.	107,192	137,064,518	154,071,237
692.16	Motor vehicles, specially constructed designed for special services or functions.	76,729,080	115,525,934	149,139,130
678.50	Machines, n.s.p.f	89,030,587	108,346,899	144,787,678
	Total	3,166,366,044	5,168,171,935	6,174,364,608
	Total, U.S. exports to Mexico	9,662,504,600	14,881,433,243	17,353,054,111



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