

OPERATION OF THE TRADE AGREEMENTS PROGRAM

**37th Report
1985**



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United States International Trade Commission - Washington, DC 20436

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UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

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PREFACE

The annual Operation of the Trade Agreements Program report is one of the principal means by which the Commission provides the U.S. Congress with factual, technical advice and information on trade policy and administration. The report also serves as a historical record of the major trade-related activities of the United States, for use as a general reference by Government officials and others with an interest in U.S. trade relations. This report is the 37th in a series to be submitted under section 163(b) of the Trade Act of 1974 and its predecessor legislation. 1/ The trade agreements program includes "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 . . ." and other legislation. 2/ 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, and the Trade and Tariff Act of 1984.

The report consists of a summary, an overview, five chapters, and appendices. The overview sketches the economic and international trade environment within which U.S. trade policy was conducted in 1985. Chapter I treats special topics that highlight developments in trade activities during the year. Chapter II is concerned with activities in the General Agreement on Tariffs and Trade (GATT), the main area of multilateral trade-agreement activities. Such activities outside the GATT are reported in chapter III. Chapter IV discusses bilateral relations between the United States and its major trading partners. The administration of U.S. law, including decisions taken on remedial actions available to U.S. industry and labor, is discussed in chapter V. The period covered in the report is calendar year 1985, although occasionally, to enable the reader to understand developments more fully, events in early 1986 are also mentioned.

1/ Sec. 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that "the International Trade Commission shall submit to the Congress, at least once a year, a factual report on the operations of the trade agreements program."

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

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SUMMARY

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1985

Chapter I of this report provides an overview of three trade policy developments in 1985 that are likely to dominate U.S. trade policy activity in the coming year: the President's September 23 trade initiative; the enlargement of the European Community (EC) 1/; and movement towards negotiation of a bilateral free-trade arrangement with Canada.

The President's trade initiative, the administration's first statement on overall trade policy since 1981, made it clear that the United States was no longer willing to tolerate unfair trade practices that harm U.S. interests. While underscoring the administration's belief that free and open markets are the foundations for economic growth and opportunity, President Reagan also said that America's trading partners must play a stronger role in upholding the multilateral free-trade system. Announced in an atmosphere of slowing world growth and rising domestic calls for protection, the President's trade initiative was part of a larger strategy for dealing with severe imbalances in the world economy. In the wake of the President's announcement, action was taken on a number of longstanding U.S. complaints about unfair foreign trade practices.

On January 1, 1986, Spain and Portugal became members of the EC, raising concerns about the effect of enlargement on U.S. trade. Although the United States favors the accession effort, it is concerned that some key U.S. farm exports will be adversely affected, either directly by the terms of accession or indirectly by the effects of accession on EC policies. U.S. suppliers of manufactured goods may also be at a competitive disadvantage, relative to EC suppliers, in Spain and Portugal. The provisions of the accession treaties for Spain and Portugal, along with specific concerns about the effects of enlargement on U.S. exports, are briefly explained in chapter I.

In September 1985, Canadian Prime Minister Mulroney presented President Reagan with a formal proposal to negotiate a bilateral free-trade agreement. The proposed agreement would be comprehensive, and would aim to create a more open trade environment between the United States and Canada. On December 10, President Reagan notified Congress that he intended to enter into negotiations towards this end. The United States is Canada's most important export market.

1/ The term "European Communities" refers to three communities, each mandated by its own treaty--the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (Euratom). In 1967, the three communities were brought under a single organizational structure. Thus the preferred name for the member nations became the European Community (in the singular) and their programs, policies, and actions came to be referred to as those of the European Community. The popularly used term "European Community," is used in this report as synonymous with the "European Communities," and "EC" is used as its short form.

accounting fully for 85 percent of Canada's exports in 1985. Canada is also the United States' most important market, taking one-fifth of U.S. exports in the year. Although both countries stand to gain from the proposed free-trade agreement, numerous issues concerning specific industries, nontariff barriers, investment, intellectual property, and services remain to be ironed out.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND THE TOKYO ROUND AGREEMENTS

The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement drafted 39 years ago which sets forth general rules of conduct concerning trade between signatory countries. The GATT has become both a comprehensive set of rules governing most aspects of international trade and a formal organization and forum for multilateral trade negotiations and resolution of disputes among member countries. In the 1973-79 Tokyo Round, nontariff measures (NTM's), considered to be the most significant remaining obstacles to trade expansion, were addressed in a set of NTM agreements. By the end of 1986, the GATT Contracting Parties (CP's) expect to embark on a new round of trade negotiations that may, among other things, further extend and amend the trade rules, particularly in the area of NTM's. Chapter II reports on decisions of the GATT CP's and Council in 1985, activities of the committees and working groups of the GATT, notifications and other actions taken under GATT articles, and implementation of the Tokyo Round agreements.

Throughout 1985, the United States pushed for a high-level meeting to discuss issues to be included in a new round of multilateral trade negotiations (MTN). This initiative finally succeeded when, in November 1985, the CP's decided to establish a new round Preparatory Committee. The imminent launching of a new round gave fresh impetus to work on topics under the aegis of the 1982 Ministerial Declaration. As a result, background work on safeguards, services, counterfeit goods, quantitative restrictions, agriculture, and tariff concessions moved ahead in the year. GATT disputes concerning EC subsidies on canned fruit and raisins and Japanese import restrictions on leather were resolved bilaterally in 1985, whereas failure to reach compromise on EC preferences on citrus products resulted in unilateral retaliation by the United States.

Activities under the Tokyo Round agreements during 1985 are also summarized in Chapter II. Six of these agreements establish rules of conduct governing the use of NTM's and three are sectoral agreements covering trade in civil aircraft, bovine meat, and dairy products. Signatories to the Government Procurement Code initiated renegotiations in 1985, with efforts focusing on improving the operation of the Code and expanding the coverage to include services and sectors previously excluded. The United States also used the agreement to protest the French Government's decision to procure all the computers needed for a computer literacy program from domestic suppliers, despite the fact that the agency involved is covered under the Code. A 3-year review of the operation of the Standards Code was also conducted in the year.

TRADE ACTIVITIES OUTSIDE THE GATT

In 1985, the member nations of the Organization for Economic Cooperation and Development (OECD) reaffirmed their commitment to the open multilateral trading system and emphasized the need to resist protectionist pressures. The most notable outcome of the OECD's April Ministerial-level meeting was an endorsement of a new round of MTN. An important study examining the costs and benefits of protectionism was also published to support this commitment. Other trade-related activities of the OECD focused on the implementation of existing work programs covering such topics as trade in agriculture and high-technology trade. OECD members also agreed to raise the minimum allowable level of aid in mixed credit financing packages, but the increase fell far short of the increase advocated by the United States to discourage the use of this type of subsidized export credit.

The United Nations Conference on Trade and Development (UNCTAD) continued to focus on commodities trade and the problems of protectionism and structural adjustment. In the face of large supplies and declining commodity prices, attainment of the objectives of the commodity-pricing agreements set up under the Integrated Program for Commodities was examined. A new work program inviting governments to provide information on factors relevant to the issues of protectionism and structural adjustment was undertaken during the annual review of the problems of protectionism and structural adjustment.

Five international commodity agreements (coffee, sugar, natural rubber, tin, and cocoa) contain specific price-stabilization mechanisms. The agreements covering wheat, jute, tropical timber were not specifically designed to minimize price fluctuations. Although the United States was not a signatory to the international commodity agreements covering cocoa or tin, it was a signatory to agreements covering coffee, sugar, wheat, jute, natural rubber, and tropical timber. In 1985, the tropical timber agreement entered into force provisionally and the jute agreement entered into force definitively. The agreement covering natural rubber was extended for 2 years and an interim sugar agreement entered into force. Negotiations took place for new agreements on wheat and coffee.

In 1985, the United States continued to advocate extending GATT discipline to services where international rules are limited or nonexistent. In addition to multilateral efforts on services trade issues, the United States is exploring bilateral avenues to open service markets. In 1985, the United States negotiated a bilateral free-trade agreement with Israel that included services and began discussions that could lead to a similar arrangement with Canada. The GATT, OECD, and UNCTAD also continued to conduct studies and host important discussions on issues related to trade in services.

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

In 1985, the United States registered an overall merchandise trade deficit of \$136.6 billion, of which \$118.1 billion (or 87.0 percent of the total deficit) was with the major trading partners under review in this report: Canada, the EC, Japan, Mexico, Taiwan, the Republic of Korea (Korea), and Brazil. The largest bilateral merchandise trade deficit was with Japan (\$46.6 billion or 34.1 percent of the total U.S. merchandise trade deficit), followed by Canada (\$23.9 billion or 17.5 percent), and the EC (\$20.9 billion or 15.3 percent). The U.S. merchandise trade deficit with the newly industrialized countries covered in this report totaled \$26.7 billion or 19.5 percent of the total U.S. merchandise trade deficit.

In addition to the U.S.-Canadian free-trade arrangement initiative, major developments in U.S.-Canadian trade relations concerned U.S. dissatisfaction with Canadian subsidization of rail freight rates for certain agricultural products, and with certain practices of provincial liquor boards.

The United States and European Community disagreed on several issues during 1985. The disagreements centered on continuing U.S. complaints against the EC's use of Mediterranean tariff preferences for citrus products. Unable to reach an accord on this issue, both sides imposed punitive duties on trade in pasta, lemons, and walnuts. By yearend, disagreements remained over a wide range of agricultural issues.

It was evident in 1985 that U.S. relations with Japan were somewhat strained as the U.S. merchandise trade deficit with Japan reached record levels. The United States became increasingly frustrated with Japan for its failure to take effective measures to open its markets to competitive imported goods. However, intense bilateral consultations on sectoral trade barriers did result in a number of policy actions by Japan that could increase future opportunities for U.S. firms.

The United States and Mexico also resolved some outstanding bilateral trade issues during the year. An accord was reached on subsidies and the two countries agreed to begin negotiations on a comprehensive bilateral commercial agreement on trade and investment.

During the year, U.S. relations with Taiwan were dominated by U.S. attempts to gain increased access to Taiwan's markets for U.S. producers. Of particular concern to the United States were the banking, insurance, and motion picture distribution sectors and Taiwan's cigarette, beer, and wine monopoly.

During 1985 the United States instituted section 301 investigations concerning Korea's insurance industry policies and intellectual property rights practices.

In 1985, U.S. concerns regarding trade relations with Brazil focused on Brazil's across-the-board-import licensing requirements, government procurement practices, and high import duties.

ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

The U.S. International Trade Commission completed two investigations under statutes safeguarding U.S. industries from import injury (sec. 201 of the Trade Act of 1974) in 1985. The Commission voted in the negative on potassium permanganate, and in the affirmative on nonrubber footwear. Following the Commission's affirmative finding, the President determined that the imposition of import relief was not in the national economic interest.

The U.S. Department of Commerce and the Commission continued to have a large caseload of antidumping and countervailing duty investigations during the year. The Department of Commerce completed 53 final antidumping investigations in 1985, a slight decrease from the 61 final investigations completed in 1984. The Commission completed 89 preliminary and 48 final antidumping investigations. Antidumping duties were imposed as a result of 11 of these investigations on a total of 10 products from 8 countries.

The Department of Commerce completed 36 final countervailing duty investigations. Countervailing duties were imposed, as a result of 9 of these investigations on a total of 12 products from 13 countries.

The Commission completed 39 investigations in 1985 under section 337. No violation of the statute was found in 8 of the 39 investigations completed. Six investigations resulted in exclusion orders. The remaining 25 investigations were terminated by the Commission prior to issuance of findings.

The President indicated in his September 23 trade that the Administration would be more aggressive in initiating section 301 investigations. A total of four section 301 investigations were self-initiated by yearend. One private section 301 petition was filed in 1985 on semiconductor imports from Japan.

The results of the 1985 annual review under the Generalized System of Preferences (GSP) program became effective on July 1, 1985. In the 1985 review, four products, representing imports of \$41 million in 1984, were added to the list of GSP-eligible items. Only one article, trifluralin (a chemical), was removed from the program in response to a petition filed by a U.S. producer. The value of products of advanced beneficiary countries removed from GSP eligibility totaled \$163 million (based on import in 1984). These new graduations were in response to petitions from domestic producers and affected the products of Taiwan, South Korea, Israel, and Mexico.

Duty-free imports entering the United States under Caribbean Basin Economic Recovery Act (CBERA) preferences totaled \$498 million in 1985 or 7.3 percent of overall U.S. imports from the region. This compares with \$578 million or 6.5 percent in 1984. The decline of sugar imports from beneficiary countries subject to U.S. sugar quotas depressed U.S. imports under CBERA in the first 2 years of the program.

OVERVIEW: THE INTERNATIONAL ECONOMIC ENVIRONMENT IN 1985

The volume of world trade rose 3 percent in 1985, continuing the recovery begun in 1983 but at only a fraction of the record 9-percent growth rate set in 1984. World trade expansion just matched the estimated 3-percent increase in world production, breaking the typical postwar pattern in which trade growth outpaces production growth. In U.S. dollar terms, the value of world trade grew by less than 1 percent in 1985 compared to a 5-1/2-percent increase in 1984, reflecting an estimated 2-1/2-percent decline in world market prices due to the U.S. dollar's depreciation. U.S. two-way trade totaled more than \$570 billion in 1985.

The slowdown in the growth of world trade resulted from reduced growth in the value of exports and imports in each of the major geographical regions with one exception; a large increase in China's imports was responsible for the growth of imports into the Far Eastern trading area. Compared to earlier trade cycles, the trade flows that had previously supported recovery after the peak year did not materialize in 1985. For example, in both 1976 and 1979, the recovery led by the industrial countries stimulated other countries to become the source of continued trade growth in the postpeak year. However, in 1985, both trade among developing countries and trade between industrial and developing nations decreased by 7 percent and 5 percent, respectively, contributing significantly to the deceleration of world trade growth. Declining exports and imports of the developing countries in Southeast Asia played an important role in this overall slowdown.

The growth in trade between the industrialized nations also slowed to 5 percent in 1985 compared to 9 percent in 1984. The strengthening of the U.S. dollar led to an expansion of dollar import values and a widening of the combined trade deficit of the industrial countries. A record U.S. trade deficit of \$148.5 billion was primarily responsible for this shortfall, the largest since 1980.

Among the major product groups, a 5-percent rise in the volume of world trade in manufactured goods provided the sole source of world trade growth in 1985. Trade in mining products declined 3 percent and agricultural trade decreased 2-1/2 percent in the face of a 2-percent increase in production of agricultural products. Unlike previous trade cycles, the recovery in 1984 did not bring about stronger demand for primary commodities excluding fuels. Instead, prices of primary commodities declined in 1985 and contributed to the developing countries' disappointing trade performance. Similarly, declining revenues from petroleum exports reduced the import capacity of many oil-producing developing nations. For example, Saudi Arabia, which ranked as the eleventh largest exporter and eleventh largest importer in the world in 1984, became the nineteenth largest world exporter and eighteenth largest world importer in 1985.

The uneven nature of the 1984 recovery resulted in major current account imbalances that fueled protectionist sentiment, particularly in the United States. Concern over the record U.S. trade deficit was reflected in the large number of protectionist trade bills that were submitted to Congress. However, President Reagan reconfirmed the U.S. commitment to free trade. In a major trade policy initiative announced on September 23, the President rejected new calls for protectionism and focused on a plan to reduce foreign barriers to U.S. exports and combat unfair trading practices. The President stressed both the importance of launching a new round of multilateral trade negotiations to liberalize global markets and bilateral efforts to reduce impediments to free trade. Preliminary discussions on a possible free-trade agreement with Canada are currently underway following the conclusion of a free-trade agreement with Israel. These trade developments, together with other aspects of the 1985 operation of the U.S. trade agreements program, are discussed in this report.

CHAPTER I
SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1985

INTRODUCTION

This chapter describes a number of significant trade developments in 1985: President Reagan's September 23 trade initiative, enlargement of the EC, and progress towards negotiation of a U.S.-Canadian free-trade agreement. The President's trade initiative, which was the first statement on the administration's overall trade policy since 1981, focused on a plan to combat unfair foreign trade practices and to secure greater global commitments to liberalize trade. On January 1, 1986, Spain and Portugal joined the EC, raising concerns over the effect of enlargement on U.S. trade. In September 1985, Canadian Prime Minister Mulroney presented President Reagan with a formal proposal to negotiate a bilateral free-trade agreement. Formal negotiations are expected to begin by mid-1986.

THE PRESIDENT'S SEPTEMBER 23 TRADE INITIATIVE

On September 23, 1985, President Reagan unveiled a new U.S. trade strategy that had as its centerpiece a plan to combat unfair foreign trade practices and secure greater global commitments to liberalize trade. The President's speech was the first statement on the administration's overall trade policy since the White Paper on International Trade was issued in early 1981, and reflected growing concern within the White House about the course of U.S. trade policy and the world trading system. 1/

The September 23 trade initiative was announced in an atmosphere of slowing world growth, heightened trade frictions, faltering U.S. economic expansion, and rising domestic calls for protection from imports and retaliation against unfair foreign trade practices. The United States had recorded a \$123.3 billion trade deficit in 1984, and the 1985 deficit was expected to exceed that level by a substantial margin. (The U.S. deficit in merchandise trade, on a c.i.f. basis, was \$148.5 billion in 1985.) Growing congressional frustration with the damage caused to U.S. firms and workers in certain segments of the economy by sharply rising imports and falling U.S. exports was reflected by the more than 100 protectionist trade bills on the congressional calendar at the beginning of September. 2/ With most

1/ For details on the 1981 White Paper on International Trade, see U.S. International Trade Commission, the Operation of the Trade Agreements Program, 33rd Report, 1981, USITC Publication 1308, October 1982, pp. 13-20.

2/ While more than 300 trade-related bills were on the congressional calendar at that time, only about 100 were considered likely to have the effect of curtailing imports into the United States. See, the National Journal, Sept. 21, 1985, p. 2140.

manufacturing industries facing unprecedented import competition, the pressure for congressional action to limit damage was intense, and passage of several restrictive bills, notably one sharply cutting textile imports, seemed likely. Moreover, the growing U.S. deficit in merchandise trade had, by late 1984, begun to inhibit U.S. economic growth and to curtail desired gains in manufacturing employment. 1/

The administration responded to the growing world trade crisis by initiating actions on three fronts: (1) lowering the value of the dollar, via exchange market intervention and greater coordination of national economic policies by the major industrialized countries; (2) combating unfair trade practices and creating incentives for the negotiated elimination of other trade distortions, and (3) renewing growth in the developing countries by restoring the flow of funds to them from both private and multilateral institutions. 2/ The September 23 trade initiative was the second step in this global strategy and came a day after the meeting of the Group of Five industrial nations--the United States, Japan, West Germany, France and Great Britain--that resulted in joint intervention to encourage the orderly appreciation of non-dollar currencies. 3/

In announcing the trade policy initiative, President Reagan underscored the administration's commitment to free and open markets, emphasizing the benefits in terms of greater income, efficiency, opportunity, and growth such a policy could bring to the United States. President Reagan also noted the key role the United States has played in setting up and progressively strengthening the open world trade system under the auspices of the GATT in the postwar period. However, the President cautioned that the continuation of such support would be conditioned on the willingness of America's trading partners to fulfill their role in maintaining the system by demonstrating a fresh commitment to improving it.

1/ Morgan Guaranty Trust Co., World Financial Markets, March/April 1985, pp. 1-8.

2/ The Baker initiative, unveiled at the October International Monetary Fund Inc. (IMF)-World Bank meetings in Seoul, seeks to stimulate economic growth in less developed countries (LDCs) by encouraging them to remove distortions to the operation of markets in their economies, and by providing them with increased financial support from commercial banks and multilateral lending institutions. Commercial banks were called on to provide \$20 billion, over a 3-year period, of net new lending to the most indebted developing countries, while the multilateral development institutions, principally the World Bank and the Inter-American Development Bank, were asked to undertake a parallel \$20 billion in new lending over the same period. Among the structural reforms by borrowing countries called for in the Baker plan are measures to boost domestic savings, open financial markets, the paring back of inefficient public-sector undertakings, and release of private enterprises from the distorting influence of subsidies and the burden of price, wage, trade, and exchange controls. Morgan Guaranty Trust Co., "Countering world deflation," World Financial Markets, December 1985, pp. 1-13.

3/ See "Treasury and Federal Reserve Foreign Exchange Operations: Interim Report," Federal Reserve Bulletin, Vol. 72, No. 2, Feb. 1986, pp. 109-112.

The President's statement also emphasized that not just free trade, but free and fair trade, is the major policy goal of the United States. He pointed out that the smooth functioning of the world trade system depends upon the willingness of countries to comply voluntarily with the rules of fair play set forth in the GATT. Among other things, these rules foster a liberal world trade order by committing signatories to nondiscriminatory treatment of foreign goods, equal application of bound tariff rates, and an orderly resolution of trade disputes. Despite their commitments under the GATT, the President noted that many countries were circumventing the spirit of the GATT by standing in the way of formal resolution of trade disputes, imposing nontariff restrictions on imports, and using subsidized credits and other means to gain advantage in export markets. This contravention of GATT principles undermines support within the United States for the free-trade system and exacerbates pressures to limit imports, the President asserted.

In response to acts that are contrary to GATT principles, in his September speech, the President emphasized his intention to vigorously enforce U.S. rights under international agreements and to combat unfair foreign trade practices that harm U.S. interests. "It is wrong for the American worker and American businesses to continue to bear the burden imposed by those who abuse the world trading system," the President declared. Specifically, the President announced his intention to investigate unfair foreign trade practices, to meet foreign mixed-credit financing terms until discipline over their use is agreed upon, and to set up a "strike force" to identify and combat other trade practices that harm the United States.

The President noted that on September 7, his administration had initiated several investigations on its own motion under section 301 of the Trade Act of 1974, the first time such cases have been self-initiated by the executive branch. 1/ Section 301 of the Trade Act of 1974 provides redress from foreign government actions for U.S. companies that face unfairly traded imports, restricted access to foreign markets, or unfair methods of competition in third-country markets. 2/ The cases involved Brazil's restrictions on foreign

1/ See ch. V section entitled "Enforcement of Trade Agreements and Response to Unfair Foreign Practices."

2/ Sec. 301 of the Trade Act of 1974 authorizes the President to take action against foreign trade practices that violate international trade agreements or restrict U.S. commerce in an unjustifiable, unreasonable, or discriminatory fashion. There are two authorities under Sec. 301. One is for the United States Trade Representative (USTR) to initiate and conduct investigations; the other is for the President to retaliate. The President can, if he chooses, act without an investigation having occurred beforehand. Sec. 301 grants the President the right to retaliate by imposing higher tariffs or other import restrictions on any products and services purchased from the offending country; he can also deny licenses issued by Federal regulatory agencies to foreign suppliers of services. See comments of Jeanne Archibald, "Briefing by U.S. Trade Representative Clayton Yeutter on U.S. Trade," the White House, Sept. 7, 1985.

computer firms, South Korea's limits on U.S. insurance companies, and Japan's barriers to cigarette and tobacco imports. 1/

The President also signaled his intention to set up a \$300 million fund to combat subsidized foreign export financing by U.S. competitors in third-country markets. The purpose of setting up the fund would be to induce U.S. trading partners to end the practice of winning contracts for their firms with the help of tied foreign aid. Many U.S. suppliers have lost contracts for major projects in developing countries as a result of the attractive "mixed-credit" packages offered by their French and Japanese competitors, among others. 2/ The administration, which has been long opposed to mixed credits, argues that tying export credit funds to foreign aid money distorts both trade flows and development assistance.

The President had previously indicated that retaliation would be imminent if two longstanding GATT disputes, one on Japan's leather import restrictions and the other on the EC's preferences on citrus products imported from Mediterranean countries, were not resolved by December 1. 3/ On September 23, the President also set a December 31 deadline for wrapping up sectoral negotiations with Japan. The talks, initiated in January 1985, were designed to improve American access in Japan's markets for telecommunications equipment and services, electronics, medical equipment, pharmaceuticals, and forest products. 4/

Several other measures were also announced by the President on September 23, including the administration's intention to use trade practice criteria when making U.S. decisions in the World Bank and the IMF. In the future, deadlines on other GATT dispute settlement cases will be set by the administration, and the President directed the Secretary of Labor to explore ways of assisting workers who have lost jobs as a result of imports in finding gainful employment. 5/

1/ The specifics of these cases are also discussed in ch. IV. See, White House press release, "Section 301 of the Trade Act of 1974," Sept. 7, 1985. Some of the criteria used to select these cases were: the probability of increasing U.S. exports, the potential market that exists in the offending country, the flagrancy of the practice involved, and the implications of the practice for the GATT itself. See comments of Clayton Yeutter, "Briefing by U.S. Trade Representative Clayton Yeutter on U.S. Trade," the White House, Sept. 7, 1985.

2/ See chapter III section on the OECD for more details. Mixed credits combine loans at commercial or OECD rates with grants by the exporting firm's government. The aid portion of a mixed-credit offer effectively lowers the interest rate on the combined financing package. Twenty-two nations participate in the OECD Arrangement on Guidelines for Officially Supported Export Credits. The arrangement contains rules on mixed credits, but the United States is trying to raise the minimum allowable level of aid in a mixed-credit package to a height that would discourage their use.

3/ See ch. II section on GATT dispute settlement.

4/ See ch. IV section on market-oriented, sector-selective talks between the United States and Japan.

5/ Secretary of Labor William Brock also informed Congress in late September that a cabinet-level working group on trade adjustment assistance had been ¹² formed, a turnaround for the administration, which had previously opposed special assistance programs for workers displaced by import competition.

The President indicated that the United States will continue to take the lead in the movement towards a new round of MTN under the GATT. The U.S. objectives in such negotiations would be to lessen distortions to world trade in agricultural goods, services, high technology, and investment. The President also directed the USTR to pursue negotiations to end counterfeiting and piracy of U.S. goods.

In addition to these multilateral efforts, the United States will pursue bilateral negotiations consistent with overall U.S. trade policy objectives. The President noted that preliminary discussions on the possibility of a bilateral free-trade accord with Canada, similar to that negotiated with Israel last year, were already underway. 1/

The President expressed his willingness to work with Congress to pass legislation promoting free and fair international trade. Specifically, he stated his intention to work with Congress to ensure greater protection of U.S. intellectual property rights, such as patents, copyrights, and trademarks, and to improve the antidumping and countervailing duty laws so that businesses can have full and expeditious protection from unfairly traded imports. At the same time, the President said that he would oppose legislation that would harm U.S. and world economic growth, cause the loss of American jobs, or diminish the volume of international trade, stating that he would veto any such measure.

The President emphasized that his administration will aggressively pursue the U.S. policy of promoting fair and open markets and will insist that all nations face up to their responsibilities in preserving and enhancing the free-trade system. The ultimate purpose of these U.S. efforts, the President explained, will be the expansion of open and free markets in this country and abroad. On September 23, the President's Export Council, which the President had recently reinstated, set an agenda for future work and established subcommittees to undertake particular tasks. 2/

Other actions quickly followed. On September 27, the administration submitted draft legislation to set up a \$300 million export credit "war chest" within the Department of the Treasury. The war chest would be a temporary measure intended to bring other countries to the bargaining table in negotiations to limit the use of mixed credits. 3/ (The legislation has not yet been passed by Congress, although committees in the House and Senate have each approved their own version of mixed-credit bills, and those bills are now

1/ For a description of the bilateral free-trade agreement with Israel, see the U.S. International Trade Commission, Operation of the Trade Agreements Program, 36th Report, 1984, USITC Publication 1725, July 1985, pp. 26-33. See also ch. I section on Canada.

2/ Bureau of National Affairs, International Trade Reporter, Sept. 25, 1985.

3/ The credits would be aimed at "sectors and markets of particular importance to countries impeding negotiations." The \$300 million fund would cover the grant element of financing packages, with Eximbank providing the balance through its other programs. The administration claims that it could underwrite \$1 billion in tied-aid credits with the \$300 million special fund.

ready for floor action.) 1/ On October 9, the President formally set up the "strike force" and named Secretary of Commerce Malcolm Baldrige as its chair, with membership by the Secretaries of the Treasury, State, Transportation, and Agriculture and the USTR. The strike force was charged with uncovering foreign-trade practices that harm U.S. interests and developing strategies to deal with them. 2/ On October 23, six specific mixed credit financing offers were announced by the U.S. Export-Import Bank. 3/ 4/ In the meantime, an additional investigation under section 301 of the Trade Act of 1974 was initiated by the administration on October 16, concerning Korea's protection of U.S. intellectual property rights. 5/ On the same day, the President directed USTR Clayton Yeutter to initiate dispute settlement proceedings under the GATT against subsidized sales of wheat by the EC in third-country markets. 6/ By December 20, the United States and Japan had reached a bilateral settlement to the United States GATT complaint concerning Japan's restrictions on leather and leather footwear, a complaint that had remained unresolved for more than 8 years. 7/

1/ Since late 1983, Eximbank and the Agency for International Development (AID) have had the authority, but no special funds, to combat other countries' mixed-credit programs. In those cases when it is determined that some negotiating leverage might be gained, Eximbank, using its own money, has matched a dozen offers of concessional financing on its own or in conjunction with AID. However, because exporters were required to prove the use of subsidized financing by their competitors, the program, in general, did not provide assistance in a timely manner, and U.S. suppliers won only 3 of the 12 contracts.

2/ The strike force's first action was the self-initiation in December of dumping proceedings against Japanese suppliers of 256K dynamic random access memory semiconductors. See Japan section on semiconductors in ch. IV.

3/ On Oct. 23, the Export-Import Bank of the United States announced plans to offer highly concessional financing deals to American suppliers bidding on six projects worth more than \$250 million in potential U.S. sales. In three cases, Eximbank will provide mixed credits to help U.S. exporters meet deals already offered by foreign competitors. In two others, the agency will top the financing terms already offered by other countries. In the last project, it is teaming up with the AID to match a foreign-mixed credit commitment. The six offers involve contracts in Algeria, Tunisia, Brazil, India, and Malaysia, where French, Japanese, and British companies are all competing with mixed-credit offers to supply computer, power generation, and transportation equipment.

4/ In early January, the Export-Import Bank also announced several changes in its programs aimed at boosting U.S. exports, chief among them a 1.05 percent cut in its interest rates for direct export credits and an expansion of its coverage of direct credits up to 85 percent of the U.S. export value from previous limits of 65 or 75 percent. Another mixed-credit offer was also announced, this involving a sale of satellite earth stations to Gabon.

5/ See section on Korea in ch. IV.

6/ See section on the EC in ch. IV.

7/ See section on Japan in ch. IV.

At the same time, coordinated intervention initiated in September to realign currency relationships proved remarkably effective, resulting in a sharp appreciation of the yen and some European currencies in the months that followed. 1/ On September 22, 1985, the day before President Reagan's announcement of the administration's trade policy initiative, the finance ministers and central bankers of the Group of Five industrial nations met in New York in an effort to alleviate growing imbalances in the world economy, particularly an alarming rise in trade frictions. The administration, faced with a growing domestic constituency for trade restrictive action, broke with its previous "hands off" view of exchange markets and initiated the coordinated effort to lower the dollar. 2/ 3/

Realignment of exchange rates was viewed by the industrial leaders as the only way to stem the rising tide of protectionist sentiment in the United States, by both relieving the import price pressure faced by U.S. suppliers at home and increasing the competitiveness of their goods abroad. Initial reaction by currency markets to the announcement was a sharp 5-percent decrease in the dollar's value, the largest single-day movement since floating exchange rates began in 1973. Since that time, the dollar has continued its downward path, particularly relative to the Japanese yen. Nevertheless, it could take up to 2 years for the dollar's decline to have a substantial impact on trade flows.

While some in Congress had initially been skeptical of the President's resolve on trade issues, by yearend, the President's September 23 trade initiative and subsequent actions had slowed the impetus for passage of restrictive trade legislation in 1985. It resulted in significant action on a number of longstanding U.S. disputes with major trading partners and set in motion an effort to address other practices that distort trade flows and limit the ability of U.S. firms to penetrate foreign markets. Combined with an orderly devaluation of the dollar and steps to induce growth in the Third World, the trade initiative may set the stage for continued vitality of the world economy and the free-trade system under the GATT.

1/ By November 1985, the dollar had depreciated by 16 percent in trade weighted terms from its late February 1985 peak, and had fallen by 25 percent against sterling, 23 percent against the mark, and 18 percent against the yen. Despite this movement, the dollar still remains far above its average level of the early 1980's. See Morgan Guaranty Trust Co., "The G-5: meaning and mission," World Financial Markets, November 1985, p. 1.

2/ The group agreed to engage in coordinated intervention in currency markets to lower the value of the dollar and to adopt domestic policy measures that would support a better alignment in industrial country performance. The United States agreed that fiscal austerity measures meant to cut its growing Federal budget deficit would be its top policy goal, while Japan agreed to adopt fiscal stimulus measures and other policies that would lead the country to domestic demand-led growth.

3/ As late as Sept. 7, 1985, the President was still declaring that "the strong dollar is a reflection of America's economic strength." See "Radio Address of the President to the Nation," Sept. 7, 1985, p. 2.

**ENLARGEMENT OF THE EUROPEAN COMMUNITY:
AREAS OF CONCERN TO THE UNITED STATES**

Introduction

On January 1, 1986, Spain and Portugal joined the EC. 1/ Their motivations to join the EC were mainly economic: duty-free access to the world's largest import bloc and access to EC regional development aid and farm subsidies.

The EC's expanded economic and geographic reach gives Europe an even more influential position in international trade. The enlarged EC's imports and exports account for roughly one-third of world trade, confirming the EC's position as the world's largest single trading bloc. In addition, Spanish and Portuguese accession increases utilized farm area by 34 percent, the number of farm workers by 38 percent, and the number of farm holdings by 40 percent, confirming Europe's rise in recent years as a significant global farm producer. The population of the EC rose from 270 to 320 million.

Enlargement presents opportunities and risks for both the EC and the United States. For the EC members, enlargement suggests that countries still find the EC to be an attractive core economic area to join. However, enlargement entails certain risks. A larger membership will be less cohesive and member state consensus on common policies will be increasingly difficult to reach. Enlargement may force members to reform EC institutions and procedures to make the expanded EC more easy to govern.

The U.S. Government has had a long history of official support for EC integration and the current enlargement has been no exception to U.S. policy. Inclusion of Spain and Portugal into the EC is seen by many U.S. officials as strengthening the Western alliance. However, the U.S. Government is very concerned that some key U.S. farm commodity exports to the expanded EC will be adversely affected either directly by the terms of accession, or indirectly by the effects of accession on the evolution of economic and trade policies in the expanded EC. 2/

1/ The term "European Communities" refers to three communities, each mandated by its own treaty--the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (EURATOM). In 1967, the three communities were brought under a single organizational structure. Thus the preferred name for the member nations became the European Community (in the singular) and their programs, policies, and actions came to be referred to as those of the European Community. The popularly used term "European Community" is used in this report as synonymous with the "European Communities," and "EC" is used as its short form.

2/ The Wall Street Journal, "Common Market's Planned Expansion Next Year Could Harm U.S. Exports, Washington Worries," Apr. 16, 1985.

The purpose of this section is to briefly describe the enlargement process and provisions of the accession treaties, and to identify general areas of concern to the United States. 1/

Background

The EC is a regional organization of 12 members 2/ whose governments and citizens are subject to certain rules and regulations prescribed by the founding treaties and subsequent regulations. 3/ EC members eliminate tariffs among themselves (the customs union), set up a common external tariff (CET) wall that treats imports from nonmembers uniformly, and regulate the terms of competition among their firms (the Common Competition Policy).

The EC Commission initiates and implements policies, oversees implementation of treaty rules, manages the customs union and competition policy, and represents members in negotiation of foreign-trade issues. The EC Council of Ministers acts on proposals submitted by the Commission. The European Parliament has powers over the budget and the EC Commission. Rulings of the EC Court of Justice are binding on the member governments and firms.

Of the three communities that comprise the EC, the ECSC regulates internal trade, prices, production, exports, and imports of coal and steel. The EEC manages the CET, customs union, competition policy, and the Common Agricultural Policy (CAP). 4/ EURATOM regulates atomic energy policy among the members.

EC relations with Spain and Portugal

Prior to the accession of Spain and Portugal, the EC had preferential trading arrangements with the two countries dating back to the early 1970's. Trade liberalization achieved through these preferential arrangements has made the accession of Spain and Portugal to the EC less of a sudden shift in bilateral relations than an ongoing process of bilateral integration.

1/ This section focuses on the question of EC enlargement as the process developed in 1985 and led to accession on Jan. 1, 1986. Given the significance of enlargement to U.S. trade interests, the section also covers developments through Apr. 9, 1986.

2/ EC members are: Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, the United Kingdom, and West Germany.

3/ The body of EC law and rules is known as the "acquis communautaire."

4/ The EC's CAP sets common prices and guaranteed price supports, production levels, production subsidies, storage aids, export restitutions, and variable import levies to realize EC farm self-sufficiency and protect domestic producers from cheaper imports.

Mediterranean Policy

Spanish and Portuguese accession is in part an outcome of the EC's Mediterranean policy, set up to induce closer economic links between the EC and the Mediterranean countries. Developed in the mid-1970's, the EC's Mediterranean policy offers countries in the region tariff preferences on horticultural products, industrial free-trade access to the EC, and economic aid to foster economic stability in the politically volatile Mediterranean Basin. Since the Mediterranean Basin is the EC's largest export market and the EC's Mideast oil imports flow through this region, the EC has strategic economic and trade interests there. Through the Mediterranean policy, economic and trade incentives are used to foster an interdependent relationship between the EC and the Mediterranean countries. All Mediterranean countries, except Libya and Albania, have trade agreements with the EC.

EC-Spanish trade relations

In 1970, the EC and Spain concluded a preferential trading arrangement that provided for the progressive elimination of obstacles to two-way trade. ^{1/} Transition to a second stage, in which a free-trade area would be established, was left subject to future negotiations. The EC reduced tariffs from 40 to 60 percent, depending on the product, on nearly all industrial imports from Spain. One-half of agricultural imports from Spain were granted tariff cuts from 25 to 60 percent. In return, Spain offered tariff concessions of 25 to 60 percent on certain products from the EC. Because Spain formally applied to join the EC in 1977, the two sides did not enter into negotiations for the second phase of the preferential trade accord but instead began negotiations for membership.

EC-Portuguese trade relations

The EC and Portugal entered into a free-trade agreement in 1973 that governed bilateral trade up to accession. ^{2/} The agreement called for the progressive establishment of a two-way industrial free-trade area to be implemented during 1973-77. Tariffs on Portuguese imports into the EC were eliminated over this period, whereas the EC granted Portugal a longer period to eliminate tariffs on industrial imports from the EC. The agreement also provided Portugal with EC tariff preferences on such farm products as tomato concentrates, canned sardines, certain wines, and fresh fruits and vegetables. Subsequent arrangements have improved access of certain Portuguese products to the EC market.

^{1/} Bilateral arrangements were negotiated in 1978 to limit Spanish steel exports to the EC and in 1980 to control access to each other's fishing zones.

^{2/} The EC entered into industrial free-trade agreements with each of the members of the European Free Trade Association (EFTA) in the 1970's. Prior to joining the EC, Portugal was a member of EFTA.

Membership applications

Article 237 of the Treaty of Rome sets out the procedures for enlargement of the EC:

Any European State may apply to become a member of the EC. It shall address its application to the (EC) Council, which shall act unanimously after obtaining the opinion of the Commission.

The conditions of admission and the adjustments to this Treaty necessitated thereby shall be the subject of an agreement between the Member States and the applicant State. This agreement shall be submitted for ratification by all Contracting States in accordance with their respective constitutional requirements. 1/

Spain and Portugal applied for membership in 1977 but negotiations only began in earnest in 1983. Negotiators from both sides of the Pyrenees differed over the rate of tariff harmonization 2/ to be determined on such sensitive sectors as fisheries, olive oil, wine, and fruits and vegetables. Each side sought increased market access for its producers while limiting the disruptive effects of opening its own market. Negotiations were concluded in March 1985. The treaties of accession were signed in June 1985, but terms were not made public until November 1985. The treaties went into effect on January 1, 1986.

Provisions of the Accession Treaties

Tariff harmonization

The accession treaties call for the elimination of Spanish and Portuguese internal tariffs by 1992 when the two countries fully integrate into the customs union. 3/ One-half of the cuts will occur within 3 years. As the EC's existing trade agreements with Spain and Portugal have already either reduced tariffs or have provided for free industrial trade, tariff

1/ Treaties Establishing the European Community, Office of Official Publications of the EC, 1978, p. 385. Under art. 237, membership has doubled from the original 6 (France, West Germany, Italy, The Netherlands, Belgium, and Luxembourg), to 9 in 1973 (the United Kingdom, Ireland, and Denmark), to 10 in 1981 (Greece), and to 12 in 1986.

2/ Tariff harmonization refers to both the progressive dismantling of Spanish and Portuguese internal tariffs as the two countries join the customs union and the adjustment of the Spanish and Portuguese external tariffs to meet the EC's CET. (The EC's current CET is being revised. The new CET will probably take effect on Jan. 1, 1988. See "Spain and Portugal Join the EC," Business America, Jan. 20, 1986, p. 4.)

3/ For more information, see "Spain and Portugal in the EEC: The Mechanics of Accession," Agra Europe, London, Special Report 26, 1985.

harmonization had already begun prior to accession. Free movement of goods, services, and capital will also take place within 7 years, with some exceptions, but will not be completed until 1996 in the case of free movement of labor.

Industrial trade

For Spain, internal industrial tariffs will be phased out over 7 years, with the first reduction of 10 percent of the preaccession duty rate due on March 1, 1986. Subsequent cuts will be: 12.5 percent (January 1987); 15 percent (January 1988); 15 percent (January 1989); 12.5 percent (January 1990); 12.5 percent (January 1991); 12.5 percent (January 1992); and 10 percent in late 1992. This schedule will reduce duties by 52.5 percent after 3 years.

Portugal's industrial tariffs will also be phased out over 7 years, with the first reduction of 10 percent due on March 1, 1986. Subsequent cuts will be: 10 percent (January 1987); 15 percent (January 1988); 15 percent (January 1989); 10 percent (January 1989); 10 percent (January 1990); 15 percent (January 1991); and 15 percent (January 1992). These cuts will lead to a 50-percent reduction in internal EC tariffs after 3 years.

Quantitative restrictions on trade between the EC and the new members were largely abolished on January 1, 1986; however, Spain has up to 4 years to abolish import quotas on such sensitive products as tractors, color televisions, sewing machines, and guns. Portugal has 3 years to phase out import and export licenses, and 2 years to abolish quotas on car imports.

Both textiles and steel are particularly sensitive items in the EC. Consequently, a limited number of textile products imported from Spain and Portugal will be subject to quotas for up to 4 years. Spain will retain import quotas on four cotton products for 4 years. Also, Spanish and Portuguese steel exports to the EC are limited to a set volume over the next 3 years. During this time, their steel industries may continue to receive national subsidies to restructure the industry in accordance with the EC's steel crisis policy.

Agriculture

The entrants' farm market support and trading system will be adapted to the EC's CAP over a 10-year period--longer than the rate of industrial harmonization because of the difficult political problems in the agricultural sectors on both sides of the Pyrenees. Interests of northern EC farmers that produce dairy, meat, and grains had to be balanced with interests of southern EC farmers that produce wine, olive oil, and fruits and vegetables. The rate of harmonization will depend on the extent to which the products concerned are considered "sensitive" by either side. Spanish and Portuguese customs duties vis-a-vis the EC will be abolished in stages, whereas price and subsidy levels will rise gradually to meet those in the rest of the EC.

As with previous enlargements, common farm support price gaps (that occur as members' currencies appreciate or depreciate) during the transition period will be offset by accession compensatory amounts. These amounts operate to adjust the price of goods crossing the borders in either direction between the new and old members. In most cases, full adoption of the CAP will result in a rise in Spanish and Portuguese commodity prices.

In Spain, the transition period will take 7 years for most farm products. However, special transitional measures will be taken to avoid disrupting certain sensitive markets. Spanish wine will be compulsorily distilled beyond a certain production level and will be subject to specific monetary regulatory measures over the 7-year transition period. To protect the EC market from a sudden influx of olive oil and other fats, and fruits and vegetables, the EC will restrict imports from Spain for 10 years before free trade is implemented. For fruits and vegetables, there will be a 4-year delay on elimination of tariff and other barriers to trade between the two to restructure farm operations and introduce the basic mechanisms of Community market organizations. This stage will be followed by a 6-year period during which restrictions will be progressively relaxed and the process of adaptation accelerated. To protect the Spanish market from a sudden influx of dairy products, beef, and soft wheat, Spain will restrict imports for 10 years before free trade is implemented.

About 85 percent of Portugal's current farm output will be covered by a two-stage, 10-year transition period similar to the transition set up for fruits and vegetables in Spain. The first 5-year stage will prepare and improve Portugal's marketing structures. The EC will finance a \$600 million development program to help Portuguese agriculture cope with the changes required by integration into the CAP. Price alignment and the full opening of markets will take place only in the second 5-year phase.

Other terms

The value-added tax (VAT) will be introduced in Spain in 1986 and in Portugal in 1989. Spain and Portugal will follow a similar timeframe for adaptation to the EC's competition policy, harmonization of laws, transport, environment, and consumer protection policies, with some exceptions. The entrants' participation in the exchange rate and intervention mechanisms of the European Monetary System (EMS) still remains an open question. The United Kingdom and Greece are not full participants in EMS, which is not a formal part of the EC institutional structure.

Enlargement and U.S. Industry

According to the U.S. Department of Commerce, Spanish and Portuguese industrial tariffs for third countries including the United States, which now average about 15 to 17 percent ad valorem, will be reduced in 6 years to about

5 to 7 percent ad valorem as the entrants implement the CET. 1/ Iberian industrial tariffs will be progressively lowered to meet the CET, thus further opening these markets to U.S. and other third-country products. At the same time, however, the EC members will gain duty-free access to Spain's industrial market, thus industrial competition between U.S. and EC producers in this market may be skewed in the EC's favor. U.S. industrial exports to the Spanish market will also compete with the EFTA and EC countries who will achieve industrial free trade with Spain. As Portugal has been a member of EFTA, EFTA and EC countries already enjoy industrial free-trade access to Portugal. 2/

Enlargement and U.S. Agriculture

Of all the issues that stem from EC enlargement, its likely effect on U.S. agricultural trade most concerns the United States. As the United States is the largest foreign supplier of farm products to the EC, it has a huge stake in the outcome of enlargement. Bilateral differences over enlargement will only add to the existing myriad of farm trade disputes. 3/

Evidence of U.S.-EC friction over enlargement emerged on March 1, 1986, when, according to the terms of the accession treaties, the EC (1) imposed quotas on Portuguese imports and consumption of oilseeds and oilseed products; (2) required Portugal to purchase at least 15.5 percent of its grain from the EC; and (3) replaced Spain's 20 percent tariff on imports of corn and sorghum with the EC's system of variable levies--currently equivalent to a tariff of more than 100 percent. 4/ High level contacts between the U.S. Government and the EC Commission during the first few months of 1986 did not result in a mutually satisfactory agreement on either rescinding the EC's March 1 actions or on EC compensation to the United States for the damage caused by the actions.

On March 31, 1986, the President responded with a decision to take retaliatory action against imports from the EC if satisfactory compensation is not received from the EC for its March 1 restrictions. 5/ The President announced that he will use his authority under section 301 of the Trade Act of

1/ The U.S. Department of Commerce computes this rate using the difference between existing Iberian tariffs and the CET. In rare cases when Iberian tariffs are not more than 15 percent higher or lower than the CET, then the CET rate will be applied on Mar. 1, 1986, in Spain's case and on January 1, 1987 in Portugal's. When the new trade-weighted CET for the EC is introduced in 1988, most EC industrial import duties could increase about 0.6 percent in absolute terms. "Spain and Portugal Join the EC," Business America, Jan. 20, 1986, pp. 2-7.

2/ The EC and EFTA members have an industrial free-trade area.

3/ For more information on U.S.-EC trading differences, see section on U.S.-EC bilateral trade in ch. IV of this report.

4/ For an explanation of why the EC took these actions, see European Community News, No. 11, Mar. 31, 1986.

5/ White House Press Release, Office of the Press Secretary, Mar. 31, 1986.

1974 to respond to the EC's restrictions on oilseeds and oilseed products in Portugal by placing quotas with equivalent restrictive effect on a similar value of imports from the EC; and to the EC's restrictive action on Portuguese grain imports by increasing U.S. tariffs on imports from the EC into the United States to produce a comparable loss of trade. With regard to the variable levy imposed on corn and sorghum in Spain, the U.S. Government has proposed a two-stage response. First, the United States will withdraw tariff bindings (GATT agreements not to raise tariffs above a certain level) on U.S. imports of products of comparable value to those affected by the levies imposed in Spain. Second, if the EC does not agree to provide adequate compensation by July 1, 1986, the United States will implement tariff increases on those products for which the bindings have been withdrawn in order to produce a comparable loss of trade. 1/

The EC's actions could affect as much as \$1.0 billion in U.S. farm exports to Spain and Portugal. 2/ Although the U.S. Government officially supports EC enlargement, it maintains that the EC should not use the occasion of enlargement to impose new trade barriers on the United States and that U.S. exporters should not have to pay for the benefits that EC member states will enjoy as a result of enlargement.

On April 9, 1986, the EC Commission responded to the President's announcement of March 31, by proposing to the EC Council a list of U.S. exports to the EC that could be restricted if the United States proceeded to raise tariffs and impose quotas on EC products. 3/ The EC Commission list, which must first be approved by the EC Council, would affect EC imports of U.S. corn gluten feed, sunflower seed, soybean cake, honey, almonds, wheat, rice, wine, beer, bourbon, fruit juices, and dried fruits. The EC maintains that its major trading partners, including the United States, should weigh the overall benefits of enlargement against its specific effects. The EC also maintains that the March 1 measures conform with GATT rules, and that it has proposed negotiations with the United States in the GATT.

U.S. agriculture is concerned with the following:

- o The effect of some higher Spanish and Portuguese farm tariffs on certain U.S. farm exports to Spain and Portugal.

1/ In a followup to his March 31 announcement, on May 15 the President imposed quotas on agricultural imports from the EC in response to EC restrictions on Portuguese imports of oilseeds, oilseed products, and grain. The U.S. quotas became effective on May 19 and covered EC white wine (with a value of more than \$4 per gallon), chocolate, candy, apple or pear juice, and beer. In response to the application of the EC variable levy on Spanish imports of corn and sorghum, the President also decided to suspend U.S. tariff concessions on certain products effective in 30 days. Current rates of duty will be maintained pending efforts to negotiate suitable compensation. See White House Press Release, Office of the Press Secretary, May 15, 1986.

2/ Ibid. Since Spain agreed in previous trade negotiations not to raise its tariffs on corn and sorghum, the U.S. Government maintains that international trade rules require the EC to compensate the United States for the injury to its exports caused by the higher levies.

3/ European Community News, No. 12, Apr. 9, 1986.

- o The effect of duty-free access to the EC market for Iberian horticultural products (fruits and vegetables) on U.S. exports of like products at the full most-favored nation (MFN) rate to the EC.
- o The effect of accession of two new members with large agricultural sectors on the EC's current farm surpluses and on U.S.-EC trade relations.

The effect of higher Iberian farm tariffs on U.S. agricultural exports

As mentioned, Spain and Portugal will generally raise their external farm tariffs to meet the higher CET during the transition period. Consequently, some U.S. farm exports to Spain and Portugal will be subject to a higher rate of duty than before accession. Consumers in Spain and Portugal may find certain farm products from the EC countries that enter free of duty less expensive than the same or substitutable farm products from the United States that enter at the full MFN duty rate. Accession could cause certain U.S. grain exports to Spain and Portugal to decline as the relatively lower Spanish and Portuguese duties are replaced by the EC's variable levies, which are much higher. The United States is concerned that EC wheat may displace U.S. corn and cereals for feed purposes in Spain and Portugal. In addition, a process is currently under way in the EC, and may later follow in Iberia as well, by which corn is imported for starch but no longer for feed purposes. Other cereals, notably EC barley, are now being substituted for U.S. corn. In a few years, Spain and Portugal could import French barley over U.S. corn for feed uses.

The effect of Iberian duty-free access to the EC farm market

Certain U.S. farm sales to the EC could be reduced or replaced by Spanish and, to a lesser extent, Portuguese producers who will enjoy duty-free access to the EC compared to U.S. producers who will pay the full MFN duty rate. Spain and Portugal may also have a competitive advantage over the United States in the EC farm market for certain products due to lower transportation costs.

In particular, since Spain is already the EC's dominant supplier of horticultural products, U.S. sales of like products to the EC may, to varying degrees, decline as Spain achieves duty-free access to the rest of the EC. 1/

1/ There are, however, two caveats to this argument. First, Spain and Portugal already enjoy preferential trade access to the EC market for many of their chief farm products and most of their industrial products, whereas, the United States has always been subject to the full MFN duty rates. Second, harmonization between the EC and Iberian tariffs and farm support regimes will not occur on the accession date but will be phased in during transition periods. Since the process of lifting EC import restrictions on many Iberian products had begun long before accession, some U.S. exporters will not be making sudden adjustments to changes that have been set into motion long before accession.

Spain may redirect exports of horticultural products away from third-country markets to the EC, possibly creating new market outlets for the United States in non-EC countries. However, Spanish farm production may increase after accession, so that the country may be able to maintain non-EC markets and meet EC consumer demand as well.

The effect of accession on EC farm production and U.S.-EC trade relations

Spain and Portugal will add to the EC's farm output and increase internal pressures to export farm surpluses. Before accession, the EC was already self-sufficient in such farm products as olive oil, wheat, sugar, dairy, meat, some fruits and vegetables, and wine. As earlier noted, enlargement raises the EC's utilized farm area by 34 percent. Inclusion of Spain and Portugal in the EC immediately raises the EC's output of vegetables by 25 percent, fresh fruit by 48 percent, olive oil by 59 percent, cereals by 14 percent, and milk by 6 percent. The high support prices of the CAP and the infusion of EC regional development aid to the Iberian countries are expected to promote farm modernization and further increase output of Mediterranean-type farm products. The United States and the EC already compete for many of the same farm markets in third countries. Expanded production of EC farm products for export may increase competition with the United States in third markets. 1/

On the other hand, as Spain and Portugal direct their farm exports to the EC, their shares in third-country markets could decline, thereby allowing U.S. sales to increase. However, as the non-EC Mediterranean countries, such as Morocco, Tunisia, Turkey, and Israel lose some of their large shares of the EC horticultural market to the entrants, competition between the nonmember Mediterranean countries and the United States for new third-country markets will increase.

The budgetary cost to the EC member governments of incorporating two new and relatively poorer members will be immense, particularly the cost of bringing them under the CAP. This is because the support prices paid for various crops within the EC are far above the prices now received by Iberian farmers. When these farmers are paid the higher CAP support prices for eligible products, their output will expand, thus adding further to the EC's cost of purchasing such products.

The policies adopted by the EC to meet the costs of enlargement could have a negative impact on U.S. interests. For example, one proposal intermittently considered by the EC over the past few years would impose a consumption tax on imported and domestic nonbutter vegetable oils and fats that are currently imported at a GATT-bound zero duty rate. Not only would this measure help finance Iberian accession and the high CAP costs associated with the new members, but it would also promote butter consumption,

1/ The EC may use export restitutions to export domestic surpluses to third-country markets. EC export restitutions involve the use of export subsidies to bridge the difference between high internal EC farm prices and lower world market prices in order to be internationally competitive.

alleviating the EC's large surplus and reducing support costs of the CAP. The U.S. Government has firmly opposed such a tax, fearing that it could be the first step toward limiting the sale of soybeans to the EC. Soybeans are also imported into the EC at a GATT-bound zero duty rate. Another fundraising proposal that has been considered would impose a duty on soybeans.

Enlargement and GATT Article XXIV:6 Negotiations

Spain and Portugal will gradually align their external customs tariffs with the CET over a 7-year period. Also, the current CET is being revised to take account of the accession of Spain and Portugal to the EC. Under GATT article XXIV:6, the EC may have to provide compensation to certain major trading partners if the balance of previously bound tariff concessions is changed. 1/

The first series of article XXIV:6 negotiations that followed the accession of the United Kingdom, Ireland, and Denmark to the EC in 1973 led the EC to grant a certain number of countries compensatory tariff or quota concessions. However, article XXIV:6 compensation negotiations following Greek accession in 1981 reached a stalemate over the question of which trading partners gained or lost on the whole as Greek external tariffs were realigned to meet the CET. Although Greek external tariffs for industrial products were lowered to meet the CET, thus benefiting outside industrial suppliers, its external tariffs for agricultural products were raised to meet the CET, thus adversely affecting outside food suppliers. In article XXIV:6 negotiations with major trading partners, the EC argued that the lowered Greek industrial tariffs should be balanced against any compensation due on higher Greek agricultural tariffs. The United States argued against this approach, stating that lower industrial tariffs should not be used to offset any compensation owed on higher agricultural tariffs on items bound by GATT concessions. 2/

EC negotiators face the same problem in the next round of article XXIV:6 negotiations in spring 1986. 3/ 4/ As previously mentioned, Spanish and Portuguese external tariffs will generally increase to meet the CET for certain farm products and generally decrease to meet the CET for certain industrial products. The EC has announced that the basis for the revised CET would be a trade-weighted average of current EC tariffs and the tariffs applied by Spain and Portugal. The EC maintains that the net result would be

1/ Article XXIV:6 of the GATT provides for negotiations on compensation when previously bound duties are raised as a result of the formation or expansion of a customs union.

2/ European Report, "Trade Policy: Proposal for New EEC Common Customs Tariff in Framework of Post-Enlargement GATT Negotiations," Oct. 24, 1985, pp. 13-15.

3/ European Report, "EEC/GATT: A Lesson on Enlargement Learned from the Greek Experience," Jan. 13, 1984.

4/ On Feb. 12, 1986, the GATT Council established a working party to examine the question of accession in the context of GATT rules.

to raise the EC's current CET by about 0.5 percent. 1/ The EC has postponed raising the CET until after GATT compensation negotiations are undertaken. The EC wants its major trading partners to agree to the notion of balance between the benefit of generally lower Iberian external tariffs for industrial products and the cost of generally higher Iberian external tariffs for farm products. 2/

1/ Tariffs on certain products have been left out of the calculations, such as certain agricultural and fishery products, aircraft components and so forth. See European Report, "Trade Policy: Proposal for New EEC Common Customs Tariff in Framework of Post-Enlargement GATT Negotiations," Oct. 24, 1985, pp. 13-15.

2/ Ibid.

THE CANADIAN FREE-TRADE INITIATIVE

Background

In August 1983, the Canadian Government, under Prime Minister Pierre Trudeau, released an official discussion paper entitled "Canadian Trade Policy for the 1980's", an analysis of Canada's overall trading performance, philosophy, and status in multilateral and bilateral trade issues. The report strongly supported continued multilateral negotiations while simultaneously endorsing bilateral discussions with the United States as another option for enhancing trade relations. 1/

More specifically, the document presented the idea of a sectoral free-trade agreement with the United States. Such an agreement would identify certain Canadian and American areas that could benefit from the elimination of all tariff barriers in the flow of goods and services between the two countries. It was argued that such an arrangement would facilitate the growth of certain industries on both sides, create jobs, benefit both consumer populations and manufacturing sectors, and aid in internal rationalization.

The United States reacted positively to the unexpected Canadian initiative. 2/ Both sides chose to explore the possibility of sectoral discussions by examining in greater detail a number of sectors in which it was believed the potential for free trade was greatest. By the end of 1984, however, many formidable obstacles still remained before the negotiation process toward any sectoral free-trade agreements could begin. Among these obstacles were the difficulty of obtaining GATT approval for sector-specific free-trade agreements, the different degree of government involvement in the Canadian and U.S. systems, and the fact that Canada had entered a transitional phase in late 1984, following the election of a new Government under Prime Minister Brian Mulroney.

As a result of these obstacles, the initiative was in a state of flux at the end of 1984, with neither side adopting a negative position or openly embracing the proposal. Alternatives to the sectoral free-trade approach in the form of so-called functional approaches were mentioned. Such approaches would attempt to harmonize U.S. and Canadian trade policies in such areas as government procurement, and antidumping and antisubsidy practices.

1985: A New Framework

Support for some form of trade-liberalizing agreement between the United States and Canada continued to grow in 1985. A number of significant events occurred during the year, culminating in a formal proposal for trade

1/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 124.

2/ Ibid.

negotiations by Prime Minister Mulroney to President Reagan, and notification to Congress by the President of the Canadian request. The events of 1985 will be explored in this section, and then the debate on the free-trade initiative in Canada and the United States will be reviewed.

The momentum for the Canadian free-trade initiative during 1985 can be summarized in four major events: the Shamrock Summit of March, the issuance of the MacDonald Commission report in September, Canada's formal request of the United States to begin free-trade negotiations also in September, and President Reagan's notification to the Congress in December.

In January 1985, the U.S. Government opened hearings on proposals to expand trade with Canada along sectoral lines. These hearings were called by the U.S. International Trade Commission and the USTR in order to study the positive and negative aspects of sectoral agreements. 1/

It soon became evident that the sectoral approach was not the proper framework for a mutually beneficial agreement. 2/ A call for a new framework of U.S.-Canadian trade was issued in January 1985 with the publication of Canadian International Trade Minister Kelleher's report "How to Secure and Enhance Canadian Access to Export Markets." In this report, Kelleher made a strong argument for a comprehensive approach to reducing bilateral trade barriers between the United States and Canada. The comprehensive approach to trade liberalization is significantly different from the sectoral approach, and is seen to have many advantages. The comprehensive approach would begin with a draft for a complete free-trade agreement and only through negotiations would the two countries arrive at special exemptions from this comprehensive list. The sectoral approach, on the other hand, would rely on the process of negotiation to select sectors for inclusion in the trade-liberalization pact, since nothing can be assumed included at the start of negotiations. The difference in emphasis is crucial to the possibilities for trade enhancement that could result from any agreement. 3/

1/ The Commission's analysis, conducted at the request of the USTR, focused on 10 specific sectors, and was transmitted on Mar. 15, 1985. The sectors were furniture, wood and wood products, paper and paper products, cosmetics and perfumery, petrochemicals, alcoholic beverages, informatics, steel and steel products, pesticides, and certain agricultural machinery.

2/ For details on the difficulties inherent in the sectoral approach to trade liberalization, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 126 and 127; also see Lipsey, Richard G. and Smith, Murray G., Taking the Initiative: Canada's Trade Options in a Turbulent World, Toronto, C.D. Howe Institute, 1985, p. 73.

3/ A comprehensive format for the trade liberalization pact would eliminate many of these problems. Since all sectors initially would be included in the draft, the drawn-out political process would most likely work for the greater completeness of the agreement, since the sectors not brought up for discussion because of weakened resolve, support, or time constraints, would automatically be included in the pact. In addition, as long as a significant percentage of the economic sectors of the United States and Canada were included in this agreement, there would be no need for a special waiver from the GATT, since under art. XXIV of the GATT, this arrangement would qualify as a legal free-trade area.

The Shamrock Summit

President Reagan and Prime Minister Mulroney officially met in a meeting dubbed the "Shamrock Summit" on March 17 and 18 in Quebec City. This was the first face-to-face opportunity for the two leaders to discuss the idea of a trade liberalization pact.

The Kelleher report in January was indicative of the Canadian Government's position as it approached the summit. Mulroney was not interested in negotiating a customs union or a common market. Rather, the Canadian administration was looking for some sort of comprehensive, but not all inclusive, free-trade agreement between the two countries. The main reason for this interest seemed to be the Canadian fear of U.S. protectionist legislation closing the U.S. market to Canadian exports. By negotiating a special agreement with the United States, Canada hoped to skirt the effects of what was perceived as growing protectionist sentiment in the U.S. Congress. 1/

However, there was increasing resistance to the idea of a U.S.-Canadian free-trade area from Canadian labor unions and protected industries, which feared that closer ties with the United States would eventually result in Canada being swallowed up by the sheer size of the U.S. economy. This opposition ran strongest in the Province of Ontario, where labor and the new Liberal government opposed freer trade with the United States. 2/ 3/ Since Ontario is Canada's most populous and industrialized Province, it could conceivably use its political clout to block any agreement seen as not in its own interest. 4/

President Reagan has historically been committed to the concept of free trade, and saw the negotiation of a U.S.-Canadian free-trade area as an opportunity to present a model for the world to follow. As he said in an interview with MacLean's magazine before the summit, "What is important is that we continue to work together to reduce trade barriers. Perhaps we can set an example for others to follow. We are not interested in building a North American island; rather, we would like to establish a trend toward trade liberalization that others can emulate." 5/ 6/

1/ Business Week, "The Latest Handshake On Free Trade Looks Firm-For Now," Apr. 1, 1985, p. 46.

2/ New York Times, "Free Trade Stirs Doubt in Ontario," Oct. 7, 1985.

3/ On Oct. 22, Ontario Premier David Peterson came to Washington to acquaint himself with the U.S. position on the proposed free-trade agreement. This visit was indicative of the importance attached to U.S. trade by the Provincial government of Ontario, whose \$74 billion two-way trade with the United States in 1984 was larger than overall U.S.-Japanese trade. Premier Peterson has emerged as the most prominent skeptic of a free-trade arrangement.

4/ Information received from the U.S. Embassy, Ottawa, June 27, 1985.

5/ MacLean's, Mar. 6, 1985.

6/ Business Week, Apr. 1, 1985, op. cit. Some commentators speculate that the administration wants to use bilateral free-trade agreements, such as with Israel and possibly Canada, as a means of persuading Japan and Western Europe to loosen up their own markets as well.

Despite official support for the free-trade proposal, some sectors of U.S. industry were opposed to any negotiations; 1/ they believed that a free-trade area would allow unfairly subsidized Canadian goods to enter the United States tariff free and thereby undercut U.S. producers. In addition, the continued strength of the U.S. dollar on the world market was causing ever-increasing protectionist sentiment in Congress as the U.S. trade deficit continued to grow.

At the conclusion of the March summit, a joint declaration was issued, reflecting the strong political commitment of both leaders to create a more stable, predictable trade environment between the United States and Canada. 2/ Specifically, the President and Prime Minister committed themselves to give highest priority to finding mutually acceptable means to reduce and eliminate existing barriers to trade in order to secure and facilitate trade and investment flows. In addition, Reagan and Mulroney charged the USTR and the Canadian International Trade Minister to "establish immediately a bilateral mechanism to chart all possible ways to reduce and eliminate existing barriers to trade and to report to us within six months." The leaders also jointly reaffirmed their commitment to a strong multilateral trading system by issuing a call for the next round of formal negotiations through the GATT.

The MacDonald Commission Report

The Royal Commission on the Economic Union and Development Prospects for Canada (often called the MacDonald Commission after its Chairman, Mr. Donald MacDonald) issued the results of a 3-year study in early September 1985. This highly influential report strongly advocated a further liberalization of trade by Canada on a multilateral basis through the GATT, but at the same time recognized that any GATT negotiation would require a lengthy time period. Therefore, the Commission recommended that Canada give high priority to the immediate negotiation of a bilateral free-trade agreement with the United States, and suggested further that this agreement conform to the definition of a free-trade area as set forth in the GATT.

The Commission emphasized two key reasons for its recommendation. It saw the protectionist mood in the U.S. Congress making it imperative that Canada seek to "reduce both the uncertainty of our access to U.S. markets and the adverse effects that might result from any trade-restrictive measures." 3/

1/ Opposition was expressed by representatives of the following industries: carbon steel, television and television picture tubes, certain chemicals, nonrubber footwear, forest products, malt beverages, and wire and wire products.

2/ For the complete text of the trade declaration, see app. J of the Annual Report of the President of the United States on the Trade Agreements Program, 1984-85, Feb. 1986, pp. 143 and 144.

3/ Royal Commission information packet on trade relations, Sept. 5, 1985, p. 3.

Noting that Canada sends about 75 percent of its total exports to the United States, the Commission stressed the great importance of securing access to the markets of the United States through a free-trade area because, "Even where we are not the principal target [of U.S. protectionist legislation], we risk being the major victim of a spate of protectionist legislation" 1/

In addition, "by becoming more competitive with American firms, Canadian manufacturers would also increase their ability to survive in a more competitive, global trade environment." 2/ While acknowledging that the implementation of a free-trade agreement with the United States would result in a difficult adjustment process for some sectors of the Canadian economy, on balance the Commission felt that the "long term gains from bilateral free trade would almost certainly heavily outweigh short-term adjustment costs." The Commission foresaw Canadian real income increasing by 3 to 8 percent due to freer trade with the United States, and employment eventually rising due to a stronger, more competitive Canadian economy.

The MacDonald Commission recommended the adoption of a two-track approach to the elimination of Canadian and U.S. tariffs that would be covered by the agreement. Under this approach, Canada would be given a longer period of time than the United States to phase out its existing tariffs. The Commission argued that the Canadian economy would need more time for adjustment than would the U.S. economy. 3/ In addition, the report stated that "several Canadian industries might, in fact, have special needs or problems that would justify their total or partial exclusion from a general free-trade regime." 4/

The Commission urged that the Canadian negotiators insist on including strong, specific safeguards to ensure that the United States does not use the free-trade agreement to exert influence on Canadian policies or programs unrelated to the agreement. To do this, the Commission advocated the establishment of an intergovernmental arrangement between Canada and the United States "to carry out the administrative functions, provide technical advice, conduct economic research, and assist in the conciliation of disputes arising under a free-trade agreement." 5/

1/ Ibid.

2/ Ibid., p. 5.

3/ Ibid., p. 6. The report suggested, for example, that the transition period might be 10 years for Canada and 5 years for the United States.

4/ Ibid., p. 7.

5/ Ibid., p. 10. The Report recommended the formation of a Committee of Ministers representing the two Governments to oversee all major decisions concerning the interpretation and implementation of the proposed agreement. In addition, a standing arbitral tribunal would be necessary to "resolve disputes concerning the proper interpretation of the proposed free-trade agreement." This tribunal would be composed of two representatives each from the United States and Canada, and a neutral fifth member. Lastly, the Commission recommended the formation of a Canada-U.S. Trade Commission (CUSTC) responsible for enforcing the obligations created under the agreement. The decisions of the CUSTC would be subject to review by the Committee of Ministers.

Canadian invitation to free-trade negotiations

Two weeks after the MacDonald Commission released its report, Canadian International Trade Minister Kelleher presented the findings of his March Summit assignment research. In this report to Prime Minister Mulroney, Trade Minister Kelleher concluded ". . . that the time has come to explore more directly with the United States administration the scope and prospects for a new trade agreement." 1/

The objectives of such negotiations, Kelleher stated, must be reduced unemployment, a stronger economy, and a reaffirmation of the unique Canadian culture. The means for achieving these goals lie in negotiations to "secure and enhance our access to the U.S. market by enshrining a better set of rules whereby our trade is conducted . . . to develop a more predictable environment for trade and investment." 2/

Like the MacDonald Commission, Kelleher felt that Canada must remain committed to continued multilateral free-trade negotiations through the GATT, but also felt that bilateral negotiations with the United States would strengthen the Canadian economy, make Canada more competitive on global markets, and reinforce its ability to "act independently and credibly in foreign policy."

Kelleher stated that, as a result of his consultations and travel throughout Canada, he saw the Canadian people as favoring such negotiations with the United States due to fear of growing U.S. protectionist sentiment and the resultant effects on Canadian export industries. Kelleher saw the transition period as potentially difficult, and proposed the use of appropriate transitional measures for those who were most adversely affected.

On September 26, Prime Minister Mulroney officially announced to the Canadian House of Commons that he had invited the United States to begin negotiations for "the broadest possible package of mutually beneficial reductions in tariff and non-tariff barriers." 3/ In this announcement, he stressed that "economics, geography, common sense and the national interest dictate that we try to secure and expand our trade with our closest and largest trading partner." Mulroney also stressed that Canadian political sovereignty, the system of social programs, and cultural identity would not be issues in this "process of purely commercial negotiations;" he promised that these new agreements would "provide sufficient time for all Canadians to plan ahead to take advantage of new opportunities from enhanced access," echoing Kelleher's concept of appropriate transitional measures.

1/ Report by the Honourable James Kelleher, Minister for International Trade, to the Right Honourable Brian Mulroney, Prime Minister of Canada, Sept. 25, 1985, p. 1.

2/ *Ibid.*, p. 2.

3/ Statement by Prime Minister Brian Mulroney on Canada/USA Trade Negotiations, House of Commons, Sept. 26, 1985.

The USTR also presented his findings to President Reagan on September 26. 1/ Through research that followed the Quebec summit, discussions with Trade Minister Kelleher, and consultations with U.S. industry, Ambassador Yeutter came to the conclusion that "there are several ways in which we could reduce and eliminate barriers to our bilateral trade in goods and services. The most promising would be the exploration of a comprehensive bilateral trade negotiation." 2/ He stressed that any negotiations between the United States and Canada must conform to the terms of the GATT. He recommended immediate consultations with the Committee on Ways and Means of the U.S. House of Representatives and the Committee on Finance of the U.S. Senate on their views regarding possible negotiations with Canada. He further recommended that the private sector be given a chance to bring forth their views on the proposed negotiations.

Notification of Congress

On December 10, President Reagan notified the Congress of his intent to enter into negotiations leading to a bilateral free-trade arrangement with Canada. This notification was preceded by a series of informal consultations with Congress and the private sector conducted by USTR Yeutter, following instructions from the President. By law, 3/ Congress has 60 legislative days to block the talks; barring such action, negotiations may then commence. 4/

The end of 1985, saw the leaders of the United States and Canada agreeing in principal on the need for a bilateral free-trade agreement, but having split opinions on more specific issues. Nevertheless, at the end of 1985, it appeared that both sides would be prepared to commence negotiations in the spring of 1986. At that time, it seemed that the best structure to use for such a pact would be the comprehensive approach. As of mid-December 1985, it was not clear whether the Canadians would insist on withholding their cultural industries and government support programs from the negotiations. Also, at the end of the year, it was not clear whether the U.S. Congress would move to block talks until specific special interest disputes (such as Canadian lumber exports to the United States) were resolved. In general, specific conflicts aside, the outlook for at least a start to negotiations between the United States and Canada appeared good.

1/ The Quebec City trade declaration called for both trade ministers to report back to the President and the Prime Minister within 6 months.

2/ Statement released concurrent with the report by the USTR to the President: "Yeutter Welcomes Canadian Trade Proposal," Office of the U.S. Trade Representative, Sept. 26, 1985.

3/ Sec. 401 of the Trade and Tariff Act of 1984.

4/ The 60-day period ended on Apr. 23, 1986. By a tie vote the Senate Finance Committee failed to adopt a measure denying the President the fast-track authority he requested for the consideration of any bilateral agreement that may result from the negotiations.

The Canadian Debate

The Canadian debate over the proposed free-trade area with the United States seems particularly polarized. The arguments in support of the free-trade area center mainly on the perceived economic benefits to Canada deriving from such an agreement, whereas the strongest arguments against the proposal concern the dilution of Canadian cultural identity that might result from economic integration with the United States. There appears to be agreement that negotiation of a free-trade area with the United States would be beneficial to the Canadian economy in the long run. However, the short-term, sector-specific cultural costs are still subjects of ongoing debate.

Arguments for a free-trade agreement

The basic argument in favor of a free-trade area with the United States dismisses the study of individual sectoral gains and losses in favor of an analysis of benefits to the Canadian economy as a whole that would result. This argument consists of two major economic points: (1) security of access is vital to Canadian economic growth and job creation, and (2) increased specialization and modernization of Canadian industry will lead to concrete economic benefits in the form of higher gross national product (GNP) and lower prices.

A free-trade area with the United States would give Canada secure access to a market 10 times its size. This may seem repetitive given the fact that GATT provisions will make 80 percent of Canadian exports to the United States tariff free by 1987, 1/ but Canadian perceptions of growing protectionist sentiment in the U.S. Congress are that the gains of previous GATT negotiations could very well be threatened by legislation imposing new nontariff barriers. A free-trade agreement is seen by many in Canada as a way to skirt protectionist bills that would adversely affect Canadian exports to the United States.

Exposure to the much more competitive U.S. industrial environment would force Canadian industry to modernize and cut costs in order to survive against the generally more efficient U.S. industry, a test which many Canadian firms might not survive. Whereas most of the arguments against a free-trade agreement center on the plight of the less competitive Canadian industries that would be threatened by a new more competitive environment, the net result would be a more efficient Canadian industry able to compete in both American and global markets. 2/

As a result of the increased efficiency and the economies of scale made possible by the larger market available to the Canadian industry, it is

1/ Upon implementation of the Tokyo Round tariff concessions in 1987, approximately four-fifths of Canadian exports to the United States will be duty free. The comparable figure for U.S. shipments to Canada is approximately two-thirds.

2/ Lipsey and Smith, op. cit., p. 80.

estimated that "by achieving costs and prices now available in the United States, Canadian living standards would undergo a rise of something between 4 and 7 percent." ^{1/} This would indicate a rise in income as well as employment. Thus, the persistent Canadian difficulty of high unemployment would be abetted in the long run by a free-trade agreement with the United States.

A corollary to the arguments of secure access and increased efficiency is one based on Canada as the largest trading partner of the United States. In the eyes of many Canadians a free-trade agreement would go a long way toward making this pivotal economic relationship more formal and more certain. ^{2/} It is argued that since Canada is the most dynamic and consistent of U.S. suppliers, formalization of this trade partnership would be mutually advantageous in terms of granting U.S. consumers security of access to Canadian suppliers.

The argument for a free-trade agreement with the United States, then, shows Canada wanting to be rid of inefficient protectionism in exchange for a dynamic, outward-looking economic revitalization. Proponents of this view see the negotiation of a free-trade pact with the United States as an opportunity to reassert Canadian cultural identity on the world stage, and not as a lack of Canadian backbone. Supporters also maintain that a free-trade area reinforces commitment to multilateral trade liberalization. "A CAFTA (Canadian-American free-trade area) offers the most promising opportunity to create a more efficient, adaptive, and outward-looking Canadian--and U.S.--economy that would provide rising living standards and expanding employment opportunities for the great majority of people. Its success would demonstrate to the rest of the world that trade liberalization, rather than rising protectionism, remains--as it has since World War II--the practical key to prosperity." ^{3/}

Arguments against a free-trade agreement

The Canadian argument against a Canadian-American free-trade agreement focuses on two main points: 1) fear of import competition, and 2) loss of Canadian sovereignty. The first counter argument centers more on the specific sectors that could be adversely affected by greater import competition from the United States than on the potential gains for the Canadian federation as a whole. ^{4/} Certain industries, particularly textiles, footwear, and beer,

^{1/} *Ibid.*, p. 81.

^{2/} The certainty premise is based on the notion that a dispute settlement mechanism would be built in to any bilateral understanding. The nature of such a mechanism is far from settled and is one issue on which there is no U.S. consensus.

^{3/} Lipsey and Smith, *op. cit.*, p. 183.

^{4/} Speech by Mr. Thomas d'Aquino, president and chief executive officer, (Canadian) Business Council on National Issues, Center for Canadian Studies, the Johns Hopkins University, Washington, Dec. 5, 1985, "A Canada-U.S. Comprehensive Trade Agreement; Panacea or Powderkeg?," p. 10.

claim that their dependence on government subsidies and support programs has crippled their ability to compete in the open-market system that would result from any free-trade area between the United States and Canada. In addition, Canadian farm groups oppose free-trade negotiations on the grounds that the Government might negotiate away their subsidies and price supports. 1/

Dennis McDermott, of the Canadian Labor Congress, is one of the most outspoken opponents of the free-trade issue. Mr. McDermott expressed concern about the threat to entire Canadian industries, such as clothing and textiles, brewing, meatpacking and processing, electrical goods, machinery and equipment, furniture, footwear, high-tech goods, and others. 2/ The trade union response to any initiative that might entail job losses is not atypical, nor is it uniquely Canadian.

Along with these specific concerns, the feeling exists that if Canada were to enter into a free-trade pact with the United States, this move would be seen by Canada's other major trading partners, Japan and Western Europe, as a move away from multilateralism, and might result in damage to Canadian exports to those markets. 3/

One of the main concerns expressed by Canadians is that political and cultural unity with the United States will eventually emerge out of the closer economic ties. Premier Robert Bourassa of Quebec has stated that the proposed talks could eventually lead to the United States politically swallowing up Canada. Premier Bourassa is concerned that a free-trade deal would likely lead to a customs union--an arrangement that would require both nations to pursue a common economic policy to the outside world. A customs union, he suggested, would logically lead to common political institutions, which would threaten Canadian sovereignty. In all, he warned that "There is an internal dynamism in the integration process." 4/ Labour Congress chief McDermott echoes Bourassa by warning that economic integration will lead to "eventual political and social integration." 5/

The basis for such fears is the belief that in the area of popular culture (magazines, television, movies, books, and so forth) any liberalization of the Canadian market to U.S. products would so flood the country that the unique Canadian identity would eventually be overwhelmed by U.S. cultural influences. In addition, many feel that Canadian cultural industries, so long supported by the Canadian Government, would find it difficult in a free-trade situation to compete against their American counterparts that, in most instances, operate from the vantage of incomparable

1/ The Wall Street Journal, "Opposition is Mounting in Canada To Trade Pact Talks With The U.S.," Dec. 10, 1985.

2/ The Journal of Commerce, "Canada Sets Stage for Trade Talks," Oct. 7, 1985, also Inside U.S. Trade, Oct. 11, 1985, p. 5.

3/ New York Times, "The Political Peril of More U.S. Trade," Dec. 15, 1985.

4/ New York Times, "U.S. Free Trade Plan Worries Quebec Leader," Dec. 6, 1985.

5/ Inside U.S. Trade, Oct. 11, 1985, p. 4

economies of scale. 1/ The fear that these cultural industries will not survive in the new free-trade atmosphere is significant because "the indigenous vehicles which express who we are as a people--whether through newspapers or books . . . records . . . or film . . . are the benchmarks of the elusive Canadian identity. To the extent that trade liberalization threatens their existence in Canadian hands, this will be seen as a menace against our independence as a people." 2/

The issue of cultural sovereignty is a highly charged one in Canada and one that most Americans find difficult to fully comprehend. The MacDonald Commission addressed the question of Canadian cultural integrity by conceding that special treatment might be required in matters involving cultural activities, and that Canada "could insist on explicit treaty provisions that would authorize public funding of its cultural activities and permit affirmative public funding of its cultural activities and permit affirmative discrimination for Canadian producers, in order to compensate for the handicap of small domestic market." 3/

In the October 28 meeting in Calgary between U.S. Secretary of State George Shultz and Canadian Foreign Minister Joe Clark, Minister Clark warned that Canadian fears over the possible resultant loss of political, economic, and cultural sovereignty from a free-trade agreement must be taken as legitimate because "issues between Canada and the United States have a different significance in our smaller country than in your larger one. What is incidental to you can be central to us; what is entertainment to you can be culture to us." Here Clark reiterated the broadly held Canadian fear of being overtaken by the vast size and influence of the United States. 4/

1/ See d'Aquino, Thomas, op. cit., p. 13.

2/ Ibid.

3/ Royal Commission information packet on trade relations, Sept. 5, 1985, p. 8.

4/ The cultural question and its relationship to trade liberalization in the North American context is not entirely negative. There is, in fact, a cultural argument favoring a free-trade area with the United States. It is not as much a litany of positive effects on the cultural sovereignty of the Canadian peoples as an indication that the Canadian culture can in fact withstand the cultural influence of the United States. Answering cries that Canadian cultural identity will be lost in a CAFTA, the MacDonald Commission reported that throughout their research in Canada, they had "been profoundly impressed by the confidence that Canadians have come to show in themselves as individuals and in their country as a political community...it seems probable that a free-trade agreement would actually strengthen our national assurance by providing clear evidence that Canadians can prosper in a highly competitive market, without the aid of artificial protection." (Royal Commission information packet on Trade Relations, Sept. 5, 1985, p. 20.) In addition, in his report to Prime Minister Mulroney, Trade Minister Kelleher stated that, "Canada has reached a plateau of maturity which helps to define the opportunity before us. Our economic strength and cultural integrity have evolved to the point where we can enter negotiations with confidence. The very act of opening our minds to negotiations will be an expression of faith by Canadians in themselves, in their industries, and in their institutions."

In summary, the Canadians in support of a free-trade agreement see it as a means to revitalize the Canadian economy by securing a huge new market that would enable Canadian industry to modernize and specialize. One benefit of this newly open competition with U.S. industry would be to force sectors of Canadian industry to become more efficient and competitive. Proponents of this line of reasoning see the Canadian cultural identity being strengthened, not weakened, by the renewed opportunity for the Canadian people to assert themselves in the world market as a result of their new economic strength.

Opponents of a free-trade pact focus on the difficult adjustment process that would precede greater competitiveness. In addition, opponents fear that economic cooperation would eventually lead to political and cultural integration. Instead of strengthening Canadian influence in the world, they argue that a free-trade agreement would subordinate that influence, eventually completely, to the United States.

The U.S. Debate 1/

Discussion of the Canadian free-trade initiative in the United States has been markedly less heated than in Canada. 2/ The issue receives less attention in the United States because it is not perceived as affecting Americans as much as Canadians. The commonly heard Canadian criticism is relevant here: Canada does not loom as significant in the U.S. psyche as the reverse.

Arguments for a free-trade agreement

There are three main benefits that could result from a U.S.-Canadian free-trade agreement: (1) increased U.S. exports and related jobs and benefits, (2) increased investment opportunities in Canada, and (3) a renewed impetus to multilateral trade negotiations.

The negotiation of a trade pact with Canada would create a broader, more predictable market for U.S. exports. Canadian tariffs on the average are higher than their U.S. equivalents, 3/ so the mutual reduction of duties

1/ The very word "debate" is a misnomer here. From the start of the effort, U.S. officials here emphasized that the proposal for bilateral trade liberalization is a Canadian initiative. It is one to which the United States wishes to respond favorably, but the genesis for the proposal is strictly Canadian. Therefore, public debate of the pros and cons of the issue has been primarily Canadian. In addition, it has been argued that Canadian support for any bilateral liberalization of trade would be undermined by U.S. enthusiasm for the idea.

2/ Canadian Ambassador to the United States Allan E. Gotlieb has characterized the low-keyed U.S. reaction to the Canadian initiative as a "yawn."

3/ Upon completion of the Tokyo Round restrictions in 1987, nearly two-thirds of all U.S. exports to Canada will enter duty free. High duties will still protect such Canadian industries as footwear, textiles, furniture, paper products, certain automobile parts, and telecommunications equipment. Tariffs have traditionally been employed in Canada to protect domestic manufacturing industries and to promote greater industrialization.

should afford U.S. industry increased export opportunities as well as the gains from related employment increases and other benefits. Since Canadians are seen to have tastes and standards of living comparable to many Americans, U.S. industry would not have to substantially alter its production process in order to accommodate this expanded market. The improved overall competitiveness for U.S. industry that would follow from a more integrated North American market would lead to a greater ability for U.S. (and Canadian) industries to compete in world markets.

The notion of secure access that weighs so heavily in Canadian consideration of freer trade possibilities also is a factor in U.S. exploration of new trade opportunities. Canada is the largest and fastest growing market for U.S. exports. During 1982-84, U.S. exports to Canada grew faster than U.S. exports overall. Although a large part of this increase can be traced to better performance of the U.S. dollar relative to its Canadian counterpart than to other foreign currencies, Canada still accounts for a full one-fifth of the total U.S. exports. The advantages to the United States of this significant trading relationship could only be enhanced by a more formal arrangement such as a free-trade agreement.

As a result of closer economic relations between the two countries, U.S. business would also benefit from a more stable investment environment. The past has been clouded by a series of disputes in the investment area and Canadian controls regulating foreign investment. ^{1/} Recent changes, however, have decreased U.S. business reluctance to consider Canada as a site for future investment. To the extent that a trade agreement would address nontariff barriers in other sectors, business uncertainty would be lessened and the likelihood of any future round of Canadian policies targeted against U.S. firms in Canada (reminiscent of the 1970's) would be minimized.

The Reagan administration views the negotiation of a free-trade area with Canada as an attempt to stem the protectionist mood of the world. Bilateral negotiations could fortify the special relationship the United States and Canada share and could provide added momentum to U.S.-Canadian multilateral trade liberalization efforts.

There are a number of issues that might be more readily resolved through bilateral negotiations (i.e., investment, intellectual property rights, and trade in services). Any forward motion on the resolution of these issues bilaterally would lend credibility to U.S. efforts to bring these items to the multilateral agenda. Thus, a wide-ranging free-trade agreement between the United States and Canada could serve both as an example for broader consideration of the issues and as a catalyst for the new round of trade talks in the GATT.

^{1/} See ch. IV section entitled "New foreign investment policy in Canada."

Arguments against a free-trade agreement

As is the case in Canada, U.S. opposition to a free-trade agreement is most strongly expressed by those segments of industry who believe they will be adversely affected by trade liberalization. 1/ Some sectors maintain that any free-trade area would only invite circumvention of hard-won remedies to unfair import trade practices. 2/

Just as the cultural question is prominent in Canadian consideration of the free-trade issue, so too is the Canadian position on cultural industries of significant concern to U.S. negotiators. Most observers agree that, like self-determination, the definition of what constitutes culture and how a country chooses to preserve and protect its own culture is a matter to be decided upon internally. Exactly how broad a definition is given to Canadian culture will go a long way toward determining a U.S. negotiating position on this issue. 3/ The question is of central importance to any bilateral consideration of nontariff barriers in the areas of investments, services, 4/ and subsidies.

Another area of potential difficulty in arriving at a mutually satisfactory free-trade agreement is that of Provincial-Federal relations in Canada. Uninformed observers often compare the provinces in Canada with the States in this country and assume that the Federal Government has the authority to fashion policy in a way that ensures compliance at the next level down. The Provinces have considerably more independence and authority than do States in the United States. Canadian Provinces retain control of all natural resources. They also are significantly involved in certain service sectors. 5/

Given the inter-Provincial barriers to commerce, one could argue that a free-trade area does not yet exist within Canada. The fact that the country is on the threshold of negotiations with the United States while such barriers still exist internally presents problems for U.S. negotiators. Such questions

1/ When the USTR held hearings in January 1985, the following U.S. business sectors expressed opposition to the notion of free trade, then being examined on a sectoral basis: fabricated steel, wire and wire products, carbon steel, lead and zinc, frozen concentrated orange juice, television and television picture tubes, methyl alcohol, certain other chemicals, nonrubber footwear, forest products, fiber optic cable, and malt beverages.

2/ The Journal of Commerce, Malashevich, Bruce, P. Jan. 3, 1986.

3/ At a conference sponsored by the U.S. State Department in March 1986, a Canadian observer, remarking on the different degree of public involvement in the United States and Canada, said "In Canada, government assistance to business is part of our culture." It is certain that such a broad definition on Canadian cultural sovereignty would not meet with U.S. approval.

4/ Canadian barriers in border broadcasting, trucking, data processing, and tourist literature are irritants to the United States in the exportation of its services.

5/ For a discussion of Canadian government ownership in certain sectors of the economy, see U.S. International Trade Commission Report Foreign Industrial Targeting and Its Effects on U.S. Industries Phase III: Brazil, Canada, the Republic of Korea, Mexico, and Taiwan (Investigation No. 332-182), USITC Publication 1632, January 1985, pp. 103-105.

as whether the Federal Government can commit the Provinces to certain courses of action and the role of the Provinces in the negotiation process account for certain misgivings on the U.S. side. 1/

Future Prospects

Formal negotiations toward a free-trade agreement are expected to begin by mid-1986, after expiration of the 60 legislative-day period for Congressional advice. 2/ One necessary step in the process is that the President is required by law to request probable economic effects advice from the U.S. International Trade Commission. The Commission will hold public hearings in order to afford U.S. industry and the public an opportunity to register the opinions on the free-trade proposal.

Observers maintain that negotiations will likely last for at least a couple of years. This may be an optimistic assessment, given the rather sensitive bilateral disputes that are likely to be included in the negotiations. 3/

1/ The issue of Provincial liquor boards (see separate section in ch. IV) provides a case in point of bilateral understanding at the U.S.-Canadian Federal level, but difficulties at the Provincial level.

2/ The first formal negotiations took place in Ottawa on May 21-22, 1986.

3/ During a state visit in March 1986, President Reagan toasted Prime Minister Mulroney and expressed the hope that prior to the end of his term of office he would be able to see a bilateral agreement between the trading partners become official.

CHAPTER II

THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND THE TOKYO ROUND AGREEMENTS

INTRODUCTION

The GATT was initiated in 1947 to advance free-market principles in trade among nations. Based on the concepts of nondiscriminatory treatment and liberal market access, it is both a multilateral agreement and an organization. 1/ Administration and governance of the GATT are conducted by the Contracting Parties (CP's) and the Council of Representatives (the Council). 2/ Figure 1 presents the organizational structure of the GATT.

The GATT has become both a comprehensive set of rules governing most aspects of international trade and a forum to sponsor multilateral trade negotiations and resolve trade disputes among member countries. Seven rounds of multilateral trade negotiations, under the auspices of the GATT, have significantly lowered world tariff levels and have accompanied a ninefold increase in the volume of international trade. During the 1973-79 Tokyo Round, nontariff measures (NTM's), considered by both the United States and its trading partners to be among the most significant remaining obstacles to trade expansion, were addressed in a set of NTM agreements (commonly referred to as codes). By the end of 1986, the CP's to the GATT are expected to embark on an eighth round of trade negotiations that may, among other things, further extend and strengthen the rules of the agreement, particularly in the area of NTM's.

This chapter reports on decisions of the GATT CP's and Council in 1985, implementation of the 1982 GATT Ministerial Declaration, activities of the committees and working groups of the GATT, notification and actions taken under GATT articles, and implementation of the Tokyo Round agreements.

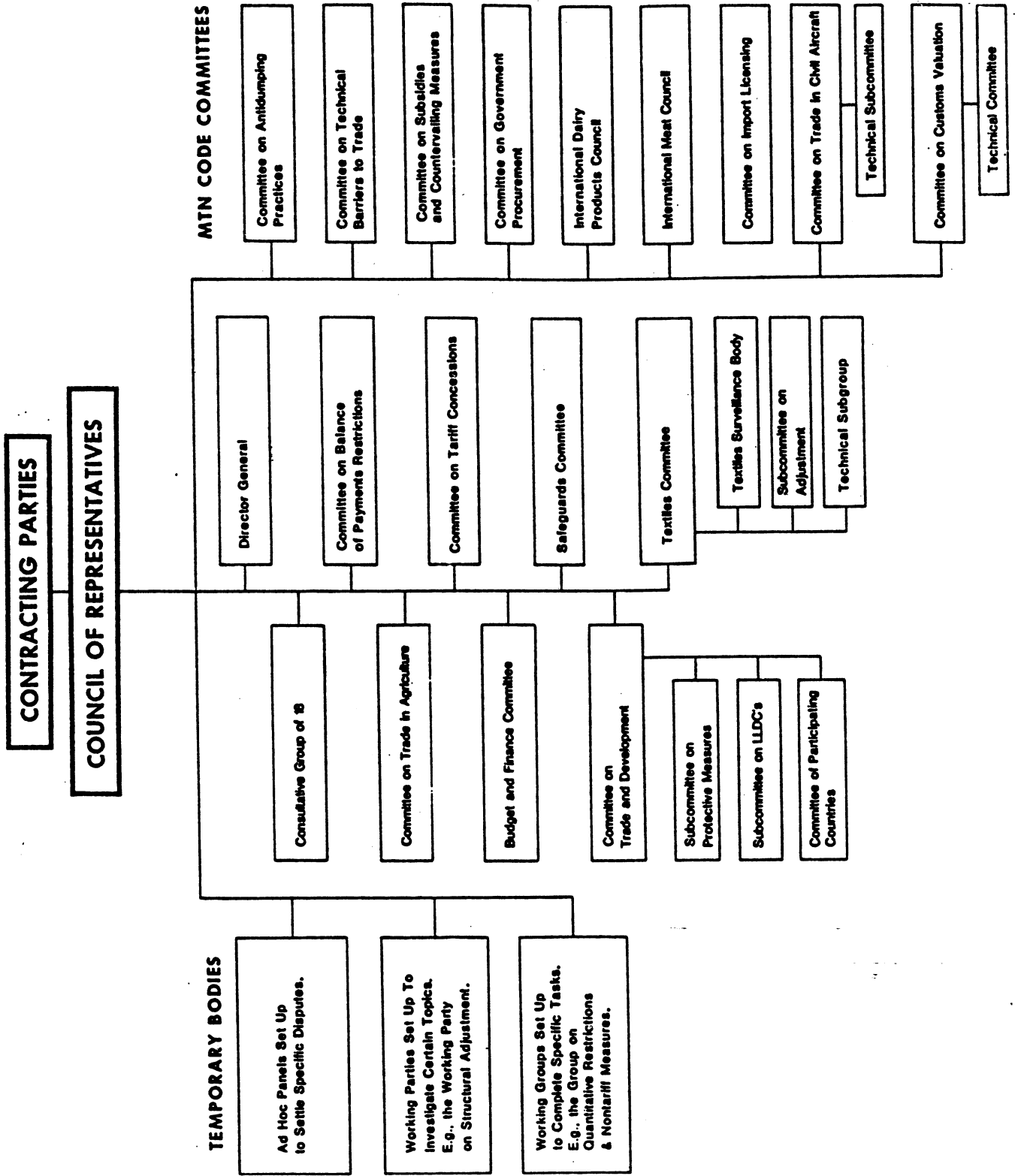
GATT ACTIVITIES DURING 1985

During 1985, the GATT CP's conducted negotiations towards beginning preparatory work for launching a new round and continued to focus on projects mandated under the 1982 Ministerial work program.

1/ In this chapter, the acronym GATT, as commonly used, refers not only to the agreement but also to the secretariat and bodies administering it and to the whole of trade-related activities carried out under its auspices. The use of the term General Agreement refers solely to the actual legal document.

2/ The CP's meet annually to oversee the operation and direction of GATT. The annual sessions provide a forum for review of GATT activities pursued during the preceding year and for decisions on work for the following year. In the interim, the Council oversees virtually all GATT activities and acts on behalf of the CP's on both routine and urgent matters. Proposals that are particularly controversial, as well as those in the formative stage, are debated at Council meetings until consensus on a course of action is reached. Work is then parceled out to committees or specially created bodies.

Figure 1.1 ORGANIZATIONAL STRUCTURE OF THE GATT



New Round Preparations

Throughout 1985, the United States pushed for a high-level meeting of senior officials to discuss issues to be included in a new round of MTN. This initiative finally succeeded when the CP's, meeting in special session in September 1985, mandated a Senior Officials Group that met in October to discuss possible new round issues. The group reported to the 41st Annual Session of the CP's in November 1985, at which the CP's adopted a decision to establish a new round Preparatory Committee. The Committee was mandated to "determine the objectives, subject matter, modalities for and participation in the multilateral trade negotiations." ^{1/} The Committee was instructed to prepare recommendations for the program of negotiations by mid-July, for adoption at a Ministerial-level meeting slated for September 1986. Meetings of the Preparatory Committee began in January 1986.

Implementation of the 1982 Ministerial Work Program

Activities on the work program outlined in the 1982 Ministerial Declaration also continued throughout 1985, while standing committees attended both to their regular agendas and to 1982 Ministerial-related assignments. ^{2/}

In November 1982, the CP's met in a Ministerial-level session (the 1982 GATT Ministerial) and adopted decisions on a wide range of trade issues. Their decisions were issued in a Ministerial Declaration that mandated an ambitious program of work. In 1983 and 1984, some CP's had complained of slow progress on Ministerial topics. With a new round in sight, however, the CP's acknowledged that information and debate on these topics provides valuable background material for new round negotiations. Accounts of 1985 action on some of the leading Ministerial topics follow.

Safeguard measures

According to the 1982 Ministerial Declaration, a comprehensive understanding on proposed safeguards, often referred to as a safeguards code, was to be presented by the Safeguards Committee at the meeting of CP's in 1983. ^{3/} During the October 1985 meetings of the Senior Officials Group, a number of delegations, including the United States, urged that safeguards take high priority in the new round of multilateral trade negotiations.

Despite universal agreement on the need for a safeguards code, wide disagreement persists over some of the fundamental concepts involved.

^{1/} GATT Press Release, GATT 1377, Nov. 29, 1985.

^{2/} For a lengthy description of the 1982 Ministerial-level session of the GATT CP's, see the U.S. International Trade Commission Operation of the Trade Agreements Program, 34th Report, 1982, USITC Publication 1414, August 1983, p. 14.

^{3/} The ministers directed that the understanding on safeguard actions should address such issues as transparency, coverage, criteria for defining serious injury and threat thereof, notification, consultation, surveillance, compensation, retaliation, dispute settlement, duration, phaseout, and structural adjustment.

Disagreement centers on whether safeguard measures should be applied selectively and whether grey area measures, such as voluntary export restraints, should be covered by the proposed safeguards code. Although discussions continued in 1985, the CP's only incrementally narrowed their differences on most of these central issues.

Trade in services 1/

The 1982 Ministerial Declaration called for a review of services trade to be conducted outside official GATT channels, in which interested CP's would informally exchange examinations of problems in various service sectors. The United States and at least a dozen of its major trading partners participated in the exercise. By the end of 1984, the CP's had agreed to discuss these issues more formally under GATT auspices and to draw upon the GATT Secretariat for assistance. The first formal exchange of information on services took place in February 1985. Later in 1985, the Secretariat prepared an analytical summary of the 13 national services examinations and of information submitted by other international organizations on their services-related work. At yearend 1985, the CP's reviewed the progress of the services examination and adopted a decision to continue the exchange of information. The CP's also directed the parties participating in the exchange to prepare recommendations for consideration by the CP's at the 1986 annual session. 2/

Trade in counterfeit goods

As directed by the 1982 Ministerial Declaration, the GATT continued to explore whether joint action to address problems of trade in counterfeit goods is appropriate within the GATT and, if so, what action could be taken. 3/ Throughout 1985, a group of experts, established by the CP's at the annual session in 1984, met to identify and discuss several issues relating to the Ministerial mandate. The group directed its examination to the problems of trade in goods bearing false trademarks, though it did not preclude the idea that further GATT discussion could be broadened to include other infringements of intellectual property rights.

The adequacy of the Paris Convention for the Protection of Industrial Property, administered by the World Intellectual Property Organization (WIPO), was discussed by the group. Some members argued that, although it contains important principles, the Paris Convention is not sufficient. Other members argued that the Paris Convention provides a sound framework of international

1/ For further analysis of services trade issues, see the services section in ch. III.

2/ GATT Press Release, GATT 1377, Nov. 29, 1985.

3/ To investigate questions of GATT jurisdiction in the area of counterfeiting, the GATT Director General held consultations on trade in counterfeit goods with the Director General of the WIPO in early 1983. It was agreed that the two organizations would cooperate in any undertaking. After prolonged discussion, agreement was finally reached in November 1983 that the GATT Secretariat would undertake a study of problems in this area. A draft of the study was circulated in July 1984 to serve as a basis for further informal discussions.

law on trade in counterfeit goods. The group did note that the aim of any joint GATT action would be to curb the disruptive and trade inhibiting effects of commercial counterfeiting, without harming trade in genuine goods. Nevertheless, agreement on the appropriateness of such joint action within the GATT was not reached in 1985.

Quantitative restrictions and other NTM's

The Ministerial mandate of the Group on Quantitative Restrictions and other NTM's was divided into three stages. The first stage consisted of compiling documentation from CP's for an inventory of existing quantitative restrictions and NTM's. During 1984, the group completed the inventory, which included information describing the basis for these measures and their conformity with GATT provisions. The second stage, that of conducting a detailed review of these measures, was carried out during 1985.

By November 1985, the group had also completed the third stage, that of presenting its findings and recommendations to the annual session of the CP's. At the annual session, the CP's instructed the group to oversee the implementation of its recommendations, with a view to presenting proposals for further action for consideration at the 1986 annual session.

The recommendations presented in the group's 1985 report focused on improving members' notification of quantitative restrictions and NTM's and on ways of obtaining further progress toward their elimination. On notification, the group recommended that, beginning in April 1986 and continuing on a semiannual basis, the CP's should notify the GATT of all quantitative restrictions they maintain and of the trade effects of such measures. A format for these notifications was also presented. To maintain an up-to-date data base of quantitative restrictions and nontariff barriers, the group recommended that a multilateral review of the documentation be held in October 1986 and once every 2 years thereafter. The group also recommended that the multilateral reviews include negotiation to eliminate quantitative restrictions not in conformity with the GATT. To achieve this, the group suggested that bilateral requests and offer procedures should be drawn up for use in the multilateral reviews of the inventory. Moreover, the group suggested that the inventory could be used to identify possible areas for multilateral action.

Problems of trade in natural resource products

As directed by the 1982 Ministerial Declaration, the Secretariat has undertaken background studies of tariff and nontariff measures and other factors affecting trade in certain natural resource products. Studies on aluminum, lead, zinc, copper, tin, nickel, forestry products, and fish and fisheries products have been completed and forwarded to a working party for review and conclusions. In November 1985, the working party completed its conclusions on the study on fish and fisheries products and presented them to the annual session of the CP's. Although the working party conclusions on forestry products were not final, the working party chairman described the progress of discussions in a 1985 report to the CP's. Working party reviews of the tin and nickel studies began in 1985. Working party review of the aluminum study will be undertaken in 1986.

Work of Committees and Working Groups

Standing committees of the GATT attended both to their regular agendas and to 1982 Ministerial-related assignments in 1985, as described below.

The Consultative Group of 18

The Consultative Group of 18 (CG-18) operates like a steering committee of the GATT. It conducts indepth discussions of formative issues and assists the CP's in assessing formulation and implementation of GATT policies. Its membership, consisting of both developed and developing country members, rotates annually. 1/

All of the 1985 meetings of the CG-18 focused on practical steps to further trade liberalization and restore the integrity of the trading system. In February, the group examined existing commitments to liberalization made under the 1982 Ministerial Declaration. In May, the group discussed the prospects for launching a new round of trade negotiations. In July, discussion of a new round continued and the group concluded that divergences of opinion related to content and timing, rather than to the principle of launching a new round per se. The 1985 report of the group noted wide agreement among its members that problems in traditional areas of GATT competence--such as safeguards, subsidies, agriculture, tropical products, and tariff escalation--urgently need to be addressed in the new round negotiations.

Trade in agriculture

The Committee on Trade in Agriculture, called for in the 1982 Ministerial Declaration, was set up to assess the effect of subsidies and other barriers to agricultural trade. This assessment was carried out through the consideration of GATT members' submissions describing their agriculture-related measures. 2/ In November 1984, the CP's adopted recommendations of the Committee calling for, among other things, an elaboration on a number of recommended approaches to future negotiations. Throughout 1985, the Committee worked on a Draft Elaboration. Though the document was not completed, the committee reported at yearend 1985 on proposals presented during its 1985 meetings and suggested that the indepth examination continue.

1/ The CG-18 was established on a temporary basis in 1975 and made permanent in 1979. In 1985, the following countries were members of the CG-18: Argentina, Australia, Brazil, Canada, EC and member states, Egypt, Finland, India, Indonesia, Japan, Nigeria, Pakistan, Peru, Poland, Spain, Switzerland, United States, and Zaire.

2/ The Committee examined agricultural trade measures affecting market access and supplies, related subsidies and other forms of export assistance, and agricultural measures currently in force under exceptions or derogations to the General Agreement. Exceptions under arts. XI, XVI, and XVII, as well as derogations under waivers and "grandfather" clauses (legislation enacted prior to accession to the GATT), have been presented frequently by GATT members as GATT justification for agricultural restrictions.

Debate in 1985 examined possible improvements in the use of agricultural exceptions under article XI (general prohibition of quotas), including the proposal that these quotas be eliminated in favor of tariff protection. Possible improvements in the application of article XVI (on subsidies) were also discussed. Also, various approaches to applying the concept of a minimum access commitment (MAC) to negotiations on trade in agriculture were discussed, with members voicing their views on the advantages and disadvantages as well as possible means of using the MAC concept. 1/ The members of the Committee also discussed their views on the use of voluntary restraint agreements (VRA's), variable levies, minimum import prices, and standards (sanitary or other technical barriers) in agricultural trade.

Tariff concessions

The Committee on Tariff Concessions, established in 1980 to manage tariff matters, supervises the implementation and maintenance of schedules of tariff concessions annexed to the GATT. The Committee also hosts discussion on any tariff-related questions raised by members. In addition, the Committee oversees the GATT article XXVIII (amendment of tariff schedules) negotiations associated with preparations for implementation of the new tariff nomenclature known as the Harmonized Commodity Description and Coding System (the Harmonized System). 2/

During 1985, the main emphasis of the Committee was on article XXVIII negotiations on the Harmonized System. Because of the close working relationship between the Committee and the Customs Cooperation Council (CCC) on the Harmonized System exercise, an observer from the CCC was invited to participate in all committee meetings from July onward. At the same time, however, work on completing a common data base for the Harmonized System, article XXVIII negotiations and preparation of the documents required for the negotiations proceeded on track.

The Committee is responsible for managing the article XXVIII negotiations that are to precede the introduction of the new tariff nomenclature. 3/ In 1985, considerable progress was made on the process whereby 14 countries exchanged background documentation on the transposition of their GATT schedules of tariff concessions into Harmonized System nomenclature. The United States and a number of other delegations hoped to begin formal article XXVIII negotiations in early 1986 and complete them as soon as possible to ensure that the new system will be implemented on schedule in January 1988.

1/ MAC is a negotiating technique being explored with respect to the liberalization of quotas affecting agricultural products, which would entail a commitment by CP's to import at levels equivalent to a percentage of domestic production or to a ratio of imports to domestic production.

2/ According to an agreement finalized in the CCC, the Harmonized System is slated for implementation on Jan. 1, 1987. For more details, see "Customs Cooperation Council" in ch. III.

3/ Much of the regular work of the Committee revolves around art. XXVIII, which provides for consultation and negotiation on modifications in bound tariffs. The impending introduction of the Harmonized System has increased this aspect of the committee's workload.

Trade and development

The Committee on Trade and Development (CTD) is charged with ensuring that issues concerning developing countries are given priority attention, as called for by part IV of the General Agreement. ^{1/} During 1985, meetings of the Committee featured discussion on topics such as negotiations of tropical products, prospects for increasing trade between developed and developing countries, and the effects of tariff escalation and structural adjustment in developed countries on the trade of developing countries. Two Subcommittees of the CTD are charged with examining protective measures taken against products from developing countries and the trade problems of the least-developed developing countries (LDDC's).

During 1985, the Committee also continued to sponsor consultations, called for in the 1982 Ministerial Declaration, on implementation of part IV of the General Agreement. The consultations are designed both to assess implementation and to encourage governments to consider part IV in forming overall trade policy. This year, Canada, Switzerland, Australia, and New Zealand presented information on their national policies and measures that foster the aims of part IV. Later in the year, the benefits and effectiveness of the part IV consultations were assessed. Some members complained that consultations focused on broad issues rather than specific obligations of contracting parties, but acknowledged that the breadth of information contributed to a better understanding of trade policies and measures. The Committee agreed that the consultations should remain an integral part of its regular responsibility for oversight of part IV implementation.

Responsibility was assigned to CTD to follow up on the 1982 Ministerial Declaration and to initiate consultations and negotiations designed to encourage liberalization of trade in tropical products. Consultations were held in November 1983 and May 1984. During 1985, the results of the consultations were assessed and procedures for negotiations were explored. Some delegations held the view that negotiations on tropical products would be most effectively pursued within the context of the new round of multilateral trade negotiations. Other delegations reiterated their view that part IV and the enabling clause supported the principle that concessions made by developed countries in such negotiations should be on a nonreciprocal basis. Most delegations agreed that negotiations on tropical products could begin once mutually agreed negotiating procedures are determined.

^{1/} Pt. IV, added in 1969, and the "enabling clause," negotiated during the 1979 Tokyo Round, allow special consideration of interests of developing countries. The enabling clause allows developing countries to receive differential and more favorable treatment from other GATT members with regard to (1) tariffs accorded under the GSP, (2) nontariff measures governed by GATT codes, (3) tariffs and, under certain conditions, nontariff measures among developing countries under regional or global trade arrangements, and (4) measures applied to LDDC's, in particular. The enabling clause also provides for greater adherence by developing countries to the obligations of GATT membership, adherence that is commensurate with each country's level of economic development.

Protective measures

Examination of protective measures taken by developed countries that affect imports from developing countries is carried out by the CTD Subcommittee on Protective Measures. The Subcommittee reviews protective actions brought to its attention by notifications from members or from information gathered by the Secretariat. Among measures discussed in 1985 were the U.S. actions affecting imports of products containing sugar and EC measures affecting imports of cherries. Representatives of copper-exporting countries expressed satisfaction that the U.S. President had decided not to impose restrictions on U.S. copper imports and appealed to the United States to continue to resist protectionism in the copper sector. These representatives also noted their concern about certain legislative proposals in the U.S. Congress urging restrictions on copper trade.

Least developed countries

Work of the CTD Subcommittee on Trade of Least Developed Countries is concentrated in three areas: (1) expansion and diversification of the trade of LDDC's, (2) strengthening of technical cooperation regarding trade, and (3) integration of these countries into the GATT trading system. In 1985, members of the Subcommittee expressed concern about the worsening economic straits of the LDDC's and the widening gap between these countries and other developing countries. The Subcommittee also continued its series of consultations between interested LDDC's and their trading partners. In 1985, Sudan consulted with its trading partners, and follow-up discussions were held on points related to prior consultations with Tanzania and Bangladesh.

Balance-of-payments restrictions

Under certain articles of the General Agreement, members of GATT can employ import restrictions to correct balance-of-payments difficulties. These restrictions must be monitored, however, by the Committee on Balance of Payments Restrictions. Although quantitative restrictions are generally prohibited by GATT, exemptions under articles XII and XVIII 1/ can be applied in conjunction with consultations with this Committee. Discussion continued in 1985 on means of strengthening the consultative process and improving coordination between the GATT and international financial institutions on balance-of-payments issues. The Committee holds consultations with CP's who exercise restrictions taken for balance-of-payments purposes. Both full consultations and consultations under simplified procedures, known as miniconsultations, are undertaken.

1/ Art. XII provides for the implementation of import restrictions by CP's in order to safeguard the balance-of-payments position. Such measures taken by them to "forestall. . . or to stop a serious decline in its monetary reserves" or in the case of low monetary reserves "to achieve a reasonable rate of increase in its reserves" are to be maintained only to the extent that the conditions justify their application and are to be progressively relaxed. In addition, unnecessary damage to the interest of other CP's is to be avoided. Art. XVIII provides for the terms under which developing countries may take these and other measures for the purposes of development in exception to normal obligations under the General Agreement.

During 1985, the Committee held full consultations with Israel and Colombia. Consultations under simplified procedures were held with Pakistan, Sri Lanka, Turkey, Egypt, Brazil, Ghana, and Tunisia. The Committee observed that these countries had fulfilled their obligations relative to GATT procedures for balance-of-payments import restrictions. In November 1985, Portugal announced that it would no longer maintain measures for balance-of-payments purposes after December 31, 1985. In the proposed program of consultations for 1986, full consultations are to be held with Argentina, Greece, and the Philippines, and miniconsultations with Bangladesh, Peru, Yugoslavia, India, Korea, and Nigeria.

Textiles

The Textiles Committee 1/ met twice in 1985 to discuss the future of the Multifiber Arrangement (MFA), which expires on July 31, 1986. 2/ On July 23, the Textiles Committee launched formal MFA negotiations. A preliminary exchange of views was conducted at this meeting and continued at a meeting held on December 4. While some countries have called for a renewal of the MFA, other nations have urged that trade in textiles and apparel should be brought back under the full discipline of the GATT. Many countries, both developed and developing, expressed concern over proposed U.S. legislation to limit textile imports--the Textiles and Apparel Trade Enforcement Act of 1985, also referred to as the Jenkins Bill. Because the legislation would unilaterally reduce U.S. imports of textiles, nations opposed to the bill claimed it violated U.S. obligations under the MFA and the GATT. On December 17, President Reagan vetoed the proposed legislation but directed the USTR to "aggressively renegotiate the MFA on terms no less favorable than present." The Textiles Committee will meet again in April 1986 to continue MFA negotiations that are expected to turn away from generalities toward clarification of positions and policy options.

At the December meeting, the Textiles Committee also conducted the annual review of the MFA required under MFA article 10:4. Reports submitted by the Textiles Surveillance Body (TSB) and the Subcommittee on Adjustment were considered. The TSB report described the large number of notifications of multilateral measures, bilateral agreements, and disputes that had been received in the period covering August 1984 through October 1985. The TSB then concluded that it had been effective in its dispute settlement role and that responses of participating countries to TSB recommendations had been positive. The Subcommittee on Adjustment reported on the status of its work program that was set up to assess whether textile agreements are frustrating the process of structural adjustment and whether member countries have taken measures to facilitate structural adjustment in the textiles sector. 3/

1/ For a description of the Textiles Committee, see Operation of the Trade Agreements Program, 36th Report, 1984, pp. 46-48.

2/ For a discussion of the current MFA, see the section entitled "Arrangement Regarding International Trade in Textiles" in ch. V.

3/ The Subcommittee on Adjustment is responsible for determining whether the provisions of art. 1:4 of the MFA are being implemented. Art. 1:4 states that "Actions taken under this Arrangement shall not interrupt or discourage the autonomous industrial adjustment processes of participating countries." Also, the article says that appropriate economic and social policies should be enacted to encourage structural adjustment in the textiles sector of each country.

Information was requested from participating countries, including adjustment measures taken and policies adopted relevant to article 1:4. Although the response rate to the questionnaires was sparse, the Subcommittee will submit a report to the Textiles Committee by March 31, 1986. The Subcommittee's work should enable the Textiles Committee to determine the possible role, if any, of adjustment policies and measures in reducing the reliance on restrictive measures and thus the fulfillment of the objectives outlined in article 1:4.

In May 1984, a working party on textiles and clothing was established "to examine modalities of further trade liberalization" after the current MFA has expired. Under the work program, the working party has been focusing on three modalities or options for trade liberalization, including the possibility of bringing about the full application of GATT provisions to this sector of trade. The working party has not yet developed any common view on liberalization options. The CP's meeting at the 1985 annual session, directed the working party to intensify its work, including identifying and agreeing upon steps to take towards liberalization, and to report back to the CP's at the 1986 annual session.

Actions under Articles of the General Agreement

Emergency actions on imports (art. XIX)

Article XIX of the General Agreement, also known as the "escape clause," allows GATT members to escape temporarily from their negotiated GATT commitments and impose emergency, restrictive trade measures when actual or threatened serious injury to a domestic industry is demonstrated. ^{1/} A country exercising article XIX is required to notify the CP's and consult with affected exporting countries to arrange compensation. The incentive for the notifying country to negotiate compensation measures stems from the built-in right of affected countries to unilaterally suspend "substantially equivalent concessions or other obligations" if these negotiations fail.

A number of article XIX actions were notified or in effect as a result of previous notifications. These actions in effect at yearend 1985 are listed on table 1. During 1985, Canada amended two of its article XIX actions in view of preparing to phase out the restrictions, Australia terminated one of its existing article XIX restrictions, and two new actions were notified; one by the EC and one by Chile.

Changes in existing emergency actions during 1985

Canada and the EC conducted negotiations during 1985 on a Canadian article XIX action on leather and nonleather footwear. The actions on nonleather footwear were first imposed in December 1981 and that on leather footwear in 1982. Canada argued that the compensatory measures notified by the EC were not applied to substantially equivalent concessions, as required under article XIX. In May 1985, Canada lowered the price level

^{1/} Since art. XIX provides that a concession may be suspended, withdrawn, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury, the suspensions are of a temporary nature.

above which leather footwear was exempt from quotas. The Canadian measures follow up on a recommendation by the Canadian Import Tribunal that import quotas be removed from all categories of shoes except women's and girls' casual and dress footwear, and that the latter restrictions be phased out over a 3-year period.

Table 1.--Article XIX actions in effect as of December 31, 1985

Implementing country	Type of product	Date notified 1/
Australia-----	Filament lamps	July 1983
Australia 2/-----	Assembled passenger motor vehicles	July 1977
Canada-----	Leather footwear	July 1982
Canada-----	Nonleather footwear	Nov. 1981
Canada-----	Yellow onions	Oct. 1982
Canada-----	Beef and veal	Jan. 1985
Chile-----	Wheat	Sep. 1985
Chile-----	Vegetable and oilseed oils	Dec. 1985
European Community	Dried grapes	Nov. 1982
European Community	Cherries	July 1985
European Community	Digital quartz watches	May 1984
United States-----	Heavyweight motorcycles	May 1983
United States-----	Specialty steel	July 1983

1/ Date of distribution of notification.

2/ Australia terminated this action effective Jan. 1, 1986, and notified the GATT that it had terminated the quantitative restrictions concerned.

Source: The GATT.

Article XIX action by Australia on imports of certain nonelectrical domestic refrigerators and freezers was terminated as a result of substitute action taken under article XXVIII. In a notification under article XXVIII, Australia permanently increased tariffs on the items, making the items dutiable at the same rate as electrical refrigerators and freezers, in order to prevent circumvention of duties by importers of electrical refrigerators .

New emergency actions notified in 1985

In September 1985, Chile informed the GATT that it would invoke article XIX with respect to imports of wheat. Under a decree promulgated in November 1984, the Government of Chile established a specific duty, to be applied in addition to the ad valorem duty of 10 percent, that increases progressively as the price of imported wheat falls below US\$147 per ton f.o.b. At the same time, however, the decree stipulated the 20 percent ad valorem duty to decrease progressively once the import price equals or exceeds US\$172 per ton. Article XIX was invoked because the application of the specific duty will increase the level of protection beyond the GATT-bound level of 35 percent ad valorem.

In June 1985, the EC imposed duties on certain Morello cherries being imported at prices falling below a certain minimum price. 1/ The EC reported that the protection of EC production was necessary because a fall in domestic production of more than 20 percent was accompanied by a significant rise in imports, causing disruption of the market.

Dispute settlement (arts. XXII and XXIII)

When a member country fails to respect a tariff concession or other obligation or engages in a trade practice inconsistent with the GATT provisions, the Agreement allows affected members to seek redress through the dispute settlement procedures of articles XXII and XXIII. More general in nature, article XXII provides for bilateral consultations on any matter affecting the operation of the General Agreement. If article XXII discussions do not resolve an issue, use of article XXIII:1 elevates the dispute to a more advanced stage of consultations. 2/

If bilateral consultations fail to yield a mutually satisfactory solution, the matter may be referred to the CP's under article XXIII:2. At this point, the usual procedure is to refer the dispute to a panel. 3/ The panel reports its findings to the GATT Council where the decision is made, on behalf of the CP's, whether to adopt the report and its recommendations. 4/ If an adopted recommendation calling for elimination of a GATT-inconsistent practice is ignored, the complaining country may request the CP's to authorize it to suspend "appropriate" concessions vis-a-vis the offending country. However, such authorization is rarely requested. 5/

A determination to improve the dispute settlement process formed part of the 1982 Ministerial Declaration. Some progress on modifications has resulted from this initiative, due to observations that the process was cumbersome and time consuming. At the end of 1984, the CP's adopted a proposal to, among other things, develop a roster of nongovernmental panelists to serve on dispute settlement panels. 6/ In November 1985, the CP's approved a list of candidates for this roster. During 1985, the Director General

1/ EC Regulation No. 1626/85.

2/ Under art. XXIII:1, the affected country makes "written representation or proposals to the other contracting party or parties" concerned. When thus approached, a GATT member is required to give "sympathetic consideration to the representations or proposals made to it."

3/ The panel is composed of persons selected from the delegations of CP's not engaged in the dispute. The panel members are expected to act as disinterested mediators and not as representatives of their governments.

4/ Panel reports normally contain suggested remedies that the CP's may choose to adopt as recommendations to the disputing parties. Bilateral settlement among parties to a dispute is possible at every phase of the process, up until final adoption of a panel report by the Council.

5/ According to the final paragraph of art. XXIII, after such suspension by the complainant, the offending country also has the right (within 60 days) to withdraw from the GATT.

6/ For further details on proposals to improve the dispute settlement process, see Review of the Effectiveness of Trade Dispute Settlement Under the GATT and Tokyo Round Agreements, (Investigation No. 332-212), USITC Publication 1793, December 1985.

continued the newly instituted practice of periodic reporting on the status of work in panels and on the implementation of panel reports. At the prompting of the various CP's, the Director General also began to include in his status report notation of disputes in which suggested timeframes for various stages of the process had been exceeded. Other proposals, one on surveillance of implementation of panel recommendations and another on recourse action when recommendations are not fully implemented, were debated in the Council during 1985.

Consultations

During 1985, GATT members held article XXII consultations, which are relatively informal, on a variety of issues. In January 1985, the EC reported that a satisfactory arrangement had been reached on consultations with the United States on the U.S. measures on steel pipes and fittings. Also in January, the EC requested article XXII consultations with the United States on the Foreign Sales Corp. (FSC) legislation. 1/

Article XXIII(1) consultations are the next and more formal step in the dispute settlement process. Two article XXIII(1) consultations, which had not reached the panel (art. XXIII(2)) stage by the end of 1985, are described below.

In January 1985, the United States requested consultations with Brazil under article XXII on Brazilian treatment of electronic data processing equipment under its policy and laws on informatics. The purpose of the consultations held in June 1985 was to gather information on the potential trade effects of the new law. Based on the information thus obtained, the Brazilian informatics policy became the subject of a section 301 investigation initiated by the USTR in September 1985. 2/

In August 1985, Portugal requested consultations with the United States on certain quantitative restrictions on cotton pillowcases and bedsheets imported from Portugal. Portugal terms the restrictions a unilateral action lacking any legal or economic basis.

Panels requested by the United States

EC subsidies on canned fruit and raisins.--The panel report on this dispute, after several rounds of negotiation and revision, was finally issued in July 1984. 3/ Findings of the panel report affirmed the U.S. position,

1/ The FSC legislation replaced the Domestic International Sales Corp. (DISC) program that was ruled GATT inconsistent by the CP's in 1976.

2/ For further information see chap. V section on "Enforcement of Trade Agreements and Response to Unfair Foreign Practices."

3/ A panel was established in March 1982 in response to the U.S. complaint that the EC subsidizes the production of canned peaches, canned pears, and raisins. The United States argued that benefits resulting from tariff concessions negotiated on these products and on fruit cocktail were being impaired and nullified by the subsidies and that the subsidies were causing and threatening to cause further disruption of U.S. exports of these products to EC member states.

with respect to canned peaches and canned pears, that the EC production subsidies nullified and impaired the benefits of EC tariff concessions with respect to canned peaches, canned pears, and canned fruit mixtures, and suggested that the CP's recommend to the EC that it consider ways to restore the competitive relationship existing prior to the grant of the subsidies. 1/ The report was first considered by the Council in March 1985 and at subsequent Council meetings but adoption of its findings and recommendations was blocked by the EC. Since the case originated in a petition filed in the United States under section 301 of the Trade Act of 1974, the President announced in September that if a solution were not found by December 1, 1985, the United States would consider retaliatory action under section 301 authority. 2/ At the end of November 1985, the United States and the EC arrived at a bilateral settlement in which the EC agreed to reduce the production subsidies to processors of the canned fruits concerned.

EC tariff preferences on citrus products.---In 1984, the report of the panel examining this U.S. complaint was completed. 3/ The panel concluded that the EC preferences would be inconsistent with article I:1 of the General Agreement unless the preferences were otherwise permitted under provisions of the GATT or under a decision of the CP's. To redress the adverse effects the U.S. had suffered as a result of the preferences, the panel suggested that the EC reduce the MFN tariff rates on fresh oranges and lemons or extend the period of application of lower MFN tariff rates on fresh oranges and reduce the MFN tariff rates on fresh lemons. 4/ Following a final unsuccessful attempt at bilateral settlement, the report was considered by the Council in March 1985 and again at subsequent Council meetings, but its findings and recommendations could not gain full acceptance. Frustrated with EC blockage of the Council's adoption of the panel report, the President made a determination under section 301 in June 1985 that the EC practices are unreasonable, discriminatory, and constitute a burden on U.S. commerce. In addition, the President used his authority under section 301 procedures to institute retaliatory measures against pasta products imported from the EC. 5/

Japanese import restrictions on leather. 6/---In April 1983, the Council agreed to establish a panel on a U.S. complaint about Japanese leather import

1/ GATT Activities 1984, General Agreement on Tariffs and Trade, June 1985, p. 40.

2/ See also "Enforcement of Trade Agreements and Response to Unfair Foreign Practices" in ch. V.

3/ In consultations taking place between October 1980 and April 1982, the United States contended that EC tariff preferences on imports of citrus products from Mediterranean countries violated MFN obligations and thus nullified and impaired benefits to the United States of negotiated tariff concessions. Further background on this case may be found in the Operation of the Trade Agreements Program, 34th Report, 1982, p. 44.

4/ General Agreement on Tariffs and Trade, GATT Activities 1984, June 1985, p. 37.

5/ For details of action taken under section 301 see also "Enforcement of trade agreements and response to certain foreign practices" in ch. V.

6/ This dispute is a continuation of a 1979 complaint filed with the U.S. Government under section 301 of the Trade Act of 1974 by the Tanners' Council of America. Bilateral consultations led to an understanding that took effect in 1979 and expired in March 1982. The understanding, which called for quota increases and improved quota-licensing procedures, proved ineffective and the allotted U.S. quotas went unfilled. After further consultations with Japan failed, the United States resorted to conciliation by a GATT panel.

restrictions. 1/ The panel report, adopted by the Council in May 1984, concluded that Japan's quantitative restrictions on imports of leather violated GATT rules on the elimination of quantitative restrictions (art. XI) and suggested that the CP's urge Japan to eliminate its quantitative restrictions. 2/

In July 1985, Japan announced that it would replace its leather import quota system with new tariff measures and would enter into article XXVIII:5 negotiations on the bound items affected. The President did not consider this action wholly satisfactory and announced in September that retaliatory action would be taken under section 301 authority of U.S. law unless a mutually agreed solution was reached by December 1, 1985. In December, the United States and Japan reached a compromise on a compensation package in which Japan would lower or bind certain tariffs and allow the United States to raise tariffs on imports of certain Japanese leather goods. 3/

Japanese import restrictions on leather footwear.--In July 1985, the Council agreed to establish a panel at the request of the United States. The U.S. representative linked this case with the above-mentioned case on Japanese import restrictions on leather. The United States argued that the conclusions of the GATT panel on Japan's leather restrictions should be applied in the footwear case, since the quota system affected both types of goods. Once Japan announced that it would negotiate new tariff measures under article XXVIII:5 to replace its leather import quota system, establishment of the panel was not pursued further. 4/

Panels examining U.S. measures

Canadian complaint against U.S. restrictions on imports of products containing sugar.--At the request of Canada, a panel was established by the Council in March 1985 to examine a U.S. action imposing quotas on certain articles containing sugar. Formation of the panel was suspended, however, due to continuing bilateral consultations between the United States and Canada on the issue.

On May 19, 1985, the President modified the original order that was the subject of Canada's complaint by deleting several product items from the quota

1/ Pressure to resolve the case bilaterally continued even throughout the panel phase, since Japan claimed the case revolved upon sensitive social and political issues. Japan did not argue that its actions were consistent with GATT but that its restrictions are necessary for socioeconomic reasons; i.e. to protect the economically deprived class of people employed in the domestic leather industry.

2/ General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents, 31st Supp., March 1985, p. 94.

3/ For further details on the sec. 301 action and compensation package, see "Leather and leather footwear" in the Japan section of ch. IV of this report and "Enforcement of Trade Agreements and Response to Unfair Foreign Practices" in ch. V.

4/ For further information see the sec. 301 description of the case in "Enforcement of Trade Agreements and Response to Unfair Foreign Practices" in ch. V.

list that contain only small amounts of sugar. Quotas on the remaining items are to remain in effect until the President has acted on a report by the U.S. International Trade Commission on the matter. 1/ Canada has postponed further action in the GATT to await the outcome of any further Presidential determination.

EC complaint on the U.S. manufacturing clause.--A panel established in April 1983 examined an EC complaint regarding section 601 of the U.S. Copyright Act, known as the manufacturing clause. 2/ According to the EC, the manufacturing clause effectively prohibits imports of certain literary material by an American author into the United States, thus violating articles XI and XIII 3/ of the General Agreement. After consultations proved unsuccessful, the EC requested a panel. The report of the panel, concluding that the U.S. manufacturing clause was inconsistent with GATT provisions, was adopted by the Council in May 1984. 4/ During 1985, no action was taken by the United States to implement the adopted report, however, the manufacturing clause is due to expire in July 1986 although legislation is currently pending that would further extend its operation.

Nicaraguan complaint against the U.S. trade embargo. 5/--During 1985, Nicaragua's request for dispute settlement concerning the U.S. imposition of a trade embargo against Nicaragua generated substantial debate but little action. The United States refused Nicaragua's request for consultations, arguing that the measure was taken for national security reasons and that the political aspects of the issue were beyond the competence of the GATT. In July, Nicaragua requested the formation of a panel. After considerable debate at the July meeting, the chairman of the Council proposed that consultations be carried out on the possible terms of reference for a panel. The Council agreed in October 1985 to establish a panel with U.S. acquiescence with the understanding that the role of the panel would not entail any judgment on the validity of use of national security exceptions (art. XXI). Consultations on the composition of the panel were subsequently held.

1/ At this writing, the U.S. International Trade Commission report has not been publically released by the President.

2/ This provision prohibits imports into the United States of "nondramatic literary works" in the English language by American authors except for those printed in Canada. Some version of this clause has accompanied the U.S. Copyright Act since its enactment in 1891 to protect the nascent domestic printing industry. In 1982, legislation extending the expired manufacturing clause was passed by Congress. A Presidential veto of the legislation was overridden by Congress. For more information, see Study of the Economic Effects of Terminating the Manufacturing Clause of the Copyright Law, USITC Publication 1402, July 1983.

3/ Art. XI contains the rules for, as well as certain exceptions to, the general elimination of quantitative restrictions. Art. XIII outlines the rules for nondiscriminatory administration of those quantitative restrictions that are maintained under exceptions of the agreement.

4/ General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents, 31st Supp., March 1985, p. 74.

5/ Effective May 7, 1985, the United States banned all trade with Nicaragua and justified this measure under art. XXI (national security exemption) of the GATT.

Followup on Nicaraguan complaint on U.S. sugar quotas. 1/--A panel was established in July 1983, at the request of Nicaragua, to investigate U.S. reduction of quotas on sugar imported from Nicaragua. The report of the panel, adopted in March 1984, concluded that reduction of the sugar quota allocated to Nicaragua by the United States for fiscal year 1984 was inconsistent with the nondiscrimination clause of the GATT. 2/ However, the United States has not carried out the panel recommendations adopted by the CP's, but recognized Nicaragua's right to take retaliatory measures. Nicaragua has not exercised this option, thus far, stating that such action would be contrary to the spirit of the GATT and to its own national interests. 3/ On May 1, 1985 the President embargoed all trade with Nicaragua. The embargo has, in effect, preempted any retaliatory action that Nicaragua might have taken by rendering it meaningless in real terms.

Followup on EC complaint against U.S. Foreign Sales Corp. legislation.-- FSC legislation replacing the DISC program and implementing an alternative designed to comply with GATT provisions was passed by the U.S. Congress in 1984 following adoption of a panel report on DISC. 4/ In November 1984, the EC requested informal consultations on the effects of the new program that replaced DISC and its compatibility with the GATT. 5/ The EC request was again considered by the Council in January 1985. The United States indicated that it would consult under article XXII with the EC as well as with any other contracting parties with a trade interest in the matter. No further action was reported on the proposed consultations.

Cases among other countries

EC complaint on certain practices of a Canadian Provincial (Quebec) liquor board.--The EC alleged certain practices of the Quebec liquor board, in particular a markup to the sale price of alcohol, as well as other forms of restriction and discrimination, are unfair under GATT. 6/ As a result, the EC claimed the Quebec liquor board actions resulted in imports receiving less favorable treatment than domestic products.

1/ For further details on this dispute, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 53.

2/ General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents, 31st Supp., March 1985, p. 67.

3/ General Agreement on Tariffs and Trade, GATT Activities 1984, June 1985, p. 39.

4/ Although the panel reviewing the compatibility of the DISC with the GATT completed its work in 1981, followup on the panel's report continued until 1984 due to slow progress in U.S. efforts to pass new legislation. The panel report is contained in General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents, 23rd Supp., March 1985, p. 78.

5/ For some time, the EC had pushed for work to begin on evaluating injury and compensation as a result of the DISC program. Although many countries supported the EC proposal, the Council postponed action, arguing that the final legislation must be examined prior to determining compensation. For further details on the DISC dispute, see the Operation of the Trade Agreements Program, 34th Report, 1982, p. 39.

6/ The importation, distribution, and sale of alcoholic beverages in Canada is controlled by provincial liquor boards.

In 1984, the EC conducted bilateral consultations with Canada under article XXIII:1 of GATT on this issue. In March 1985, the Council established a panel under article XXIII:2 at the request of the EC. The work of the panel has been postponed as the parties have been undertaking further consultations on the substantive issues.

South African complaint on Canadian (Ontario) sales tax.--The dispute between South Africa and Canada began in May 1983 when the Provincial government of Ontario exempted the Canadian Maple Leaf gold coin from the 7 percent Ontario retail sales tax, but did not exempt imported gold coins from the tax. 1/ At the request of South Africa, the Council established a panel under art. XXIII:2 in November 1984. The report of the panel was considered by the Council in September and again in November 1985. The report concluded that the Ontario retail sales tax was not consistent with the national treatment provisions of art. III:2 that require equal treatment of domestic and imported products and suggested that the CP's recommend to Canada that it ensure that the actions of the Ontario Province conform to those obligations. 2/

At the November Council meeting, Canada announced that it agreed with certain findings of the panel and therefore planned to reinstate the retail sales tax on the Canadian Maple Leaf. 3/ Thus, the differential treatment between the Canadian coin and other gold coins would be removed. However, the report has not yet been adopted due to objections by Canada and some other delegations to certain other rulings of the panel. For example, Canada agreed with the panel finding that the measure violated national treatment provisions of the GATT but not with the finding that the measure violated MFN principles since only the Canadian Maple Leaf, and no other gold coin, whether produced in Canada or any country abroad, were exempted from the tax.

Finnish complaint on New Zealand's duties against imports of electrical transformers.--In February 1983, New Zealand imposed provisional antidumping duties against exports of Finnish electrical transformers that Finland asserted were imposed improperly. The Finnish Government claimed that the provisions of article VI of the General Agreement had been violated. Article XXIII:1 consultations requested by Finland were terminated by June 1984, with no satisfactory solution having been reached. In September 1984, the Finnish Government requested panel settlement of the dispute. The panel report, adopted by the Council in July 1985, agreed with Finland's allegations insofar as New Zealand had not been able to demonstrate that a domestic industry had been materially injured by the imports. New Zealand implemented the report's recommendations even prior to the report's adoption by refunding the antidumping duties that had been paid.

1/ South Africa claimed that sales of the Kruggerand gold coins declined steadily after introduction of this measure. Extended negotiations between Canada and South Africa failed to yield results. Consequently, in July 1984, South Africa formally requested art. XXIII(1) consultations.

2/ General Agreement on Tariffs and Trade, GATT FOCUS, February-March 1986, pp. 1 and 2.

3/ Canada reported to the Council, on Feb. 12, 1985, that the Provincial tax measure had been rescinded although it still could not agree to adoption of the report. General Agreement on Tariffs and Trade, GATT FOCUS, February-March 1986, pp. 1 and 2.

Negotiation on modification of schedules (art. XXVIII)

Article XXVIII provides the mechanism by which a CP may modify or withdraw tariff concessions. The CP wishing to take this action must enter into negotiations not only with the party with which the concession was initially negotiated, but also with other parties with a principal supplying interest in the products concerned, and consult with other CP's that have a substantial interest. The article is based on the principle of compensatory adjustment in the tariffs on other products to maintain a balance of concessions. 1/ Its provisions are also used when a tariff item is generally adjusted or a product is reclassified for administrative reasons.

CP's wishing to take recourse to the provisions of article XXVIII must notify the GATT and submit a request to the Council for authorization to enter into negotiations. Only Japan and the EC notified the GATT of action under article XXVIII negotiations during 1985. In November 1985, Japan informed the Council that it planned to bring its leather import system into conformity with GATT rules by converting the leather import quotas to tariffs. 2/ Japan agreed to enter into negotiations under article XXVIII with interested parties on the new or increased tariff measures.

The EC notified the GATT of its intention to raise duties on video recorders and offer tariff reductions on other items in compensation. The EC plans to increase the duties on video recorders from 8 to 14 percent to replace a VRA with Japan that expired on December 31, 1985.

Negotiations on the adjustments to a country's GATT schedule, which will be necessary when it adopts the Harmonized System tariff nomenclature, will be conducted under this article. Several countries held bilateral discussions during 1985 in preparation for formal article XXVIII negotiations which were expected to begin in 1986.

Accessions to the GATT (arts. XXVI and XXXVIII) 3/

No new contracting parties acceded to the GATT in 1985, but some countries initiated the application process and other countries were expected

1/ Art. XXVIII states that "in such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products, the CP's concerned shall endeavor to maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than that provided for in this Agreement prior to such negotiations."

2/ See also discussion of the panel case of Japanese leather restrictions in the section entitled "Dispute settlement" earlier in this chapter.

3/ Art. XXVI states that "if any of the customs territories . . . possesses or acquires full autonomy in the conduct of its external relations . . . such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the fact, be deemed a contracting party." Nations not in this category must accede under the procedures of art. XXXVIII. Art. XXXVIII contains the normal procedures for accession under which the CP's may accept the accession of a new member by a two-thirds majority vote.

to apply in 1986. 1/ A Moroccan application for accession to the GATT was considered by the Council at its meeting on May 1, 1985. At its meeting in July 1985, the Council considered the application of Costa Rica for provisional accession to the GATT. In both cases, the Council agreed to establish a working party and authorized the Council chairman to begin consultations on selecting a chairman for the working parties. Neither country formally completed the process in 1985 and negotiations continued into 1986. The total number of CP's currently stands at 90. A full list of GATT membership (as of Dec. 31, 1985) is presented in the following tabulation:

Contracting Parties to the GATT (90, plus 1 Provisional accession)

Argentina	Ghana	Pakistan
Australia	Greece	Peru
Austria	Guyana	Philippines
Bangladesh	Haiti	Poland
Barbados	Hungary	Portugal
Belgium	Iceland	Romania
Belize	India	Rwanda
Benin	Indonesia	Senegal
Brazil	Ireland	Sierra Leone
Burma	Israel	Singapore
Burundi	Italy	South Africa
Cameroon	Ivory Coast	Spain
Canada	Jamaica	Sri Lanka
Central African Republic	Japan	Suriname
Chad	Kenya	Sweden
Chile	Korea, Republic of	Switzerland
Colombia	Kuwait	Tanzania
Congo	Luxembourg	Thailand
Cuba	Madagascar	Togo
Cyprus	Malawi	Trinidad and Tobago
Czechoslovakia	Malaysia	Tunisia 2/
Denmark	Maldives	Turkey
Dominican Republic	Malta	Uganda
Egypt	Mauritania	United Kingdom
Finland	Mauritius	United States of America
France	Netherlands	Upper Volta
Gabon	New Zealand	Uruguay
Gambia	Nicaragua	Yugoslavia
Germany, Federal	Niger	Zaire
Republic of	Nigeria	Zambia
	Norway	Zimbabwe

1/ Mexico initiated the process of applying for accession to the GATT in early 1986.

2/ Provisional accession.

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

Algeria	Guinea-Bissau	St. Vincent
Angola	Kampuchea	Sao Tome and
Antigua and Barbuda	Kiribati	Principe
Banamas	Lesotho	Seychelles
Bahrain	Mali	Solomon Islands
Botswana	Mozambique	Swaziland
Brunei	Papua New Guinea	Tonga
Darussalam	Qatar	Tuvalu
Cape Verde	St. Christopher	United Arab Emirates
Dominica	and Nevis	Yemen, People's
Equatorial Guinea	St. Lucia	Democratic
Fiji		Republic of
Grenada		

IMPLEMENTATION OF THE TOKYO ROUND AGREEMENTS

The following section describes the implementation and operation of the nine Tokyo Round agreements and arrangements (informally referred to as the Tokyo Round codes) during 1985, 1/ as carried out by their respective administrative committees or councils. 2/ Six of these agreements establish rules of conduct governing the use of NTM's and three are sectoral agreements covering trade in civil aircraft, bovine meat, and dairy products. GATT members are not required to join the codes, and not all have chosen to do so. For this reason, code signatories have assessed the record of operation of the agreements since their entry into force and focused on ways to improve their operation and encourage more GATT members to accede. The current status of participation in each of the agreements, as of yearend, is shown in table 2.

In July 1985, the GATT CP's, in an exercise of oversight of the codes, considered the report of a working group assigned in November 1984 to examine the adequacy and effectiveness of the codes and any potential obstacles to their acceptance.

Code on Subsidies and Countervailing Duties

The Code on Subsidies and Countervailing Duties, also referred to in short as the Subsidies Code, elaborates upon provisions of the General

1/ The Tokyo Round agreements entered into force on Jan. 1, 1980, except for those on government procurement and on customs valuation, which entered into force 1 year later. The Customs Valuation agreement, however, was implemented earlier (July 1, 1980) by the United States and the EC.

2/ The committees or councils, composed of the signatories of each code, are charged with overseeing implementation of code provisions and meet two or more times a year on a regular basis. Meetings also may be convened in special sessions to address a particular problem raised by a member. The committees address questions on interpretation of code provisions and code-related disputes among signatories.

Table 2.--Signatories to the Tokyo Round agreements:
Status as of Dec. 31, 1985

Countries	Standards	Gov't procurement	Subsidies	Bovine meats	Dairy products	Customs valuation	Import licensing	Civil aircraft	Anti-dumping
<u>Contracting parties:</u>									
Argentina-----	A1/			A	A	S1/	S		
Australia-----			A1/	A	A	A	A		A
Austria-----	A	A	A	A	5/	A	A	A	A
Belgium-----	A							A	
Belize-----				Prov.					
Brazil-----	A		A	A		A1/			A
Canada-----	A	A	A	A		A1/	A	A	A
Chile-----	A		A				A		
Colombia-----				A					
Czechoslovakia--	A1/					A	A		A
Denmark-----	A1/							A1/	
Egypt-----	A		A	A	S		A	S	A
EC 2/-----	A	A	A	A	A	A	A	A	A
Finland-----	A	A	A	A	A	A	A		A
France-----	A							A	
West Germany----	A1/							A1/	
Greece-----	S							S	
Hungary-----	A1/			A	A	A	A		A
India-----	A		A			A1/	A		A
Indonesia-----			A1/*						
Ireland-----	A							A	
Israel-----		A	A1/*						
Italy-----	A							A	
Japan-----	A	A	A	A	A	A	A	A	A
Korea-----	A		A			A1/			
Luxembourg-----	A							A	
Malawi-----						A1/			
Netherlands-----	A							A	
New Zealand-----	A		A1/	A	A	A1/	A		
Norway-----	A	A	A	A	A	A	A	A	A
Pakistan-----	A		A				A		A
Philippines-----	A		A1/*				A1/		
Poland-----				A	A				A
Portugal-----	A*		A1/			A			
Romania-----	A			A	A	A	A	A	A
Rwanda-----	S								
Singapore-----	A	A					A		A
South Africa-----				A	A	A	A		
Spain-----	A		A			A			A
Sweden-----	A	A	A	A	A	A	A	A	A
Switzerland-----	A	A	A	A	A	A	A	A	A
Turkey-----			A*						
Tunisia 3/-----	A			A					

See footnotes at end of table.

Table 2.--Signatories to the Tokyo Round agreements:
Status as of Dec. 31, 1985--Continued

Countries	Standards	Gov't Procurement	Subsidies	Bovine Meats	Dairy products	Customs Valuation	Import Licensing	Civil Aircraft	Anti-dumping
<u>Contracting parties--Con.</u>									
United Kingdom ^{4/}	A _{1/}	A _{1/}	A _{1/}	A _{1/}		A _{1/}	A _{1/}	A _{1/}	A _{1/}
United States---	A	A	A	A	5/	A	A	A	A
Uruguay-----			A	A	A				
Yugoslavia-----	A		S	A		A	A		A
<u>Non-contracting parties:</u>									
Botswana-----						A			
Bulgaria-----				A	A				
Guatemala-----				A _{1/}					
Paraguay-----				Prov.					
Total signatories:	36	12	22	26	18	24	24	20	22

A: Accepted; S: Signed (acceptance pending); '*': new membership in 1985

1/ Reservation, condition, and/or declaration.

2/ The EC is a signatory to all the agreements. Because the Standards agreement and the Civil Aircraft agreement cover matters that go beyond the authority of the EC, each of the EC member states is also a signatory to these agreements.

3/ Provisional accession to the GATT.

4/ Hong Kong is covered by the United Kingdom accessions in the Standards, Government procurement, Subsidies, Customs valuation, Import licensing, and Antidumping codes.

5/ Notification of withdrawal became effective Feb. 14, 1985, for the United States and June 9, 1985, for Austria.

Agreement concerning the use of subsidies and countervailing duties. 1/ It sets guidelines for resort to these measures and establishes agreed-upon rights and obligations to ensure that subsidy practices of one party to the agreement do not injure the trading interests of another party and that countervailing measures do not unjustifiably impede trade. 2/ During 1985, Turkey, Indonesia, the Philippines, and Israel acceded to the code bringing its membership to 26. 3/

1/ The formal title of the agreement is The Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT. For a description of the agreement, see the Operation of the Trade Agreements Program, 31st Report, 1979, USITC Publication 1121, December 1980, pp. 45 and 46.

2/ If one signatory's subsidized exports cause material injury to another signatory's domestic industry, the injured party may either impose countervailing duties to offset the margin of subsidy or request that the exporting country eliminate or limit the effect of the subsidy. The Code also allows a signatory to seek redress for cases in which another signatory's subsidized exports displace its exports in third-country markets.

3/ See table 2 for a full listing of this Code's membership.

Notification and review

Under the exercise in which signatories submit national countervailing duty laws for examination by the Committee, 18 of the 26 members have thus far presented their legislation. During 1985, the Committee examined the legislation of Canada, Israel, Indonesia, New Zealand, and the United States. Signatories are also required to submit semiannual reports on all countervailing duty actions. These reports were discussed by the Committee and members exchanged information on cases of particular interest.

Each year, the Committee on subsidies and countervailing measures reviews the national legislation, reports on countervailing duty actions, and notifications on subsidy programs submitted by signatories. In 1985, the Committee also considered guidelines submitted by its expert group on the calculation of the amount of a subsidy, discussed draft procedures on commitments policy, and held special meetings to address certain disputes among signatories. A summary of reports which cover countervailing duty actions taken in 1985 appears in table II-1, except for the report of the United States. 1/

Through Committee review of notifications, signatories can examine each others' subsidy programs and raise questions regarding consistency with the agreement. In December 1984, the Committee established an expert group to submit guidelines clarifying the procedures and requirements for notification of subsidies. 2/ By the end of 1985, the group had not yet completed a set of draft guidelines for consideration by the Committee. The Committee decided in April 1985 that annual sessions would be held on notification-related matters, but that detailed examination of notifications would be held only once every 3 years. 3/

Group of Experts on the calculation of a subsidy

During 1985, the Committee adopted two sets of draft guidelines drawn up by the Group of Experts charged with resolving signatories' differing interpretations on the calculation of the amount of a subsidy. The guidelines adopted covered amortization and depreciation and physical incorporation. Those on amortization and depreciation outline various measures for allocating, over time, the amount of subsidies such as loans and grants, whose effects extend over a period of years. Other topics still under review in the Group of Experts include, among other things, research and development assistance, criteria for distinguishing subsidies from other measures that have trade distorting effects, substitution drawback and de minimis subsidies.

1/ U.S. countervailing duty actions, compiled by the Commission, are discussed separately in ch. V and listed in table A-2.

2/ In 1984, disagreement surfaced as to precisely what subsidies have to be reported, whether only subsidies that do not conform to the Code should be notified, whether all subsidy programs should be notified, and what kinds of programs are considered subsidies under the code. For further elaboration see the Operation of the Trade Agreements Program, 36th Report, 1984, July 1985.

3/ GATT art. XVI:1 requires all GATT members to respond once every 3 years to a questionnaire regarding the host country's subsidy programs and to update these notifications in the intervening years.

Commitments policy

In March and April 1985, the Committee examined draft procedures for commitments under art. 14:5 of the Code. 1/ During 1984, a group of developing countries voiced concern that demands for stringent commitments under art. 14:5 to eliminate certain export subsidies ignore the code's provision for "special and differential treatment" of developing countries and impede their accession to the agreement. The concern focused, in particular, on the U.S. policy regarding application of this provision. Under this policy, the United States has declined to afford an injury test in countervailing duty cases to code signatories that did not make an acceptable commitment to discipline their use of trade-distorting export subsidy practices. The signatories were unable to agree upon the draft procedures arguing that they still did not address the basic problems at issue or adequately preserve their rights and obligations. As a result, the Committee requested the Chairman to continue consultations.

Dispute settlement 2/

In February 1985, the Committee established a panel to investigate the dispute concerning an EC complaint that certain provisions of the U.S. Trade and Tariff Act of 1984 contravened the Code. The complaint questioned the U.S. definition of industry for wine and grape products. 3/ Because of prolonged disagreement between the United States and the EC over the panel's terms of reference, the chairman finally decided the terms of reference at a Committee meeting in October 1985. Now the panel has begun to examine the issue.

Three unresolved dispute settlement cases that involve U.S. complaints on EC subsidies on pasta, wheat, and poultry sales remain stalled. In 1985, the Committee was still unable to adopt the panel reports on pasta and wheat flour submitted to it in March 1983. Inability to move on these reports is partly due to signatories' divergent positions on fundamental Code issues such as the

1/ Art. 14:5 of the Code stipulates that developing countries "should endeavor to enter into a commitment to reduce or eliminate export subsidies" when their use is "inconsistent with its competitive and development needs." For further background on the discussion of commitments, see Operation of the Trade Agreements Program, 36th Report, 1984, July 1985.

2/ A dispute may be brought for settlement under the Subsidies Code when the issues involved are covered by the Code and when parties to the dispute are Code signatories. Under Code dispute settlement procedures, a signatory whose exports are affected may request consultations with the exporting country. If consultations do not yield a mutually acceptable solution, conciliation by the code Committee is available. If conciliation also fails, the Committee may set up a panel and draw on the panel's findings to make recommendations to the disputing parties. Finally, if the Committee determines that its recommendations have not been implemented within a reasonable period of time, it may authorize the injured party to take countermeasures.

3/ Under this U.S. provision, grape growers are temporarily granted standing, as part of the wine-producing industry, to file petitions with the U.S. International Trade Commission alleging injury or threat of injury resulting from dumped or subsidized wine imports.

interpretation of article 10 and the application of article 9 of the code. 1/ The United States indirectly addressed the issue of pasta subsidies by raising the tariffs on certain pasta products in retaliation for EC blockage of adoption of the panel report on citrus preferences in July 1985. 2/

Consultations in the U.S. poultry case have been suspended since December 1984. The U.S. complaint alleged that EC and Brazilian export subsidies on poultry sales violate the agreement by displacing U.S. sales to third-country markets. The initial 1982 complaint was leveled at the EC only, but the EC alleged in early bilateral consultations that it subsidizes simply to meet subsidized competition with Brazilian poultry in third-country markets. As such, the EC claimed these subsidies conformed to the Code provisions. Subsequent U.S. consultations with Brazil and trilateral meetings held in 1984 yielded no progress.

Government Procurement Code

In 1985, the Government Procurement Code marked the fifth year of operation. 3/ The code opened new opportunities for trade by requiring governments to allow foreign firms to compete for Government contracts that meet specified criteria. 4/ 5/ It also established common and more

1/ These panel reports have not been officially released to the public. However, some details have been reported by the press. Apparently, EC export subsidies in pasta were found to be inconsistent with art. 9 of the agreement. Furthermore, the panel on wheat flour reportedly declined to determine if EC export subsidies on wheat flour violated arts. 8 and 10:1 of the agreement. Prior bilateral efforts to resolve these disputes failed, despite repeated attempts in 1981 and 1982. For a detailed discussion of wheat flour and pasta disputes, see Operation of the Trade Agreements Program, 34th Report, 1982, pp. 23-25.

2/ See the discussion of the EC citrus preferences sec. 301 case in the chap. V section of "Enforcement of Trade Agreements and Response to Unfair Foreign Practices."

3/ The signatories of the Agreement are listed in table 2.

4/ Most governments employ procurement practices that limit foreign competition. Art. III of the GATT specifically states that GATT rules restricting the use of internal regulations as barriers to trade do not apply to "procurements by governmental agencies of products purchased for government purposes." This exclusion allows GATT signatories to discriminate against foreign suppliers or products in buying products for their own use.

5/ Before the Code was adopted, many governments followed strict "buy national" purchasing policies, which often included outright bans on purchases of foreign products or gave substantial price preferences to domestic firms. Countries that sign the Agreement on Government Procurement agree not to discriminate against other signatories in procurements by specific government agencies (referred to as code-covered entities) that have a contract value over a threshold level of 150,000 special drawing rights (SDR's) or US\$156,000 in 1985. In the United States, parties to the agreement benefit from a waiver of all "Buy American" preferences in procurements by designated U.S. Government agencies. The 1933 Buy American Act normally requires procuring officials to give a 6 to 12 percent margin of preference to U.S. suppliers. Furthermore, U.S. procurement officials are generally prohibited from making purchases subject to the agreement from nonparties.

transparent procedures for providing information on proposed purchases, opening and awarding bids, and settling disputes.

The Committee on Government Procurement, which administers the Code, met five times in 1985. The main thrust of the Committee's work was on renegotiating the agreement, as required in article IX:6(b). The Committee also discussed problems in implementation and administrative matters.

Renegotiations

Article IX:6(b) provides that no later than 3 years after the Code enters into force, negotiations must be undertaken to broaden and improve the agreement. This provision was included because there were a number of issues, such as whether or not to include service and leasing contracts, that were unresolved when the agreement was originally concluded. The "renegotiation" provision was intended to keep discussion of those issues alive, while providing an opportunity to correct problems that were found once the Code was in operation. 1/ The renegotiations, formally launched at the Committee's November 1983 meeting, have three main aims: (1) improving the Code's operation; (2) exploring the possibility of applying the agreement to service and leasing contracts; and (3) broadening the Code, either by covering additional entities or by lowering the threshold level.

The discussions in 1985 focused on drafting language to improve the operation of the Code. At its February 1985 meeting, the Committee decided to establish an informal working group to thoroughly discuss and redraft proposals for improvements in the Code. Language that would lengthen bid deadlines, lower the threshold level, and put more restrictions on derogations from the Code were among the topics discussed by the working group. Other proposals would improve statistics and require publication of single-tendering procurement 2/ notices. During the four sessions that were conducted by the group, some consensus on improvements emerged. The working group held its final meeting on December 9 and 10, 1985, and reported its work to the full Committee on December 12. 3/

In its report, the group divided proposals under consideration into two categories: proposals that were clearly understood and fully discussed by the group, and proposals that will require more work. About two-thirds of the proposals were reported under the first category, indicating that they are ready for final negotiation. The remaining proposals, including proposals on options contracts, leasing, dispute settlement, and single tendering, will be the subject of continued discussion.

At the close of its December meeting, the Committee agreed that although discussion of the outstanding improvements proposals could continue as needed, this work would no longer take priority over the other phases of the

1/ For a more detailed treatment of these issues, see the Operation of the Trade Agreements Program, 35th Report, 1983, USITC Publication 1535, May 1984, pp. 90.

2/ Single-tendering procedures are noncompetitive. The Code's language makes clear that single tendering should be used only in rare circumstances.

3/ The group reported its work to the Committee on the condition that the report not prejudice the final position of any signatory and that any proposals could be reconsidered as needed.

renegotiations--entity expansion and inclusion of services and leasing. The committee adopted a mid-1986 target date for completion of all phases of the renegotiations.

Another important element of the renegotiations is examining whether government procurement of services should be opened to foreign suppliers. 1/ As a means of beginning work on this issue, the United States had proposed that each country prepare a pilot study on how its government currently handles contracts in different service sectors. In April 1984, signatories agreed to prepare initial pilot studies on two service sectors: insurance and architectural and consulting engineering. Five countries also agreed to prepare and exchange computer services studies. At their February 1985 meeting, signatories agreed to undertake two additional service sector pilot studies. Each party will prepare a study on management consulting services, while studies on freight forwarding services will be prepared by those countries desiring to do so.

Bringing services under the code took another step forward with discussion at the September 1985 meeting of the Secretariat's initial analysis of the pilot studies already submitted. At the meeting, the Committee agreed that they would need to examine several topics in greater detail: (1) whether it would be most appropriate to address services generally or to take a sectoral approach; (2) defining the service sector and different service industries, if appropriate; (3) identifying procurement practices that are unique to service contracts; (4) deciding whether the threshold for service contracts should be the same as for goods; (5) devising means to determine the country of origin for services; and, (6) assessing the impact on current and/or future government entities if service contracts are brought under the Code. The chairman concluded the discussion by noting that broad consensus for setting up an informal working group on services was evident.

In June, the Committee agreed to establish a working party on computer procurement, with the understanding that the group's work would not prejudice the broader services negotiation. The working party held its first meeting on September 27. The group was to examine current practices by signatories in the computer sector, including (1) special procurement regulations in the computer sector; (2) the treatment of software in evaluating code-covered contracts; and (3) the relevance of leasing practices and options contracts to computer procurement. The group adopted a report to the Committee at its third and final meeting, noting that the exchange of information had revealed problems in applying the Code's provisions to the computer sector.

Broadening the agreement to cover new entities is also being discussed in the renegotiations process. The United States is seeking to have entities in the telecommunications, power generation, and transportation sectors opened to competition. Some countries submitted entity request lists in 1984

1/ The agreement stipulates that, within 3 years of its entry into force, signatories will commence negotiations to expand the agreement to purchases that are not covered currently, and specifically mentions service contracts. At present, services are only covered by the agreement when they are incidental to the procurement of supplies and equipment, i.e., when the value of the service procured equals less than 50 percent of the total value of the combined procurement of the goods and services.

enumerating the foreign agencies they would like to see covered under the agreement. However, negotiations on expanding entity coverage did not go beyond the preliminary stage during 1985.

Problems in implementation

The French Government's decision to procure a sizable number of microcomputers under procedures that appeared to be inconsistent with obligations under the Code was the subject of heated discussion in 1985. In January 1985, the French Prime Minister announced a program to promote computer literacy in France, involving the installation of between 120,000 and 160,000 microcomputers in educational establishments by the end of the year. The Ministry procuring the computers, UGAP, is a Code-covered entity. However, the French Government decided to procure most of these computers under contracts that had been awarded to French firms in 1983 and 1984. All of the previously awarded contracts contained "options" for additional purchases in the following 5 years. None of the original contracts was awarded competitively, and one of the contracts awarded was for an amount considerably higher than the French Government notified to other parties. In 1985, the French Government did announce its intention to procure 3,000 of these computers competitively under the agreement. However, the announcement, made in April, allowed suppliers less than 15 days to respond. Article V:10 of the agreement requires parties to allow 30 days from publication of the notice for bid submission.

When numerous consultations between the United States and the French authorities failed to produce positive results, the United States raised the issue at the June 1985 meeting of the Committee on Government Procurement. The United States maintained that the French Government had made highly questionable use of options in contracts awarded for other purposes and suggested that all of the procurements had been conducted in a manner that was not consistent with the EC's obligations under the Agreement. (The party to the Agreement is the EC, not the Government of France.) Because U.S. suppliers were concerned that they would be completely locked out of contracts under this major French Government program, the United States requested the immediate formation of a dispute settlement panel.

The representative of the EC countered that the computer literacy program was not a new program but an acceleration of an existing program, and suggested that the Government of France had complied with the agreement. The EC representative argued that there had been no respondents to the first invitation published under open procedures in August 1983 to tender under this program. The French authorities then awarded the contracts to five French companies. Participation in the next tender had been limited and a contract had been awarded to a French firm. The contract allowed for the purchase of a maximum of 40,000 computers per year and was renewable annually for 5 years. The options in contracts awarded pursuant to these two announcements would allow the French Government to fulfill most of its needs for the computer literacy program, the EC representative acknowledged. Furthermore, because of budgetary restraints, future computer needs under the program would be met by leasing arrangements. Contracts for leased equipment are not currently open to foreign suppliers under the agreement.

The U.S. representative questioned the awarding and use of prior contracts to secure the computers, noting that requests for bids to supply between 10,000 and 30,000 computers annually had been published on January 13, 1984, under restricted procedures and with only 18 days bid time. As the EC representative had acknowledged, the contract actually awarded provided for the purchase of up to 40,000 computers per year. The agreement requires that each above threshold purchase be advertised with full opportunity for competition by signatories, and that contracts could include options only as long as the original tenders were evaluated on the basis of the stated options.

The representative of the EC asked the Committee to defer the establishment of a dispute settlement panel, pending bilateral consultations with the United States. Consultations between the United States and the EC took place on May 30 and June 6. Since it was apparent that the French Government had already procured the bulk of its needs under the program and had no intention of allowing foreign firms additional opportunities to compete, the United States suggested that a working party be formed to examine the numerous issues that had emerged in this case. Later in the month, the Committee agreed to establish a working party on computer procurement (discussed above).

Japan's extensive reliance on noncompetitive procedures for awarding government contracts was another implementation issue dealt with by the Committee in 1985. The United States requested formal consultations with Japan in November 1984 under the agreement's formal dispute settlement provisions regarding its frequent resort to single tendering. ^{1/} The two parties met three times in 1985 to discuss the U.S. complaint.

Another implementation issue dealt with by the Committee in 1985 was the EC's practice of netting out value-added taxes when deciding whether a contract falls below the threshold level. The United States had formally complained about the EC practice in 1982 and a panel of experts was formed in 1983 to investigate the matter. A panel report, concluding that the EC practice was not in conformity with agreement's requirements, was adopted by the Committee in May 1984. In June 1985, the EC offered to unilaterally reduce the threshold by one-half of the estimated average incidence of the value-added tax. In August, the U.S. rejected the EC offer. The United States maintains that if the EC chooses to lower its threshold level, it should do so by the full amount of the average incidence of the VAT.

The Government of Canada reiterated its concern about "Buy American" restrictions placed in 1985 on U.S. stockpile purchases by the General Services Administration. The U.S. representative indicated that the United States is sympathetic to Canadian concerns and noted that since this restriction is contained in U.S. legislation (Public Law 98-473), a change in law is required to remove it.

Administrative matters

At its December meeting, the Committee decided to refrain from applying the Code to Spain and Portugal, which became members of the EC on January 1, 1986, until acceptable entity lists are negotiated. Several countries also

^{1/} For a more detailed treatment of these issues, see Operation of the Trade Agreements Program, 36th Report, 1984, pp. 62 and 63. 75

offered compensation, after removing entities from coverage under the Code. 1/ The Japanese representative notified the Committee on May 2 of rectifications of a purely formal nature. 2/

Two countries also opened their government procurement further to foreign competition. The Government of Japan announced that effective October 1, 1985, it would apply the relevant provisions of the Code to 16 additional Japanese Government organizations. On November 20, 1985, the United States announced that, in an effort to expand opportunities for Caribbean exporters under the Caribbean Basin Economic Recovery Act (CBERA), most restrictions on U.S. Government procurement from those countries will be eliminated.

Standards Code

The Standards Code, formally known as the Agreement on Technical Barriers to Trade, entered into force on January 1, 1980. Its aim is to ensure that technical regulations and product standards 3/ do not create unnecessary obstacles to trade. 4/ The Committee on Technical Barriers to Trade, which administers the code, met three times in 1985 to discuss proposed improvements in the code, possible expansion of its coverage, and problems in implementation. The Committee also held a special meeting on May 9, 1985, to provide nonsignatories with an opportunity to comment on why they have not acceded to the code.

1/ At the June Committee meeting, Finland offered the National Board of Survey in compensation for its removal of the Government Fuel Center in 1984. As no objections were raised, the proposed compensation was accepted. The Swedish compensation offer of the Board of Customs and National Land Survey Agency to replace the National Industries Corporation became effective on May 2, 1985. At the June meeting of the Committee on Government Procurement, the Norwegian representative offered the National Railways in compensation for the withdrawal of the Central Government Purchasing Office from Code coverage. The modification became effective on July 19, 1985.

2/ Specifically, the representative of the government of Japan notified the Committee that the Administrative Management Agency had been renamed the Management Coordination Agency; that the Japan Tobacco and Salt Public Corp. had been privatized and renamed Japan Tobacco Inc., and that Nippon Telegraph and Telephone Public Corp. had been privatized and renamed Nippon Telegraph and Telephone Corp.

3/ Standards are specific, written descriptions of special characteristics or parameters of products; they establish quality, performance, safety, measurement, or other characteristics of products. Mandatory standards are those that must legally be met in order to sell the product. Voluntary standards are those that are not legally required.

4/ Signatory governments are required to ensure that technical regulations and standards are not prepared, adopted, or applied in such a way as to obstruct international trade. Whenever possible, standards are to be stated in terms of performance characteristics, rather than specific designs. The agreement also seeks to further open national standards setting procedures to foreigners by allowing interested foreign parties time to comment on proposed standards.

Three-year review

The Committee held its second 3-year review of the operation of the agreement in February 1985. The following proposals were discussed: the negotiation of an agreement that would lead to increased acceptance of test data generated by other parties; transparency in bilateral agreements between parties on standards, testing, and certification; ensuring compliance by regional standards bodies with the transparency provisions of the agreement; the possible extension to local government bodies of major obligations under the agreement; and the establishment of a code of good practice for nongovernmental standardizing bodies.

The United States submitted three proposals in the context of the 3-year review. The proposals concerned acceptance of foreign-generated test data, telecommunications interconnect equipment, and bilateral standards agreements and regional standardizing activities.

The United States is seeking to modify article 5:2 of the agreement in order to strengthen the Code's bias towards acceptance of foreign-generated test data. Specifically, the United States sought language that would require parties to accept foreign-generated test data and to grant so-called type approvals. Type approvals authorize the sale of all products of a particular type from a particular company. The greater uncertainty and higher costs associated with regulatory systems that issue approvals on a more provisional basis (e.g., a case-by-case or shipment-by-shipment basis) can pose a substantial barrier to trade, the United States believes. The Code currently encourages, but does not require, mutual acceptance of test results among parties. It does not contain provisions concerning type approval.

The second U.S. proposal is the "Working Draft Agreement on the Procedures to be Used for Approving Telecommunications Terminal Equipment." The U.S.-proposed agreement incorporates certain principles governing the testing and approval procedures for interconnect equipment. ^{1/} Every country regulates the types of products that can be sold in the interconnect market in order to protect the phone network from devices that might interfere with its operation. The draft agreement would ensure that signatories apply a slightly more ambitious set of nondiscriminatory standards and certification principles than those currently in the Standards Code when setting standards for interconnect equipment and ensuring conformity with them. In the draft, signatories would be required to accept test data generated in other parties and to grant type approvals for covered products.

The third U.S. proposal would require transparency in discussions between Code signatories that have resulted in an agreement on standards, testing, and certification. The United States proposed that parties be required to ensure that regional standardizing bodies of which they are members adopt transparency provisions consistent with their obligations as Code signatories. The U.S. proposal reflected growing concern about standards harmonization efforts within the EC.

^{1/} Interconnect equipment is equipment that can be purchased by individuals and attached to the telephone network, such as telephones, modems, and answering machines.

Problems in implementation

A Spanish regulation on medical equipment and heating apparatus was also dealt with by the Committee in 1985. Both the EC and the United States had complained in 1984 that Spain failed to formally apprise them of the new regulations and did not allow foreign comment before they were put into force. Furthermore, Spain applied the new rules in a discriminatory manner: Spanish producers were given a 1-year period to come into conformity with the new regulations, while foreign suppliers were required to comply with them immediately. After having several consultations with the EC on the problem, Spain agreed to provide the details of its regulations to the agreement signatories, to end discriminatory application of the regulations, and to make every effort to approve foreign-made equipment in an expeditious manner. As a result, the Committee suspended its investigation into the EC complaint at its September 1984 meeting, but agreed to monitor carefully Spain's implementation of its commitments. In February 1985, the United States suspended its formal dispute with Spain on the matter, in light of its issuance of an approval to a U.S. producer of electromedical equipment. However, the United States reserved its rights to reinstitute the complaint should Spain fail to expeditiously certify U.S.-made equipment.

The United States also held consultations with the EC about its new standards for triple super phosphate (TSP) fertilizer. The U.S. complaint centered on a new EC directive setting water solubility standards for TSP fertilizer. The directive was brought to the attention of the U.S. Government in a petition filed by the Fertilizer Institute under section 301 of the Trade Act of 1974. In the petition, the Institute claimed that the EC directive is inconsistent with the EC's obligations under the Agreement on Technical Barriers to Trade because it lacks scientific justification and effectively discriminates against U.S.-produced TSP (since currently available U.S.-made fertilizer does not meet the water solubility requirement). 1/ U.S. and EC representatives held consultations on the matter under article 14:1 of the agreement on December 6 and 7, 1984, and October 10 and 11, 1985. The main topics discussed during these consultations were (1) the scientific justification for the standard, (2) the trade effects of the standard, and (3) the applicability of the Standards Code to the U.S. complaint.

Agreement on Import Licensing Procedures

The Committee on Import Licensing held three meetings in 1985, the last one in October. At these meetings, the Committee continued to focus on the signatories' compliance with article 3(c) of the Agreement on Import Licensing Procedures (the agreement), which provides that import quotas must be made public. 2/ One party, which had already been charged in 1984 with

1/ The USTR accepted the petition and began an investigation of the matter on Oct. 1, 1984.

2/ The Agreement on Import Licensing Procedures entered into force on Jan. 1, 1980, committing signatory governments to simplify procedures importers must follow to obtain import licenses. Products traded internationally are sometimes subject to bureaucratic delays and additional cost as a result of cumbersome import-licensing systems. Such systems therefore act as barriers to international trade.

noncompliance before the period under review 1/ reported progress in making its quotas public. Although the Committee welcomed the announcement, several delegations commented that the party in question must continue to provide more information and should liberalize its licensing system to the greatest extent possible. This party is an important participant in world trade. It was decided at the October meeting that this problem would be addressed again in the future.

The Committee's work program had been the subject of informal consultations between the signatories during the year under review. Draft recommendations on various technical points were circulated at the 1985 October meeting. At the same meeting, the Committee carried out its third biennial review of the implementation and operation of the Code.

At the end of 1985, as at the end of 1984, the licensing agreement had 24 signatories. 2/

Customs Valuation Code

The Customs Valuation Code, formally titled the Agreement on Implementation of Article VII, establishes a uniform system of rules to determine the customs value for imported goods. 3/ The agreement provides detailed rules for determining the value of imported goods used as a basis for assessing ad valorem customs duties. The rules promote a fair, uniform, and neutral system of valuation and preclude the use of arbitrary or fictitious values. 4/ With greater uniformity of practices applied by signatories, exporters and importers are able to estimate more reliably how their goods will be valued by customs authorities. Portugal joined the agreement on October 14, 1985, bringing to 34 the total number of signatories. 5/

1/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 70.

2/ For a full listing of the signatories, see table 2.

3/ The Customs Valuation agreement entered into force internationally on Jan. 1, 1981, although the United States and the EC agreed to implement the agreement on July 1, 1980.

4/ The agreement establishes a primary method of valuation and a series of alternative methods to be applied in a prescribed sequence. First is the transaction value method, where the duty is levied on the price actually paid or payable for the goods with a limited number of adjustments. If the primary method is not feasible, using the transaction value of an "identical" good sold to the same importing country is the second alternative. The third method uses the transaction value of a "similar" good sold. If none of these methods are possible, other reasonable means consistent with the agreement may be used. A signatory to the agreement is permitted to determine customs value on either an f.o.b. (free on board) or c.i.f. (cost, insurance, and freight) basis. The United States uses f.o.b., while most other countries use c.i.f.

5/ See table 2 for a full listing of this Code's membership. Of these 34 members, some are currently applying the agreement while the remainder have delayed application under the provisions of art. 21:1 of the agreement. Those now applying the agreement include Australia, Austria, Botswana, Canada, Czechoslovakia, the EC, Finland, Hungary, Japan, New Zealand, Norway, Portugal, Romania, South Africa, Sweden, Switzerland, the United Kingdom for Hong Kong, the United States, and Yugoslavia.

During 1985, the Committee on Customs Valuation discussed various topics relating to the Code's operation. To promote transparency, the signatories must inform the Committee of changes in customs laws and regulations and in their administration. Technical assistance, to aid developing countries as they join and prepare for application of the agreement, continues to be a priority activity. During 1985, the Committee examined the national implementing legislation of Canada, Czechoslovakia, and Botswana.

In 1985, the Committee reviewed the status of the application of two decisions adopted last year; one on the treatment of interest charges and the other on valuation of computer software. 1/ The Committee reviewed the information made available to it by the parties. The Committee also reviewed information on preparations for implementation of the agreement by certain signatories scheduled to apply the agreement shortly. Argentina, Brazil, India, Korea, Malawi, and Spain had accepted the agreement under special provisions for delayed applications of its provisions (art. 21.1). In May 1986, Argentina requested an extension of its period of delay that was scheduled to end in 1986.

In April, the Committee held consultations on possible accession with observer countries. Twenty-one GATT contracting parties have observer status at meetings of the Committee. 2/

The Committee conducted its fifth annual review of the implementation and operation of the agreement at its November 1985 meeting. The signatories expressed a general satisfaction on their part with the implementation and operation of the agreement. They indicated that no substantial difficulties had been encountered in applying the agreement. The parties also agreed that, in general, the agreement had facilitated international trade and had improved uniformity in valuation practices.

1/ Under the Decision on the Treatment of Interest Charges in the Customs Value of Imported Goods, the signatories agreed that, "Charges for interest under a financing arrangement entered into by the buyer and relating to the purchase of imported goods shall not be regarded as part of the customs value provided that: (a) such goods are sold at the price declared as the price paid or payable for the goods; (b) the financing arrangement was made in writing; (c) where required, the buyer can demonstrate that such goods are sold at the price declared or the price actually paid or payable, and the claimed rate of interest does not exceed the level for such transactions prevailing in the country where, and at the time when, the financing was provided."

The Decision on the Valuation of Carrier Media Bearing Software for Data Processing Equipment provided that "For determining the customs value of imported carrier media bearing data or instructions, according to the decision and for those parties who adopt this practice, only the cost or value of the carrier medium itself shall be taken into account. The customs value shall not include the cost or value of the data or instructions, provided that it is distinguished from the cost or value of the carrier medium."

2/ These countries are Bangladesh, Chile, Colombia, Cuba, Egypt, Indonesia, Israel, Ivory Coast, Malaysia, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Poland, Singapore, Sri Lanka, Thailand, Trinidad and Tobago, Turkey, and Zaire.

During 1985, the Technical Committee reported to the Customs Valuation Committee that it had adopted texts on several issues. Among the texts adopted were case studies on restrictions and conditions in article 1, and on the treatment of proceeds under article 8:1, commentaries on the treatment of tie-in sales and on the meaning of the term "restrictions" in article 1:1(a)(iii), an advisory opinion on the meaning of the expression "sold for export", and an explanatory note on the relationship between subparts 4 and 5 of article 15.

Antidumping Code

The Antidumping Code 1/ prescribes the proper conduct for antidumping investigations and the imposition of antidumping duties based on provisions of the General Agreement. It sets guidelines for the use of these measures and related practices such as retroactive application of antidumping duties and price undertakings. 2/ The agreement also obligates developed countries to give special consideration to the developing countries before applying antidumping duties. As no new signatories joined the Code in 1985, twenty-two GATT members remain signatories to the Code. 3/

Committee activities

Regular activities of the Committee on Antidumping Practices include reviewing national antidumping legislation and antidumping actions reported by signatories. The Committee has charged an ad hoc group with drafting recommendations on the interpretation and implementation of various aspects of the code. The results of the group's work are then reviewed by the Committee. The Committee is also responsible for conciliation of formal disputes among signatories.

Notification and review

The Committee discusses questions raised by members regarding the consistency of national legislation with the Code's provisions and complaints by parties regarding antidumping actions taken against their exports. During 1984, the Committee reviewed the antidumping legislation of Austria, Canada, the EC, Poland, and the United States. Some points of interest were also discussed with regard to the legislation of other countries such as Australia and Japan.

1/ Formally called The Agreement on Implementation of Article VI of the GATT, the agreement was negotiated during the Tokyo Round in 1973-79 as a replacement to the original Antidumping Agreement. The renegotiation was conducted to bring certain provisions, especially those concerning determination of injury, price undertakings, and the collection of antidumping duties, into line with similar provisions in the Agreement on Subsidies and Countervailing Duties also concluded in the Tokyo Round.

2/ In price undertakings, the exporter volunteers ". . .to revise its prices or to cease. . . [dumping] . . . so that the authorities are satisfied that the injurious effect of the dumping is eliminated."

3/ See table 2 for a full listing of this Code's membership.

Parties to the agreement report antidumping actions to the Committee on a semiannual basis. Antidumping actions reported by signatories in 1984, except those of the United States, are contained in table II-2. Actions undertaken by the United States are listed separately, in table A-1.

Ad hoc group on implementation of the Code

At the end of 1984, the Expert Group reached a consensus on forwarding two papers containing draft recommendations to the Committee. 1/ One paper discussed the definition of input dumping 2/ and the other elaborated on factors to be considered in determining threat of injury. During 1985, the Committee adopted the recommendations on threat of material injury. Consensus was not reached on the input dumping recommendations. Papers on other issues, such as definition of sale, constructed value, cumulation of injury, and price undertakings are still under negotiation in the ad hoc group.

Dispute settlement

In March 1984, the EC requested the Committee to conciliate its dispute with Canada on an antidumping investigation conducted by Canada against sales of electric generators from Italy. Since the Committee considered that the assistance of the ad hoc group would be useful, particularly in examining the Code's definition of a sale, conciliation was postponed. Conciliation was not resumed in 1985 since the Expert Group paper defining sales was not completed.

In November 1984, the EC raised the issue of the definition of industry for wine and grape products contained in the U.S. Trade and Tariff Act of 1984. 3/ According to the EC position, the U.S. law was not in line with the Code's definition of industry. The EC formally requested that consultations with the United States be held as soon as possible. Some parties to the agreement supported the EC contention, observing that the U.S. definition set a dangerous precedent. Consultations continued without resolution into 1985.

Agreement on Trade in Civil Aircraft

The Agreement on Trade in Civil Aircraft provides for duty-free treatment of identified civil aircraft, civil aircraft engines, and civil aircraft parts. These are enumerated in three lists in the annex to the agreement: The Customs Cooperation Council Nomenclature (CCCN) list, the Tariff Schedules of the United States (TSUS) list, and the Canadian Tariff Schedule list. The agreement also provides for the elimination of all non-tariff measures. No

1/ During 1984, the Committee adopted a paper, drawn up by the ad hoc group, entitled "Best Information Available in Terms of Article 6:8," addressed the use of "best information available" during an investigation and recommended procedures signatories should follow prior to using such information.

2/ Input dumping refers to exports of a product, whether or not itself dumped, that contain inputs purchased internationally or domestically at dumped prices.

3/ The EC has also raised this issue in the agreement on subsidies and countervailing duties.

new members acceded to the agreement in 1985, although, with their accession to the EC on January 1, 1986, Spain and Portugal became subject to the agreement. 1/

The agreement to expand the annex to 32 new categories of aircraft products (expressed in terms of CCCN) subject to duty-free treatment entered into force on January 1, 1985. However, the U.S. Government did not implement the expanded annex until April 29, 1985. Legislation passed in October 1984 required the U.S. Government to condition its implementation of the expanded annex to the agreement on the granting of comparable duty-free coverage by all other signatories. Romania's delayed decision to implement the expanded coverage precluded implementation by the United States on January 1, 1985. However, when Romania implemented the expanded annex on April 25, 1985, the U.S. Government followed suit on April 29.

The full Committee met in April and October to continue work on the transposition of the annex of the agreement into the Harmonized System nomenclature as well as the methods of incorporating aircraft concessions expressed in the Harmonized System in GATT schedules and national tariffs. The Committee received several progress reports from the Technical Subcommittee, which will submit a final report in early 1986 to be considered by the full Committee at its April 1986 meeting. Substantial progress was reported in 1985 in transposing the annex to the agreement into the Harmonized System.

International Dairy Arrangement

The primary objectives of the GATT International Dairy Arrangement (IDA) are to expand and liberalize world trade in dairy products by improving international cooperation. Activities under the arrangement, which also includes protocols on certain milk powders, milk fat (including butter), and certain cheeses, are coordinated by the International Dairy Products Council. During 1985, the United States and Austria withdrew from the agreement. 2/ As a result, 16 signatories (including the EC representing its member states) constituted the total membership of the arrangement at the end of 1985. 3/

In May 1985, the Council adopted decisions to lower the minimum export prices for some products, effective June 5, 1985. The minimum export price for whole milk powder was reduced to US\$830 per ton from the previous level of US\$950 per ton. The minimum export price for anhydrous milk fat was lowered to US\$1,200 per ton from US\$1,440 per ton and that for butter was lowered to US\$1,000 per ton, down from US\$1,200 per ton.

During 1985, as is required annually, the Council evaluated world market conditions for dairy products and reviewed the functioning of the

1/ For further details on membership of the agreement, see table 2.

2/ The U.S. withdrawal from the IDA became effective Feb. 14, 1985. For information on the 1984 debate leading to the U.S. withdrawal, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 72.

3/ See table 2 for a full list of members.

agreement. 1/ To accomplish this task, the Council normally considers such items as national policies, food aid, data regarding products, and reports of the Committees that oversee the three protocols. This year, for example, a communication from Australia was considered regarding problems in observing minimum price provisions on tenders using quotations in currencies other than U.S. dollars. In examining the issue, the protocol Committees reported to the Council that, because of unforeseen exchange rate fluctuations against the dollar, an offer price quoted in other currencies could result in a selling price lower than the minimum. Members agreed to keep the protocol Committees informed regarding the details of these types of transactions.

Arrangement Regarding Bovine Meat

The Arrangement Regarding Bovine Meat (the arrangement) promotes international cooperation towards expansion, liberalization, and stabilization of trade in meat and livestock. No new members joined the agreement in 1985, thus the agreement maintains 26 signatories. 2/ The signatories include all major beef exporting and importing countries, except the Soviet Union. Under the arrangement, the signatories collect and distribute data on production and trade. They also consult on market conditions and discuss problems raised by members.

During 1985, the International Meat Council (IMC), which administers the agreement, considered draft proposals of the working party that was set up in June 1984 to consider complaints by some members of what they considered a serious imbalance or threat of one in the international meat market and to identify possible remedies to the situation. 3/ The IMC did not, however, consider the draft proposals mutually acceptable to its members, due to a lack of a common assessment of the situation and factors influencing meat trade. Nevertheless, discussion of the proposals will continue.

1/ Minimum prices are subject to annual review. However, the most recent increase was authorized in 1980 when prices were raised slightly to the following levels per metric ton: skimmed milk powder--US\$500; whole milk powder--US\$800; butter--US\$1000; anhydrous milk fat--US\$1,200; and certain cheeses--US\$900.

2/ See table 2 for a full listing of Code members.

3/ Late in 1983, several members of the arrangement expressed concern about the current and future conditions of the international bovine meat market. Such concerns led Argentina to request a special meeting of the IMC in early 1984. The meeting addressed claims by Argentina, New Zealand, and Uruguay that EC subsidies on bovine beef exports had boosted the EC's market share and helped it become a major world supplier. The countries asserted that the subsidies, contrary to art. I of the arrangement, were destabilizing international market conditions and hurting LDC's of bovine meat products. Some members of the arrangement complained that, in addition to competing against the EC subsidies, they face limited access to the EC market. Better access to the EC market was termed vital to expansion of world trade in bovine meat.

CHAPTER III

TRADE ACTIVITIES OUTSIDE THE GATT

INTRODUCTION

Although the GATT provides the broad international framework for conducting international trade, several other organizations also deal with international trade issues, notably the OECD and the UNCTAD. The OECD and the UNCTAD provide forums for consultation and policy coordination on issues including, but not limited to, trade. They cover a wider range of subjects than the GATT, but they do not aim for the same degree of specific international obligation required of GATT members. Nevertheless, the work of these organizations often complements the work done in the GATT. Other bodies such as the Customs Cooperation Council (CCC) and the international commodity organizations cover a narrower purview than the GATT, but provide a basis for coordinating and regulating certain specific aspects of international trade.

This chapter discusses U.S. participation in the OECD, the UNCTAD, the CCC, and international commodity organizations. It also covers the U.S. bilateral investment treaty program, the implementation of the U.S.-Israel Free-Trade Area Agreement, and progress on trade agreements in the services sector.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The OECD is essentially a forum for consultation to facilitate policy coordination on a broad range of international and economic issues. 1/ The objectives of the organization are to (1) promote financial stability and economic growth of members, (2) promote sound economic development of nonmembers, and (3) expand world trade on a multilateral, nondiscriminatory basis. Its decisions are not binding on individual members. This section is limited to the organization's trade-related initiatives.

In 1985, OECD ministers met for the annual Ministerial Council meeting on April 11 and 12. 2/ While recognizing the improvement in general economic conditions over the past 2 years, they cited four major problems requiring action to reinforce prospects for a durable recovery: (1) high unemployment, particularly in Europe; (2) the uncertainty of the international financial and monetary situation; (3) pressures for protectionism; and (4) continuing

1/ Current 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 EC and Yugoslavia, under special status, also take part in activities of the organization.

2/ The Council, the top executive body of the OECD, meets once annually at the Ministerial level as well as several times annually at the Permanent Representative level. The purpose of the Ministerial-level meeting is to formulate a consensus on policy goals and directions.

problems of the developing countries. To address these problems, participants emphasized that all OECD members need to resist protectionist pressures; control government spending and decrease budget deficits, when appropriate; reduce structural rigidities that impede employment growth; and reduce imbalances in international trade in goods and services. The ministers agreed that economic policies that promote durable, noninflationary growth and structural adaptation should contribute to the exchange rate stability; however, coordinated intervention could be useful to counter disorderly exchange markets. The United States, in particular, was requested to consider measures to reduce its large budget deficit and to resist protectionist pressures resulting from the strong dollar. Japan agreed to continue to deregulate its financial markets, promote foreign investment in Japan and Japanese investment abroad, facilitate access to its markets, and promote imports.

Efforts to strengthen the multilateral trading system resulted most notably in an endorsement of a new round of multilateral trade negotiations. Also on the trade front, the participants stressed the importance of making further tangible progress towards trade liberalization by asking members to submit proposals on trade restrictions that could be phased out over a fixed period of time. Several specific trade issues were also addressed including the need to increase trade possibilities for developing countries, ease tensions in agricultural trade, and liberalize trade in services and high-technology goods.

Agricultural Trade

In 1985, large surpluses of agricultural products on world markets continued to cause serious tensions in the field of agricultural trade. Participants in the Ministerial Council meeting stated that "determined efforts will continue to be made to identify and implement urgently the indispensable adjustments in agricultural policies, and trade and financing practices, which are required to reduce these tensions." 1/

The Committee for Agriculture, in its annual outlook for agricultural policies and markets, also stressed that structural over supply relative to commercial demand continues to increase. Although policies have been introduced to contain production of some commodities in some countries, the Committee reported that the imbalances have become more global in the sense that all member countries and all major farm products are experiencing difficulties related to over supply. The Committee forecasted little change in the overall situation, because a variety of factors (technological progress, agricultural price support policies, monetary factors, and slack commercial demand) contribute to the imbalances. The Committee recommended increasing international coordination to implement policies that are compatible with other countries' policies, to make a serious and long-lasting effort at agricultural adjustment, and to prevent increased protectionism and conflicts over agricultural trade.

1/ Communique of the OECD Ministerial meeting held in Paris on Apr. 11 and 12, 1985, OECD Press Release, Apr. 12, 1985.

In 1985, progress continued on the three-part work program on international agricultural trade mandated in 1982. Under part I of the work program, a multiproduct economic model was set up to examine possible methods for, and the effects of, "a balanced and gradual reduction of protection" in various agricultural commodities. Three or four scenarios have been used to test the model. Studies on seven countries were submitted under part II of the mandate, which examines the impact of national policies on agricultural trade. 1/ A progress report on parts I and II of the mandate will be submitted to the 1986 Ministerial Council meeting. Part III will synthesize the conclusions from parts I and II to yield a final report suggesting methods for improving world market performance. This part of the work program should be completed by November 1986.

In 1985, OECD published a study examining the problems of trade in fishery products. 2/ The report analyzes the problems arising from the 1977 decision by most coastal nations to extend their exclusive zones for fishing from about 10 miles to 200 miles. Since approximately 95 percent of world fish supplies come from these 200-mile zones, the large redistribution of fishing resources has upset established trade patterns. The report suggests that better management should raise fish supplies, but greater supplies may in turn increase competition and pressure governments to intervene with further financial assistance or protectionist measures. Trade liberalization will be necessary to abolish distortions or obstacles to trade, including those arising from measures introduced to ease adjustment of production.

Export Credit Arrangements

The Arrangement on Guidelines for Officially Supported Export Credits

The Arrangement on Guidelines for Officially Supported Export Credits (the export credit arrangement) was designed to regulate government-supported subsidies on export credits in order to ensure fair competition for credit terms. 3/ The OECD arrangement sets minimum interest rates for countries that subsidize their export credits. Every 6 months (in January and July), the OECD rates adjust automatically to the market rate of interest. 4/ Table 3 shows the interest rate schedule adopted on January 15, 1986. At this time, the rates adjusted downward by 1.05 percentage points, the third such adjustment under the automatic mechanism. The minimum rates were first adjusted upwards on July 15, 1984, and then downwards on January 15, 1985.

The arrangement also contains rules governing length of credit, downpayments, and mixed credits. Changes in the guidelines on mixed credits

1/ Country reviews are being conducted under part II for the United States, the EC, Austria, New Zealand, Japan, Canada, and Australia.

2/ OECD, "Problems of Trade in Fishery Products," 1985.

3/ This type of export subsidy offers direct loans by government institutions to foreign buyers at below commercial interest rates. For a more complete discussion of the purpose and history of the arrangement, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 77 and 78.

4/ For a more complete discussion of the automatic adjustment mechanism, see the Operation of the Trade Agreements Program, 35th Report, 1983, p. 119.

continued to be a major U.S. objective in 1985. Mixed credits are designed to lower the interest rate on a financing package for foreign buyers by combining commercial credits with scarce foreign assistance funds. According to the

Table 3.--Minimum interest rate guidelines set on Jan. 15, 1986, for officially supported export credits, by repayment periods 1/

Country type <u>2/</u>	2 to 5 years		Over 5 years	
	Present	Former	Present	Former
Relatively rich-----	10.95	(12.00)	11.20	(12.25)
Intermediate-----	9.65	(10.70)	10.15	(11.20)
Relatively poor <u>3/</u> -----	8.80	(9.85)	8.80	(9.85)

1/ The rates adopted in January 1985 (which were subject to adjustment but remained unchanged in July 1985) are shown in parentheses.

2/ Relatively rich countries are defined as having per capita GNP over \$4,000; intermediate, per capita GNP between \$681 and \$4,000; and relatively poor, per capita GNP below \$681.

3/ Countries in this category are eligible for financing from the International Development Association.

Source: OECD Press Release.

Reagan administration, the increasing use of mixed credits by other developed countries has caused U.S. firms to lose key export sales and has diverted funds away from development assistance. In order to discourage the use of subsidized credits, the U.S. Government advocates raising the minimum allowable level of aid in a mixed-credit package from 20 percent to 50 percent, thereby making them prohibitively expensive. At the annual Ministerial Council meeting, OECD members agreed to raise the percentage from 20 percent to 25 percent, but this compromise fell far short of the U.S. objective. As a result, President Reagan proposed establishing a "war chest" to counter foreign use of mixed-credit financing. In a major trade policy initiative announced on September 23, 1/ the administration asked for \$300 million in grant funds. Although the program's leading objective is to provide leverage in international negotiations, it is expected to stimulate up to \$1 billion in U.S. exports, primarily in the high-technology goods sector. By yearend 1985, Congress had not approved the request.

Sectoral arrangements on export credits

Several export sectors, including nuclear power equipment, commercial aircraft, and agricultural products, are not covered by the 1983 arrangement. In August 1984, agreement was reached establishing guidelines for credits on

1/ For a more detailed discussion of the September 23 trade initiative, see ch. I.

exports of nuclear power equipment. 1/ Negotiations toward a sectoral arrangement on aircraft began in 1984 and continued throughout 1985. While progress was made limiting interest rates on loans backing international sales of larger aircraft, technical difficulties relating to rules on smaller aircraft and helicopters still remain. 2/ Negotiations relating to agricultural projects have been delayed until the scheduling of a new round of multilateral trade negotiations.

High-Technology Trade

The Committee for Scientific and Technological Policy (CSTP), jointly with the Industry Committee and Trade Committee, continued to study problems related to high-technology trade. In 1982, OECD ministers agreed to identify specific problems that affect trade in high-technology products and examine possible solutions. 3/ In response to this mandate, a Joint Bureau of the CSTP and the Industry Committee prepared six sector studies that identified the trade problems specific to each sector. The Trade Committee was then requested to analyze these issues and examine the adequacy of existing trading rules in addressing them. In 1985, the Trade Committee agreed that the exercise would continue as an informal exchange of information, rather than with the intention of creating new sectoral agreements or codes. Of the problem areas identified in the sector studies, two major issues were selected to be discussed: market access, of particular interest to the United States; and access to technology, an EC proposal. The Trade Committee also agreed that the exchange of information would center on two specific sectors--telecommunications and biotechnology. By limiting the sectors to be discussed, more substantive discussions are expected to result, possibly leading to a better defined work program in the future.

Work on biotechnology, in progress since 1982, continued to be a focus of CSTP activities in 1985. In 1982, the OECD published its first report on biotechnology. 4/ In 1985, the first of four followup studies was completed: Biotechnology and Patent Protection. 5/ This study reviews patent laws and their applications as they relate to biotechnology, and recommends steps towards international harmonization of patent law. The report notes that national laws on patent protection of biotechnology vary enormously and foster

1/ For a discussion of this agreement, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 79.

2/ Agreement on a Sector Understanding on Export Credits for Civil Aircraft was reached ad referendum in January 1986, and is expected to enter into force on Mar. 10, 1986. The agreement covers the sale of all new civil aircraft, from large commercial aircraft to business planes and helicopters. It sets credit terms and conditions (5 to 12 years) and prohibits the use of mixed credits in aircraft financing.

3/ For a more complete discussion of the high-technology trade initiative, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 79.

4/ Bull, Alan T., Geoffrey Holt, and Malcolm D. Lilly, Biotechnology: International Trends and Perspectives, OECD, Paris, 1982.

5/ Future reports will examine safety and regulations in biotechnology, government policies and priorities in biotechnology R&D, and long-term economic impacts of biotechnology.

investment flows to those countries with the strongest and most effective protection--in particular, the United States and Japan. Even so, the report explains that "even the best national protection that may be available for biotechnological inventions in some countries is not satisfactory as long as substantially lower standards are applied in other countries." Given the international dimensions of biotechnology activities, and the ease in which microorganisms can be transported, reliable legal protection is needed on an international scale.

In December, the working group preparing the second followup study on safety and regulations in biotechnology agreed on draft guidelines to coordinate the regulation of biotechnology. Once countries have approved the guidelines, they will use them to develop their individual regulations, codes, or practices. By avoiding significantly different regulatory standards among countries, development and market costs can be kept to a minimum and countries will have less opportunity to block imports through individual regulatory policies. The guidelines are expected to encourage increased U.S. exports of pharmaceuticals and chemicals.

Protectionism and Structural Adjustment

In 1985, OECD completed an important study examining the costs and benefits of trade and trade-related measures. ^{1/} The study, mandated at the 1982 Ministerial Council meeting, primarily focuses on import restrictions in OECD countries affecting manufactures. It concludes that "protectionism has yielded few benefits but imposed substantial costs." Key findings of the report are that: (1) protection has raised the average consumer price of protected goods by as much as 10 percent, particularly affecting low-income households, (2) protection is an inefficient method for maintaining employment, (3) uncertainty about future trade regimes has inhibited growth and investment, (4) protectionist measures impose specific costs on developing countries by affecting their ability to expand export earnings and cope with indebtedness, (5) industries do not in general use the "breathing space" provided by the protection to restructure, and (6) discriminatory restrictions have had only "a relatively limited impact" on overall import volumes because of trade diversion. The report also stresses that policy objectives frequently are not met because protectionist measures have such a complex and pervasive effect throughout the economy. Although the return to "normal trading conditions" is the best solution, the study maintains, certain assistance policies can improve the functioning of market economies. The study recommends that governments choose among alternative policies only after careful assessment of their costs and benefits--not only from a narrow budgetary point of view but also in terms of the economy as a whole.

OECD ministers welcomed the report at their annual meeting in April, when they reaffirmed their commitment to the open multilateral trading system. In an effort to make further progress in dismantling trade restrictions, the Ministers asked member countries to submit proposals on all trade measures that could be phased out over a fixed period. A checklist was distributed to aid members in systematically evaluating the effectiveness and the impact of new and existing trade measures. The results will be presented at the Ministerial Council meeting in 1986.

^{1/} OECD, "Costs and Benefits of Protection," 1985.

CUSTOMS COOPERATION COUNCIL

Initially, the CCC was established in 1953 to promote common customs procedures mainly among European countries. Its membership now includes most major trading nations of the world, including the United States (as of Nov. 5, 1970). The CCC and its subsidiary committees are involved in the harmonization and simplification of the technical aspects of customs procedures in order to facilitate trade. The major goals of the CCC in recent years have been to develop the Harmonized Commodity Description and Coding System (Harmonized System) and to promote and oversee its implementation by CCC members. The CCC has also analyzed differences in customs regulations and documents among members, particularly rules of origin, with a view toward eventual standardization. In these areas, the CCC works not only with its member governments but also with interested international organizations and other parties.

During 1985, the Nomenclature Committee and the Interim Harmonized System Committee of the CCC met in joint sessions to complete a revised draft of the Explanatory Notes for the Harmonized System. Under an ambitious schedule, national governments that will adopt the Harmonized System plan to complete all preparatory work in time to permit its implementation on January 1, 1988. Accordingly, interested CCC members are engaged in updating and reviewing the draft of the converted tariff schedules and making all needed legislative and administrative changes necessary for the entry into force of the Harmonized System.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD was created as an organ of the United Nations General Assembly, in December 1964, for the purpose of promoting international trade, especially with a view to accelerating economic development of LDC's. Since its inception, UNCTAD's role has been largely limited to exchanges of views on trade and aid problems among countries that are at different stages of economic development and have different economic systems. 1/ The Trade and Development Board (TDB), UNCTAD's governing body, is located in Geneva and oversees UNCTAD's functions when the conference is not in session. 2/ The TDB holds two or more regular sessions per year and an occasional special session. In 1985, the TDB met for its 30th and 31st sessions in March and September, respectively, and met for its 14th special session in June. UNCTAD's conferences are held every 3 or 4 years. Its sixth conference (UNCTAD VI) was held in Belgrade in June 1983. UNCTAD VII will be held in 1987. The sections that follow discuss those trade-related topics that have been the focus of ongoing work since UNCTAD VI.

1/ UNCTAD's membership is open to all countries that are members of the United Nations or of any of the agencies related to the organization.

2/ The TDB implements conference decisions, initiates research studies on trade and related development problems, and carries out preparatory work for the conferences. Seven committees aid the TDB with its work: the Committees on (1) Commodities, (2) Manufactures, (3) Invisibles and Financing Related to Trade, (4) Shipping, (5) Preferences, (6) Transfer of Technology, and (7) Economic Cooperation Among Developing Countries. These committees meet every 2 years.

The Integrated Program for Commodities and the Common Fund

The integrated commodity program proposed by developing countries and unanimously adopted at UNCTAD's fourth session in 1976 calls for a series of commodity-pricing agreements within a general framework and a common fund to be used primarily for buffer stock financing. 1/ The purpose of the Integrated Program for Commodities (IPC) is to "expand and diversify the trade of developing countries, improve and diversify their productive capacity, and improve their productivity and increase their export earnings" 2/ Eighteen commodities were initially identified for IPC action. To date, agreements covering natural rubber, jute, and tropical timber have been concluded within the framework of the IPC. 3/

In December, the Committee on Commodities requested that the UNCTAD Secretariat consult with interested producing and consuming countries of commodities not covered by international commodity agreements to determine whether there is a need to take further international action. The Committee also continued to examine the success of the international commodity agreements negotiated within UNCTAD in attaining the objectives of the IPC. In 1985, the UNCTAD Secretariat prepared a document to aid the Committee in its examination. 4/ Those major objectives of international commodity agreements that correspond with the objectives of the IPC were reviewed: (1) price stabilization; (2) long-term commodity development; and (3) stability of commodity export earnings and growth. The report noted that success in attaining the first objective was mixed; that little action had been taken in meeting the second objective; and the third objective had met with only limited success. The Committee agreed upon guidelines to follow during future negotiations or renegotiations of commodity agreements.

In addition, the Committee continued to work towards establishing a framework of international cooperation, within the overall context of the IPC, aimed at expanding developing countries' participation in the processing, marketing, and distribution, including transportation, of their export commodities. No conclusions were reached in 1985 regarding how to aid developing countries in these activities.

In 1980, the Common Fund for Commodities was conceived by developing countries as a mechanism with one account to finance international buffer stock operations and another to provide concessional loans or grants to

1/ Most international commodity agreements use buffer stocks as their price-controlling mechanism. As commodity prices fall to some predetermined level, the buffer stock manager begins buying to halt the price decline and build up stocks. Conversely, when prices rise to some predetermined level, the manager begins selling to restrain increases in market prices.

2/ Proceedings of the United Nations Conference on Trade and Development, vol. 1, Report and Annexes, p. 7.

3/ In addition to the agreements on natural rubber, jute, and tropical timber negotiated within the IPC framework, there are international commodity agreements covering coffee, sugar, wheat, cocoa, and tin. For a discussion of U.S. participation in all international commodity agreements, see the sec. that follows, entitled "Negotiation and Operation of International Commodity Agreements."

4/ Committee on Commodities, Third Special Session, UNCTAD, "The role of international commodity agreements or arrangements in attaining the objectives of the integrated program for commodities," TD/B/C.1/270, Apr. 3, 1985.

developing country producers for such activities as productivity improvements, research, market promotion, and vertical diversification. A third account within the Fund was proposed in 1985 by the Expert Group on the Compensatory Financing of Export Earnings Shortfalls. The purpose of this compensatory financing facility would be to even out the earnings developing countries obtain from their export commodities. Although one of the objectives of the IPC is to stabilize the earnings from commodity exports, the main emphasis has been placed on achieving price stabilization, which, even when effective, does not guarantee stable export earnings.

For the Fund to enter into force, 90 countries must ratify it and they must account for at least two-thirds of the Fund's directly contributed capital of US\$470 million. By January 1986, 91 nations had ratified the agreement, but the Fund has not entered into force since these nations account for only about 58 percent of the directly contributed capital of the Fund. The United States has declined to participate in the Fund because of doubts about its ability to fulfill the role envisaged for it.

Protectionism and Structural Adjustment

Resolution 159(VI), adopted at UNCTAD's sixth session in 1983, called upon the TDB to undertake an annual review of the problems of protectionism and structural adjustment; to formulate appropriate recommendations concerning protectionism; to review and monitor trade developments; and, when appropriate, make general policy recommendations concerning structural adjustment. In addition, a new work program mandated by the 28th TDB session in March 1984, invited governments to provide information on factors relevant to the issues of protectionism and structural adjustment in the course of the annual review. 1/

The first annual review of the work program on protectionism and structural adjustment was undertaken at the 30th session of the TDB in March 1985. Over 20 countries responded to the request for information on this topic. To assist the TDB, the Secretariat also submitted a document on the problems of protectionism and structural adjustment, containing information on restrictions to trade and structural adjustment and trends in production and trade in all sectors. 2/ The report concluded that there has been no overall progress towards reversing protectionist trends and that imports from developing countries are subject to more nontariff measures than developed countries' imports. The report noted that the UNCTAD Data Base on Trade Measures is being developed to provide a record on international trading conditions in response to the desire for transparency concerning policies and practices. 3/ The report also noted that an analysis utilizing the UNCTAD

1/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 85, for a discussion of this new work program.

2/ United Nations Conference on Trade and Development, "Problems of protectionism and structural adjustment" - "Part I: Restrictions to trade and structural adjustment" - "Part II: Trends in production and trade in all sectors and their underlying factors," Geneva, Jan. 28, 1985.

3/ The UNCTAD Data Base on Trade Measures consists of data on nontariff barriers to imports in developed, developing, and centrally planned countries. A decision adopted at the 30th TDB requested that progress be made so that dissemination of the inventory could be considered at the 32d TDB session in 1986.

Trade Policy Simulation Model revealed that a liberalization effort focused on products exported by developing nations would result in a substantial increase in their exports and a significant alleviation of their debt problems.

With regard to the analysis of trends in production and trade, the main conclusion of the report is that a "vicious circle between structural maladjustment and adverse growth conditions has gradually emerged over the years, making the search for internationally acceptable solutions increasingly difficult." Greater transparency of governments' production and trade policies and better awareness of the real cost of protectionist policies, is a first step. The report also concluded that services play a key role in the adjustment process and that policies should encourage the integration of services into the production process. In addition, new policies of cooperation at the international level on trade, investment, and technology transfer are required if developing country exporters are to maintain a viable business, particularly with regard to their participation in agro-industrial production and trade.

The TDB concluded from its annual review that further liberalization efforts are necessary, and that developed countries should fulfill their commitments on standstill and rollback ^{1/} and work towards reducing and eliminating quantitative restrictions and measures having similar effect. Work on the UNCTAD Data Base on Trade Measures should also continue with the aim of releasing the inventory of nontariff barriers at the next annual review at the 32nd TDB session. Furthermore, according to the TDB, the Secretariat should intensify its analysis of structural adjustment for the next annual review and pay particular attention to the problems of strengthening the participation of developing countries in agro-industrial production and trade.

Trade Preference Schemes

The Generalized System of Preferences

The GSP is a framework under which developed countries accord preferential tariff treatment to goods exported by developing countries. ^{2/} The UNCTAD Special Committee on Preferences is responsible for overseeing the GSP. Although, in 1984, discussion on the introduction of graduation policies ^{3/} in GSP schemes sparked sharp dissension, in 1985, the annual review of the GSP ended with members able to reach agreed conclusions for the first time in 5 years. One such conclusion recognized that GSP schemes had undergone modest improvements in recent years.

The Special Committee reaffirmed the generalized, nondiscriminatory, and nonreciprocal character of the GSP and recognized the role of the GSP in increasing the export earnings of developing countries, promoting their

^{1/} "Standstill" refers to the halting of protectionist measures and "rollback" is the removal of existing protectionist legislation and tariff barriers.

^{2/} For a discussion of the operation of the U.S. GSP system in 1985, see ch. V. See the Operation of the Trade Agreements Program, 35th Report, 1983, pp. 15-25, for a detailed discussion of the renewal of the U.S. GSP program.

^{3/} Under graduation policies, preferential treatment is eliminated or phased out for products from developing countries considered highly competitive in world markets, or ultimately eliminated for all of a country's exports.

industrialization, and accelerating their rates of economic growth. A request by the preference-receiving countries that the preference-giving countries refrain from excluding beneficiary countries from the system was noted. While expressing satisfaction over the renewal of all schemes of generalized preferences, the Special Committee said that improvements in the GSP "had been relatively modest in recent years." Developed countries were asked to improve product coverage especially in the agricultural and industrial sectors. The Special Committee asked that the rules of origin, which form the basis of the GSP in defining the products which qualify for coverage, be harmonized and liberalized. The Special Committee also called for special measures so that the least developed developing countries could derive full benefits from GSP.

The Global System of Trade Preferences

Preparatory work for commencing negotiations to establish a Global System of Trade Preferences (GSTP) continued in 1985. The Committee on Economic Cooperation among Developing Countries oversees the work program involving the GSTP project and recently placed it on high priority, calling it vital in ensuring a significant expansion of trade among developing nations. The GSTP is the first attempt to create a preferential trading system among developing countries to cover both tariff and nontariff trade barriers. It is intended to supplement any existing regional and interregional trade agreements and will cover manufactures as well as commodities. Actual negotiations are expected to commence in 1986. Developed nations, which do not participate in GSTP meetings, continued to stress the importance of observing the principles of transparency and universality in the implementation of this program.

NEGOTIATION AND OPERATION OF INTERNATIONAL COMMODITY AGREEMENTS

The negotiation of international commodity agreements grew out of the concern of both producing and consuming nations over the disruptive effects of wide fluctuations in commodity prices. During the mid-1970's, international commodity agreements became an issue of particular interest, reflecting the importance of commodities trade to the developing countries. Since then, commodities policy has been in the forefront of North-South dialogue. UNCTAD is the forum most actively involved in this issue.

The following sections summarize the operation in 1985 of international commodity agreements covering coffee, sugar, wheat, cocoa, and tin, as well as the IPC agreements on natural rubber, jute, and tropical timber. Five of these agreements (coffee, sugar, natural rubber, tin, and cocoa) contain specific price-stabilization mechanisms designed to reduce fluctuations in prices; improve longrun producer earnings; and deliver a steady, adequate, and reasonably priced supply of the commodity to customers. These agreements provide for market intervention by a variety of means. Buying and selling of buffer stocks to moderate price swings is one prominent method. Assigning production and export quotas is another. In contrast, the agreements covering wheat, jute, and tropical timber were not specifically designed to minimize price fluctuations. Instead, they seek to promote research and market development.

At the end of 1985, the United States was participating in the agreements covering coffee, sugar, wheat, jute, natural rubber, and tropical timber. The

United States may enter into international commodity agreements through executive agreements, treaties requiring ratification by a two-thirds majority of the Senate, or by specifically enacted legislation; a treaty is the customary route. In general, the U.S. Government has reservations concerning international price-stabilization schemes on the grounds that they might create long-term market distortions. In the U.S. view, world markets should be allowed to operate freely and without government interference. U.S. policy is generally to promote research and development funding rather than market intervention. The United States is willing, however, to consider participating in commodity agreements if the market demonstrates a need for the agreements, if they are determined to be economically sound and market oriented, and if they offer a balance between producer and consumer interests. ^{1/} In price-stabilization arrangements, the proposed price range must be compatible with the long-term market trend, and the price-affecting mechanism must be sufficiently flexible to cause prices to move in both upward and downward directions.

In 1985, the tropical timber agreement entered into force provisionally and the jute agreement entered into force definitively. The agreement covering natural rubber expired in October 1985 but was extended for 2 years. On January 1, 1985, a new interim sugar agreement entered into force. Negotiations also took place for new agreements on wheat and coffee.

The year 1985 was characterized by large supplies and slack demand in many basic commodities. The IMF index of nonoil commodity prices decreased 11.7 percent, following 2 years of slight increases. In addition, the 1985 index fell 27.6 percent below the 1980 record level, the lowest point since 1980.

Coffee

The current International Coffee Agreement (ICA) entered into force provisionally in October 1983 and definitively on September 11, 1985. The United States participates in the ICA along with 74 other nations, including 50 producing countries that account for more than 99 percent of the coffee entering world trade. The agreement covers a 6-year period that may be extended for an additional 2 years under the present terms. The International Coffee Organization (ICO) administers the ICA under rules and regulations established by the International Coffee Council (ICC).

In 1985, the terms of the ICA remained essentially unchanged from those of the previous year. The agreement has no provision for a buffer stock, but it does provide for export quotas to stabilize prices. In 1985, the ICC agreed to establish a global quota of 61.0 million 60-kilogram bags (a bag is equivalent to about 132 pounds) for crop year 1985/86. The quota consisted of a base quota of 59 million bags plus an additional quota of 2 million bags. The additional quota was authorized because the composite price was at the high end of the ICO's desired price range. ^{2/} The annual export quotas were to be distributed over the four quarters of crop year 1985/86 in equal amounts.

^{1/} U.S. Department of State, "International Commodity Agreements," GIST, August 1985.

^{2/} In January 1986, the quota was raised to 63 million bags. In February 1986, as coffee prices continued to soar above the ceiling specified in the agreement, the ICO suspended all coffee export quotas.

The trigger prices for upward and downward quota movement remained the same as in 1984. The trigger prices operate so that if the 15-day moving average of the composite indicator price is at or below \$1.20 per pound, the export quotas are reduced on a pro rata basis by an amount of 1.0 million bags. If the indicator price is at \$1.15 or below, the quotas are adjusted downward an additional 1.5 million bags. Likewise, if the 15-day moving average of the composite indicator price is at or above \$1.40 per pound, the export quotas are increased by 1 million bags, and are increased an additional 1.5 million bags if the 15-day composite price is at or above \$1.45 per pound. The export quotas are suspended when the 15-day composite price is at or above \$1.50 per pound. The export quotas may be increased or decreased further, depending on additional changes in the 15-day moving average of the composite indicator price.

Table 4 indicates that during 1981-85, the yearly average of the ICO's composite indicator price (1976 basis) ranged from \$1.15 to \$1.41 per pound.

In 1985, the monthly average composite indicator price ranged from a low of \$1.19 per pound in September to a high of \$1.76 per pound in December. Since the composite price was at the upper end of the ICO's desired price range at the end of 1984, the ICC established an extremely high 1984/85 annual quota which resulted in falling prices from January to September. The sharp rise in the composite prices during October-December 1985 was due to the prospect of a substantially reduced harvest in Brazil resulting from drought in the producing regions.

Table 4.--Green coffee: International Coffee Organization monthly average composite indicator prices, 1/ on the basis of the 1976 agreement, 1981-85

(Per pound)						
Period	1981	1982	1983	1984	1985	
January-----	\$1.25	\$1.24	\$1.27	\$1.39	\$1.37	
February-----	1.20	1.34	1.24	1.41	1.34	
March-----	1.20	1.29	1.22	1.44	1.33	
April-----	1.21	1.24	1.22	1.44	1.32	
May-----	1.17	1.21	1.25	1.48	1.32	
June-----	.99	1.21	1.23	1.45	1.31	
July-----	1.04	1.16	1.24	1.41	1.21	
August-----	1.07	1.17	1.25	1.43	1.20	
September-----	1.07	1.23	1.27	1.42	1.19	
October-----	1.18	1.29	1.36	1.36	1.26	
November-----	1.25	1.30	1.38	1.38	1.41	
December-----	1.23	1.31	1.40	1.35	1.76	
Average-----	1.15	1.25	1.28	1.41	1.33	

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-Le Havre 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.

Source: Compiled from ICO data reported by the U.S. Department of Agriculture and the U.S. Department of Commerce.

In 1985, sales by producers to nonmembers of the ICA continued to be a source of dispute between producers and consumers. Some producers are willing to sell to nonmembers at a lower price once their export quotas have been exhausted. As a result, a two-tier market has developed and coffee has been illegally shipped from quota to nonquota markets. To regain control of the market, the ICO adopted a resolution in April requiring coffee to be sold to nonmembers at a price at least equal to the floor price of the target range. A monitoring group has been established to enforce the scheme. The success of the resolution will depend on the will and the ability of producers to control sales to nonmembers.

Sugar

The 1984 International Sugar Agreement (ISA) entered into force on January 1, 1985, following the expiration of the 1977 ISA. The United States has participated in both the 1984 ISA and its predecessor agreements. The International Sugar Organization, located in London, administers the agreement. The 1984 ISA is an administrative agreement that contains no market stabilization mechanisms. It is scheduled to be in existence through 1986 to gather statistics and sponsor the negotiation of a new agreement. The market stabilization mechanism of the 1977 ISA functioned through a system of buffer stocks and export quotas that were manipulated to dampen fluctuations in the free-market price of sugar.

Under the auspices of 1984 ISA, negotiations are underway to work out a new agreement, more effective than the 1977 ISA. The 1977 ISA was generally ineffective in controlling the free-market price of sugar. The target price range in the ISA during 1982-84 was 13 to 23 cents per pound. The price has been below that range since February 1982. The ineffectiveness of the 1977 ISA to regulate sugar prices was in large part the result of sugar's unique characteristics. Sugar is one of the most widely grown crops in the world, owing to the fact that identical refined sugar is obtained from tropically grown sugarcane and from temperately grown sugar beets. Individual countries also heavily regulate their production and trade in sugar. Relatively little sugar is traded on the so-called free market. The free market thus bears a disproportionate share of sugar shortages and surpluses, with price instability being the result. When crop failures reduce supplies, producing countries supply their domestic needs first, preferential arrangements second, and the free-market demand last. The free-market world price often soars as a result. Similarly, when there are bumper harvests, the free market becomes a distress market and prices plummet. Furthermore, since sugarcane is a perennial crop that requires about 20 months from planting to reach full production (which then is continued for several years), the price swings are usually extended (especially on the down side). Table 5 presents the world market prices for 1980-85.

At the end of 1985, the world's four largest sugar exporters (Cuba, the EC, Australia, and Brazil) met for the first time since renegotiation talks broke down over a year ago. ^{1/} Given the strain of excessive world production, the exporters decided that conditions were not ripe for restarting negotiations. Talks are planned in 1986.

^{1/} See the Operation of the Trade Agreements Program, 36th Report, 1984
p. 90.

Table-5.--Raw sugar: Monthly world market prices,
on the basis of the 1977 ISA, 1/ 1980-85

(In cents per pound)							
Period	1980	1981	1982	1983	1984	1985	
January-----	17.16	27.78	12.90	6.03	6.97	3.62	
February-----	22.75	24.09	13.07	6.43	6.64	3.70	
March-----	19.64	21.81	11.26	6.20	6.42	3.83	
April-----	7.82	21.25	17.83	9.58	5.99	3.42	
May-----	30.94	15.06	8.11	9.24	5.61	2.82	
June-----	30.80	16.38	6.84	10.74	5.53	2.78	
July-----	27.70	16.34	7.80	10.53	4.54	3.18	
August-----	31.77	14.76	6.77	10.56	4.05	4.39	
September-----	34.74	11.65	5.76	9.43	4.10	5.12	
October-----	40.55	12.04	5.93	9.69	4.64	5.01	
November-----	37.81	11.97	6.52	8.33	4.36	5.48	
December-----	28.79	12.98	6.31	7.67	3.55	5.32	
Average-----	27.54	17.18	9.09	8.70	5.20	4.06	

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.

Wheat

The International Wheat Agreement (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. As part of its responsibilities, the IWA provides for technical studies, food aid pledges by exporters and richer importers to needy developing countries, and information collecting. The various functions of the IWA are administered by the International Wheat Council, the only commodity organization in which the United States has membership as an exporting nation. 1/

The original agreement for the IWA, negotiated in 1971, has been extended eight times; the last extension was in 1983 for 3 years ending June 30, 1986. Ratification of that final extension was voted by the U.S. Senate in November 1985. The original agreement will not be extended a ninth time. Instead, a new IWA is being negotiated; finalization of the new document is expected by February or March 1986, with signatures to be affixed by June 30, 1986. The revised agreement--bearing the same name as the original 1971 agreement--is anticipated to expand the scope of research and reporting to include information on other grains (while maintaining a wheat emphasis), to increase the pledges under the Food Aid Convention, and to change the voting structure

1/ For further details about the IWA, see the Operation of the Trade Agreements, 33d. Report, 1981, pp. 89 and 90.

or representation on the Council. The new agreement will remain without the powers to intervene in the market to regulate supplies and prices, despite large world supplies and falling export prices.

In crop year 1985/86, 1/ the world total utilization of wheat declined to 494.2 million metric tons from 500.6 million tons the previous year. Total world production in 1985/86 was 505.2 million tons, down from 513.9 million tons the previous year. During the same period, world trade in wheat declined from 107.2 million tons to 91 million tons. The global wheat situation is one in which production exceeds utilization, and all major exporters have ample supplies. Export prices for U.S. wheat fell over the last several years; U.S. Gulf #2 hard winter wheat sold for \$175 per metric ton in 1980, declined to \$153 for crop year 1984/85, and continued its decline to \$140 in December 1985. The prospects for U.S. wheat exports are for a further decline from 38.1 million tons in 1984/85 to 27.2 million tons in 1985/86. Accumulated U.S. wheat exports for the June–November 1985 period were 12.2 million tons, nearly 50 percent behind the corresponding period of 1984. Two major importers of wheat, the U.S.S.R. and China, have reduced their demands for foreign-produced wheat because of improved domestic supply prospects.

Imports of wheat by the U.S.S.R. are projected to decline from 28.1 million tons in 1984/85 to 17 million tons in 1985/86. Wheat imports by China have continued to decline, from 78 million tons in 1984/85 to 65 million tons in 1985/86. The EC continued its aggressive export program, despite localized shortages resulting in unusual early releases of intervention stocks into the domestic market; export licenses of 7.4 million tons through mid-December 1985 were 1.2 million tons ahead of last year's record pace. Nevertheless, export projections are for 17.5 million tons in 1985/86, the same as that for the previous year.

Cocoa

The Third International Cocoa Agreement (ICCA), 2/ administered by the International Cocoa Organization, has been in effect since August 1, 1981, replacing the ICCA of 1975, and its predecessor, the ICCA of 1972. It was scheduled to terminate on September 30, 1984; however, it was extended until September 30, 1986. Discussions took place to develop a successor agreement throughout 1984 and 1985, but little progress was made. 3/ The United States has not been a member of any of the ICCA's for a variety of reasons, most notably the U.S. government belief that buffer stock agreements generally do not work, that the agreement is inadequately funded, and that unrealistic price ranges are specified in the agreement. 4/

1/ June 1985 to May 1986, using December 1985 U.S. Department of Agriculture projections.

2/ The two C's in the initials for the International Cocoa Agreement (ICCA) are used to distinguish it from the International Coffee Agreement (ICA).

3/ A conference is scheduled for early 1986 with the major obstacles being the differences between producing and consuming nations on price levels, the mechanism for revising them, and the currency valuation adjustments.

4/ U.S. Department of State, "International Commodity Agreements," GIST, August 1985

The ICCA functions through a system of buffer stock purchases and sales. One of the objectives of the agreement is to stabilize the price of cocoa beans within an "indicator price" range of \$1.00 per pound to \$1.60 per pound. (The ICCA daily price averaged \$1.0016 per pound during January-September 1985.) The agreement also provides for a maximum buffer stock of 250,000 metric tons with acquisitions to be financed by a 2-cent-per-pound fee on exports from member countries (and on imports by member countries from nonmember exporters).

However, the existing pact has had little influence on the market since the buffer stock ran out of funds in 1982. During 1985, the indicator price was at the low end or below the price range specified in the agreement. Also, the buffer stock contains only 100,000 metric tons of cocoa, rather than the maximum level, because funds have been unavailable for further purchases.

Tin

The Sixth International Tin Agreement (ITA), which covers a 5-year period that began in July 1982 and may be extended for an additional 2 years under the present terms, currently operates on a provisional basis. 1/ The United States, the largest tin-consuming nation, was a member of the Fifth ITA, but has not joined the Sixth ITA. The International Tin Council (ITC) administers the agreement. Events during 1985 have cast considerable doubt on the continued survival of both the agreement and the Council.

The year 1985 was characterized by continued weakness in the price of tin and the threatened collapse of the Sixth ITA as the London Metal Exchange (LME) suspended tin trading indefinitely on October 24. Tin trading on the Kuala Lumpur Tin Market (KLTM), the other major world market for tin was also suspended as a result of the LME's actions. The suspension of trading occurred after the ITC buffer stock manager exhausted all bank credit lines available to him and could no longer support tin prices at the ITA-established floor price of US\$5.65 per pound. 2/ Tin producers blame the crisis on the unwillingness of tin-consuming nations to ratify the Sixth ITA by the required 80 percent majority to bring the agreement fully into effect. Consuming nations have balked at ratifying the Sixth ITA because approval would oblige these nations to pay the balance of their dues to the ITC, which, in turn, would use the funds to prop up what were considered by consumers to be already artificially high tin prices.

The major factor responsible for the crisis in tin was price weakness, which persisted in 1985 despite the continuation of export controls on tin-producing nations. 3/ Tin prices hovered at the ITA-established floor price

1/ At present, the Sixth ITA has been ratified by only a 65 percent majority of tin-consuming nations and operates on a provisional basis.

2/ Tin prices are quoted on the KLTM in Malaysian dollars. When the price of tin falls to the floor price (M\$29.15 or US\$5.65) the buffer stock manager is required to buy tin on the open market to support prices. Prior to the suspension of tin trading, average daily prices on the KLTM averaged \$M29.67 during 1985.

3/ Under present export controls, tin exports are limited to 22,000 metric tons per quarter, or 39.6 percent less than exports for the base period (July-September 1981). These export controls were established by the ITC in June 1983 in an effort to support tin prices.

through the first 10 months of 1985, prior to the suspension of tin trading, with daily New York tin prices averaging \$5.65 per pound compared to an average daily price of \$5.91 per pound for 1984. Contributing to the weakness in tin prices was a decision in April by the ITC to allow the buffer stock manager to purchase tin on the KLTM below the official floor price. This caused tin quotes on the KLTM to fall to the levels that prevailed on the LME.

Further complicating the buffer stock manager's efforts to support tin prices was unrestricted tin production by Brazil and China, nonmembers of the ITA, which added to a world tin surplus. Brazil accounted for 17 percent of worldwide primary tin mine production in 1985, compared to less than 5 percent in 1965, while producer members of the ITC accounted for 60 percent of world primary tin mine production in 1985, down from 80 percent in 1965. By mid-1985, tin analysts estimated that the world tin surplus had reached a high of 100,000 metric tons, with 60,000 metric tons of these inventories held by the ITC alone. The tin surplus at the end of 1984 was estimated to be 68,000 metric tons.

Following the suspension of tin trading on the LME, the full extent of ITC debt accumulated to support prices became known. The ITC owed approximately \$425 million to 16 LME member banks and another \$900 million to metal brokers. Since the suspension of tin trading, the creditor banks and the ITC have been in constant consultation to resolve the crisis. On November 4, the banks offered to loan the ITC up to \$1.3 billion if certain conditions were met. These conditions included a guarantee of these loans by the ITC member governments and an insistence that the ITC suspend all operations indefinitely, meaning that the buffer stock manager would no longer intervene in the tin markets to support prices. The banks conceded that acceptance of such a plan would result in a severe fall in the price of tin, but would prevent bankruptcies of LME member firms. The banks insisted that failure of the ITC to accept the plan would subject the ITC, as well as ITC-member states, to legal claims. These claims would be based on the fact that the ITC's buffer stock manager operated with only a fraction of the funds foreseen by the Sixth ITA, in disregard of the risk to which creditors were being exposed.

Negotiations between the ITC and LME member banks have faltered over the issue of guarantees for ITC debts. Most of the 22 ITC member governments are thus far unwilling to provide guarantees for ITC-incurred debts. The year 1985 concluded with both the ITC and its member banks in a state of deadlock. In the meantime, informal secondary markets to provide the immediate needs of tin consumers began to develop with New York dealers quoting prices of \$4.50 per pound, about 20 percent below the official ITC floor price. ^{1/}

^{1/} On March 7, 1986, following the failure of the ITC to agree to a plan to end the impasse, the LME set a fixed settlement price for all outstanding tin contracts held by LME member firms and announced the end of tin trading on the exchange. The settlement price established by the LME was approximately \$4.30 per pound, reflecting the secondary market price for tin, compared to an average contract price of \$5.87 per pound owed by the ITC to creditors. As a result, a total of 24 companies holding tin contracts with the ITC faced losses of approximately \$220 million. At the same time, a number of creditors sued the ITC and its member governments for these losses.

The sale of surplus tin from the U.S. Government stockpile by the General Services Administration (GSA) remained a controversial issue with the world tin community in 1985. By yearend 1985, GSA had disposed of 3,005 metric tons of tin. ^{1/} The Memorandum of Understanding (MOU), a nonbinding resolution between the United States and the Association of Southeast Asian Nations (ASEAN) tin-producers that informally limits GSA tin sales to 3,000 metric tons annually in order not to depress world tin prices, was extended into 1986. However, the United States has reserved the right to sell above the limit established by the MOU for 1986, since lower world tin prices may force the GSA to sell larger quantities of stockpile tin to meet its revenue goals for the year. The GSA suspended stockpile sales of tin between October 24 and January 8, 1986, since it was unwilling to establish a price for tin in light of the suspension of tin trading on the LME and the KLTM. Since January 8, GSA has made tin sales by determining a fair market price for tin.

The Association of Tin Producing Countries (ATPC), formed in September 1983 to obtain higher prices for tin, had virtually no impact on the world tin market in 1985 because of the unwillingness of member nations to agree to further export limitations. ^{2/} Bolivia, the only non-ITC member of the ATPC, reduced production in 1985 by over 35 percent from 1984 levels, and was unwilling to reduce production further. Like the ITA, the ATPC has been hampered in its efforts by the failure of Brazil and China to join the association.

Natural Rubber

The purpose of the International Natural Rubber Agreement (INRA), the first commodity agreement concluded under UNCTAD's Integrated Program for Commodities, is to stabilize world prices without disrupting long-term market trends and to ensure an adequate natural rubber supply. INRA was signed on October 6, 1979, and came into force provisionally on October 23, 1980. The United States joined INRA in May 1981. The current agreement expired in 1985, but was extended for a period of 2 years, through October 23, 1987, by the International Natural Rubber Organization (INRO), which administers the provisions and supervises the operation of the agreement.

Renegotiation of INRA began in 1985, but rubber producing and consuming countries could not agree on the buffer stock price range. Producers insisted that the new pact stabilize prices at higher levels to cover production costs, whereas consumers called for a market-determined, or lower, price range. The next INRA renegotiation conference is scheduled for April 1986.

Developing countries account for virtually all the world's production and exports of natural rubber. Total production reached 4.320 million metric tons in 1985, or 1.6 percent more than the 4.250 million metric tons of natural rubber produced in 1984. Worldwide consumption climbed to 4.290 million metric tons in 1985, a 1.5-percent increase over the 4.225 million metric tons

^{1/} The entire U.S. strategic tin stockpile as of Dec. 31, 1985, equaled 185,220 metric tons.

^{2/} The ATPC consists of Malaysia, Indonesia, Thailand, Australia, Bolivia, Zaire, and Nigeria, and acts independently of the ITC.

consumed in 1984. (By contrast, the consumption of natural rubber grew by 6 percent in 1984 compared with 1983). 1/ However, part of the increase in consumption of natural rubber in 1985 was attained by drawing down inventory on hand in consuming nations; this was true for major customers like the United States and Japan.

The buffer stock established in the agreement provides the sole mechanism for market intervention to stabilize prices. 2/ Increased production and slack demand for natural rubber in 1985 led to a downward movement in its daily market indicator price (DMIP) that governs the operation of the buffer stock. 3/ As a result, the buffer stock manager added to the buffer stock in an attempt to stabilize the DMIP price. In mid-summer 1985, the buffer stock manager purchased 40,000 metric tons of natural rubber, increasing the stock held by INRO to 320,000 metric tons. Due to the large stock, the council called a special session in Kuala Lumpur during August 1985. 4/ Agreement was reached on financing a contingency reserve of 150,000 metric tons of natural rubber. This agreement will provide the buffer stock manager additional funds to help, if necessary, in stabilizing the price structure. 5/

As a result of this special meeting, the Council also lowered the "must buy" level from M-S\$166 (US\$0.722) per kilogram to M-S\$1.61 (US\$0.70) per

1/ The Economist Intelligence Unit, Rubber Trends, London, England, No. 4, December 1985, pp. 16 and 17.

2/ The agreement provides that the total capacity of the buffer stock shall be 550,000 tons, comprised of a normal buffer stock of 400,000 tons and a contingency buffer stock of 150,000 tons.

3/ For an explanation of DMIP, see the Operation of the Trade Agreements Program, 35th Report, 1983, pp. 140 and 141.

4/ Art. 29, par. 5, and art. 32, pars. 2 and 3, of INRA require the International National Rubber Council (the Council) of INRO to take specific actions when the buffer stock reaches 300,000 metric tons. The Council is required to (a) lower the reference price by 3 percent unless it decides by special vote on a different percentage; (b) receive a statement from each member regarding the method by which it will finance its share of contingency buffer stock; and, (c) make necessary arrangements for the prompt implementation of the contingency buffer stock.

5/ Art. 31 of INRA states that when sales or purchases for the buffer stock reach the 400,000 metric ton level, the Council shall, by special vote, decide whether to bring the contingency buffer stock into operation at: (a) The lower or upper trigger action price; or, (b) Any price between the lower trigger action price and the lower indicative price, or the upper trigger action price and the upper indicative price. Unless the Council, by special vote, decides otherwise under par. 2 of this article, the buffer stock manager shall use the contingency buffer stock to defend the lower indicative price by bringing the contingency buffer stock into operation when the market indicator price is at a level midway between the lower indicative price and the lower trigger action price and to defend the upper indicative price by bringing the contingency buffer stock into operation when the market indicator price is at a level midway between the upper indicative price and the upper trigger action price.

kilogram. 1/ The "may buy" level was decreased from M-S\$1.61 (US\$0.70) per kilogram to M-S\$1.71 (US\$0.743) per kilogram. The Council also lowered both the "may sell" price and the "must sell" price. As the DMIP declined from near the "may buy" level or M-S\$1.71 per kilogram to near the "must buy" level of M-S\$1.61 per kilogram, the buffer stock manager purchased 50,000 metric tons of natural rubber between August and October 1985, raising the total stocks held by INRO to 370,000 metric tons.

Jute

The International Jute Agreement (IJA), which began functioning officially in January 1984, has completed its second full year of operation. The objective of the IJA, the second commodity agreement to be negotiated within the framework of UNCTAD's Integrated Program for Commodities, is to increase worldwide consumption of jute, primarily through research and development projects, market promotion, and cost reduction. The IJA has no authority to stabilize world prices and/or supply with the establishment of buffer stocks, pricing levels, or export quotas.

The IJA operated provisionally, until December 1, 1985, because the 25 importing countries that had signed the agreement prior to December 1, 1985, accounted for less than the 65 percent of world imports, the level required for formal implementation of the agreement. 2/ With Poland's change from observer to member on December 1, 1985, the percentage of world imports of member countries exceeded 65 percent, and the IJA entered into force definitively. The United States which had been a provisional member since September 9, 1984, deposited its instrument of acceptance with the Secretary General of the United Nations on September 9, 1985, changing the U.S. membership status from provisional to definitive. The five exporting countries which have signed the agreement--Bangladesh, China, India, Nepal, and Thailand--account for 99 percent of world exports.

The International Jute Organization (IJO), which administers the IJA with the assistance of the International Jute Council (IJC), conducted the third session of the IJA in Dhaka, Bangladesh, during March 27-30, 1985. Issues discussed at the meeting included planned projects and internal policies. Administrative matters discussed at the meeting included election procedures, membership guidelines, and electing languages other than English to be official languages used by the IJO.

Expenditures for operations are from two accounts--administrative and special. Contributions to the administrative account are required of all signatories and are based on each member's volume of jute trade, whereas

1/ "May buy," "must buy," and similar terms incorporated in INRA are explained in the Operation of the Trade Agreements Program, 33rd Report, 1981, pp. 92-94.

2/ The importing countries that were signatories to the IJA prior to Dec. 1, 1985, were Australia, Austria, Canada, EC members (Belgium/Luxembourg, Denmark, France, Germany, Greece, Ireland, Italy, The Netherlands, and United Kingdom), Egypt, Finland, Indonesia, Japan, Norway, Pakistan, Spain, Sweden, Switzerland, Turkey, the United States, and Yugoslavia.

contributions to the special account for research, market development, and promotion are on a voluntary basis. The administrative account budget for the 1985-86 period was set at \$827,750 with about equal contributions from importing and exporting countries. The United States contributed \$41,598 to this account for the 1985-86 period. At the March 1985 meeting, the special account contained \$3.1 million; the United States did not contribute or pledge any funds to the special account.

Two projects were approved at the IJO session which will be initiated when funds become available. The first, which involves the promotion of jute and jute products in the Western European market, will consist mostly of advertising campaigns and participation in trade shows and will operate for approximately 1 year. The second project involves jute market promotion to be implemented in Italy. Discussions also took place to begin a similar market promotion project in Japan on a limited scale and to establish an international jute research institute in Dhaka, Bangladesh. If established, the United Nations Development Program (UNDP) has pledged \$100,000 for the institute.

The fourth session and second general meeting of the IJO in 1985 was held in Dhaka, Bangladesh, during November 13-15. In addition to administrative matters, jute promotion projects were discussed, but none were initiated.

Although world production of jute fiber remained fairly stable during the last few years, it is expected to increase 20 to 25 percent in 1985-86. Annual production averaged 3.2 million metric tons during 1981-85, and is expected to increase to 4.0 million metric tons in crop year 1985-86. India, the largest producer, provided 40 percent (1.3 million metric tons) of the total world jute output of 3.3 million metric tons in crop year 1984-85. Bangladesh and China were the second and third largest producers, respectively accounting for 27 and 19 percent, respectively, of the world output.

There are several factors that influence the jute supply each year. Since jute competes primarily with rice for acreage in India and Bangladesh, the price of jute relative to the competing crop in that year greatly influences the jute acreage planted the following year. Therefore, most jute farmers base the amount of acreage to be planted on the previous season's prices. This makes it difficult to balance supply and demand from year to year. In addition, weather is a major cause of fluctuation in the supply of jute each year. Temperature, humidity, and rainfall during the sowing, harvesting, and postharvesting periods play a crucial role in determining the size of a crop.

World exports of jute fiber have continued to decline annually in recent years and amounted to 341,900 metric tons in crop year 1984-85, 24 percent less than the 1981-85 annual average of 448,350 metric tons. The level of average annual world exports in 1975-78 was 556,000 metric tons. Developing countries accounted for virtually all exports. Bangladesh, the largest exporter, accounted for 74 percent (253,800 metric tons) of the total in crop year 1984/85, down from 1983/84, when Bangladesh accounted for 75 percent of the total. Shipments from Bangladesh were greatly reduced in the beginning of 1985, because of the government ban on export registration.

World exports of jute products (including yarn, sacking, bags, carpet-backing, and fabrics) amounted to 1.1 million metric tons in crop year 1984-85, slightly less than the 1980-84 and 1975-78 averages of 1.2 million metric tons and a slight increase from the previous year. As with jute fiber, developing countries represent the largest share of total world exports of jute products, accounting for 88 percent in crop year 1984-85. Bangladesh, the largest exporter, provided 41 percent, and India, the second major exporter, provided 28 percent of the total in crop year 1984-85. Bangladesh has maintained its leading position by aggressive marketing, use of some modern machinery, and with lower labor and raw jute costs than India. The small improvement in exports during 1984-85 was largely the result of India's return to normal levels of mill production following the disruption of labor strikes during the previous season.

World imports of jute fiber were estimated at about 340,000 metric tons in calendar year 1985. This amount was 24 percent less than that of the previous year and 30 percent less than the average annual imports of 487,350 metric tons during 1981-85. Developing countries accounted for 60 percent of such imports in 1984. Pakistan accounted for the largest share (33 percent) of imports by developing countries with China and Thailand accounting for 17 and 7 percent, respectively. The United Kingdom, the largest developed country importer, received about 17 percent of the developed countries' imports. The United States accounted for about 7 percent.

World imports of jute products declined slightly in calendar year 1984 from the previous year, amounting to approximately 1.1 million metric tons. However, imports in 1984 were 5 percent less than the average annual level of 1.2 million metric tons during 1981-84. The developed countries account for about two-thirds of the total imports. The Soviet Union was the largest importer of jute products in 1984, accounting for 15 percent of total world imports and 23 percent of total developed countries' imports. The United States, the largest importer of jute products in previous years, accounted for 11 percent of total world imports and 17 percent of total developed countries' imports. Iran was the largest importer of jute products among the developing countries in 1984, and was responsible for 5 percent of total world imports and 14 percent of total developing countries' imports.

One of the major concerns for IJO members is jute's competitive position with respect to synthetics, primarily polypropylene. Jute competes with polypropylene largely on price and availability for its share of the end-use product market. The prices of jute fiber are traditionally lower than those of polypropylene. However, by the end of 1984 and the beginning of 1985, the prices of jute fiber increased to record levels and surpassed those of polypropylene as shown in the table 6.

The increase in jute prices was the result of a series of relatively small crops which created a supply shortage in the latter part of 1984 and in the beginning of 1985. In addition, the price of crude oil declined contributing to a drop in the price of polypropylene which is made from petroleum feedstock. Because of increased planting and favorable weather conditions in the second and third quarters of 1985, there should be a substantial increase in size of the jute crop which is likely to lower prices in the future. However, jute consumers often shift to alternative materials

Table 6.--Polypropylene and jute fiber: Quarterly world market prices, January 1984-June 1985

(Per ton)				
Period	Polypropylene	Jute ^{1/}		
		Type 1	Type 2	
1984:				
January-March-----	\$816	\$397	\$408	
April-June-----	840	410	421	
July-September-----	832	525	531	
October-December-----	800	791	803	
1985:				
January-March-----	734	842	857	
April-June-----	738	758	783	

^{1/} Representative export prices from Bangladesh.

Source: Compiled from data reported by the Food and Agriculture Organization of the United Nations.

such as polypropylene when supplies of jute become scarce or prices increase near the levels of substitute materials or exceed those levels. As a result, jute growers usually find it difficult to regain lost markets. The full extent of the damage and market loss resulting from the recent jute shortage will be determined only when the improved jute supply conditions prevail for a period of time.

Since the cost of jute fiber comprises 45 to 50 percent of the total price of the finished jute product, the annual prices of fiber and finished product are correlated. The fiber price changes, along with other production variables such as frequent power failures, labor strikes at mills and ports, and credit availability, have resulted in a very large change in relative prices of carpetbacking, one of the principal end uses of jute. As shown in table 7, jute carpetbacking prices increased more rapidly than that of polypropylene during 1984 and early 1985, but then declined more rapidly toward the end of 1985.

Tropical Timber

Last minute action by both producing and consuming countries brought the International Tropical Timber Agreement (ITTA) into force on April 1, 1985, following 8 years of preparatory work and negotiations carried out under the aegis of UNCTAD and the Food and Agriculture Organization (FAO). For the ITTA to enter into force, the appropriate instruments (of ratification, acceptance, provisional application, etc.) had to be deposited by March 31, 1985, by a minimum of 10 countries accounting for at least 500 of the 1,000 votes assigned to producing countries and a minimum of 14 consuming countries representing at least 650 of the 1,000 votes allocated to consuming countries. Entry into force of the ITTA, which was adopted in November 1983, was in doubt until the last moment when the necessary minimum number of

Table 7.--Jute and polypropylene carpetbacking:
Quarterly world market prices, 1984-85

(In cents per linear yard)				
Period	Type 1		Type 2	
	Jute (6 oz.)	Polypropylene (16X8)	Jute (5.5 oz.)	Polypropylene (16X6)
1984:				
January-March-----:	73	78	66	70
April-June-----:	78	78	72	70
July-September----:	92	82	86	74
October-December--:	104	82	98	74
1985:				
January-March-----:	106	88	96	80
April-June-----:	90	88	80	80
July-September----:	71	84	66	76
October-December--:	71	84	66	76

Source: Compiled from data reported by the Food and Agriculture Organization of the United Nations.

countries was reached. By December 31, 1985, the number of producing and consuming countries which had deposited appropriate instruments had grown substantially. Sixteen producing countries with 1,000 votes and 19 consuming nations with 1,000 votes had taken the necessary action to join the ITTA by the end of 1985. ^{1/}

Under terms of the ITTA, the Secretary General of the United Nations convened the first session of the International Tropical Timber Council on June 17, 1985. The first tasks of the Council were to decide on the permanent location of the headquarters of the organization and the appointment of an executive director. ^{2/} Countries that offered to provide headquarters sites included Brazil, Belgium, France, Greece, Indonesia, Japan, The Netherlands, and the United Kingdom.

^{1/} The 16 producing nations that had joined by December 31, 1985, in order of magnitude of their votes were Brazil (206), Malaysia (171), and Indonesia (129), together with the Philippines (57), Peru (50), Bolivia (43), Papua New Guinea (39), Ivory Coast (36), Cameroon (35), Gabon (35), Congo (35), Ghana (35), Liberia (35), Ecuador (34), Thailand (30), and Honduras (30). The 19 consuming countries were Japan, which alone has 398 votes, the United States (93), Korea (77), France (65), the United Kingdom (60), the Federal Republic of Germany (50), Italy (46), the Netherlands (40), Spain (26), Belgium/Luxembourg (22), Egypt (19), U.S.S.R. (18), Greece (14), Ireland (14), Denmark (13), Norway (12), Switzerland (12), Sweden (11), and Finland (10).

^{2/} As of Dec. 31, 1985, the Council had not selected an executive director or a headquarters site although the latter choice had been narrowed to the Netherlands, Japan, and Indonesia. Action on these agenda items is expected early in 1986.

The ITTA is the third commodity agreement to be negotiated under the framework of UNCTAD's IPC. Its objectives are to provide an effective framework for cooperation and consultation between tropical timber-producing and -consuming countries with a view to promoting the expansion and diversification of international trade in tropical timber and improving structural conditions in the tropical timber market. To these ends, the ITTA seeks to promote research and development aimed at improving forest management and wood utilization; to improve market intelligence; to encourage increased and further processing of tropical timber in producing member countries; to encourage reforestation and forest management activities; to improve marketing and distribution of tropical timber exports of producing members; and to encourage national policies aimed at sustainable utilization and conservation of tropical forests and their genetic resources and at maintaining the ecological balance in the regions concerned. It is envisaged that projects in these areas will be financed from the Second Account of the Common Fund for Commodities when it becomes operational, from regional and international financial institutions, and from voluntary contributions.

For the purpose of the ITTA, "tropical timber" is defined as nonconiferous tropical wood for industrial uses which grows or is produced in the countries situated between the Tropic of Cancer and the Tropic of Capricorn. The term covers logs, sawnwood, veneer, and plywood.

The objectives of the ITTA reflect a recognition by the governments concerned that tropical timber is a commodity unlike all others. Harvested from mostly virgin forests, it is a product of highly fragile ecosystems and is renewable, under certain conditions, only over a long timespan. Broadleaved hardwood forests need minimally 30 to 50 years, and, in many cases, up to 100 years, to produce harvestable logs, making management of this resource very different from that of agricultural resources. Another unique feature of this commodity lies in the fact that tropical forests not only yield valuable timber for export but also play an important role in the protection of the planetary environment and as a life support system for the people who live in or near these forests. For these reasons, the ITTA seeks to ensure that the economic use of tropical timber is kept in balance with conservation of the resource and with environmental needs. It is the only international commodity agreement to include such objectives.

OTHER TRADE AGREEMENTS ACTIVITIES

The Bilateral Investment Treaty Program

The U.S. Bilateral Investment Treaty (BIT) Program was launched in late 1981 for the purpose of encouraging U.S. direct investment abroad. ^{1/} Through the negotiation of bilateral investment treaties with interested countries (usually low- and middle-income developing countries), U.S. investors abroad are guaranteed certain rights and protections. When some of the risks and restrictions associated with overseas investment, particularly those in developing countries, are thus eliminated, U.S. international investment flows should increase.

^{1/} For a complete discussion of the BIT program, see the Operation of the Trade Agreements Program, 35th Report, 1983, pp. 36-43.

The U.S. Government negotiates BIT's using a prototype treaty that has four main objectives: (1) national and MFN treatment, (2) freedom to transfer profits and other funds across borders, (3) prompt and fair compensation in the event of expropriation, and (4) procedures for dispute settlement. The first treaty model was released in January 1982. The current model, which is a streamlined version of the original and should facilitate the negotiating process, dates from February 1984.

Since the beginning of the program, the United States has held preliminary discussions with over 40 countries. In 1985, Morocco and Turkey joined Panama, Egypt, Senegal, Haiti, and Zaire in signing BIT's with the United States. A package of six signed treaties (excluding Egypt) has been sent to the President and is expected to be transmitted to the Senate for ratification early in 1986. Furthermore, agreements with Cameroon and Bangladesh have been initialed and should be signed sometime in 1986. Negotiations are currently underway with China, Malaysia, Indonesia, Liberia, Ivory Coast, Sri Lanka, Burundi, Honduras, Somalia, Uruguay, Gabon, and Costa Rica.

U.S.-Israel Free-Trade Area Agreement

The U.S.-Israel Free-Trade Area (FTA) Agreement 1/, the first such agreement by the United States, became effective on September 1, 1985, with the first of a series of tariff reductions and eliminations. 2/ Over a 10-year period, the agreement will eliminate tariffs on all trade between the two countries. The FTA covers not only manufactured goods and agricultural products, but also areas that are not incorporated into the GATT, such as trade in services, intellectual property rights, and trade-related performance requirements. 3/ For a list of the leading items of trade between the United States and Israel, see appendix tables A-3 and A-4.

The phasing out of customs duties on four categories of products will be accomplished by January 1, 1995. Each of the categories will follow a different staging pattern based on its sensitivity to imports. Duties on the most import-sensitive products, which fall into category 4, will remain unchanged until January 1, 1990. On September 1, 1985, duties on products in the first and least sensitive category were completely eliminated, and duties on products falling in categories two and three were partially reduced.

The first major trade dispute resulting from the duty reductions under the agreement arose from increases in U.S. imports of Israeli flannel sheets. The United States established a quota under the MFA on imports of flannel

1/ An FTA is a bilateral agreement in which each country removes trade barriers with respect to the other. Under art. XXIV of the GATT, signatories may establish an FTA if the agreement eliminates duties and other trade restrictions on "substantially all trade" and does so in a "reasonable" length of time. An FTA deviates only from the GATT MFN obligations and not from the entire document.

2/ For a complete discussion of the U.S.-Israel Free-Trade Area Agreement, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 26-33.

3/ The United States has retained its rights under the MFA to restrain disruptive imports of textiles and apparel from Israel.

sheets from Israel in late October. Fearing further U.S. actions on textiles under the MFA, Israel agreed to sign a memorandum of understanding (MOU) limiting Israeli textile and apparel exports until 1989, effective immediately. The MOU was written under the authority of the FTA but is not part of it. By contrast, most U.S. bilateral textile accords have been negotiated under the MFA. 1/ The U.S.-Israel textile MOU differs from these MFA accords in two notable ways. First, under the MOU, U.S. imports of all Israeli textile products including silk, linen, and ramie are restricted, whereas the U.S. MFA agreements limit only imports of cotton, wool, and manmade fiber. Also, the MOU provides for automatic quota consultations on a product when designated import levels are reached, whereas, in the MFA agreements, the United States must first determine that the imports threaten disruption of the U.S. market.

The Steel Import Program

Background of Voluntary Restraint Arrangement Program

On September 18, 1984, the President determined, following a section 201 (escape clause) investigation conducted by the Commission, that import relief was not in the national economic interest (49 F.R. 36813). The President outlined instead a nine-point program designed to assist the domestic steel industry in competing with imports. 2/ Under this program, the President directed the USTR to negotiate voluntary restraint arrangements (VRA's) to cover the period from October 1, 1984, through September 30, 1989 (and self-initiate unfair trade petitions, if necessary), with countries "whose exports to the United States increased significantly in recent years due to an unfair surge in imports." As a result of the President's program, finished steel products were expected to fall to a more normal level of 18.5 percent of the domestic market. Imports of semifinished steel, on the other hand, would be limited to about 1.7 million tons annually. 3/

Current Status of the Program

Currently, (as of May 1986), VRA's have been concluded with 17 countries (see Table 8).

On December 10, 1985, the 1982 Arrangement Concerning Trade in Certain Steel Products between the ECSC and the United States (the arrangement) and the Pipe and Tube Arrangement were extended to coincide with the scheduled expiration of the VRA's on September 30, 1989. Under the arrangement, imports

1/ The United States and Israel have also concluded a bilateral textile agreement negotiated under the auspices of the MFA. For more information on MFA agreements, see section of ch. V entitled "Arrangement Regarding International Trade in Textiles."

2/ For additional details on the steel import program, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 16-26.

3/ In 1985, the ratio of imports to consumption of finished steelmill products was about 24.2 percent, while semifinished steel imports totaled 2.4 million tons.

Table 8.--Countries subject to VRA's, and their respective limits

Country subject to VRA's 1/	Overall limits 2/ 1986	Semifinished steel 1986
Australia-----	0.18 percent	50,000 tons
Austria-----	142,032 tons	3/
Brazil-----	0.80 percent	700,000 tons
Czechoslovakia-----	40,000 tons	3/
East Germany-----	97,500 tons	3/
Finland-----	0.224 percent	15,000 tons
Hungary-----	34,000 tons	3/
Japan-----	5.80 percent	100,000 tons
Mexico-----	0.36 percent	100,000 tons
Poland-----	90,000 tons	3/
Portugal-----	40,000 tons	3/
Romania-----	105,000 tons	3/
South Africa-----	0.42 percent	100,000 tons
South Korea-----	1.90 percent	50,000 tons
Spain-----	0.67 percent	50,000 tons
Venezuela-----	167,600 tons	60,000 tons
Yugoslavia-----	25,200 tons	3/

1/ Market share of tonnage may vary during the 5-year period.

2/ Percentage reflects imports as a percent of U.S. apparent consumption. Tonnage is in short tons.

3/ No explicit semifinished steel provisions.

Source: Compiled by the staff of the U.S. International Trade Commission based on information obtained from the USTR and U.S. Department of Commerce.

of finished steel products from the EC will be held to about 5.5 percent of U.S. apparent consumption and semifinished steel shipments will be held to 600,000 short tons per year (200,000 tons of which are allocated to British Steel Corp.). 1/

Progress on Services Trade Agreements in 1985

International trade in services has been estimated at over \$500 billion annually or approximately 25 percent of world trade. 2/ However, few countries have been as enthusiastic as the United States about liberalizing services trade. Bound up in the U.S. desire to begin a new round of multilateral trade negotiations, is the U.S. objective to extend GATT discipline to services where international rules are limited or nonexistent. The United States accounts for the largest share of world services trade

1/ For further details, see "The European Community" in ch. IV of this report.

2/ U.S. Department of Commerce, Business America, "Services Play a Pivotal Role in the U.S. Economy," Jul. 8, 1985, p. 16.

(approximately 20 percent) 1/ and is the world's largest exporter of services. 2/ Yet 1984 marked the third year of decline in the U.S. services trade balance. In order to achieve greater U.S. sales of services abroad, reduction of trade barriers to U.S. services exports is of key importance.

U.S. goals on services in a new round of trade negotiations are to establish an umbrella set of general rules applicable to all services combined with specific rules that apply to several of the major service sectors. Four major objectives would be addressed: (1) right of entry in foreign markets and national treatment of foreign firms; (2) transparency of laws and regulations; (3) special rules governing public monopolies to ensure foreign competition; and (4) consultation and dispute settlement procedures to enforce the understanding. If U.S. efforts are unsuccessful on the multilateral front, other ways of opening service markets will be explored. In 1985, the United States negotiated a bilateral free-trade agreement with Israel that included services 3/ and also began discussions that could lead to a similar agreement with Canada. 4/

The U.S. efforts to include services in any new trade round showed some signs of success towards the end of 1985. Opposition by the developing countries continued to weaken as a growing number of developing and newly industrialized countries openly voiced approval of the inclusion of services in the MTN agenda. 5/ A small group of developing countries, led by India and Brazil, however, strongly resisted U.S. efforts throughout 1985. Fearing foreign domination of their markets, they have argued that the GATT framework is not appropriate for services. The United States rejected their suggestion to hold separate negotiations on services.

Inadequacy of data on services has proved to be one of the greatest obstacles to effective international discussions on services trade. To aid in the development of a comprehensive U.S. policy on services, the Bureau of Economic Analysis, in the U.S. Department of Commerce, proposed a new survey in 1985 to expand data on service industries. 6/ The goals of the new data were to improve the balance-of-payments accounts, assist businesses in identifying and evaluating market opportunities, and to support trade-policy formulation and negotiations. The data would have allowed estimation of

1/ U.S. Department of Commerce, "Services Data: Expanding our Understanding," Business America, Mar. 4, 1985, p. 6.

2/ Statement entitled "Strengthening the Multilateral Trading System," by the Honorable Malcolm Baldrige, Secretary, U.S. Department of Commerce, at the OECD Ministerial Meeting, May 1984.

3/ For a complete discussion of the U.S.-Israel Free-Trade Area Agreement, see Operation of the Trade Agreements Program, 36th Report, 1984 pp. 26-33.

4/ For a complete discussion of the Canadian-American Free-Trade Initiative, see ch. I.

5/ Chile, Israel, Singapore, South Korea, and Jamaica now favor covering services in the trade talks although they emphasize that liberalization of trade in goods takes priority.

6/ The benchmark survey would have obtained information for 1985 on selected service transactions between U.S. companies and unaffiliated foreign firms. Specifically, the data would have covered sales and purchases of services, by type of purchase, from both goods-producing and services-producing U.S. firms.

overall effects of barriers to trade in services and the calculation of the costs and benefits of various trade liberalization packages. However, the proposal was not approved by the Office of Management and Budget (OMB). The survey is currently under revision and not expected to be ready for 1985 data collection.

Services activities in multilateral forums

The following sections outline the ongoing work programs on services trade issues in the GATT, OECD, and UNCTAD. Trade agreements activities in three major service industries (insurance, telecommunications, and data processing) will then be discussed. Each of these industries was significant in terms of international developments in 1985.

General Agreement on Tariffs and Trade

In November 1982, an exchange of information on services trade issues was launched at the GATT Ministerial meeting. In order to provide a foundation for discussion of services trade issues, interested GATT members were invited to undertake national examinations of their service industries and to exchange this information among themselves. Thirteen national examinations had been prepared by the 1984 annual session of the GATT CP's. ^{1/} In a compromise decision taken at the 1984 annual session, the informal exchange was converted to a more structured work program on services for 1985. Under the work program, formal meetings among GATT members were set up and the Secretariat was directed to compile a summary of information contained in the national studies.

Eight information exchanges were held in 1985. Those meetings during the first half of the year discussed the original 13 national studies. Three more studies, submitted by Australia, Belgium, and France, were discussed during the latter half of 1985. In response to the 1984 mandate, the Secretariat prepared and frequently updated an analytical summary of the information exchanged among the CP's. The Secretariat's summary classified the information in a manner consistent with the presentations of most national studies. Common headings were definition and coverage, services in the world and national economies, economic concepts related to production and trade in services, statistical problems, national and international regulations, and restrictions in international transactions. Since the meetings were not directed towards any attempt to reach consensus on issues, the report sought only to summarize for ease of reference by the CP's.

The Secretariat prepared two additional documents pursuant to the 1984 mandate. First, the Secretariat provided a tabulation of views expressed by different delegations on the issues raised during these meetings. Also, the

^{1/} For more details, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 100 and 101.

Secretariat summarized the information made available by relevant international organizations regarding their activities in the services area. 1/

The 1984 mandate on services directed the CP's at their annual session in 1985 to review the results of the examinations along with information and comments provided by relevant international organizations, and to consider whether further multilateral action is appropriate and desirable. The CP's agreed to continue the exchange of information on services and requested that recommendations be prepared for consideration at their next regular session.

Organization For Economic Cooperation and Development

In 1982, the OECD Ministerial Council launched a work program to "examine ways of removing unjustified impediments to international trade in services and to improve international cooperation in this area." 2/ The work program has taken a two-part approach. Committees with sectoral expertise are identifying and evaluating obstacles to trade in specific service industries. 3/ The Trade Committee and its working party, on the other hand, are establishing a general framework for considering service trade issues. At the 1984 Ministerial-level meeting, the Council requested that the Trade Committee submit a report, including proposals for future action, to the 1986 annual Ministerial meeting.

The Trade Committee has been examining the obstacles to trade in services and how GATT principles and other relevant concepts can be applied to services trade. Two documents prepared in 1985 reflect the work of the Trade Committee. First, the working party submitted a report to the Trade Committee summarizing the discussions that have taken place on concepts relevant to trade in services. Conceptual and general questions were treated, particularly those where participants have differed over the nature or scale of the problems involved. Examples of these issues include the relationship between trade and investment and questions related to regulation. Efforts were also made to tie in the work on concepts with sectoral problems by supporting discussions with examples in specific sectors. 4/ Further work in this area is anticipated, including extending the work to cover new sectors.

1/ Those international organizations that submitted information include UNCTAD, International Trade Centre UNCTAD/GATT, United Nations (U.N.) Centre on Transnational Corporations, International Civil Aviation Organization, World Intellectual Property Organization, International Monetary Fund, UN Economic Commission for Europe, U.N. Economic Commission for Latin America and the Caribbean, OECD, Secretariat of the Latin American Economic System, International Labor Organization, International Telecommunications Union, and World Tourism Organization.

2/ OECD, "OECD Council Meeting at Ministerial Level Communique," The OECD Observer, May 1982, p. 6.

3/ For further details on the sectoral studies published, see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 101 and 102. No new sectoral studies were published in 1985, but work is in progress on the audiovisual sector, financial services (securities markets), telecommunications services, and the computer sector.

4/ In 1984, the Ministerial Council gave its "support for the efforts, under the aegis of the Trade Committee, to relate broad concepts relevant to trade in services to the problems identified in specific sectors."

The second document, issued under the responsibility of the Secretariat, outlines the elements drawn from the ongoing work that may form the starting basis for establishing an overall framework of principles covering trade in services. Issues addressed in the conceptual framework include market access, transparency, national treatment, principles of regulation, monopolies, safeguards, and nondiscrimination. In 1986, the framework will be tested in various service sectors to determine the effectiveness of the framework in dealing with sectoral problems. Both documents are intended to assist the Trade Committee in reporting to the 1986 Ministerial Council on work status and recommending possible future action.

The Trade Committee working party on services trade statistics continued to meet in 1985 to inventory and compare available OECD member government statistics on trade in services. OECD members have agreed on the need for greater harmonization of statistical practices, both in measuring trade flows and in providing a tool for international trade negotiations. They also agreed on the importance of increasing international coordination of statistical efforts among member governments and within the OECD, especially with regard to establishing common definitions and classifications. The Secretariat is currently preparing an options paper outlining the ways this work could be organized within the OECD.

In November 1985, the OECD Council adopted a decision on removing obstacles to international tourism. ^{1/} Under the decision, OECD members agreed to take cooperative steps to further reduce government impediments to international tourism and ease tourist travel. Agreed guidelines aim to liberalize and ameliorate procedures regarding customs facilities, documentation, the international circulation of private vehicles, the imposition of departure taxes, and the temporary employment of workers in the tourism industry. The decision also seeks to eliminate measures that distort competition or discriminate in favor of national enterprises in the tourism sector. Procedures have been set up to monitor progress towards these goals.

Complementing this work are recent changes related to tourism in OECD's Code of Liberalization of Current Invisibles Operations (CLIO). ^{2/} New provisions have been adopted that provide unlimited use of credit cards for travel expenditures, significantly increase the amounts of travelers cheques and foreign currency that travelers can automatically import or export, and increase the amounts of domestic banknotes that travelers can take abroad automatically.

OECD work to facilitate exchanges of information and data across national borders resulted in April 1985 with the adoption of a declaration on transborder data flows (TDF), the first international effort to address

^{1/} See "Removing Obstacles to International Tourism in OECD Countries," OECD Press Release, Dec. 6, 1985.

^{2/} The OECD operates 2 codes that address trade restrictions in services: (1) the CLIO, which calls for the removal of obstacles to the international exchange of services and current payments, and (2) the Code on Liberalization of Capital Movements, which calls on members to remove restrictions on private capital flows. For further details, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 102.

economic issues in this area. 1/ Under the agreement, OECD members agreed to promote free access to data and information services; seek transparency of related regulations and policies; develop common approaches, and, when appropriate, "harmonized solutions" to problems related to TDF; and consider the implications for other countries of measures affecting TDF. OECD members also agreed that further work should be undertaken, with particular emphasis on issues related to flows of data accompanying international trade, marketed computer services and computerized information services, and intracorporate data flows. At the same time, they recognized the right of individual governments to safeguard legitimate social and economic goals, such as privacy protection and national security.

United Nations Conference on Trade and Development

Service issues have long been part of UNCTAD's work program. Studies have been conducted on specific service industries (notably shipping, insurance, and financing related to trade) and on service issues related to technology transfer and the control of restrictive business practices. Within the U.N., many organizations deal with service-sector concerns. Whereas some bodies are responsible for a particular subsector (e.g., the International Civil Aviation Organization), others deal with issues applicable to services in general (e.g., the World Intellectual Property Organization).

UNCTAD's interest in services intensified in 1982 when the TDB decided that when dealing with the underlying factors and the policies that influence structural adjustment and trade, attention should be paid to services as well as manufactures. 2/ In 1984, pursuant to an UNCTAD VI resolution, the Secretariat produced a study on services in the development process, 3/ but the 29th TDB meeting in September 1984 failed to reach a consensus on an UNCTAD program on services. After considerable debate, the 30th session of the TDB agreed that UNCTAD's contribution in services should be intensified. In addition to continuing its ongoing work on specific service sectors, future work on services should include (1) consideration of the definitional aspects of services, (2) strengthening and improving the data base at the national, regional, and international levels, (3) further indepth studies of the role of services in the development process to enable countries to analyze the role of services in their economies and its contribution to the development process; and (4) assisting interested countries in their analysis of the role of the services sector in their economies. One key factor in determining services' role in the development process is to identify interlinkages between services and other sectors of the economy, particularly the relationship between services and production, distribution, and consumption of material goods.

1/ For more detailed discussions on the issue of transborder data flows in the telecommunications and data processing sectors, see the sections on "Telecommunications services" and "Data processing services" in this chapter.

2/ For a discussion of services role in the adjustment process, see previous section on UNCTAD, "Protectionism and Structural Adjustment."

3/ For a description of the Secretariat's study entitled "Services and the Development Process," see the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 103 and 104.

An international code of conduct on the transfer of technology has been under formal negotiation since 1978. This code will establish standards for the buying and selling of technological information across national borders and will cover almost all technological service transactions. The code was expected to have been completed during 1985, but negotiations broke down. One of the major issues under dispute was the applicability to related enterprises, particularly corporations and their subsidiaries, of various guidelines discouraging certain restrictive practices in international transactions. The draft code, with agreed provisions as well as proposals for disputed sections, was transferred to the U.N. General Assembly for further action.

The year 1985 also marked the first review of UNCTAD's code on restrictive business practices that was adopted by the U.N. General Assembly in 1980. 1/ The code was developed to control restrictive business practices, including those of multinational corporations, which adversely affect international trade and, in turn, the economic development of developing countries. The review concluded without any agreement on proposals for its improvement or future implementation. The industrialized countries rejected the proposal of developing countries to set up a stronger institutional mechanism to enforce the code. The report on the review, including various proposals for future action, was transmitted to the U.N. General Assembly which will decide whether to convene another conference.

Trade Developments in selected service industries

Insurance Services

Trade.--The value of insurance services is partially covered in the U.S. international transactions accounts under "private miscellaneous services," which provides separate identification only for exports and imports of reinsurance. 2/ Net export premiums received for reinsurance increased to \$206 million in 1984 (from \$190 million in 1983), whereas net import premiums paid accounted for \$398 million in 1984 (down from \$696 million in 1983), reflecting a decline in the value of import premiums. However, the United States still had an overall trade deficit for this type of insurance. 3/ The decline in the level of import premiums reflects many of the same problems faced by domestic companies: increased competition, reduced premiums, and an increasing level of claims.

1/ The formal title of the code is the UNCTAD Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.

2/ Reinsurance is insurance which one firm buys from another in order to write an amount of insurance on a single risk greater than its capital assets would permit.

3/ Export and import data supplied by U.S. Department of Commerce, Bureau of Economic Analysis, from the international transactions accounts, as of September 1984. Exports include premiums received, less losses paid; imports include premiums paid, less losses recovered. These transactions are not a measure of the profitability of international reinsurance transactions of U.S. companies, nor an indication of their international competitive position, because risks transferred to, and assumed from, foreign insurers are usually only a small part of the total risks insured by U.S. companies.

U.S. insurance companies, particularly life insurance companies, are continuing to expand their overseas operations, principally in developed countries. Foreign premium receipts from life insurance business amounted to \$469 million in 1984, up 11 percent from \$424 million in 1983. Total foreign premium receipts increased at an average annual rate of 16.7 percent from 1975 to 1984. Although this foreign premium income is only a small portion of total premium income of U.S. life insurance companies, it exceeded income generated in each of 25 States in the United States. 1/

Whereas international transactions remain important to the entire U.S. insurance industry, the industry experienced an increasing amount of losses in 1985, especially in the reinsurance area. This is principally attributed to the entry of many new insurance companies that slashed premiums to write more coverage, no matter how risky. These companies are now faced with a rising number of claims and reduced income. Overall, the market grew an estimated 5 percent during 1984-85 to an estimated \$9 billion in receivables from international operations in 1985, less than 10 percent of total domestic revenues. 2/

Trade-related activities in 1985.--Trade barriers continue to plague the insurance industry on an international level, with many developing countries placing stringent regulations on foreign and multinational corporations that seek to do business in their countries. The United States has placed increasing emphasis on removing barriers to trade in insurance services in its multinational and bilateral trade negotiations. 3/ Recently, the U.S. Government instituted a section 301 case against Korea for refusing admittance to U.S. insurers. Negotiations are continuing between the Department of Commerce, the USTR, and the Korean Government in an attempt to resolve the problems. 4/

Recent trade activities in 1985 for the insurance industry centered around a special life insurance trade study mission to the Far East in March and April 1985. Its objective was to build mutual understanding, to improve market access, and to ease regulations restricting foreign insurers. The trade study mission, which included six life insurance companies and two software firms specializing in the insurance market, visited Hong Kong, Indonesia, Singapore, and Malaysia. 5/ This trip, jointly sponsored by the

1/ U.S. Department of Commerce, 1986 U.S. International Outlook, January 1986, p. 51-54.

2/ Estimated by the staff of the U.S. International Trade Commission.

3/ The Trade and Tariff Act of 1984 (Public Law 98-573, Oct. 30, 1984) called for identification of trade barriers to U.S. trade and investment that tend to restrict international trade in services. Trade practices that restrict market access in services are now subject to possible action under Section 301 of the 1974 Trade Act. The 1984 act also gives the President authority to negotiate bilateral free-trade agreements. The U.S.-Israel Free-Trade Area Agreement (Public Law 99-47, Jun. 11, 1985) contains an article committing each party to free trade in services and represents the first negotiated code of conduct to liberalize services trade across the board.

4/ For further information on the investigation into Korea's insurance industry practices, see the section entitled "Korea" in ch. IV.

5/ U.S. Department of Commerce, 1986 U.S. Industrial Outlook, January 1986, p. 51-4.

U.S. Department of Commerce's International Trade Administration and the American Council of Life Insurance, was judged successful by participants and future trips are being planned.

Under the services provision of the U.S.-Israel Free-Trade Area Agreement (Public Law 99-47, June 11, 1985), the sectoral review process continued and is expected to include discussions on insurance services. This process is intended to identify areas within each sector for which agreement is necessary to minimize restrictions and maintain an open system of services exports between the two nations. It is anticipated that the Administration's proposed talks on a free-trade arrangement with Canada will include discussions on insurance services. In November 1985, GATT members agreed to develop a work plan for trade negotiations in which U.S. officials are urging the inclusion of talks on services such as insurance.

Continuing the trend begun in 1984, the U.S. insurance industry is preparing for the eventual entry of commercial banks into the insurance market. At least temporarily, this entry has been blocked by the Federal Reserve Board and the reluctance of Congress to enact comprehensive banking legislation in 1985, permitting depository institutions to sell insurance. The banking industry is expected to lobby strongly for this legislation again in 1986.

Another key issue facing insurers in 1985 was the administration's proposal to reform the U.S. tax system. The proposals would end the special tax treatment that is available to purchasers of certain investment policies. The industry is strongly opposed to such changes and anticipates a continuing battle over these issues in the coming year.

Telecommunications services

Trade.--The value of certain communications services is covered under "other private services" in the U.S. international transactions accounts and reflects the division of revenues between U.S. carriers and foreign carriers. 1/ These estimates also include receipts and payments between foreign communications companies and the International Satellite Communication Organization (Intelsat). 2/ Exports of communications services rose only 3 percent above the 1983 level to an estimated \$1.34 billion in 1984. Imports showed much stronger growth, increasing 20 percent during the same period to an estimated \$2.4 billion. Imports exceeded exports by \$1.1 billion in 1984, which represents an increase of over 50 percent in the deficit. 3/ Deficits are created largely by the fact that the majority of communications between the United States and foreign nations originates in the United States.

International communications service revenues are estimated to have risen over 14 percent in 1985 to \$3.2 billion and are expected to increase nearly 13 percent in 1986 to \$3.6 billion. Continued growth is anticipated over the

1/ Imports are defined as payments by U.S. carriers to foreign carriers for the use of transmission services and exports are receipts from foreign carriers for transmission services provided by U.S. carriers.

2/ Intelsat is a consortium of 110 countries whose goal is to develop a global communications system. Comsat represents the United States in Intelsat.

3/ Estimated by the Bureau of Economic Analysis, U.S. Department of Commerce.

next 5 years with international revenues expected to increase at an average annual rate of 15 percent. ^{1/} In contrast, revenues from domestic communications services are estimated to have totaled \$103 billion in 1985, an 8-percent increase over the 1984 estimate. Growth in domestic revenues is expected to slow slightly in 1986 to 7 percent with revenues projected at \$110 billion.

Trade-related activities in 1985.--Barriers to international trade in telecommunications services are endemic throughout the world. In most countries, this industry is controlled by a branch of the government referred to as a "post, telephone, and telegraph administration" (PTT) and is regarded as an important source of income. In order to protect this revenue source, the PTT's closely regulate telecommunications services and tend to establish regulations that discourage competition and enhance income. Some U.S. firms have been successful in breaking into this market. MCI, for example, has negotiated agreements with 33 countries serving 80 percent of the world voice market by convincing foreign PTT's that competition would increase volume and revenues approximately 20 percent. However, many industry experts feel that the assistance of the U.S. Government is needed to overcome foreign trade barriers ^{2/} that are generally a result of certain countries' efforts to maintain control over telecommunications services.

One attempt to help U.S. providers of international telecommunications services is proposed legislation such as the Telecommunications Trade Act of 1985 (S. 942 and H.R. 3131). This bill provides for the identification of foreign markets that restrict U.S. trade in international telecommunication services and for the imposition of various restrictions on those countries until access of U.S. firms to their markets is no longer limited. ^{3/} In November 1985, a preparatory committee was established within the GATT to develop a work plan for a new round of multilateral trade negotiations. U.S. officials are urging the inclusion of services such as telecommunications in the talks.

In 1985, the United States and West Germany held talks over market access of U.S. suppliers of telecommunications equipment and services. The West German market has been viewed as excessively restrictive and discriminatory to foreign equipment and services. For example, international carriers have been excluded from connecting directly to the German public network. As a result of these negotiations and pressure within the EEC, the German PTT has indicated a willingness to reduce data transmission charges, ease restrictions

^{1/} U.S. Department of Commerce, 1986 U.S. Industrial Outlook, January 1986.

^{2/} Communications Daily, May 30, 1985, p. 5.

^{3/} The Trade and Tariff Act of 1984 (Public Law 98-573, October 30, 1984) called for identification of trade barriers to U.S. trade and investment including international trade in services. Trade practices that restrict market access in services are now subject to possible action under Section 301 of the Trade Act of 1974. The Trade and Tariff Act of 1984 also gives the President authority to negotiate bilateral free-trade agreements. The U.S.-Israel Free-Trade Area Implementation Act of 1985 (Public Law 99-47, June 11, 1985) contains an article committing each party to free trade in services and represents the first negotiated code of conduct to liberalize services trade across the board.

on private line connections, and allow direct connection of modems to the public network. 1/ The negotiations are scheduled to continue in 1986.

Differing views on demand for services and the need for deregulation typify the uncertain nature of the industry. Although many industry experts feel there is currently a transponder glut and that transoceanic cables, particularly fiber-optic cables, will increasingly siphon traffic away from satellites, a recent study by the National Aeronautics and Space Administration (NASA) indicates that strong growth in demand is expected to come from developing countries and will result in the need for increased satellite facilities. 2/ The majority of the growth will be handled by Intelsat but the study predicts the growth of as many as 15 regional or domestic networks by the year 2000. The possibility of future deregulation of international services is also a topic of discussion. According to an Federal Communications Commission (FCC) study released in January 1986, the FCC's policy of balanced loading, the requirement that a certain percentage of telecommunications services be transmitted via satellite and the remainder via cable, is no longer justified. 3/ The study finds that the loading requirements may have resulted in higher costs and prices in international communications services by promoting the construction of excess capacity and concludes that discontinuing this policy would be beneficial to the consumer.

Intelsat's monopoly on international telecommunications services became even more precarious in 1985 as the (FCC) gave conditional approval to six applications from private companies to provide international satellite telecommunications services. Although these private networks are not expected to be in operation for several years, the threat of competition has pressured Intelsat to look at its cost structure and services vis-a-vis a competitive market. Compared to projections for private networks, Intelsat is a high-cost provider with a high proportion of excess capacity. In an attempt to ready itself for a competitive marketplace, Intelsat lowered some of its rates and increased the services it offered. 4/ In December 1985, it gave final approval for the sale or long-term, nonpreemptable lease, for domestic use, of dozens of surplus satellite transponders. 5/ Representatives of domestic satellite companies and some governments have charged that Intelsat is using "predatory pricing" to become a major factor in domestic satellite communications in many countries. However, Intelsat insists that its prices are cost based and allow for the recovery of all costs associated with transponders.

The participation of the Soviet Union in international communications increased as a result of two agreements in 1985. The first was a 1-year cooperative agreement between Turner Broadcasting System and the U.S.S.R. State Committee for TV and Radio to exchange news and informational

1/ Communication Daily, Nov. 15, 1985, p. 9, and Dec. 13, 1985, p. 4.

2/ NASA Technical Memorandum 87077, "Telecommunications Forecast for ITU Region 2 to the Year 1995," Lewis Research Center.

3/ FCC, OPP Working Paper #19, "Promoting Competition Between International Telecommunications Cables & Satellites."

4/ Communications Daily, June 21, 1985, p. 1.

5/ Communications Week, Dec. 16, 1985, p. 1.

programs. 1/ Turner Broadcasting is planning to obtain Soviet programming by accessing the Soviet Union's Ghorizont satellite system. The Soviet Union uses the Intelsat system, and accounted for 1 percent of Intelsat's total television traffic in 1984, although it has not joined this international organization. However, in August 1985, the Soviet Union signed an MOU that laid the groundwork for increased use of Intelsat's network for worldwide transmission of Soviet communications. 2/ Neither the Soviet Union nor Intelsat indicated that this agreement would lead to full membership status for the U.S.S.R.

Data processing services

Trade.--The value of U.S. exports of data processing services is estimated to have reached more than \$1.5 billion in 1985, a 12 to 15 percent increase over 1984. 3/ Professional services, such as the writing of custom computer software, computer education and training, and the selling of value-added, ready-to-use, dedicated computer systems, accounts for the bulk of data processing services revenues.

For the most part, international transactions in data processing services are conducted through a foreign subsidiary, in order to counter existing restrictions on access to foreign computer markets. U.S. data processing service firms often establish a presence in foreign markets to service the needs of their U.S. customers with operations abroad. This is particularly true of U.S. data processing service subsidiaries in Canada and Mexico. 4/ Further penetration by U.S. firms into foreign markets is not expected to increase substantially in the near future, however, as many foreign firms provide for their computer service needs "in-house" and trade barriers remain. 5/

Given the U.S. dominance in computer technology, imports of data processing services into the United States are small. No accurate data are available for imports, but the figure is believed to be insignificant. Certain large foreign companies have gained access to the U.S. market through acquisitions of U.S. data processing firms. 6/ Some analysts predict more

1/ International Communications News, May 10, 1985, p. 4.

2/ "Soviet Signs Pact With Intelsat," The Washington Post, Aug. 28, 1985, p. G1.

3/ According to industry sources, U.S. exports of data processing services are conservatively estimated at 10 percent of total U.S. data processing service revenues. In 1985, the U.S. Department of Commerce published the Association of Data Processing Services Organization's (ADAPSO) estimate of \$15 billion in revenues for the industry in 1985.

4/ For more information on the U.S. industry and foreign markets, see A Competitive Assessment of the U.S. Data Processing Services Industry, U.S. Department of Commerce, 1984.

5/ "Information Services," U.S. Industrial Outlook 1986, U.S. Department of Commerce, p. 48-3. Trade barriers fall into three main categories: general barriers to foreign services operations, telecommunications regulations, and restrictions on the content of information or transborder data flows.

6/ For information on the types of firms which offer data processing services in the United States, see "A Global Industry . . . Datamation 100," Datamation, June 1, 1985, pp. 37-82.

acquisitions by foreign firms in the near future, as firms seek not only to enter the large U.S. market, but also to gain the technical expertise of the subsidiary firm.

Trade-related activities in 1985.--In early 1985, market-oriented sector selective (MOSS) talks were agreed upon between the United States and Japan that may eventually lead to promising business opportunities for U.S. data processing service firms in Japan. 1/ In late August, the Japanese Government announced several measures to lift restrictions on access to its data processing market. 2/ Service companies from the United States should benefit in the future from Japanese concessions such as the elimination of import tariffs on all central processing units and computer peripherals by April 1986, and the dropping of a proposed law that would hamper sales of foreign software in Japan. However, penetration into the Japanese market is expected to be slow, as cultural differences may still remain a barrier. 3/

On September 7, 1985, President Reagan ordered an investigation to determine whether Brazil's "Informatics" law constitutes an unfair trade practice under section 301 of the Trade Act of 1974. 4/ The Informatics policy, instituted in 1984 and scheduled to run through 1992, reserves much of the fast-growing Brazilian computer market for companies owned by Brazilian nationals. Sources indicate that Brazilian restrictions also affect transborder data flows, including communications between multinational corporations and their subsidiaries. 5/

In December 1985, the U.S. Department of Commerce commenced a program of market access fact finding (MAFF) talks with Western European countries to discuss the current structure and the extent of restraints on trade in telecommunications markets, including data processing services. The talks opened with West Germany in December, and are scheduled to continue in the spring of 1986 and into 1987 in meetings with Italy, Spain, the Netherlands, France, Sweden, and the United Kingdom. During U.S.-West German bilateral discussions, West Germany reportedly offered to reinstitute the use of leased communication lines with volume determined pricing. Sources indicate that such a pricing scheme will eventually lead to the removal of restrictions on

1/ International Economic Review, U.S. International Trade Commission, November 1985, pp. 10 and 11.

2/ For further information, see the section entitled "Japan" in ch. IV.

3/ Datamation, "The Kimono is Open," Nov. 1, 1985, pp. 36-43.

4/ The Trade and Tariff Act of 1984 (Public Law 98-573, Oct. 30, 1984) called for identification of trade barriers to U.S. trade and investment including international trade in services. Trade practices that restrict market access in services are now subject to possible action under Section 301 of the Trade Act of 1974. The Trade and Tariff Act of 1984 also gives the President authority to negotiate bilateral free-trade agreements. The U.S.-Israel Free-Trade Area Implementation Act of 1985 (Public Law 99-47, June 11, 1985) contains an article committing each party to free trade in services and represents the first negotiated code of conduct to liberalize services trade across the board.

5/ International Economic Review, U.S. International Trade Commission, January 1986, pp. 7 and 8; and The Economist, "A Computer on the Other Foot", Sep. 14, 1985, p. 72.

transborder data flows that hamper multinational firms from transmitting data from West Germany for processing in other countries. 1/

Other ongoing talks are seen as important to international activities by those within the data processing services industry. During 1985, various groups within the OECD met to discuss barriers to international data flows and examine which aspects could be brought under an OECD code for the liberalization of trade. 2/ The International Telecommunications Union (ITU) Consultative Committee on International Telegraph and Telephone (CCITT), based in Geneva, meets in order to help maintain and extend international cooperation in telecommunications. A study group was formed by the CCITT to discuss private line rates, which is of particular interest to those data processing firms that deal with transborder data flows. In the latter part of 1985, GATT members agreed to form a Preparatory Committee to develop a work plan for future trade negotiations in which U.S. officials are urging discussions on trade in services such as data processing. Finally, the sectoral review process, including discussions on data processing services, continued under the services provision of the U.S.-Israel Free-Trade Area Agreement (Public Law 99-47, June 11, 1985). The administration's proposed free-trade talks with Canada are also likely to include discussions on data processing services.

Recent advances in computer and communications technology have substantially changed the types of services required by data processing customers, and may have future implications affecting services trade. Both in the United States and abroad, the advent of the microcomputer and complementary, easy-to-use software has made in-house computing a practical option for many organizations. As a result, services such as training and customization of equipment have become growing segments of the data processing market. Increasing emphasis is also being placed on data communications such as parent company to foreign subsidiary contact and remote timesharing. As noted, talks are underway to minimize restrictions on "transborder data flows" and other matters relating to improved access for data processing service firms into foreign markets. 3/

1/ International Communications News, Dec. 20, 1985, p. 6.

2/ See discussion of OECD in the previous section in this chapter entitled "Services activities in multilateral forums."

3/ See also the section entitled "Telecommunications services" for a discussion of the role of PTT agencies in impeding transborder data flows.

CHAPTER IV

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

INTRODUCTION

This chapter reviews the economic performance of major U.S. trading partners, U.S. trade with those countries, and important bilateral trade issues in 1985. U.S. relations with Canada, the EC, Japan, and the newly industrialized countries (NIC'S) of Mexico, Taiwan, the Republic of Korea, and Brazil are discussed.

In 1985, the United States registered an overall merchandise trade deficit of \$136.6 billion, of which \$118.1 billion (87 percent) was with the countries under review. The strength of the U.S. dollar and some loss in U.S. competitiveness in the production of certain manufactured products were substantially responsible for the deterioration of the U.S. merchandise trade account. The largest merchandise trade deficit in 1985 was with Japan (\$46.6 billion, or 34.1 percent of the total U.S. merchandise trade deficit), followed by Canada (\$23.9 billion or 17.5 percent), and the EC (\$20.9 billion or 15.3 percent). The U.S. merchandise trade deficit with the NIC's covered in this report totaled \$26.7 billion or 19.5 percent of the total U.S. merchandise trade deficit.

Two-way trade between the United States and each of its major trading partners increased in value in 1985. Two-way trade of \$113.9 billion between the United States and Canada in 1985 (up 28 percent from 1984) again constituted the largest single trading partnership in the world. The second largest two-way trade partnership was that between the United States and the EC, which registered \$108.1 billion (up 6 percent from 1984). The third largest trade partnership was between the United States and Japan at \$89.8 billion (up 13 percent from 1984).

The number and intensity of unresolved U.S.-Canadian trade issues continued to be dwarfed by the growing volume of bilateral trade. However, the United States remained dissatisfied with the Canadian Government's subsidized freight rates for certain agricultural products and with certain practices of the Provincial governments' liquor boards. The growing merchandise trade deficit with Canada was a significant factor behind the large number of proposed protectionist trade bills before the U.S. Congress in 1985. Canada officially presented a proposal to the United States in 1985 to enter into negotiations leading to a free-trade agreement between the two trading partners.

The year in trade between the United States and the EC was the most confrontational in over 2 decades. Although agreement was reached over trade in canned fruit and steel pipes and tubes, the two trading giants could not reach agreement over a wide range of agricultural trade issues. Since the U.S. dispute with the EC over its use of Mediterranean tariff preferences for citrus products was not resolved, the United States increased duties on imports of pasta from the EC in retaliation. The EC responded to the U.S. action on pasta by increasing duties on imports of U.S. lemons and walnuts. The United States challenged the EC's usage of agricultural export subsidies by instituting its own program to enhance certain U.S. farm exports to selected third-country markets.

Increased acrimony in U.S.-Japanese relations was in evidence in 1985 as the U.S. merchandise trade deficit with Japan soared to a new record high. The attention paid to bilateral trade in 1985 brought into focus an increasing U.S. frustration with Japan for its failure to take effective measures to open its market to competitive imported goods. However, a year of intense bilateral consultations on sectoral trade barriers did result in a number of policy actions by Japan in 1985 that are likely to widen opportunities for U.S. firms. Furthermore, an "Action Program on Imports" released in July should streamline government product approval and import clearance procedures.

Progress was made in 1985 to resolve some of the outstanding bilateral trade issues between the United States and Mexico. The two countries concluded a long-awaited agreement on subsidies--a milestone in bilateral ties--and agreed to begin negotiations on a comprehensive bilateral commercial agreement on trade and investment. The liberalization of import controls and the Government's decision to join the General Agreement of Tariffs and Trade also improved bilateral ties.

Gaining increased access to Taiwan's markets for U.S. producers continued to be a source of friction between the United States and Taiwan in 1985. Taiwan's tariff and nontariff barriers remained formidable restraints to U.S. exports to Taiwan during the year under review. Trade relations between the United States and South Korea were particularly tense as scores of proposed protectionist bills before the U.S. Congress and an increasing number of antidumping and other investigations into Korean exports in 1985 aroused Korean concern. Although the Koreans viewed these investigations as both unfair and a form of harassment, the U.S. position was that it is unfair for Korea to keep competitive U.S. goods and services out of Korean markets while cheaply produced Korean goods penetrated U.S. markets. Finally, U.S. producers continued to cite Brazil's across-the-board import-licensing requirements, Government procurement practices, and high import duties on a wide variety of items as impediments to U.S. exports to Brazil.

CANADA

The Economic Situation in 1985

In 1985, Canada enjoyed its third year of economic recovery. GNP growth in the third quarter was 6.7 percent, signaling a good showing for the year overall. The average rate of real GNP growth for the OECD countries was 2 3/4 percent for 1985. The Canadian rate was 4 percent for the year, second only to Japan. Consumer prices for the year rose 4.0 percent, an improvement over the 4.3 percent rise of 1984.

Unemployment has been of particular concern in Canada where, despite impressive growth figures, a persistently high rate of unemployment has continued. In 1985, unemployment averaged 10.5 percent, down from 11.3 percent the previous year. The annual rate mirrors the steady decline over the four quarters, from 11.1 to 10.2 percent. ^{1/} The outlook is for further declines, particularly in the face of a slower growing labor force.

^{1/} In January 1986, the rate fell to 9.8 percent, the first time that unemployment registered below 10 percent since 1981.

After falling 2.3 percent in 1984, the trade-weighted average value of the Canadian dollar continued downward in 1985. The declines for the first three quarters were 2.1, 10.2, and 4.0 percent, respectively. ^{1/} In 1985, the Canadian dollar declined by nearly 5 percent relative to its U.S. counterpart, and by over 10 percent in effective terms. The stubborn budget deficit--greater on a per capita basis than that of the United States ^{2/}--is believed to be a major reason behind the shrinking Canadian dollar.

Merchandise trade with the United States

The world's largest international trade flow takes place between Canada and the United States. Because of slower economic growth in both countries in 1985, two-way trade continued to expand, albeit slightly. The Canadian market increased its share of overall U.S. exports from 21.0 to 21.8 percent during the year. The value of trade turnover rose 2.8 percent in the year to nearly \$114 billion, and the U.S. bilateral trade deficit increased by over 9 percent to nearly \$24 billion.

Canadian growth in the recent past has been driven mainly by its export sector. In 1984, Canadian exports to the United States rose by 27.6 percent. Since the United States accounts for over three-fourths of all Canadian exports, the export boom was a strong stimulus to overall Canadian growth. In 1985, U.S. demand for Canadian products slackened considerably from 1984, registering an increase of only 3.8 percent. Increases in the automotive sector accounted for most of the increase in U.S. imports from Canada during 1985.

Table 9 provides a detailed breakdown of U.S.-Canadian trade along broad product lines. A more specific product examination is contained in tables B-1 and B-2. There was no significant change from 1984 to 1985 in the major items traded between the two countries. It is noteworthy, however, that U.S. imports of Canadian crude petroleum increased by more than \$1 billion from 1984 to 1985.

The leading U.S. imports from Canada in 1985 were passenger cars, parts of motor vehicles, natural gas, methane, ethane, trucks, and crude petroleum. These products accounted for 38 percent of total U.S. imports from Canada of nearly \$69 billion. Other important U.S. imports from Canada in 1985 included newsprint paper, spruce lumber, gold or silver bullion, and woodpulp.

The leading products exported to Canada from the United States were motor vehicle parts, passenger cars, trucks, parts of office machinery, and piston engines. These products accounted for 37 percent of total U.S. exports to Canada of \$45 billion. Other principal U.S. exports to Canada in 1985 included coal, automatic data processing machines, and gold or silver bullion. The preponderance of automotive products in trade with Canada--regardless of the direction of that trade--is noteworthy. Nearly one half of the total trade between the two countries occurs in the International Trade Classification (SITC) section covering machinery and transport equipment.

^{1/} The Canadian dollar hit a record low of U.S.\$0.69 cents in February 1986.

^{2/} The Canadian Federal budget deficit was equivalent to 6 percent of GNP in 1985, surpassed among industrialized countries only by Italy.

Table 9.--U.S. merchandise trade with Canada, by SITC 1/ Nos. (Revision 2), 1983-85

		(In thousands of dollars)			
SITC section no.	Description	1983	1984	1985	
					U.S. exports
0	Food and live animals	1,488,027	1,538,218		1,298,431
1	Beverages and tobacco	68,135	51,903		65,353
2	Crude materials--inedible, except fuel	1,587,717	1,761,463		1,477,684
3	Mineral fuels, lubricants, etc	1,692,125	1,925,022		1,605,361
4	Oils and fats--animal and vegetable	32,956	48,558		38,541
5	Chemicals	2,533,495	2,739,337		2,686,108
6	Manufactured goods classified by chief material	3,904,797	4,321,645		3,982,577
7	Machinery and transportation equipment	20,752,378	25,728,255		27,033,904
8	Miscellaneous manufactured articles	2,637,037	2,789,922		2,600,166
9	Commodities and transactions n.e.c.	1,848,230	3,610,758		4,240,821
	Total	36,544,897	44,515,081		45,028,947
					U.S. imports
0	Food and live animals	1,979,138	2,296,324		2,373,124
1	Beverages and tobacco	470,173	508,269		470,717
2	Crude materials--inedible, except fuel	5,287,095	5,919,665		5,680,270
3	Mineral fuels, lubricants, etc	8,111,519	9,054,458		9,912,737
4	Oils and fats--animal and vegetable	8,995	10,523		18,476
5	Chemicals	2,469,012	3,177,684		2,894,398
6	Manufactured goods classified by chief material	8,551,611	10,853,764		10,803,060
7	Machinery and transportation equipment	20,116,063	27,990,597		29,380,570
8	Miscellaneous manufactured articles	1,959,109	2,613,581		2,914,946
9	Commodities and transactions n.e.c.	3,029,633	3,917,588		4,435,274
	Total	51,982,346	66,342,454		68,883,572

1/ Standard International Trade Classification.

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

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

Major Policy Developments Affecting Trade

Free-trade initiative

The major policy development that took place in Canada during 1985 was the evolution and formalization of a proposal to the United States to enter into negotiations leading to a free-trade agreement between the two trading partners. Although the genesis of the proposal was in 1983, the change in the Canadian Government in the fall of 1984 caused the momentum for free trade to be slowed while the concept was reexamined. Following the March 1985 Quebec Summit between President Reagan and Prime Minister Mulroney, where the notion of bilateral trade liberalization was endorsed, the initiative received further support from the Royal Commission on the Economic Union and Development Prospects for Canada and from the Trade Minister himself. It was officially announced as government policy in September and presented to the United States at that time. 1/

Because of Canada's dependence on the United States as a trading partner, the overture is a significant one. It could lead to the formation of the world's largest free-trade area, both geographically and in terms of trade turnover. Canada's desire for more secure access to the larger U.S. market is somewhat tempered by its reluctance to be overly influenced by the sheer size of the United States. The cultural sovereignty issue is one of the main deterrents to widescale support for the Canadian policy initiative.

Operation of the U.S.-Canada Automotive Products Trade Agreement

The Automotive Products Trade Act (APTA) of 1965 implemented a bilateral agreement between the United States and Canada that removed duties on trade in new motor vehicles and original-equipment parts between the two countries. In effect, the agreement created the basis for an integrated automobile industry in North America. 2/

Previous research has identified several problems in accounting for all the trade in automotive products between the United States and Canada. U.S. export statistics, for example, sometimes fail to capture as automotive

1/ A chronology of the 1985 events leading up to the initiative being presented to the U.S. Congress, as well as a brief discussion of the factors influencing bilateral consideration of the proposal, is contained in section "1985 A new framework" of Ch. I.

2/ According to art. I, the agreement has three objectives: "the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved; the liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment production and trade."

(Continued)

products those products having a variety of end uses (e.g., engine parts, nuts, bolts, fabric for seat covers, and so forth). Consequently, a joint U.S.-Canada committee studying overall trade statistics agreed that each country should use its own import statistics to report its imports, and use the other country's import statistics to report its exports. ^{1/} The result is the "import/import" method of reporting automotive trade used in table 10.

The Auto Pact governs the most significant sectoral flow of trade between the United States and Canada. At a time when both countries are giving consideration to an even closer trading relationship, the bilateral agreement is looked upon by some as a prototype of what could follow from a free-trade agreement. If the Auto pact were a true sectoral free-trade agreement, it could easily be incorporated into a broader, comprehensive liberalization scheme. But the pact, at least as it is administered by Canada, does not fully constitute a free-trade agreement. Canada applies duty-free status only to automotive imports from bona fide manufacturers of motor vehicles. The United States, on the other hand, provides duty-free status to all new (original equipment) automotive imports from Canada, whether for manufacturers or individuals. According to the agreement, the United States provides duty-free status for automobiles assembled in Canada with a 50 percent North American content. Therefore, Canada can incorporate duty-free parts from third countries into automobiles produced in Canada and export these products duty free to the United States. Furthermore, in "Letters of Understanding," Canadian manufacturers pledged to increase the Canadian value added by at least 60 percent by the end of 1968. ^{2/}

(Continued)

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 MFN 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 agreement went into effect, it accorded duty-free treatment to specified automotive products on an MFN basis to all manufacturers with production facilities in Canada. There is, therefore, a difference in the application of the agreement in the two countries. In the United States, anyone may import a finished vehicle covered by the agreement duty free. In Canada, however, the duty-free import privilege is limited to vehicle manufacturers, but they may import free of duty auto parts from most other countries in addition to the United States. Individuals importing motor vehicles or parts thereof from the United States must pay the Canadian duty (currently 12.1 percent ad valorem on automobiles and various rates on automotive parts).

^{1/} 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, the U.S. Bureau of the Census, and Statistics Canada.

^{2/} Under the APTA, Canadian manufacturers received favored status. In a previous report, the U.S. International Trade Commission stated that "the agreement as implemented by Canada is not a free trade agreement, and it has primarily benefited the Canadian economy." The report further states that the concessions provided through APTA are made by the United States, whereas Canada made no substantive concessions except those in the Letters of Understanding. See Canadian Automotive Agreement, U.S. International Trade Commission, Ninth Annual Report, 1976.

Table 10.--U.S.--Canadian automotive trade, 1964-85

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports ^{1/}	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-----	9,715	12,274	2,559
1980-----	8,780	10,552	1,773
1981-----	10,618	12,055	1,437
1982-----	13,292	10,971	-2,321
1983-----	16,940	14,779	-2,161
1984-----	23,047	18,996	-4,051
1985-----	24,726	21,450	3,276

^{1/} Canadian import data converted to U.S. dollars.

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

Note.--Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

Since the inception of the agreement, the value of two-way trade in automotive products between the United States and Canada has increased nearly 64 times in nominal dollars. In 1985, U.S. shipments of automotive products to Canada increased 13 percent compared with 1984 to \$21.5 billion (table 11). Assembled vehicles accounted for 38 percent of shipments in 1985. Dutiable imports into Canada of automotive products were valued at \$979 million in 1985, representing nearly 5 percent of total U.S. automotive product exports to Canada (table 11).

Table 11.--U.S.-Canadian automotive trade, by specified products, 1984 and 1985

(In millions of U.S. dollars)

Item	1984	1985
U.S. imports from Canada: <u>1/</u>		
Duty free: <u>2/</u>		
Passenger cars-----	10,087.1	11,127.3
Trucks, buses, and chassis-----	4,511.8	4,658.9
Parts and accessories-----	7,098.2	7,657.4
Total-----	21,697.1	23,443.6
Dutiable:		
Passenger cars-----	22.5	46.8
Trucks, buses, and chassis-----	30.9	30.8
Parts and accessories-----	836.3	771.1
Tires and tubes-----	3/	433.9
Total-----	1,350.2	1,282.6
Total:		
Passenger cars-----	10,109.6	11,174.1
Trucks, buses, and chassis-----	4,542.7	4,689.7
Parts and accessories-----	7,934.5	8,428.5
Tires and tubes-----	460.5	433.9
Total-----	23,047.3	24,726.2
Canadian imports from the United States: <u>4/</u>		
Duty free: <u>2/</u>		
Passenger cars-----	4,633.1	6,158.4
Trucks, buses, and chassis-----	1,485.5	1,784.3
Parts and accessories-----	11,911.4	12,523.4
Tires and tubes-----	4.7	5.4
Total-----	18,034.7	20,471.6
Dutiable:		
Passenger cars-----	64.8	114.4
Trucks, buses, and chassis-----	88.5	97.5
Parts and accessories-----	546.1	579.1
Tires and tubes-----	261.6	187.9
Total-----	961.0	978.9
Total:		
Passenger cars-----	4,697.9	6,272.8
Trucks, buses, and chassis-----	1,574.0	1,881.9
Parts and accessories-----	12,457.5	13,102.5
Tires and tubes-----	266.4	193.4
Total-----	18,995.7	21,450.4
U.S. trade balance-----	-4,051.7	-3,275.8

1/ U.S. import data.

2/ Duty free under the U.S.-Canada Automotive Products Trade Agreement.

3/ Not available.

4/ Canadian import data converted to U.S. dollars as follows: 1984, Can\$1.00=US\$0.77202; 1985, Can\$1.00=US\$0.73230

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

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Note.--U.S. imports are f.a.s. or transaction values, as published by the U.S. Bureau of the Census. Canadian imports are valued on a similar basis.

After increasing 36 percent from 1983 to 1984, Canadian shipments of automotive products to the United States increased only 7 percent in 1985 to \$24.7 billion. Assembled vehicles accounted for 64 percent of the annual shipments. Dutiable imports of automotive products were valued at \$1,282.6 million, or 5 percent of total automotive product shipments from Canada. The major categories of dutiable articles for both Canada and the United States are replacement parts for motor vehicles (only original-equipment parts are accorded duty-free treatment under the agreement), and all tires and tubes.

In 1982, for the first time in 10 years, the United States had a deficit in automotive trade with Canada. This deficit recurred in 1983 and 1984, as Canadian automobile manufacturers were able to take advantage of the increased demand in the United States for larger cars. ^{1/} In 1984, the deficit soared from \$2.2 billion to \$4.1 billion, an increase of 87 percent. In 1985, the deficit continued, although it declined by \$776 million from the 1984 high. Until 1982, the United States normally had enjoyed an overall automotive trade surplus with Canada--the surplus in the parts sector being lessened by the deficit in trade in assembled vehicles. Although Canada's auto parts deficit has increased in the last 3 years, its surplus in trade in vehicles has been more than enough to override this, resulting in an overall automotive trade surplus.

New foreign investment policy in Canada

Canada's Foreign Investment Review Agency (FIRA) came into being in the early 1970's at a time of heightened Canadian nationalism and increased sensitivity to the significant investment presence of U.S. capital in Canada. U.S. protests of certain FIRA policies culminated in a formal U.S. complaint under the GATT in 1982. The panel established to settle the bilateral dispute found that certain aspects of the Canadian investment review process were not in conformity with the General Agreement and recommended that changes in the review process be made. Following that finding, the rate of approvals for new investment from both Western Europe and the United States increased. Nevertheless, the process by which FIRA reviewed foreign investments into Canada came to be viewed as burdensome and even to constitute an unreasonable impediment to foreign direct investment.

^{1/} Larger cars account for a disproportionately high share of Canadian automotive production. The production of larger cars has been encouraged by the commitments of Canadian motor-vehicle manufacturers to increase Canadian value added. Although Canada accounted for 12.9 percent of overall North American assembly capacity in the 1982 model year, its assembly capacity for larger cars was 22.8 percent of the total, and only 5.7 percent of North American capacity for small cars. Thus, when gasoline prices began falling in 1982, and U.S. consumer demand shifted toward larger cars, U.S. manufacturers had to rely heavily on their Canadian assembly operations. The recent drop in world petroleum costs should result in lower gasoline prices and may lead to greater demand for large cars and ultimately to a further boost for Canadian automotive manufacturing operations.

Legislation creating a new foreign investment agency in Canada became effective on June 30, 1985. The Investment Canada Act exempts all new investments from Canadian Government review. It also raises the threshold value for exemption from reviews of takeovers of Canadian companies from \$3 million to \$5 million. The legislation is expected to result in faster, simpler decisionmaking, with the total number of investments subject to review being reduced by 90 percent. ^{1/} The basic criterion for determining whether proposed investments are of significant benefit to Canada has been eased. The new legislation requires only that a proposed investment be of net benefit to Canada.

The approval rate for both new businesses and acquisitions in Canada for fiscal year 1985 is shown in table 12. The data represent the final reporting period under FIRA and show an increase in the approval rate for applications from both the United States and Western Europe. The decline in the share of the value of assets by European applicants is more than offset by the increase in the share for U.S. applicants.

The current willingness on the part of Canada to explore the possibility of closer economic and trading ties with the United States is closely related to the new emphasis on promoting Canada as a safe and profitable place to invest. Tomorrow's trade is seen as dependent on today's investment flows. Canada's heavy dependence on its trading sector is now working to bolster its economic performance by changing old perceptions. The presupposition of the Investment Canada Act is that any new foreign investment is viewed as favorable--a source for the new capital, technology, and jobs Canada needs to attain its economic potential.

U.S.-Canadian Bilateral Trade Issues

Rail freight rates

One of the major irritants in the U.S.-Canadian bilateral trading relationship is Canadian subsidization of rail freight rates. The system of subsidized rates applies to grain and oilseeds and has been in effect since 1897. At that time, the Canadian Government and Canadian Pacific Railroad concluded an agreement under which the cost of an eastbound shipment of grain and flour was set at about \$4.40 per ton. This price (the Crow's Nest Pass rate) remained virtually unchanged until 1983. The Crow's Nest rate created a chronic revenue shortfall for the railroads and, in turn, discouraged rail modernization. The resulting deterioration of rail service contributed to lost Canadian grain exports.

^{1/} The act does permit the agency to review foreign investment in "culturally sensitive" areas such as broadcasting and book publishing. The regulation of foreign ownership in the cultural sector is an issue that will have a significant bearing on any talks for bilateral-trade liberalization. (See section entitled "The Canadian Free-Trade Initiative" in ch. I.)

Table 12.--Summary of actions taken by the Canadian Foreign Investment Review Agency on applications from the United States and Western Europe for investment in Canada, fiscal years 1984-85

(In percent)					
Type of application	United States		Western Europe		
	1984	1985	1984	1985	
Acquisitions in Canada:					
Share of applications-----	67.9	70.9	25.8	23.2	
Approval rate-----	91.3	93.2	93.8	95.5	
Share of value of assets-----	62.2	83.7	30.4	13.7	
Investment in new business in					
Canada:					
Share of applications-----	55.5	58.7	30.1	29.9	
Approval rate-----	82.4	93.6	94.0	94.1	
Share of value of assets-----	17.8	53.7	76.0	41.6	

Source: Foreign Investment Review Agency, Final Annual Report, Foreign Investment Review Act, 1984-85, Ottawa, September 1985.

The Western Grain Transportation Act was passed by Parliament in the fall of 1983. It replaced the Crow's Nest Pass rate with higher statutory freight rates. Under the formula established by the act, the rate increased January 1, 1984, and again on August 1, 1985, at the start of the crop year. Subsidized freight rates are to be phased out over a 10-year period. The new law also requires the Government to pay the railways nearly \$500 million annually to make up for the loss of revenue under the old rate. (The railways have pledged to invest \$16.5 billion Canadian dollars in rail system improvements over the next decade.) The new act should expand Canada's grain exporting capacity as the western railway system is modernized through large capital investments. Thus, Canada will become a stronger competitor of the United States in world grain markets.

U.S. dissatisfaction with the new law stems from two factors: (1) the applicable products were not previously covered by subsidized freight rates if they were exported to the United States, but these exports are now eligible under the new law; and (2) the list of products covered by subsidized freight rates has been expanded to include rapeseed and linseed oil and meal, sunflower seed and seed oil, alfalfa, mustard and canary seed, corn, lentils, and beans. The Western Grain Transportation Act is already leading to improvements in Canada's grain handling and transportation system. However, the freight rate subsidy, which will not be completely eliminated for a decade, will continue to give Canadian exporters a significant advantage in third country markets. U.S. producers of certain grains and feeds have recently reported that they are being undersold by Canadians in the Japanese market. The United States has advised Canada that it is reviewing its GATT rights on this matter.

Provincial liquor boards

One of the continuing bilateral irritants between Canada and the United States has been certain practices of Provincial liquor boards. In Canada, retail sales of alcoholic beverages are conducted almost exclusively through official agencies at the Provincial level. U.S. suppliers of beers, wines, and distilled spirits have been experiencing difficulty in marketing their products in Canada because of discriminatory practices on the part of some Provincial liquor boards. Such practices have included a difference in markup between domestic and imported products and, in some cases, an unwillingness to carry U.S. products.

The Provincial liquor board issue is a thorny one even within Canada as some boards discriminate against Canadian products that enter from another Province. In order to avoid differential markups, some Canadian breweries have elected to locate in a number of Provinces rather than to centralize operations in one or two.

Bilateral meetings have take place between U.S. officials and Canadian Federal officials to discuss Canadian liquor board practices. Although representatives of Provincial governments have been invited to participate in these discussions, they often choose not to attend. It is thus unlikely that talks without Provincial participation will bear much fruit. The ultimate resolution of this dispute, as part of the entire Canadian Federal/Provincial issue, probably must wait to be addressed in whatever negotiations result from the recent Canadian initiative on U.S.-Canadian free trade. A report on eliminating tariff and nontariff barriers affecting U.S. wine, as called for by the Trade and Tariff Act of 1984, was sent to the Congress in November 1985. 1/

Proposed legislation on trade issues

The nearly \$34 billion bilateral trade deficit that the United States had with Japan in 1984 received considerable press attention in early 1985. The bilateral deficit--accounting for 31 percent of the overall 1984 U.S. merchandise trade deficit--contributed to calls in Congress for increased protection for U.S. industries and removal of barriers to U.S. exports. These calls were reinforced by a perceived intransigence on the part of the Japanese on a number of current negotiating fronts.

The U.S. deficit with Canada, the Nation's largest trading partner, is less in the public eye. In 1984, this deficit exceeded \$21 billion. In 1985, it increased to almost \$24 billion. The combined U.S. deficits with Japan and Canada accounted for over one-half of the entire U.S. merchandise trade deficit in 1984 and one-half of the deficit in 1985, although trade with these two countries represented only 37 percent of total U.S. trade. The Canadian trade situation, like the Japanese, may have contributed to a number of pieces of protectionist legislation being introduced in Congress.

1/ A section of the act called for the administration to report on efforts to expand foreign sales of U.S. wine. The Wine Equity Act (title IX of the 1984 act) directs the USTR to enter into consultations with each major wine-trading country and to report to the Congress on the results of those consultations. ¹³⁸

The likelihood of passage of any of these pieces of legislation varies from remote to probable. However, their significance lies in the fact that they indicate the mounting pressure for concrete action coming from the legislative branch of the Government. The administration, in its effort to promote open and fair trade, opposes legislation of the type described.

Currently before the House is a bill (H.R. 1088) that would impose quantitative limitations on imports of softwood lumber from Canada for a period of five years. The amount restricted would be a function of the average value of imports of Canadian softwood during the period 1970 through 1979. The softwood lumber problem has led to increasing concern recently, particularly in the Pacific Northwest where newspaper editorials calling for import protection have appeared and job losses of 2,400 or more have been cited. As a result of the increase in the value of the U.S. dollar, Canadian lumber has become increasingly competitive in the United States. Lumber was the focus of bilateral trade discussions in Ottawa in early 1985. After a Spring impasse, discussions resumed in the fall and continued into 1986. Congressional pressure for import curbs from Canada intensified in 1985, and such pressure threatened to endanger the Canadian free-trade initiative. In October, the U.S. International Trade Commission, at the request of the USTR, completed an investigation into the conditions surrounding the importation of softwood lumber into the United States. The study updated a 1982 Commission investigation and examined the Canadian system of valuing Government-owned timber for sale to private lumbering firms. 1/

Two bills address the issue of swine and pork products from Canada. One--H.R. 1084, mirrors Canadian policy by quarantining imports of swine and swine products from Canada for the same periods as U.S. swine products are quarantined in Canada. The other, H.R. 1085, calls for additional duties on such products from Canada and is before the House Committee on Ways and Means. The bill would direct the Secretary of Agriculture to determine if, and to what extent, Canadian subsidies to swine producers are greater than U.S. subsidies. U.S. imports of Canadian articles would be subject to an additional duty equal to the amount of benefit accruing to Canadian producers or processors as a result of the subsidy. Under current law, countervailing duty (CVD) determinations are customarily made by the U.S. Department of Commerce and the U.S. International Trade Commission. A CVD investigation involving live swine and fresh, chilled, and frozen pork from Canada was concluded in 1985, with a determination of serious injury and the imposition of an additional duty on imports of live swine from Canada.

Yet another bill (H.R. 1002) would single out Canada for higher tariffs in the form of a 10 percent ad valorem duty on Canadian tourist literature imported into the United States. This bill is in response to comparable treatment that U.S. tourist material receives in Canada in the form of a Canadian Federal excise tax. A less dramatic course is suggested by H. Con. Res. 48, which expresses the view of Congress that the President should urge the Canadian Government to discontinue its practice of imposing taxes on travel literature imported from the United States. A concurrent resolution (H. Con. Res. 55) expressing the sense of Congress on the question of beef and veal exports to Canada is also being considered.

1/ Conditions Relating to the Importation of Softwood Lumber in the United States, Report to the President on Investigation No. 332-210 under Section 332 of the Tariff Act of 1930, USITC Publication 1765, October 1985. 139

A bill that would establish a fast track method of handling surges in imports of certain fresh vegetables has been introduced into both Houses of Congress. The legislation (H.R. 110 and S. 101) was triggered by a Canadian policy that imposes a surtax on imported perishable vegetables, and has been the subject of repeated U.S. complaints. Entitled the Fresh Vegetable and Potato Trade Act of 1985, the bill would have the Secretary of Agriculture monitor the imports and prices of certain vegetables. (Cabbages, carrots, celery, lettuce, red and yellow onions, potatoes, and radishes are specifically included, but provision is made for others to be added should the need arise.) The Secretary of Agriculture would also define criteria for putting a temporary surtax system into effect whenever the price of imported vegetables falls below a benchmark price or the volume of such imports exceeds those of an earlier representative period.

THE EUROPEAN COMMUNITY

The Economic Situation in 1985

With the exception of persistent unemployment, the European economy charted a third consecutive year of moderate economic growth. Interest rates and inflation declined, and industrial investment and consumer demand grew. Whereas exports fueled economic growth in 1984, consumer demand played a more significant role in European growth last year. The EC's unemployment rate remained high. Attempts to narrow Europe's technology gap with the United States and Japan, trim state spending, raise business confidence and investment capital, create new jobs, and eradicate nontariff barriers to internal trade have not yet resulted in substantially improved economic conditions in the EC countries.

The EC registered a 2.3 percent average growth rate in real gross domestic product (GDP) in 1985, up slightly from 2.2 percent in 1984. The rate of growth in 1985 was 3.5 percent in Britain, 2.6 percent in Italy, 2.5 percent in West Germany, and 2.0 percent in France. The best economic news from Europe in 1985 was that the EC's inflation rate averaged 5.4 percent, down slightly from 5.5 percent in 1984, and the lowest rate recorded since 1970. The rate of inflation was about 9.0 percent for Italy, 6.0 percent for France, 5.5 percent for Britain, and 2.3 percent for West Germany.

EC members' budget deficits averaged 5.2 percent of GDP in 1985, down from 5.4 percent in 1984. General government borrowing requirements contracted from 5.5 percent of GDP in 1984 to 5.2 percent in 1985. Investment increased by 2.2 percent in 1985, but it was down from the 2.3 percent growth in 1984. The EC Commission estimated that the volume of spending on fixed assets in industry rose by 11 percent in 1985, more than any other year since the 1960's. Private consumption grew 1.5 percent in 1985, up from 1.0 percent in 1984.

The EC's rate of growth was again too slow to have had a positive influence on unemployment. Civilian unemployment reached 12.7 million in 1985, bringing the average rate of unemployment to 11.2 percent, down slightly from 11.6 percent in 1984. The high level of unemployment remained Europe's principal economic problem in 1985. The rate of unemployment was 12.7 percent for Italy, 12.2 percent for Britain, 11.3 percent for France, and 8.2 percent for West Germany.

Merchandise Trade With the United States

Table 13 shows that the value of two-way U.S.-EC trade increased from \$101.7 billion in 1984 to \$108.1 billion in 1985. The two-way trade partnership is the world's second largest, after the United States and Canada. U.S. merchandise exports to the EC represented 21 percent of total U.S. merchandise exports to the world in 1985, unchanged from 1984. U.S. merchandise imports from the EC constituted 18.8 percent of total U.S. merchandise imports from the world in 1985, up from 17.6 percent in 1984.

Table 13 shows that the United States recorded a merchandise trade deficit with the EC of \$20.9 billion in 1985, up 42 percent from \$12.1 billion deficit in 1984. The United States had trade deficits with West Germany (\$11.7 billion); Italy (\$5.2 billion); United Kingdom (\$4.2 billion); and

Table 13.—U.S. merchandise trade with the European Community, by SITC 1/ Nos. (Revision 2), 1983-85

		(In thousands of dollars)			
SITC Section No.	Description	1983	1984	1985	
		U.S. exports			
0	Food and live animals	3,779,322	2,995,799	2,517,631	
1	Beverages and tobacco	845,275	869,429	881,303	
2	Crude materials—inedible, except fuel	5,335,237	5,147,973	4,179,294	
3	Mineral fuels, lubricants, etc	2,218,133	2,196,203	2,436,952	
4	Oils and fats—animal and vegetable	197,814	208,764	167,817	
5	Chemicals	4,798,661	5,507,811	5,628,933	
6	Manufactured goods classified by chief material				
	Machinery and transportation equipment	2,802,690	2,681,996	2,483,806	
7	Miscellaneous manufactured articles	17,514,206	19,353,044	19,769,919	
8	Commodities and transactions not elsewhere classified	4,268,182	4,466,755	4,372,984	
9	Total	660,863	1,367,881	1,157,331	
		42,420,383	44,795,655	43,595,970	
		U.S. imports			
0	Food and live animals	1,300,235	1,598,938	1,819,315	
1	Beverages and tobacco	2,015,813	2,110,290	2,210,087	
2	Crude materials—inedible, except fuel	552,156	732,946	734,846	
3	Mineral fuels, lubricants, etc	5,642,403	6,500,492	5,214,779	
4	Oils and fats—animal and vegetable	48,902	57,315	66,031	
5	Chemicals	4,275,207	5,478,285	5,912,217	
6	Manufactured goods classified by chief material				
	Machinery and transportation equipment	7,404,053	9,354,191	10,024,496	
7	Miscellaneous manufactured articles	15,582,138	21,433,669	26,752,505	
8	Commodities and transactions not elsewhere classified	5,493,175	7,625,028	9,357,846	
9	Total	1,453,643	1,985,124	2,414,174	
		43,767,725	56,876,278	64,506,294	

1/ Standard International Trade Classification.

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

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

France (\$3.5 billion). In 1985, of the 10 EC countries, the United States only had trade surpluses of \$3.0 billion with The Netherlands, \$1.3 billion with Belgium/Luxembourg, and \$431 million with Ireland. The U.S. merchandise trade deficit with the EC constituted 15.3 percent of the total U.S. merchandise trade deficit with the world of \$136.6 in 1985, up from 10.9 percent in 1984. The strength of the U.S. dollar was an important factor in making EC exports more attractive to U.S. consumers. U.S. exports to the EC declined from \$44.8 billion in 1984 to \$43.6 billion in 1985. U.S. imports from the EC rose from \$56.9 billion in 1984 to \$64.5 billion in 1985.

Table B-3 shows that the leading items in U.S. exports to the EC in 1985 consisted of office machinery parts (\$3.0 billion), computers (\$2.4 billion), coal (\$1.8 billion), airplanes (\$1.7 billion), aircraft parts (\$1.5 billion), engine parts (\$1.4 billion), and soybeans (\$1.3 billion). U.S. exports of office machinery parts and computers dropped slightly over 1984. Soybean exports dropped substantially from \$1.8 billion in 1984 to \$1.3 billion in 1985. Exports of coal, airplanes, aircraft parts, and engines all increased.

Table B-4 shows that the leading items in U.S. imports from the EC in 1985 consisted of motor vehicles (\$8.3 billion), crude petroleum (\$3.0 billion), motor fuel (\$1.4 billion), airplanes and airplane parts (\$1.2 billion), and motor-vehicle parts (\$962 million). With the exception of crude petroleum, the value of these items rose in 1985 over the previous year's level.

Major Policy Developments Affecting Trade

Agriculture

Each spring, the EC Commission proposes common farm support prices for products covered by the CAP to the EC Council for a decision. Most EC Council decisions are made on the basis of unanimity. In June 1985, the EC Council approved the EC Commission's annual farm price proposals for the 1986-87 marketing year, with one exception. West Germany vetoed the Commission's proposal to increase slightly cereal and rapeseed prices, since it would have reduced German farm income. ^{1/} However, the EC Commission eventually prevailed on the question of cereal prices later in the year.

Farm prices were frozen, reduced, or raised slightly to gain control over the soaring costs of CAP as part of a broader EC Commission effort to reform the CAP and more closely align high EC farm prices with lower world market prices. The EC cut support prices for most cereals--common wheat, barley, corn, and rapeseed (3.6 percent cut); rye (4.5 percent); citrus fruits and

^{1/} The EC Commission proposed to cut cereal support prices as production ran 30 percent above consumption in 1984 and is expected to rise to 35 percent above consumption by 1990. By reducing cereal support prices, the EC Commission hoped to restrain excess production and reduce CAP costs. The EC's record 1984 harvest of 145 million metric tons (excluding durum wheat) exceeded the guaranteed price support threshold of 121.32 million metric tons. Once the guaranteed threshold is exceeded, EC farmers are no longer eligible to receive guaranteed price supports. The EC holds about 15 percent of the world wheat market. Its own grain surplus could swell to 40 million metric tons by the end of the century.

fresh tomatoes (6 percent); peaches and apricots (3 percent); butter (2 percent) and sunflower seed (1.5 percent). Prices remained unchanged from the previous year's level for durum wheat, beef, sheepmeat, pigmeat, wine, and sugar beet, but increased 4.9 percent for skimmedmilk powder, 1.5 percent for milk, 2.0 percent for olive oil and cotton, 1.5 to 2.0 percent for cheese, and 1.3 percent for white sugar. Tobacco support prices varied between a decline of 0.5 percent to an increase of 1 percent over the previous year's level.

The new prices added about \$14 billion in farm-support spending in 1985. The proposals decreased average EC farm prices 0.3 percent when expressed in terms of the European Currency Unit (ECU)--the basket of EC member currencies. Expressed in terms of national currencies, the proposals increased average EC farm prices by 0.1 percent. Italian and West German farmers had price cuts of 0.6 and 0.4 percent, respectively. Greek and French farmers had price increases of 2.7 percent and 0.8 percent, respectively.

During the CAP's 23-year history, the EC has gained self-sufficiency in most farm products through a highly protected internal market and artificially high internal support prices. As farm spending consumes about 70 percent of the EC's total budget, funds for other purposes, such as the EC's campaign to improve industrial competitiveness in high-tech sectors, are siphoned off. It was not the original intention of the CAP to create large food surpluses but to satisfy domestic supply and support farm income.

Steel

Under the 1980 Davignon Plan--the EC's steel crisis plan of production and price controls and state subsidies to ailing plants for restructuring purposes--all subsidies and controls were to be lifted on December 31, 1985. The deadline was set up under the plan to end state intervention in the sector and return to normal market conditions. During the course of the Davignon Plan, the EC steel industry shed about 32 million metric tons of hot-rolled capacity--its original target--and cut 170,000 jobs. However, it became apparent at midyear that the EC would retain some form of state intervention controls beyond the December 31, 1985 deadline, as members still had a combined excess capacity of 20 to 25 million metric tons. The European steel industry is currently running at about 70 percent of capacity.

On October 30, 1985, the EC abolished production and price controls and state subsidies for concrete reinforcing bars and fabricated steel sheets and on January 1, 1986, most state aids to the industry were banned. However, state aid was extended until January 1, 1988, for environmental protection projects, research and development, and plant closures.

Internal Market

In its 1985 white paper on the internal market, the EC Commission ambitiously proposed to the EC Council that all physical, technical, and fiscal barriers to trade among the member states be removed by 1992. ^{1/} The

^{1/} For a list of the EC Commission's proposals see "Internal Market: Proposals for Adoption in 1986," European Report, Dec. 14, 1985.

Council asked the Commission to prepare such a plan. The EC Commission's proposals reflect EC officials' concern that the fragmented internal market is not functioning as it should. A myriad of nontariff barriers to trade--border controls, standards, taxes, and company law--have inhibited free internal commerce and denied many national firms benefits of economies of scale. All of the EC Commission's proposals are unlikely to be realized by 1992 as member governments do not fully agree on releasing the last remnants of state control of nontariff restraints on intra-EC imports. The EC Council will consider the EC Commission's proposals in 1986.

EUREKA

Implementation of the research phase of the U.S.-sponsored Strategic Defense Initiative (SDI) triggered the EC members and other European countries to respond with their own high-tech research proposal. Europeans are particularly interested in SDI as space research is expected to yield a new generation of technologies in such industries as microelectronics, high-energy lasers, and supercomputers. The EC and its member states already support research in these industries through their joint \$1.2 billion program for research in information technologies (ESPRIT). Many Europeans are concerned with being left further behind in the race with the United States and Japan to achieve competitiveness in the next generation of advanced technologies.

A French-inspired plan announced in April 1985 called European Research Cooperation Agency (EUREKA)--Europe's SDI alternative--would create a network linking European research centers and firms working on joint civilian space-related research projects. EUREKA is reflective of a broad European consensus to bolster industrial competitiveness in home and world markets by providing state support for research and development (R&D) and encouraging cross-frontier business and (R&D) collaboration. Cross-border research and development collaboration has been sorely lacking in the EC, contributing to Europe's lag in high-tech competitiveness at home and abroad.

France maintains that European firms will not have full access to SDI research and will act largely as subcontractors. Fear of a drain of scientists and researchers from Europe to the United States was a primary motivation behind France's proposal for EUREKA.

The blueprint for EUREKA is still evolving but the plan is apparently much less ambitious and costly than SDI. EUREKA differs from SDI in that it currently stresses civilian over military projects. The Europeans appear more interested in the commercial exploitation of space research than in its military applications. France drafted project proposals that extend EUREKA to high-speed electronics, robotics, biotechnology, computers and computer equipment, high-powered lasers and particle beams, and ceramic turbines.

European research and foreign affairs ministers met in Paris, France, in July 1985 and in Hanover, West Germany, in November 1985 (EC members including new entrants Spain and Portugal, as well as Austria, Switzerland, Sweden, Norway, Turkey, and Finland) to officially endorse EUREKA. No commitments were made at the July meeting beyond agreement to continue talks. At their November 1985 meeting, the participants agreed on a charter to outline EUREKA's principal objectives, leaving controversial decisions on funding

(public versus private) and the precise formation of a secretariat (the smaller countries want a secretariat to ensure that results of EUREKA research will be disseminated to all) to later discussions. The charter states that EUREKA is to stimulate and support cooperation between European firms and research centers on civilian high-tech projects to produce products that may be marketed rapidly. The charter also states that initially the process, products, and services involved in the program will fall within the following high-tech sectors: information and telecommunications, robotics, computers, biotechnology, marine technologies, lasers, environmental protection technology, and transportation. 1/

Approval was given at the November meeting for the first 10 research projects involving firms from 12 countries. The projects range from development of high-performance lasers to school computers, costing as much as \$500 million. 2/

By the November meeting, it appeared that EUREKA would fall outside the EC's ongoing high-technology research programs and that the EC Commission was losing control over its members' unified position in EUREKA. The EC Commission had argued that EUREKA should be constructed within the EC's existing policy framework for high-technology R&D. This will be difficult as nonmembers are also participating in EUREKA. EUREKA was first proposed as an EC policy response to SDI. By yearend, it appeared that EUREKA and ESPRIT projects will differ in that EUREKA would emphasize rapid commercial exploitation of research, whereas ESPRIT would emphasize long-term research with less emphasis on immediate commercial exploitation.

Enlargement

On January 1, 1986, Spain and Portugal officially acceded to the EC, 8 years after both countries applied for membership. The long negotiating process reflected difficulties on both sides of the Pyrenees over the timetable for eliminating two-way trade barriers in agriculture, textiles, and fisheries. In the end, differences on the terms of accession were hammered out, reflecting the members' political will to bring the Iberian countries into the EC. In 1985, the accession treaties were signed and ratified by the Parliaments of the EC members and the applicant states which paved the way to formal accession as planned. 3/

Integrated Mediterranean Programs

To help modernize the economies of Greece and the southern regions of France and Italy, the EC decided in 1985 to commit 6.6 billion ECU's for 7 years beginning in 1986. 4/ Impetus behind the Integrated Mediterranean

1/ For more information on the new charter, see "Second EUREKA Ministerial Conference," European Report, Nov. 9, 1985.

2/ There are another 50 projects awaiting approval by the next Ministerial conference scheduled in May 1986 in the United Kingdom.

3/ A discussion of enlargement is found in ch. I of this report.

4/ At yearend 1985, an ECU equaled about US\$0.88. The EC will finance the program by tapping funds of the European Regional Development Fund, European Social Fund, European Agricultural Guarantee and Guidance Fund, European Investment Bank, and New Community Instrument. ¹⁴⁶

Programs (IMP's) was to secure support in the EC's southern agrarian regions for Spanish and Portuguese accession. With enlargement, farmers in the EC's Mediterranean regions will face new competition from such Spanish and Portuguese farm products as olive oil, wine, and fresh fruits and vegetables.

IMP's are integrated programs of regional development that will pull together local, regional, national, and EC funds to support farm modernization and industrial and service development projects for periods between 3 and 7 years. Individual projects must be agreed upon by the EC Commission on the basis of proposals drawn up by regional authorities and transmitted by the member Governments. To be approved, IMP's must generate productive investment and employment and develop infrastructure. 1/

U.S.-EC Bilateral Trade Issues

Overview

The progression from trade to disputes to two-way punitive duties marred the year in trade between the United States and the EC. The year under review was the most confrontational in bilateral relations since the outbreak of the so-called "Chicken War" in 1963, when an unresolved dispute over the EC's new poultry policy ended in the U.S. imposition of punitive duties.

The numerous trade disputes in 1985 centered on past U.S. complaints against EC tariff cuts on imports of certain Mediterranean citrus products and EC farm subsidies, and more recent disputes over export credits and access of EC steel to the U.S. market. When they were unable to agree on mutually acceptable positions on the matter of the EC's Mediterranean tariff preferences, the United States imposed increased duties on trade in pasta, and the EC countered with increased duties on lemons and walnuts. In response to the EC's usage of farm export subsidies, the United States launched its own program that gave free surplus farm products held by the U.S. Department of Agriculture to U.S. exporters to enhance their export sales to targeted third-country markets. The EC challenged the program under the GATT Subsidies Code.

Why then the outbreak of hostilities between the two sides given their long-standing trading relationship? Both sides are grappling with internal economic problems that are reflected in their foreign trade policies. The soaring U.S. merchandise trade deficit has fueled congressional pressures to enact protectionist legislation to assist such depressed industries as agriculture, textiles, and steel. In response, the President has gone on the offensive to end outstanding disputes with trading partners. 2/

For its part, the EC is on the offensive to find outlets for farm surpluses that have no place to go but abroad with the aid of subsidies. The EC also wants to create new jobs, trim the large overcapacity of steel production while expanding exports, and protect domestic high-tech markets

1/ For more information on the IMP's procedures and financing, see "The Integrated Mediterranean Programs," European File, EC Commission, January 1986.

2/ For more information on the President's trade initiative see ch. I of this report.

from imports until the EC becomes more competitive. ^{1/} The EC is also on the defensive as the United States and other farm exporters protest its growing share of world food markets and the methods used to support this expansion.

The number of U.S.-EC trading disputes has risen as the EC has grown from a food-deficient region to one of the world's largest exporters of cereals, dairy products, meat, and sugar. The CAP's original intent was to ensure food supplies and bolster farm income. The CAP's export restitutions were never designed to promote exports but to sell unwanted surpluses abroad to maintain high internal prices for farmers. Since the EC's internal farm prices are often much higher than world market prices, export restitutions are given to EC food exporters to bridge the gap, enabling them to compete in world markets.

The EC is now a major food exporter to world markets. Entry of the EC in world food markets was bound to pose problems for U.S. farm exports. Whereas, in the EC's earlier years, the United States complained about the effect of integration policies on farm exports to the EC, more recently--as the EC farm economy grew and farm products found their way to focus on markets supplied by the United States--bilateral trade tensions shifted to third-country markets.

The two sides disagree on interpreting GATT rules on farm export subsidies. The GATT permits subsidization of farm exports if they do not take more than an "equitable share" of the market and do not undercut world market prices. The EC invokes GATT rules to legitimize its export restitutions just as the United States invokes those same rules to challenge EC practices.

Entry of Spain and Portugal with their large farm economies to the EC will create additional pressures for Europe to export food products that will compete with the United States. Further, as the EC continues to increase food production for export, it may be under internal pressure to limit such traditional U.S. imports as corn and soybeans which currently enter duty free. As a result, the bilateral farm trade problems that existed between the two trading giants in 1985 are likely to persist in the years ahead.

The United States and the EC both heavily support agriculture, but their reasons and methods of doing so differ. The U.S. Government views the proposed round of multilateral trade negotiations as a chance to diffuse farm trade disputes by finetuning GATT rules on export subsidies. The EC has stated that the CAP is a permanent fixture of the European landscape and not subject to negotiation. If the two trading giants agree in the GATT on how to better manage methods of international farm trade, they may avoid the kind of punitive trade actions taken against each other that occurred in 1985. The value of trade on which the two sides differ remains small when compared to the vast sum of two-way trade.

^{1/} In December 1985, EC Commissioner Willy De Clercq presented to the USTR a list of U.S. trade practices the EC claimed impeded its exports to the United States. The U.S. Government issued a report in October 1985 that listed trade barriers of its major trading partners. The EC's list generally included tariffs, import restrictions, export subsidies, and customs barriers, and specifically mentioned "Buy America" regulations, the Export Enhancement Program, U.S. Department of Defense expenditures on R&D, and export controls related to national security. For more information, see European Community News, No. 42, Dec. 18, 1985.

Agricultural Products

Canned fruit

The President set a December 1 deadline to settle a dispute with the EC over aid to fruit canners. The President charged that EC subsidies to fruit canners harmed U.S. exports and in 1982 filed a complaint on this matter at the GATT. The GATT panel was set up to investigate the complaint reported in 1984 that some subsidies might disturb normal competition, but its findings were never formally adopted. On December 4, the bilateral dispute had been resolved when the EC agreed to cut its food processing aids to peach canners by 25 percent in the 1986-87 farm year and phase out aids in subsequent years.

Wine

As wine is the largest EC farm export to the United States (\$857 million in 1985, up from \$806 million in 1984 and \$718 million in 1983), the Europeans reacted strongly to attempts by U.S. grape growers to restrict EC table wine imports. The U.S. grape growers alleged that imports of certain EC table wines were being subsidized and sold at less than fair value (LTFV). The EC stated that its wine policy maintains stable prices by withdrawing surpluses from the market through storage and distillation. The EC claimed that there were no export subsidies of wine to the U.S. market. The following chronology summarizes the complex developments in the wine trade dispute as they stood by yearend:

- o January 27, 1984--The American Grape Growers Alliance for Fair Trade (alliance) filed antidumping and countervailing duty petitions with the U. S. International Trade Commission (Wine I) alleging table wine imports from France and Italy were being subsidized and sold in the U.S. at LTFV.
- o March 12, 1984--The U.S. International Trade Commission issued negative determinations in the alliance's petition. 1/
- o April 20, 1984--The Alliance sought judicial review of the U.S. International Trade Commission's March 12, 1984, determination by commencing a civil action in the Court of International Trade (CIT).
- o November 1984--Article 612 of the 1984 Trade and Tariff Act allowed U.S. producers of a raw material (grapes) to lodge antidumping and countervailing duty complaints against imports of finished products (wine).
- o November 1984--The EC requested creation of a GATT working panel to determine the legality, under GATT rules, of the U.S. Trade and Tariff Act that allows grape growers to lodge antidumping and countervailing duty petitions against imports.
- o December 1984--The GATT Committee on Subsidies met to review the EC's request to set up a panel to examine article 612 of the U.S. Trade and Tariff Act.

1/ Certain Table Wine From France and Italy, (Investigations Nos. 701-TA-219 and 211 and 731-TA-167 and 168), USITC Publication 1502, March 1984.

- o January 1985--The GATT Committee on Subsidies met again to review the EC's request to set up a panel to examine article 612 of the U.S. Trade and Tariff Act of 1984.
- o August 8, 1985--The CIT reversed and remanded the U.S. International Trade Commission's March 12, 1984 determination and ordered the U.S. International Trade Commission to make determinations consistent with its opinion. The CIT opined that there was no justification for the termination of the investigations and that only affirmative preliminary determinations would be consistent with its analysis.
- o August 15, 1985--The U.S. International Trade Commission appealed the CIT's determination to the U.S. Court for the Federal Circuit.
- o September 10, 1985--The Alliance filed antidumping and countervailing duty petitions with the U.S. International Trade Commission alleging table wine from France, West Germany, and Italy were being subsidized and sold in the U.S. market at LTFV (Wine II).
- o October 4, 1985--The GATT set up a working panel requested by the EC to look into the EC complaint over the U.S. Trade and Tariff Act of 1984 that temporarily permits grape growers to lodge antidumping and countervailing duty petitions against wine imports.
- o October 7, 1985--The CIT denied the U.S. International Trade Commission's motion for a stay on enforcement of judgment pending deposition of the U.S. International Trade Commission's appeal.
- o October 25, 1985--The Alliance filed a motion with the CIT for enforcement of the CIT's August 8, 1985, judgment.
- o November 12, 1985--The U.S. International Trade Commission issued negative determinations in the Wine II petitions. 1/
- o November 12, 1985--The Alliance filed an appeal of the U.S. International Trade Commission's Wine II determinations to the CIT.
- o November 22, 1985--The Court of Appeals for the Federal Circuit denied the U.S. International Trade Commission's motion for a similar stay, pending appeal, but stayed all proceeds in the appeals pending disposition of the U.S. International Trade Commission's related appeal in American Lamb Co. v. United States.
- o November 22, 1985--The CIT granted the Alliance's October 25, 1985 motion for enforcement of the CIT's August 8, 1985, judgment giving the U.S. International Trade Commission 10 days to issue new determinations. Denial of the U.S. International Trade Commission's motions for a stay pending appeal and grant of an order enforcing the CIT's August 8, 1985, judgment required the U.S. International Trade Commission to issue preliminary determinations on the subject investigation. Consistent with the CIT's opinion and judgment, the U.S. International Trade Commission's

1/ Certain Table Wine From the Federal Republic of Germany, France, and Italy, Investigations Nos. 701-TA-258-260 and 731-TA-283-285, USITC Publication 1771, October 1985.

March 12, 1984, determinations were made affirmative. Issuance of these affirmative preliminary determinations does not affect the U.S. International Trade Commission's appeal seeking reversal of the CIT's August 8, 1985 judgment, nor does it amount to a predetermination of the outcome of any final investigation which may be instituted.

- o Yearend 1985--The Alliance's November 12, 1985 appeal was pending at yearend. On January 16, 1986, the U.S. International Trade Commission filed an appeal of the Alliance's November 12, 1985, CIT action. A civil action for judicial review was still pending as of this writing.

Citrus and pasta

The origin of this dispute dates back to 1976 when the U.S. Government lodged a complaint at the GATT, alleging that U.S. citrus growers' access to the EC market was discriminated against by the EC's usage of tariff preferences for citrus products from certain Mediterranean countries.

The EC has always maintained that its tariff cuts on citrus and other horticultural products for the Mediterranean countries were designed as a form of economic development aid and do not give a commercial advantage to the EC. The EC considers the tariff preferences to be part of its 1973 Mediterranean Policy, a policy that aims to mix EC tariff preferences with development aid to improve economic conditions in the Mediterranean countries.

In 1984, a GATT panel found that the tariff reductions impaired concessions made to the United States and recommended that the EC restore the competitive balance. As the EC blocked adoption of the panel report by the GATT Council, President Reagan proposed to increase duties on U.S. imports of EC pasta on June 20, 1985, in order to withdraw equivalent concessions to imports from the EC. ^{1/}

In response, the EC proposed to counterretaliate on June 27, 1985, by increasing duties on imports of U.S. walnuts and lemons. On July 11, 1985, a temporary truce was reached. The U.S. Government suspended its threat to increase duties on pasta imports. The EC agreed to drop its proposal to increase duties on imports of U.S. lemons and walnuts, to negotiate increased access to the EC market for U.S. citrus producers, and to decrease subsidies on pasta exports by 45 percent. The U.S. Government set October 31, 1985, as the deadline by which an agreement was to be reached on access to the EC market for U.S. citrus growers. Failure to reach agreement by the date would result in the United States raising duties on imports of EC pasta.

When negotiations failed to resolve the dispute, the United States increased import duties on EC pasta products. The EC immediately counter-retaliated by raising duties on imports of U.S. walnuts from 8 to 30 percent and on lemons from 8 to 20 percent. U.S. imports of pasta from the EC and EC imports of walnuts and lemons from the United States amount to roughly \$30 million each.

^{1/} The President chose to increase duties on pasta imports because the United States and the EC have had an outstanding dispute in the GATT over this item. For further information on these cases see the sections on the pasta and citrus preferences sec. 301 cases in Ch. V, "Enforcement of Trade Agreements and Response to Unfair Foreign Practices".

Wheat and wheat flour

The dispute over wheat trade began in 1975 when the United States lodged a complaint at the GATT, alleging the EC violated GATT rules forbidding use of export subsidies for wheat flour to gain more than an equitable share of world trade. The Subsidies Code panel report was considered by the Subsidies Code Committee in 1983, but the dispute was never resolved. Under his September trade initiative, the President instructed the USTR to initiate proceedings under the GATT Subsidies Code against the EC's wheat export subsidies. The U.S. Government maintained that such subsidies substantially increased the EC's share of the world wheat market and depressed world prices. An earlier challenge to EC export subsidies occurred in 1983 when the U.S. Government authorized a subsidized sale of wheat flour to Egypt under the Public Law 480 food program. The United States had lost shares of the Egyptian wheat market to the EC.

In 1985, the United States also established a new program called the U.S. Export Enhancement Program or EEP (previously referred to as the Bilateral Incentive Commodity Export Program) to assist U.S. exports in capturing shares of third-country markets believed to have been lost to the EC because of its unfair trade practices. EEP allows the U.S. Department of Agriculture to release surplus food stocks held by the Commodity Credit Corp. to enhance sales of U.S. exports to targeted third-country markets where the United States has lost market shares due to export subsidies from competing suppliers. The EC responded to EEP by initiating a complaint under the GATT Subsidies Code, alleging that the program violated GATT rules on farm export subsidies.

Steel productsPipes and tubes

U.S.-EC trade friction on imports of EC pipes and tubes worsened in 1984 when EC shipments to the United States increased rapidly. When negotiations to restrict imports of EC steel pipes and tubes into the U.S. market broke down at the end of 1984, the United States embargoed imports of EC steel pipes and tubes from November 29 to December 31, 1984. While EC shipments of steel pipes and tubes were not directly controlled by the 1982 Arrangement Concerning Trade in Certain Steel Products (the arrangement), they were subject to a written understanding that the EC would hold such shipments to about 5.9 percent of the U.S. market. The understanding stipulated that if EC shipments exceeded this amount, the United States and the EC would hold consultations to address the matter.

On January 11, 1985, the United States and the EC agreed to lower the EC share of the U.S. market for steel pipes and tubes from 14.6 percent during the first 10 months of 1984 to 7.6 percent during 1985-1986. The January 11 agreement provided that 60,000 tons of the embargoed steel pipes and tubes be released from bonded warehouses, of which not more than 28,000 tons could be oil country tubular goods. Shipments in excess of those 60,000 tons, then in customs warehouses, were to be included under the 7.6 percent quota.

The question of how to apply the remaining 209,000 tons of EC steel pipes and tubes in warehouses was to be negotiated under a provision for

consultation in the January 11 agreement. The question to be negotiated was the percentage of the remaining products that should be counted against the 1985 and 1986 quotas.

The two sides agreed that 65 percent of the 209,000 tons of EC steel pipes and tubes stored in warehouses would be set against the EC's 1985 quota and 35 percent against its 1986 quota. A short supply clause in the January 11 agreement allows the EC to remove some of this amount if U.S. producers could not meet the demand. The EC hoped to supply steel pipes from the embargoed tonnage for construction of the All-American Pipeline project.

Under the short supply clause of the January 11 agreement, the EC requested in February 1985 to supply more steel pipes and tubes for the All-American Pipeline project in addition to existing quotas, maintaining that U.S. suppliers could not supply all of U.S. domestic demand. The United States rejected the EC request in March. However, by June 1, 1985, the United States and the EC negotiated a package deal.

The United States allowed the EC to ship 100,000 tons of steel pipes and tubes in excess of the quotas under the short-supply clause of the January 11 agreement. The EC agreed to two U.S. requests to: (1) conclude negotiations for renewal of the 1982 arrangement due to expire at yearend by October 1985; and (2) open and conclude negotiations on limiting EC exports of steel products to the United States not directly subject to quotas under the 1982 arrangement but to consultations if a rise in the volume of imports (called consultation products) occurs. According to many U.S. steel producers, the consultation provision of the 1982 arrangement had created an opportunity for certain EC producers to switch production for export from steel subject to quotas to steel subject to consultation. U.S. imports of the consultation products had increased substantially since 1982.

Consultation products

Negotiations to limit imports of the 17 steel products subject to consultations under the 1982 arrangement began in July and an agreement was reached on August 5, 1985. The agreement restricted EC shipments to the United States of 16 steel products grouped into 11 categories to no more than 197,917 short tons for the 5-month period from August 1 to December 31, 1985, or to 475,000 tons for the entire year. The 11 categories (and their export ceilings) were: round and flat wire (73,090 short tons), cold-finished and other bar (32,275), black plate (23,856), tin-free steel (17,498), cold-rolled strip (13,393), electrical sheet and strip (10,870), alloy wire rod (9,241), bar shapes under 3 inches (9,212), wire products (5,164), rail products (2,538), and concrete reinforcing bars (780).

Renewal of the 1982 Arrangement Concerning Trade in Certain Steel Products

Negotiations on renewal of the 1982 arrangement, which began in September, were viewed by the Reagan administration as part of its program to give the U.S. industry time to modernize and become more competitive. The United States had negotiated 14 other agreements with outside suppliers to limit the share of imports in the U.S. market to 18.5 percent. The U.S. Government set a deadline of October 31 to complete renegotiations.

A new agreement was thought to have been reached on November 2, 1985, whereby the EC agreed to limit steel shipments to 5.5 percent of the U.S. market from January 1, 1986, to September 30, 1989. The agreement included 33 separate categories of steel products, 21 more than covered by the 1982 arrangement, and included extension of the restrictions on U.S. imports of steel pipes and tubes from the EC. The agreement also allowed an extra 150,000 tons of EC steel into the United States in addition to amounts allowed by the existing arrangement that expired at yearend.

After the terms of the agreement had been worked out by the United States and EC negotiators, the final draft was subject to approval by each of the EC member states. The United Kingdom withheld approval, thus effectively blocking adoption of the arrangement by the EC as planned. All important decisions before the EC members are made on the basis of unanimity. The United Kingdom refused to approve the agreement until it got clarification from the United States on a matter pertaining to semifinished steels--the only steel category not subject to quotas but to consultation procedures under the arrangement. Under the President's steel program, the total import ceiling for semifinished steel has been targeted at 1.7 million tons, of which two-thirds had already been allocated to other outside suppliers. This left 400,000 tons for the EC. The United Kingdom maintained that this amount was unrealistically low and sought assurance from the United States that it would honor an existing import contract to supply a large amount of British semifinished steel to a new modern mill in Alabama.

Annoyed by the EC's delayed ratification of the arrangement, the United States imposed a limited embargo on steel imports from the EC on November 28, 1985. Under the terms of the embargo, EC steel shipments were held up at U.S. ports until the U.S. Department of Commerce certified that they fell within the import limits set under the 1982 arrangement that expired on December 31, 1985. Shipments in excess of the quotas were not allowed entry. However, the embargo was lifted on December 5 when the United Kingdom received the assurances it required and lifted its veto of the renewed arrangement. ^{1/} On December 10, 1985, the EC Council of Ministers formally approved the 1985 arrangement.

^{1/} On Dec. 30, 1985, the United States placed quotas on imports of EC semifinished steel products which had increased substantially since 1982. Semifinished steel was made subject to consultations under the 1985 arrangement should imports into the United States increase significantly. The United States limited imports of EC semifinished steel up to 600,000 short tons annually from Jan. 1, 1986, to Sept. 30, 1989. The EC estimated that its steel producers will lose \$47 million in annual sales due to the U.S. action. The EC protested the action by imposing quotas on imports of U.S. fertilizer, coated paper and paperboard, and fats of bovine cattle from Feb. 15, 1986, to Nov. 15, 1989. The EC's quotas, which do not apply to exports to Spain and Portugal, are expected to affect about \$43 million in annual U.S. trade. 154

JAPAN

The Economic Situation in 1985

Compared with last year's strong performance, Japan's economic growth in 1985 was both disappointing and disturbingly uneven. The 30-month economic expansion begun in 1983 had started to lose steam by early summer, as increases in net exports and plant and equipment investment, the chief engines of growth in each of the previous 4 years, slowed considerably. ^{1/} Other components of domestic demand did pick up some of the slack and, by yearend, the economy registered real GNP growth of 4.6 percent over 1984. Buffeted by a continued fall in commodity prices, wholesale prices in Japan actually declined by more than 2 percent in 1985 and consumer prices increased moderately, by 2.5 percent. In the labor market, unemployment averaged less than 3 percent and wages rose by 4 percent. Meanwhile, the sharp appreciation the yen in the final quarter of 1985 presaged a continued slowdown in Japan's exports and economic growth in 1986, barring an offsetting policy response.

Domestic demand was again the prime contributor to GNP growth in 1985. The household sector in Japan performed better in 1985 than it had in either of the previous 2 years, with final consumer expenditures rising by 2.7 percent. Increases in business investment remained high, but slowed from the 1984's heady 11 percent rate to around 9.5 percent in 1985. The Government sector had a moderately negative influence on the economy's GNP growth in 1985, reflecting restrained spending in all but a few areas, notably defense and foreign aid. A fiscal stimulus program announced by the Government in early October had little impact on the economy's performance in 1985, though it is ultimately expected to have a moderately expansionary effect.

Despite the overall positive impact of domestic demand on GNP growth, nearly one-third of Japan's growth in national income in 1985 was attributable to a growing net external surplus. ^{2/} Japan's current account surplus in the year approached 4 percent of its GNP, compared with an average surplus of 0.5 percent of GNP from 1965 to 1982. ^{3/} Japan's merchandise trade surplus was \$46.14 billion in 1985, a 26.5 percent increase over 1984's level. The widening surplus was the result of a 4.9-percent decline in imports and 3.4-percent growth in Japanese exports in 1985. Exports to the United States and China, Japan's two most important foreign markets, continued their upward path for much of the year. The value of shipments to most developing countries declined.

The continued influx of Japanese goods in foreign markets did have some repercussions in 1985. A 25-percent increase in the self-imposed limit on the volume of cars exported to the United States resulted in sharply increased shipments after April, unleashing a protectionist backlash in the United States. Meanwhile, Japan's exports to China from January-June 1984 to January-June 1985 more than doubled. In mid-summer, a concerned China imposed restrictions on imports from Japan.

^{1/} According to the OECD, net exports accounted for 10 percentage points of the 23-percent real increase in Japan's GNP from 1980 through 1985. See Organization for Economic Cooperation and Development, Economic Survey of Japan, 1985.

^{2/} Morgan Guaranty Trust Co., World Financial Markets, Nov. 1985, p. 4.

^{3/} Ibid.

While a substantial strengthening of the yen after September gave Japanese consumers greater purchasing power and defused some protectionist pressures abroad, it had already caused dislocations in certain sectors of the Japanese economy by the end of 1985. The yen's sharp appreciation resulted in cancellations of export orders for Japanese firms in the electronics, textiles, machine tool, shipbuilding, and steel industries. The cancellations worsened already-weakening profit pictures, as intense competition prevented many from fully passing through the effects of a higher yen to overseas customers. For the first time in 3 years, reported corporate profits in Japan actually declined.

Mirroring the slowdown in exports, growth in industrial production was off sharply in the final two quarters of 1985. After a first half average rise of 6.5 percent, industrial production increases slowed to 4.6 percent during the July-September 1985, and to less than 1.2 percent in the fourth quarter of 1985. An emergency below-market loan program was set up by Japan's Ministry of International Trade and Industry in late 1985 to cushion the impact of the yen's appreciation on small- and medium-sized firms. Large firms, meanwhile, seemed to be adjusting by reducing their profits, raising prices, and lowering planned investment levels.

High real interest rates and slower money supply growth meant that monetary policy was somewhat restrictive in 1985. Decontrol of interest rates, which was agreed to in general terms in the Yen-Dollar Agreement of 1984, was begun in October, when the Ministry of Finance abolished interest rate controls on deposits of one billion yen (approximately \$5 million) or more. In the meantime, Japan's commitment to revalue the yen led the Bank of Japan to raise short-term interest rates in late October, further dampening prospects for domestic demand-led growth.

Merchandise Trade With the United States

The United States continued to play a central role in Japan's trade picture in 1985, taking 37 percent of Japan's exports and providing 20 percent of its imports. A sharp increase in the value of Japan's auto and truck shipments to the United States helped push U.S. imports from Japan in 1985 to \$68.2 billion, a gain of 20.6 percent from 1984 levels. U.S. exports to Japan, meanwhile, fell by 4.8 percent from 1984 to 1985, to \$21.6 billion. The resulting U.S. deficit in merchandise trade with Japan of \$46.6 billion was another record, and represented a 38 percent deterioration in U.S. performance from 1984 to 1985 (table 14).

Imports of manufactured goods (SITC sections 5, 6, 7, and 8) accounted for most of the increase in U.S. imports from Japan in 1985, rising by 20 percent, from \$55.6 billion in 1984 to \$66.8 billion in 1985. According to table B-6, the import advance was broad-based, with 17 of the top 20 items in U.S. imports from Japan rising in terms of value between 1984 and 1985. Finished autos alone accounted for more than one-fourth (26 percent) of total U.S. imports from Japan in 1985, and the value of automobile imports rose by 31 percent from the previous year's level. Other notable increases were evident in U.S. imports of Japanese tape recorders and dictaphone machines

Table 14.--U.S. merchandise trade with Japan, by SITC 1/ Nos. (Revision 2), 1983-85

		(In thousands of dollars)			
SITC section no.	Description	1983	1984	1985	
					U.S. exports
0	Food and live animals	4,268,764	4,684,870	3,987,900	
1	Beverages and tobacco	442,402	398,949	417,340	
2	Crude materials--inedible, except fuel	4,183,200	4,449,789	3,948,895	
3	Mineral fuels, lubricants, etc	1,995,147	1,813,969	1,783,388	
4	Oils and fats--animal and vegetable	65,454	57,580	55,924	
5	Chemicals	2,626,105	2,974,158	2,923,955	
6	Manufactured goods classified by chief material	1,382,066	1,428,178	1,268,658	
7	Machinery and transportation equipment	4,784,453	5,210,525	5,501,065	
8	Miscellaneous manufactured articles	1,357,736	1,469,908	1,457,415	
9	Commodities and transactions n.e.c	120,422	204,202	258,389	
	Total	21,225,749	22,692,129	21,602,930	
					U.S. imports
0	Food and live animals	337,247	401,105	452,787	
1	Beverages and tobacco	22,264	28,753	31,817	
2	Crude materials--inedible, except fuel	92,972	103,412	128,814	
3	Mineral fuels, lubricants, etc	11,614	53,623	65,963	
4	Oils and fats--animal and vegetable	6,986	7,419	8,650	
5	Chemicals	1,078,220	1,283,174	1,381,562	
6	Manufactured goods classified by chief material	5,271,866	7,290,031	7,615,562	
7	Machinery and transportation equipment	29,928,613	42,079,855	51,968,786	
8	Miscellaneous manufactured articles	3,780,098	4,947,357	5,840,944	
9	Commodities and transactions n.e.c	357,426	401,196	746,971	
	Total	40,887,306	56,595,926	68,241,856	

1/ Standard International Trade Classification.

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

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

(37 percent), light trucks (44 percent), metalworking machine tools (17 percent), microwave ovens (52 percent), boring and drilling machines (81 percent), and electronic measuring equipment (20 percent). U.S. imports of some Japanese high-technology products, including computers, office equipment, and semiconductors, actually fell in value in 1985. Much of this drop was attributable to a drop in unit prices for such goods.

The drop in U.S. exports to Japan reflected sharply lower shipments and depressed prices of agricultural products, raw materials, and other industrial supplies. Table B-5 shows that corn exports were down by 35 percent in value from 1984 levels, while the value of U.S. shipments of soybeans and wheat fell by 20 percent and 12 percent, respectively. Cotton shipments were off by 44 percent in value from 1984 to 1985. Manufactured exports (SITC sections 5, 6, 7, and 8) rose by less than 1 percent. Aircraft was the largest plus factor in the U.S. trade account with Japan, totaling \$904 million in the year, an increase of over 73 percent from 1984. Other increases were registered in U.S. exports of auto parts (up by 20 percent), aircraft parts (11 percent), fish (42 percent), digital central processing units (8 percent), parts of engines (22 percent), aluminum waste and scrap (32 percent), and digital machines (54 percent). Declines were evident in U.S. exports of power-generating equipment (down by 76 percent), generators and transformers (down 22 percent) and broadcast communications equipment (down 23 percent).

Major Policy Developments Affecting Trade

Market-oriented, sector-selective talks with the United States

In January 1985, President Reagan and Prime Minister Nakasone agreed that their two countries would undertake an ambitious negotiating program intended to uncover and resolve all barriers to U.S. exports in four key Japanese sectors. The decision was the result of growing U.S. frustration with slow progress on bilateral issues, particularly in light of a burgeoning U.S. deficit in merchandise trade with Japan.

The U.S. decision to focus negotiations on selected sectors came in December 1984, as preparations for a Reagan-Nakasone meeting slated for January were underway. At that time, the Cabinet agreed to focus U.S.-Japan trade negotiations in 1985 on gaining access to sectors of Japan's economy viewed as presenting significant export potential for American firms. The telecommunications, electronics, forest products, medical equipment, and pharmaceuticals sectors were selected based on several criteria: the Japanese market for such products was large and exhibited strong growth potential; U.S. firms were globally competitive in the goods and services; and the U.S. industry was willing and able to support the negotiations. At their January 2 meeting, President Reagan and Prime Minister Nakasone agreed that such an approach would be fruitful, and charged their foreign ministers with coordinating the negotiating effort. ^{1/} On January 28, high level officials

^{1/} In an article in the winter 1986 issue of the Federal Reserve Bank of New York's *Quarterly Review*, Dorothy Christelow estimated that invisible barriers to trade were a factor in limiting Japanese imports by about \$9 billion annually. The sectors most affected by those barriers include, inter alia, the four discussed in MOSS negotiations in 1985: computers, telecommunications equipment, industrial machinery, chemicals, pharmaceuticals, and wood products. See "Japan's Invisible Barriers to Imports," pp. 11-18.

from Japan and the United States met in Tokyo to formally launch the process agreed to by the heads of State.

The MOSS process has had positive results. Intense negotiations and unprecedented regulatory scrutiny produced a number of measures in 1985 that should give U.S. and other foreign businesses greater freedom to participate in the Japanese market (the specific commitments are discussed in the section "U.S.-Japan Bilateral Trade Relations"). Early on, U.S. negotiators made major breakthroughs in telecommunications talks, achieving substantial liberalization of Japan's regulatory system for "wired" equipment. The American side also resolved several longstanding complaints in the medical equipment and pharmaceuticals area, and Japan agreed to remove some of its most troublesome obstacles to U.S. competition in electronics. However, serious U.S. problems with Japanese practices in the semiconductor industry and with Japan's official satellite procurement policies were still not resolved by yearend. Moreover, movement in 1985 on forest products proved disappointing to the United States.

The year's near-continuous talks severely strained patience and resources on both sides of the Pacific. Still, the comprehensive nature of the talks seems to have produced concrete results that probably would not have been possible without the massive commitment of resources both sides devoted to the MOSS approach. Because of the success of 1985's MOSS talks, the United States and Japan have agreed to continue the process in 1986, dividing efforts between a followup of progress in 1985 and an abbreviated new sectoral agenda.

The Action Program on Imports

A market access package announced by the Japanese Government in 1985, the country's seventh since 1981, met with mixed reviews when it was released in Washington and Tokyo on April 9, 1985. However, its broad scope and "can do" tenor may have signaled a more fundamental shift in the way Japan handles trade disputes. In the so-called Action Program, drawn up to allay growing protectionist sentiments in the United States and elsewhere, the Japanese Government promised that in the coming 3 years it will encourage imports, foster the scaling back of industries that would not be competitive in a more open trade environment, and reorient the Japanese economy towards domestic-led economic growth. Specific steps to achieve this end were to be announced in July, Nakasone said.

The Action Program was based on the recommendations of the Advisory Committee for External Economic Issues, a high-level group set up in December 1984 by Prime Minister Nakasone to assess previous Japanese market-opening moves and to present options on how to make the Japanese economy more open to foreign products. In a report delivered to the Prime Minister in early April, the Advisory Group urged a change in the basic thrust of Japan's trade policy, with all imports being free in principle and restrictions imposed only in exceptional cases. Prime Minister Nakasone amplified this message when he released the package in a nationally advertised television address on April 9.

Most of the specific steps in the April package were keyed to U.S. demands. One of the most important was a commitment to limit the number of standards for telecommunications equipment to those needed to prevent harm to Japan's phone network. Japan also promised to submit legislation to the Diet

that would protect developers of semiconductor masks and computer software, a matter of particular U.S. concern. Approximately \$16 million worth of low-cost Export-Import Bank of Japan funding was made available by the Government to Japanese purchasers of foreign-made satellites. Meanwhile, restrictions on the use of larger, more efficient cargo containers on Japanese roads were substantially eased. The restrictions had presented operational difficulties to U.S. shipping lines.

Initial reaction to the April announcement was mixed. The U.S. administration's reaction to the trade measures was guardedly optimistic, given Prime Minister Nakasone's strong personal commitment to easing trade friction. However, U.S. legislators complained that the April package contained relatively few specific steps to redress the ballooning trade imbalance between the two countries. Others claimed that the steps were not significant enough to make "the cash registers start ringing."

In the weeks that followed the announcement, the Japanese Government took several major steps to implement the plan's goals. ^{1/} In the ensuing months, however, Japanese officials seemed intent on downplaying the potential effects of the steps that would be announced in July. Part of the reason for this public "backpedalling" may have been based on the belief that whatever steps Japan took, imports would increase only modestly and at a halting pace.

The July package

Released on July 29, the 3-year plan was considerably less far reaching than had been intimated in April, and some segments of the program that could be of greatest benefit to foreign suppliers were not spelled out in detail. Significant strides in the area of regulatory procedures and standards were made though, and Prime Minister Nakasone continued to demonstrate a strong commitment to trade liberalization. Japanese officials also took pains to point out that the Program was intended to be a long-term effort to make the Japanese market more accessible to foreigners; immediate increases in imports are not anticipated or claimed. Nevertheless, official reaction in the United States indicated the importance it placed on measures that could have an immediate impact on the ballooning U.S. deficit in merchandise trade with Japan and the pressures for protection it created. ^{2/}

The July market opening measures fell into three general categories: minimizing the "red tape" faced by foreign suppliers of goods subject to technical standards in Japan; improving customs procedures; and promoting Japanese purchases of foreign goods.

^{1/} On Apr. 10, the Prime Minister named two of his top Cabinet officers and two leading Diet members to oversee implementation of the trade package. And on Apr. 18, he established the External Economic Policy Promotion Headquarters where representatives from all government ministries were to develop actual plans to fulfill the Action Program pledges. In the meantime, the Government began an import drive. The Ministry of International Trade and Industry summoned the presidents of 60 of the country's largest companies to Tokyo on Apr. 22 to ask them to set specific import targets by May. Plans for import promotion fairs were also begun.

^{2/} See Weekly Compilation of Presidential Documents, Aug. 5, 1985.

The single most significant measure will change the procedures for certifying that foreign products conform with Japanese industrial standards (JIS) and Japanese agricultural standards (JAS). By April 1986, the Ministry of International Trade and Industry (MITI) will in most cases allow U.S. testing bodies to inspect U.S. factories as official agents of the Japanese Government. This should remove a major obstacle for American producers seeking to obtain the JIS mark of approval--a widely accepted sign of quality in Japan--for their industrial exports to Japan. U.S. suppliers of products still subject to Japanese Government inspection will be able to use American testing laboratories to generate conformity data. The Government will also give exporters of several products greater leeway over the coming years to self-certify that their products conform with relevant Japanese standards. By November 1, moreover, all Government ministries would set time limits for processing standards certification applications by foreign manufacturers.

The Government also promised to reduce by 10 percent the number of JIS industrial standards over the following 3 years. In the area of forest products, the Government indicated that its Ministry of Agriculture, Forestry, and Fisheries would take foreign views into account when it developed new standards for pine, plywood, and panel products.

Japanese officials indicated that the changes in import procedures outlined in the July plan would sharply reduce the number of licenses and special approvals needed to bring goods into Japan. Streamlining the inspection process for imports would also substantially reduce the time required for imports to clear Japanese customs, the Government claimed.

Purchases of foreign goods were to be promoted via tariff cuts, low-interest loans, and an officially sponsored "buy foreign" campaign. Largely in response to pressures from its Asian trading partners, Japan said it would lower tariffs by 20 percent on more than 1,800 products as of April 1, 1986, including duties on eight agricultural goods of interest to the United States. Tariffs on 32 industrial products will be eliminated. Japan also unilaterally added 16 semipublic organizations to the list of government entities whose purchases are covered by the GATT Government Procurement Code. Although several broad improvements in government procurement procedures were indicated in the July announcement, few specifics were provided, and no mention was made of reversing Nippon Telegraph and Telephone's (NTT's) low and falling purchases of foreign telecommunications gear.

The October package

In October, Prime Minister Nakasone indicated that Japan would step up its schedule for implementing previously announced market-opening moves and would adopt demand stimulus measures designed to boost Japanese imports by nearly \$2 billion in the coming year. The economic stimulus program consisted primarily of incentives meant to get the private sector moving on housing and other big-ticket construction projects, thereby increasing demand in Japan for domestic and foreign goods. The program also calls for increased lending and slightly lowered interest rates by the State-owned Housing Loan Corporation and an additional \$5 billion in public works projects, mostly in the public power industry. Japanese officials estimated that the plan could result in about \$14.4 billion in new investment within the next year and add roughly

1.3 percentage points to nominal GNP growth within the next 18 months. (Private estimates were less sanguine.) Formal cabinet endorsement of the demand stimulus plan came on October 14.

The Government also announced that many of the tariff cuts originally slated to go into effect on April 1, 1986, would be enacted on January 1 and that the overhaul of the standards certification system would be accelerated. On October 15, Prime Minister Nakasone established an advisory committee to report on policies Japan should pursue to harmonize its economic relations with other countries. The 17-member committee was to work out specific policy proposals by April 1986.

Prospects

U.S. trade officials believe that most of the specific steps in the Action Plan could ultimately benefit American suppliers. The Japanese Government's commitments to make the product approval process simpler, remove unnecessary technical regulations, take foreign views into account in the standards drafting process, and speed up customs clearance could all benefit U.S. suppliers. However, the full value of these steps will only be realized if Japan makes a concerted effort to implement them in a manner consistent with the plan's "free as a rule" thrust.

Nevertheless, U.S. officials and private interests have long argued that fundamental aspects of Japan's economic structure have had the effect of dampening foreign sales to Japanese consumers. A complex distribution system and the extensive linkages of Japanese companies--whether through long-term supplier relationships, financial or trading company ties, or intra-industry cooperative groups--have often worked to the disadvantage of new entrants, particularly foreign ones. Government product approval and other paperwork requirements have also resulted in costly delays for foreign firms. The announced changes in Government procedures were thus a welcome step in the process of making the Japanese market more accessible to foreigners. However, they are unlikely to have much impact on Japan's growing surplus in bilateral trade or to allay fears by foreign policymakers that more fundamental forces are preventing their firms from penetrating the Japanese market. Japanese business and government leaders, for their part, appear to harbor doubts over America's industrial competitiveness and the willingness of U.S. firms to devote the efforts needed to penetrate the Japanese market.

The Group of Five decision to bring down the dollar

As mentioned previously, on September 22, 1985, the finance ministers and central bankers of the Group of Five industrial nation's met in New York in an effort to alleviate growing imbalances in the world economy, notably an alarming rise in trade frictions. ^{1/} The group agreed to engage in coordinated intervention in currency markets to lower the value of the dollar and to adopt domestic policy measures that would support a better alignment in

^{1/} See also ch. I of this report on the President's September 23 trade initiative.

industrial country economic performance. The United States agreed that fiscal austerity measures meant to cut its growing Federal budget deficit would be its top policy goal, while Japan agreed to adopt fiscal stimulus measures and other policies that would turn the country towards domestic demand-led growth. Actions by Japanese and other monetary policymakers since that time have demonstrated the group's resolve to maintain the path set out in September. Japan raised short-term interest rates on October 24 and announced a fiscal stimulus plan intended to raise real GNP growth in Japan by 1.3 percent.

U.S.-Japan Bilateral Trade Issues

Overview

American frustration with Japan had reached a ground swell in 1985, as U.S. legislators and administration officials made it clear that the continually increasing U.S. trade deficit with Japan was becoming politically intolerable. A host of bills aimed at Japan were introduced by Congress, and the administration took its frustrations with Japan to the press, intimating that retaliatory measures would not be unthinkable if Japan refused to take stronger steps to open its market to foreign goods.

Congress apparently wished to impress upon Japan the seriousness with which it viewed the deteriorating trade picture by moving swiftly on a number of bills aimed specifically at Japan. The Senate took the lead in the effort by unanimously passing a resolution condemning Japan's closed attitude toward foreign products and calling for swift Japanese action to open its markets to competitive U.S. goods. In July, the Senate Committee on Finance reported out legislation requiring the President to develop a list of Japanese barriers to U.S. products and to draw up a plan of action to eliminate them. Barring a satisfactory Japanese response, the bill urges the President to take retaliatory measures against Japanese products, especially autos, electronics, and telecommunications equipment. Later in the year, a 25 percent surcharge on Japanese imports was under serious consideration in the Congress.

With political pressures rising, President Reagan and Prime Minister Nakasone were forced to intervene more heavily than previously in managing the bilateral trade relationship. The President ordered his envoy, Mr. Gaston Sigur (then of the National Security Council), to Tokyo in late March to break a negotiating impasse on telecommunications trade issues. And, on April 9 Prime Minister Nakasone made an unusual personal appeal to the Japanese people, warning that resolution of the current trade conflict must be a national priority.

Although Japanese trade barriers play some role in inhibiting U.S. shipments, fundamental economic forces also underlie the bilateral trade imbalance, particularly a loss of U.S. competitiveness in the production of some manufactured products and the high value of the dollar in foreign exchange markets. The high dollar makes imports more attractive in the U.S. market and undercuts U.S. price competitiveness in foreign markets. Cyclical factors have also been crucial. Because Japan was less affected than the United States by the 1981-82 recession, Japanese suppliers maintained high investment levels. They were thus well placed to supply new capital equipment when the U.S. economic recovery picked up steam in 1983 and 1984. The U.S. recovery began earlier and has been stronger than Japan's. Since it began, U.S. imports from all sources have risen dramatically.

Furthermore, Japan's burgeoning trade surplus has been more than offset by massive capital outflows, most finding their way to U.S. financial markets. In 1985 alone, net outflows of long- and short-term capital in Japan amounted to nearly \$64.5 billion. These funds have kept U.S. interest rates lower than they would have otherwise been and helped finance the investment needed to upgrade American productive facilities. The United States is also the prime location for Japanese foreign direct investment, attracting an all time high of \$3.4 billion in fiscal year 1984, according to the Ministry of Finance. Most of this money went into factories that manufacture metals and fabricated metal products, industrial and consumer electronic products, auto parts, and chemicals. Such investments may ultimately play an important role in reversing sagging U.S. trade performance.

Major manufacturing industries--including steel, autos, and telecommunications--dominated the bilateral negotiating agenda for much of the year. The two countries did manage to fashion compromises in each of these sectors by yearend, and to make substantial progress in other talks. Nevertheless, the high-level attention paid to trade in 1985 brought into focus an increasing U.S. frustration with Japan because of its failure to take effective measures to open its markets to competitive imported goods. These and other bilateral issues are discussed below.

Automobiles

Voluntary export restraints on Japan's U.S.-bound car shipments, imposed by the Japanese Government at the behest of the United States 4 years previously, were due to expire on March 31, 1985, unless renewed by Japan. On March 28, 1985 Japan decided to keep a cap on its car shipments for a fifth year, but raised the ceiling on those shipments by nearly one-fourth for the year ending March 30, 1986. A 1.86 million unit limit had been in place during the previous restraint year. In late April, company-by-company export quotas under the voluntary restraints were announced.

Japan's new 2.3 million unit limit grew out of an effort to reconcile conflicting signals from the United States. While President Reagan announced on March 1 that the United States was no longer seeking voluntary limits on Japan's auto shipments, Congress had subsequently threatened to legislate car quotas or other retaliatory measures. Many on Capitol Hill and within the U.S. industry believed that restraints on Japanese shipments were vital to the continued health of America's auto industry. Partly because a protectionist backlash was feared if all restrictions were lifted, Japan decided to maintain ceilings on its U.S.-bound auto shipments, albeit at much higher levels. The action, however, raised the administration's ire, and the White House was moved to announce that the continued restraints would not excuse Japan from taking further moves to open its market to competitive American goods.

Steel

In September 1984, President Reagan decided to lessen import competition for U.S. steel producers for a 5-year period. 1/ The President took this

1/ For a brief background on this decision, see the OTAP, 36th Report, 1984, pp. 16-26.

action after the U.S. International Trade Commission found that sharply increasing imports of certain steel products were a substantial cause of harm to domestic firms and workers. Japan, which supplied nearly one-fourth of the United States' imports of steel in 1984, was among the countries most affected by the new restraints.

The United States concluded agreements with seven steel-supplying countries, including Japan, on December 19, 1984. These agreements commit them to reduce sharply their steel exports to the United States for a 5-year period. Japan agreed to limit its overall share of the U.S. market to 5.8 percent by capping shipments of carbon and specialty steel products.

However, in 1985, the two sides continued to haggle over the specific terms of the restraint agreement. Japan wanted the restraints to be embodied in a year-to-year renewable agreement, with annual reviews to examine changes in market demand and industry performance. It also wanted the flexibility to decide the mix of products to be shipped within its 5.8-percent market share. The United States wanted an agreement with rigid limits on shipments of each product. It also wanted the agreement to be retroactive to October 1, 1984 (i.e., to count all shipments since that time against the first year quota), and for it to remain in effect for 5 years, without reviews or revisions.

According to a compromise reached on March 13, Japan will limit its exports to 5.8 percent of the U.S. market for 5 years, and the agreement will be reviewed at the end of 1985 and in December 1987. Although the restraints were made retroactive to October 1, 1984 the United States will allow Japan's first-year exports to go beyond the pact's provision for advanced use or carryover of up to 8 percent of each year's global quota. The restrictions on steel fall into six broad product categories and seven subcategories. However, Japan will be able to change the mix of shipments between categories by as much as 5 percent a year and by up to 7 percent annually on products within the categories. The two sides will also monitor exports of 18 other products. ^{1/} If shipments of any one of these products increase by more than 10 percent from one restraint year to the next, the United States can put the item under quota. Japan's MITI allocates export licenses to Japanese producers. Individual export shares are based, in part, on average 1980-84 exports to the United States.

Telecommunications

After nearly 3 years of debate, Japan enacted legislation in December 1984 to break up the monopoly held by NTT over domestic telephone and communications services. The legislation paved the way for privatization of the State-owned firm and stripped it of its monopoly in some telecommunications services markets as of April 1, 1985. By 1987, new competitors will be allowed to enter Japan's market for regular long distance telephone service.

^{1/} Gilbert B. Kaplan, "The President's Steel Program is Working," Business America, Mar. 31, 1986, pp. 11 and 12. Both the United States and foreign governments document compliance with the ceilings on a shipment-by-shipment basis. An export license and a validated original export certificate must be presented to Customs in order for the shipment to enter the United States.

To ensure that all comers would have fair access to Japan's newly opened telecommunications markets, U.S. negotiators focused their attention in early 1985 on ordinances implementing the privatization of NTT and deregulation of the telecommunications sector. They wanted to make sure that the ordinances, which were slated to become operative on April 1, would not disadvantage U.S. suppliers of equipment and services. In particular, the United States wanted to ensure that U.S. firms would not face unnecessary technical standards, discriminatory certification procedures, or preemptive registration requirements when trying to sell cable-based communications equipment and services in Japan. The United States also sought greater freedom for U.S. companies to participate in deregulated service sectors.

In late March, U.S. negotiators secured a major concession--Japan agreed to accept foreign-generated tests when certifying so-called interconnect equipment. ^{1/} It also agreed that only one independent agency would be charged with certifying the conformity of wired telecommunications equipment with Japanese product standards. And, following intensive U.S. pressure, Japan agreed to allow greater foreign input into the standards drafting process.

In early May, Japan also announced that it was abandoning attempts to impose technical standards for telecommunications equipment that had been a source of concern for the United States. The step meant that the United States substantially achieved its objective of persuading Japan to impose only those standards needed to prevent equipment attached to the phone network from impairing its operation. The Ministry of Posts and Telecommunications announced that it would eliminate 10 of 30 proposed technical standards for interconnect equipment that had been of concern to the United States, while modifying two, issuing clarifying circular notices on six, and retaining the other 12 unchanged. The revisions should make it easier for U.S. firms to sell certain types of switchboards, digital answering machines, and modems in Japan. In addition, Japan agreed to a U.S. request to give equipment suppliers a voice in devising interface "protocols", the electronic languages by which computers talk to one another across phone lines. As a result of the May measures, the then Undersecretary of Commerce for International Trade Lionel Olmer indicated that the United States had gotten substantially all that it had asked for in bilateral talks on "wired" telecommunications equipment and services. Since that time, 77 new kinds of U.S. wired telecommunications hardware have been certified for sale in Japan.

However, sectoral talks continued, this time focusing on barriers in access to Japan's market for wireless or radio-based communications equipment. Japan's wireless telecommunications market has been largely off limits to competitive foreign suppliers under Japan's complex and largely outmoded Radio Law and the administrative procedures that have implemented it. The absence of standards for state-of-the-art equipment had effectively prevented the sale of some sophisticated U.S. products such as pagers, cellular mobile telephones, and portable terminals in Japan. Furthermore, equipment inspection and approval was viewed as being arbitrary and time-consuming. The Japanese market for radio communications equipment totaled approximately \$500 million in 1984 and could reach \$20 billion within

^{1/} Interconnect equipment includes facsimile machines, switchboards, modems, answering machines and other devices that are generally owned by the user and hooked up to lines operated by the telephone company.

the next few years, according to U.S. industry estimates. U.S. firms predict that, with more flexible, goal-oriented regulation, U.S. suppliers could capture 20 percent of Japan's market for such equipment.

Driven by industry complaints, in 1985 U.S. negotiators asked Japan to accept manufacturer-generated test data, to update standards, and to allocate more frequencies for commercial use. After much debate, the Japanese Government expressed a willingness to update standards to allow for advances in mobile telephones and paging devices and to set up an independent testing body to certify conformity with technical standards. In addition, it was considering the use of U.S. technical standards for cellular telephones, rather than NTT's. And, as a result of eleventh-hour concessions made in December, the two sides reached agreement on the issues of acceptance of manufacturer-generated conformity data and on frequency allocation.

Other bright spots were evident. A new private Japanese carrier, formed by two Japanese trading companies and Hughes Communications, recently ordered a pair of Hughes-built communications satellites. Another new carrier, also a Japanese-American joint venture, is expected to buy a pair of U.S. communications satellites in 1986.

Medical equipment and pharmaceuticals

Under the aegis of the MOSS negotiating framework, the United States and Japan conducted a series of discussions in 1985 on medical equipment and pharmaceuticals. The result of the year long effort was the adoption by Japan of a number of market-opening measures, including improvements in the administrative procedures to granting new product approvals and manufacturing licenses, and for setting reimbursement prices under Japan's national health insurance scheme. The improvements will ease some of the paperwork burden, cost, and delay in bringing a foreign-made pharmaceutical or medical device to the Japanese market. Fixed timetables for processing such applications were adopted and greater transparency was introduced into the Government's regulatory process for health care products. The two sides plan to meet in 1986 to review implementation of the agreed solutions and to resolve new issues that may arise. 1/

Forest products

Of the four MOSS sectors, progress on forest products was the most difficult to achieve in 1985. Although Japan is the largest foreign market for U.S. forest products, in 1985, almost 80 percent of the industry's \$1 billion in exports to Japan was accounted for by raw materials such as logs and chips. The U.S. industry complained that tariff and nontariff barriers in Japan inhibit U.S. exports of finished or processed wood products. After

1/ A detailed description of the U.S. concerns about Japan's health regulatory system, as well as the measures Japan will take to address these concerns, is contained in the joint report of the two country's negotiators entitled, "Report on Medical Equipment and Pharmaceuticals Market Oriented Sector Selective (MOSS) Discussions" released in January 1986 by the U.S. Department of Treasury.

months of unproductive talks, Japan finally agreed in December to cut its tariffs on certain products of interest to the U.S. industry, including paper, fiber building board, builders' carpentry, softwood veneers, finished lumber, and softwood plywood. The two sides then agreed to table discussion of these tariffs until April 1, 1987. One of the U.S. industry's trade associations, the National Forest Products Association, has characterized the tariff cuts as a "welcome first step," but is seeking additional tariff reductions, particularly on plywood products. 1/

Electronics

The United States and Japan also held talks in 1985 concerning Japanese barriers to U.S. exports of electronic products. The two sides discussed customs clearance, patent registration, and access to Government-sponsored research and development programs. The United States expressed concern about continuing high shipments by Japanese semiconductor makers in the face of a rapidly weakening U.S. market for such products. U.S. industry sources feared that Japanese suppliers would continue to flood the U.S. market with low-cost memory and other semiconductor devices, further suppressing already falling prices. Japan's "buy national" policy for satellites used in fields other than telecommunications, such as broadcasting and meteorology, was also raised by the United States.

As a result of U.S. negotiating efforts in 1985, Japan addressed several obstacles to U.S. competition in electronics, agreeing to eliminate tariffs on computer equipment and components, to provide legal protection for designers of semiconductor masks, and to drop a proposed law that would have hampered U.S. software sales in Japan. However, some serious U.S. problems with Japanese practices in the semiconductor industry were still not resolved by yearend and the Government's satellite procurement policies for nontelecommunications satellites were unchanged, effectively banning the purchase of foreign-built satellites by Japanese Government agencies.

Progress was made in improving American access to Japanese Government-sponsored research. Under a recently concluded agreement between IBM and the MITI, the U.S. computer firm will have access to some existing and future computer-related patents held by the Japanese Government, including some of those relating to Government-sponsored fourth and fifth generation computer equipment and software research. The Government has also said that U.S. companies will be allowed to participate in a 5-year, Government-sponsored software development project then getting underway.

Semiconductors

On June 14, the Semiconductor Industry Association (SIA) filed charges with the USTR, under section 301 of the Trade Act of 1974, alleging that Japan was engaging in unfair competition in world semiconductor markets. In its petition, SIA charged that Japanese producers were involved in illicit market sharing agreements, supported and set up by the Japanese Government, that were intended to strengthen their competitiveness and prevent inroads by foreign

1/ Inside U.S. Trade, Jan. 17, 1986, pp. 11 and 12.

suppliers in the Japanese market. The SIA petition charged that these companies, bolstered by a sheltered domestic market and with significant corporate and government resources, invested heavily in new capacity and undercut U.S. prices both at home and abroad. The SIA petition requested the President to adopt several objectives with respect to U.S.-Japan trade in semiconductors. The SIA urged the U.S. Government to support increased sales of semiconductors in Japan, commensurate with U.S. sales in other world markets, and to take action to prevent Japanese dumping. The SIA requested the President to direct the U.S. Department of Justice to determine whether the anticompetitive behavior of Japanese semiconductor producers violated U.S. law and to initiate a proceeding against Japan under article XXIII of GATT in the event that the Japanese government proved unwilling to comply with these objectives.

Although numerous bilateral negotiations on SIA's petition were held in 1985, no acceptable compromise on the issue was reached by yearend. In November, the Japanese Government outlined a two-part settlement plan to the United States. Under the proposed settlement, the Japanese Government would set floor prices under U.S.-bound shipments of dynamic random access memory (DRAM) and erasable-programmable read-only memory (EPROM) semiconductor devices, and encourage 11 major Japanese electronics companies to expand their purchases of U.S.-made circuits by one-fourth. In return, the U.S. Government would drop the SIA and other charges filed against Japanese suppliers. The U.S. side rejected the offer because of lingering concerns regarding the pricing practices of Japanese semiconductor companies in third-country markets. U.S. makers apparently would like Japanese manufacturers to agree to price their devices on the basis of their costs of production.

Three complaints were also filed in 1985 against Japanese suppliers under the U.S. dumping statutes. The first complaint was filed by Micron Technology, Inc. in June, charging Japanese suppliers with dumping 64K DRAM semiconductor chips. Advanced Micro Devices, Intel, and National Semiconductor later joined in filing a petition on September 1, charging Japanese suppliers with dumping EPROM semiconductor chips in the U.S. market. Faced with evidence of below-cost sales, the administration also decided to self-initiate antidumping proceedings against Japanese producers of 256K DRAM semiconductors in December. The International Trade Commission has concluded its preliminary investigation of the three cases, unanimously determining in each instance that there is a reasonable indication that the U.S. industry is being injured by imports from Japan sold in the United States at LTFV. 1/

Other legal proceedings were also begun against Japanese semiconductor firms. In mid-September, Micron filed a \$300 million damage suit against six major Japanese semiconductor companies with the U.S. District Court in Boise, charging that Japanese semiconductor firms were conspiring to monopolize the U.S. market for DRAM's and to drive U.S. suppliers out of business. Meanwhile, the U.S. Justice Department began an investigation in August regarding alleged predatory pricing practices by Hitachi in the U.S. market for EPROM's. The investigation was begun after a company memo surfaced

1/ The report of the final investigation No. 731-TA-270 on 64K DRAM components from Japan was published in June 1986. A majority of the Commission determined that the U.S. industry was "materially injured by reason of imports from Japan."

in June that urged the company's distributors to undercut the prices quoted by Intel and Advanced Micro Devices by 10 percent, no matter how low the bidding got. According to some estimates, in late 1985, prices of key types of semiconductors, such as 64K and 256K DRAM's, were one-tenth of the previous year's level. 1/

Leather and leather footwear

On December 20, the United States and Japan agreed to settle bilaterally a longstanding U.S. complaint concerning Japan's restrictions on imports of leather and leather footwear. In the settlement, Japan agreed to expand its quotas on leather and to convert its quotas into a tariff-rate quota scheme. Effective April 1, 1986, an overall quantitative limit will no longer apply to leather imported into Japan. However, a 40 percent tariff will apply to imports of leather above a prescribed amount. Japan will also cut tariffs on several other items, notably those on aluminum and paper products. As part of the bilateral settlement, the United States will impose a retaliatory duty of 40 percent on imports of certain footwear and leather products from Japan. 2/

In April 1984, a GATT panel had concluded that Japan's restrictions on leather imports were impairing U.S. benefits under the General Agreement. However, Japan took no action in the ensuing 16 months to remove its restrictions and failed to provide acceptable compensation to the United States. In September 1985, President Reagan informed Japan that he was setting a December 1, 1985, deadline for reaching a compromise on the issue.

In the November 1 1985, Federal Register, the Office of the USTR identified 42 items as possible candidates for retaliation if no compromise was reached. Bilateral discussions followed, but the two sides' positions were still far apart on December 1, and the United States announced its intention to retaliate. A plea by Prime Minister Nakasone to the President was delivered on December 2, and it apparently served to buy Tokyo a little time. Progress proved elusive though, and the Cabinet-level U.S. Economic Policy Council met on December 20 to work out the details of retaliatory action. Convinced that the President intended to act, Japan finally broke the impasse that evening, offering a solution that the United States considered acceptable.

The settlement that emerged calls for Japanese tariff cuts on 142 items of interest to the United States, plus additional compensation in the form of higher U.S. tariffs on imports of certain leather and leather footwear

1/ Far Eastern Economic Review, Nov. 21, 1985, p. 118.

2/ Japan's restrictions on leather imports have been the subject of U.S. complaints for nearly a decade. The present dispute had its origins in a petition filed in 1977 by the Tanners Council of America under sec. 301 of the Trade Act of 1974. After bilateral consultations failed to resolve the dispute, the United States filed a formal complaint under art. XXIII:2 of the GATT in July of 1978. In February 1979, the United States and Japan opted for a bilateral settlement of the case, which called for expanded Japanese quotas and a more transparent licensing scheme. However, partly as a result of high tariffs and a paternal import license allocation regime, U.S. suppliers were unable to increase their presence in the Japanese market. Growing dissatisfaction with the outcome of the bilateral settlement led the United States to reopen its formal GATT protest in 1983.

products from Japan. A total of \$24 million in U.S. imports from Japan is expected to be affected by the higher duties that will remain in effect as long as Japan's restrictions are in place. Japan agreed to lower its tariffs on several U.S. paper products, along with those on film, glass, sporting goods, and silicon wafers. Japan also agreed to lower tariffs on five aluminum products of interest to the United States (see "Aluminum" discussion, below).

Japan will also convert its quotas on leather into tariff-rate quotas. Under the new system, once imports reach a prescribed level, additional duties of 40 percent will apply. Such tariff quotas are considered less restrictive than absolute quantity limits, and the amount of leather that will be allowed into Japan without additional restriction is higher than that allowed under the former quota system.

While the bilateral settlement does little to resolve the underlying issue--lack of U.S. access to Japan's leather and leather footwear markets--it appears to serve overall U.S. interests in several important respects. The administration of Japan's restrictions will be somewhat more transparent in the new regime. Under the former quota system, even obtaining information on the exact level of imports that would be allowed was difficult. And, by using the dispute to extract tariff concessions and a commitment by Japan to discuss its barriers to aluminum imports, U.S. negotiators appear to have moved several other U.S. industries closer to reaching their objectives in the Japanese market.

Aluminum

While the United States ships primary aluminum and aluminum ingots to Japan, trade in milled aluminum products is virtually one way--from Japan to the United States. U.S. industry sources believe that the existence of high tariffs and a recession cartel in Japan, along with other business practices, have sharply limited U.S. penetration in Japan's market for processed aluminum products.

In 1985, U.S. firms complained that collaborative efforts by the Japanese industry to dispose of primary aluminum production capacity and other government programs have prevented them from making inroads in the Japanese market. Japan's aluminum smelting companies have been engaged in the cooperative decommissioning of surplus plant and equipment for the past 5 years, with antitrust immunity from the Government under its structurally depressed industry law. The Japanese Government is also promoting overseas production by Japanese smelters via a duty-rebate program. Under the program, Japanese smelters can get a refund on imports that they buy from Japanese company-controlled sources in foreign countries. The Government periodically purchases the excess ingot inventories from Japan's five smelters and gives financial support for two government-industry research projects designed to develop new refining capacities.

The U.S. industry also complains about Japan's high tariffs on semifabricated and fabricated aluminum products. Japan's duties on such products are between three and four times as high as comparable U.S. rates. As part of their December 20 bilateral settlement of the previously mentioned dispute on leather, Japan did agree to lower its tariffs on five aluminum¹⁷¹ products. Tariffs on unwrought aluminum and aluminum ingots are to be cut in

two stages from the present 9.0 percent ad valorem level to 1.0 percent ad valorem in January 1, 1988; those on aluminum plate, sheet, and strip will be cut from the present 9.2 percent level to 3.0 percent. The Government of Japan also agreed to continue bilateral discussions on aluminum in 1986.

Cigarettes

Japan's restrictions on sales of foreign cigarettes were singled out by the President on September 7 for investigation under section 301 of the Trade Act of 1974. A formal proceeding was initiated by USTR on September 16, 1985. Despite recent changes in Tokyo's pricing policies for imported cigarettes and its eased restrictions on marketing, advertising, and distribution, the United States maintains that U.S. cigarette makers are still handicapped in competing with Japan Tobacco Inc. (JTI), the country's only authorized cigarette manufacturer. Their biggest disadvantage, say U.S. suppliers, is the fact that Japan's tobacco excise tax, equivalent to 56.5 percent of the retail price, is calculated on the landed price of imported cigarettes, including the 20 percent tariff. This results in a significant price differential between foreign and Japanese cigarettes and keeps the U.S. share of Japan's \$10 billion annual market for cigarettes at about 2 percent, U.S. industry sources claim.

The Japanese Government has countered that its tariff on cigarettes is lower than the United States' and points to the number of changes that it has made in its cigarette market at the request of the United States. Specifically, the Japanese Government directed the administration's attention to the fact that restrictions on access to retail outlets have been reduced considerably, foreign cigarette companies can now set their own retail prices subject to minimal government criteria, tobacco product manufacturers are free to establish retailer margins, foreign tobacco companies can set up their own distribution system or use JTI's existing network, and advertising rules are applied equally to foreign and domestic firms. U.S. makers, meanwhile, believe that various aspects of Japan's tariff, tax, distribution, and marketing systems continue to inhibit their presence in the Japanese market for cigarettes and other manufactured tobacco products.

Transportation issues

After 14 months of often bitter negotiations, the United States agreed in late April 1985 to allow Nippon Cargo Airways (NCA), a newly formed all-cargo carrier in Japan, rights to land in the United States. Under the agreement, NCA was allowed to fly six round-trip flights weekly into New York and San Francisco, effective May 8, 1985. In return, the United States will be allowed to designate two additional small package carriers to serve the Japanese market. NCA's major U.S. competitor, Flying Tigers, strongly opposed the move, claiming that the ownership structure of the new line would give it an unfair advantage in competition. NCA is jointly owned by six major Japanese shipping lines, 19 freight forwarding firms, and several trading companies. ^{1/}

^{1/} The U.S. International Trade Commission was asked by the USTR to investigate the impact of the proposed entry on the U.S.-Japan air and surface cargo transportation market. The study was transmitted in June 1985, but its contents remain confidential.

Negotiators also were grappling in 1985 with Pan American's proposed sale of its Asian routes to United Airlines. The United States maintains that, since United Airlines has already been granted landing rights by the Government of Japan, the United States simply needs to notify Japan that it is transferring Pan American's route rights to United. Japan, meanwhile, hopes to use the proposed sale to secure additional concessions from the United States, particularly additional flights for NCA.

The United States has also been concerned about surface transportation issues. Japan's height restrictions for road vehicles had prevented U.S. shipping companies from transferring cargo in the preferred high-cube container during the inland portion of an intermodal cargo route. Most of those restrictions were eased by the April 1985 "Action Program", although some U.S. firms have complained about excessive paperwork requirements. In addition, U.S. shipping companies had not participated in the carriage of tobacco from the United States to Japan. On September 25, JTI, the former Government's cigarette monopoly, announced that two U.S. shipping companies had successfully completed 3-year tests of their abilities to transport leaf tobacco from the east coast of the United States. American President Lines and Sealand will be offered 1-year contracts for \$470,000 to transport 20 percent, or approximately 2,600 metric tons, of the tobacco JTI plans to buy directly from U.S. suppliers next year.

MEXICO

The Economic Situation in 1985

Weakening oil markets, major earthquakes, and poor economic performance made 1985 one of the most difficult years in Mexico's history. This was the first year since the 1982 debt crisis ^{1/} that Mexico failed to meet its austerity commitments. As a result, the IMF revoked its 3-year loan agreement with Mexico (1983-85), freezing an upcoming disbursement of \$900 million in loans. The revocation of the accord by the IMF coincided with a severe earthquake that hit Mexico on September 9. With a foreign debt of \$96.4 billion, Mexico is the most heavily indebted country among LDC's, after Brazil.

The IMF criticism of Mexico's 1985 economic performance centered on the Government's failure to control the budget deficit and inflation. In the first half of 1985, the de la Madrid administration eased the austerity measures that have characterized its economic policy after the debt crisis. Public spending was allowed to rise again because the Government wanted to continue the economic revival that began in 1984. ^{2/} However, overstimulation of the economy led to inflation and widened the public deficit in 1985. The public deficit accounted for 10 percent of the the GDP, double the 5 percent stipulated by the IMF austerity requirements. Inflation, which was an annual average rate of 59 percent in 1984 rose to 64 percent in 1985. This was well above the target rate of 35 percent and marked the first year of accelerated inflation under the current administration. Economic growth attained in 1985 was 3.5 percent.

Trade was one of the disappointing aspects of Mexico's economy during the year. Following 3 years of impressive merchandise trade balances (a surplus of \$6.8 billion was achieved in 1982, \$13.8 billion in 1983, and \$12.8 billion in 1984), Mexico's merchandise trade surplus was cut to \$7.9 billion in 1985 as a result of exports which declined by 9 percent and imports which increased 19 percent.

Depressed earnings from petroleum shipments were a major cause of sliding exports in 1985. In the last 5 years, petroleum consistently accounted for over two-thirds of Mexico's export earnings. Mexican oil revenues suffered from a combination of both declining sales and lower prices on world markets. Even though not a member of the Organization of Petroleum Exporting Countries (OPEC), Mexico generally adhered to that cartel's official pricing policies through January-June 1985, when most OPEC members offered spot-market rates well below the official price. The comparative high price of Mexican oil led to a loss of markets. Price cuts by Mexico in July regained some market share during July-December 1985, but Mexico has not adjusted rapidly enough to more recent plunges in international oil prices.

Mexico's mining and manufactured exports also declined in 1985. The de la Madrid administration focused on increased manufactures exports in an

^{1/} See the Operation of the Trade Agreements Program, 34th Report, 1982, pp. 193-196.

^{2/} In 1984, the GDP increased by 3.7 percent following a decline of more than 5 percent in 1983.

attempt to reduce the dominance of oil in Mexico's export structure. Mexico was successful in this endeavor in the 3 years prior to the year under review.

The shrinking trade surplus, and the decline in tourist revenues in the wake of the September earthquakes, were reflected in Mexico's balance of current payments. The deficit on current account was expected to be between \$3 and 4 billion in 1985, whereas in 1983 and 1984, Mexico succeeded in maintaining surpluses on this account.

A series of policy changes were announced late July. These included cutting the budget for the third time in 1985, devaluing the peso by 20 percent, and instituting trade-liberalizing measures. ^{1/} Then, in his November 15 annual budget message, President de la Madrid announced that he intended to adopt new austerity measures recommended by the IMF and foreign bankers. He said that in 1986 austerity would prevent the Mexican economy from growing beyond 1 percent or even make it shrink by as much as 1 percent. The slowdown, de la Madrid claimed, is necessary to reduce Mexico's budget deficit and restrain inflation. Severe cuts in public spending ^{2/} and new taxes would lower the budget deficit in 1986 to 4.9 percent of the GDP.

The Mexican President's November message was apparently intended to regain the trust of the IMF and foreign creditors at the threshold of new loan negotiations. A new accord with the IMF on Mexico's debt repayment ^{3/} is expected to open doors to fresh commercial financing Mexico is seeking from its creditors in 1986. ^{4/}

The President's budget announcement reportedly followed an intense struggle within the Government between a fiscally conservative group and another group that insisted on limiting debt servicing to allow for some measure of economic growth. ^{5/} Even though the fiscal conservatives have apparently prevailed, the Mexican President's reaffirmation of an austerity policy remains highly controversial. ^{6/}

^{1/} See a discussion of exchange rate and trade liberalization measures in the following subsections.

^{2/} The Government made unsuccessful efforts to cut public spending earlier in the year including a program of selling to the private sector or liquidating 238 State-owned companies. This program was based on Mexico's declared policy of "privatization," i.e., that it would shift to a more market-oriented economy.

^{3/} As discussed in the Operation of the Trade Agreements Program, 36th Report, 1984, p. 154, Mexico concluded, in 1984, a provisional debt restructuring agreement with its creditors. This agreement was signed in July 1985.

^{4/} After the earthquakes, private banks agreed to postpone Mexico's payments due in October and November for 6 months, and the IMF granted a \$300 million emergency loan.

^{5/} Latin American countries are divided over the extent they should accept the austerity conditions imposed on them by their creditors. Some would insist on a minimal growth rate (such as Brazil), others would limit their debt-servicing payments as a share of export earnings (Peru). For Brazil's position on this matter, see the section on Brazil in this chapter.

^{6/} Since the November 1985 budget message, Mexico has reportedly developed a more demanding debt-negotiating position in dealing with the IMF and commercial banks. This is in response to its economic emergency caused by plunging oil prices early 1986. ¹⁷⁶

Merchandise Trade With the United States

In 1985, the United States continued to be both Mexico's main supplier and its main customer. Mexico remained one of the leading U.S. trading partners, ranked third as a single country market for U.S. exports and fourth as a single country source of U.S. imports.

Bilateral merchandise trade increased in 1985. U.S. exports to Mexico were up 14.2 percent, and U.S. imports from Mexico edged up 6.8 percent. Table 15 shows that the U.S. deficit with Mexico narrowed in 1985 to \$5.9 billion from the \$6.3 billion posted a year earlier. Nonetheless, 1985 was the fourth consecutive year that the United States had a negative trade balance with Mexico. These recent years contrast sharply with the period through 1981 when the United States consistently maintained a surplus with Mexico. The balance shifted in Mexico's favor in 1982--the year of its debt crisis--as a result of the significant controls and the recessionary environment that followed the crisis in Mexico.

In 1985, Mexico became more receptive to foreign goods for the first time since 1982. U.S. exports to Mexico amounted to \$13 billion. This was a repeated rise after a rebound in 1984 from low 1983 levels. Growth of exports was attributable to most branches of manufactures. A 21-percent rise in U.S. machinery and transportation equipment shipments reflected Mexico's strong demand for capital goods during the year (see table B-7). Machinery and transportation equipment accounted in 1985 for 48 percent of overall U.S. exports to Mexico. Shipments rose for the second consecutive year following a sharp decline in 1983. Automotive items (particularly chassis parts), office machines, telecommunications products, and electrical equipment topped the list of U.S. exports in this category. These exports were mostly destined for assembly in Mexico's in-bond plants for later return to the United States. 1/ Trade with Mexico in machinery and transportation equipment is significant in both directions. 2/

Mexico's market for intermediate goods also strengthened in 1985, triggering U.S. shipments of chemicals (mostly of refined petroleum products) and of manufactures classified by material. The latter includes inputs exported for Mexico's in-bond apparel production, some of which returns after further processing to the United States.

U.S. agricultural exports to Mexico declined in 1985, owing to better crops following recovery from the Mexican drought of 1983. Shipments of soybeans--the second leading U.S. export item to Mexico--dropped in value although the volume remained largely unchanged. Corn shipments also declined (see table B-7).

The United States has an active export credit program for agricultural shipments to Mexico. However, a recent cutback in the value of U.S. credit

1/ An "in-bond" plant (or maquiladora) operated by U.S. firms in Mexico processes materials or assembles components produced in the United States and returns the processed or assembled product to the United States. See also "U.S. Imports" below.

2/ See following subsection "Major Policy Developments Affecting Trade."

Table 15.--U.S. trade with Mexico, by SITC 1/ Number (Revision 2), 1983-85

		(In thousands of dollars)			
SITC Section No.	Description	1983	1984	1985	
					U.S. exports
0	Food and live animals	1,420,389	997,358	912,874	
1	Beverages and tobacco	888	2,127	1,774	
2	Crude materials--inedible, not fuel	789,774	1,305,510	1,139,990	
3	Mineral fuels, lubricants, etc	268,073	370,922	573,018	
4	Oils and fats--animal and vegetable produce	92,305	170,758	112,257	
5	Chemicals	1,061,494	1,247,569	1,411,545	
6	Manufactured goods by chief material	954,211	1,177,159	1,362,956	
7	Machinery and transport equipment	3,528,464	5,183,438	6,284,254	
8	Miscellaneous manufactured articles	521,174	753,924	852,204	
9	Commodities and transactions n.e.c	118,459	252,437	433,380	
	Total	8,755,231	11,461,203	13,084,252	
					U.S. imports
0	Food and live animals	1,550,325	1,543,375	1,587,982	
1	Beverages and tobacco	116,496	104,477	151,121	
2	Crude materials--inedible, not fuel	298,402	321,295	470,744	
3	Mineral fuels, lubricants, etc	8,524,524	7,814,391	7,820,772	
4	Oils and fats--animal and vegetable produce	1,918	2,788	1,906	
5	Chemicals	275,181	490,734	472,690	
6	Manufactured goods by chief material	1,213,556	1,476,092	1,251,976	
7	Machinery and transport equipment	3,470,375	4,574,378	5,444,513	
8	Miscellaneous manufactured articles	743,500	944,607	1,179,289	
9	Commodities and transactions n.e.c	424,660	490,261	557,252	
	Total	16,618,938	17,762,399	18,938,246	

1/ Standard International Trade Classification.

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

Note.--Trade does not include special category exports.

guarantees, combined with the Mexican Government's desire to diversify suppliers, made Mexico shift some of its grain and oilseed orders to Argentina and Brazil. Despite the significant easing in Mexico's import controls in 1985, prior licensing permits are still required for its imports of grains, oilseeds, and vegetable oils. These items collectively account for the bulk of U.S. agricultural exports to Mexico.

In 1985, overall U.S. imports from Mexico amounted to \$18.9 billion. The value of imports of mineral fuels--the largest component of this trade flow--has not changed from 1984. Crude oil remained the top item the United States imported from Mexico, dwarfing the imports of all other items (see table B-8). The declining prices of Mexico's heavy crude oil (called "Maya" crude) caused the import value of this item to decline even though larger volumes were shipped.

Mexican efforts to diversify exports away from oil were less than successful in 1985. During the year under review, Mexico was compelled to shift part of its manufactured production intended for exports to meet domestic needs. U.S. measures stepped up that had been against Mexico's unfair export practices since 1983 also put a damper on this trade flow. Notable are sharply reduced 1985 imports of Mexican steel that reflected an accord on steel trade between the two countries in force since October 1984. 1/

U.S. imports of Mexican machinery and transportation equipment--the second leading import category from Mexico after oil--increased by 19 percent in 1985. As in prior years, automotive products, telecommunication equipment, and office machines were the leading items in this group. Imports of motor vehicles and trucks increased substantially (see table B-8). Most part of Mexico's machinery products enter the United States under TSUS items 806.30 and 807.00 after assembly or further processing in Mexico. The United States levies duty only on the value added in Mexico. 2/

The existence of TSUS items 806.30 and 807.00 in the U.S. tariff law has stimulated the establishment of in-bond plants ("maquiladoras"), that are the principal sources of imports under these programs from Mexico. Mexican authorities do not levy import duties on U.S. shipments to the in-bond plants or export duties on their outbound shipments. Another product section with increasing 1985 imports from Mexico was miscellaneous manufactured articles. This section includes many articles produced in Mexico's in-bond industries and entering under TSUS item 807.00. Table 16 show imports from Mexico under TSUS items 806.30 and 807.00 in 1983-85.

Articles entering under TSUS item 807.00 continued to rise as a share of overall U.S. imports from Mexico, accounting for 29.2 percent in 1985. Most were produced in assembly plants established under Mexico's in-bond program.

1/ For more details, see the Operation of the Trade Agreements Program, 36th Report, 1984, p. 163.

2/ Item 806.30 of the TSUS 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.

In a typical in-bond operation, a plant on the U.S. side of the border often produces components that are transferred to a sister plant in Mexico for assembly. The finished products are then exported back to the United States. The program has been so successful that the assembly plants are now being established in the interior of Mexico as well. Mexico has over 700 in-bond plants that employ over 200,000 workers.

The United States continued to be the principal foreign market for Mexican agricultural exports in 1985, but this trade declined, mostly in the animal oils and fats category. Shellfish and coffee are the leading products in this group.

Table 16.--U.S. imports from Mexico entered under TSUS items
806.30 and 807.00, 1983-85

Item	1983		1984		1985	
	Value	Percent of total	Value	Percent of total	Value	Percent of total
	Million dollars		Million dollars		Million dollars	
Total U.S. imports	16,619	100.0	17,762	100.0	18,938	100.0
Imports under items						
806.30 and 807.00:	3,717	22.3	4,808	27.1	5,563	29.4
806.30-----	28	0.2	33	0.2	39	0.2
807.00-----	3,689	22.2	4,776	26.9	5,524	29.2

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

As a developing country, Mexico is also a beneficiary of the GSP program of the United States. In 1985, merchandise valued at \$1.2 billion or 6.6 percent of U.S. imports from Mexico entered duty free under this program. The GSP percentage of U.S. imports from Mexico is the smallest among all beneficiaries of the U.S. GSP program because petroleum, which dominates Mexico's exports, is not GSP eligible.

Major Policy Developments Affecting Trade

In 1985, major developments affecting Mexico's foreign trade included changes in exchange controls, progress in easing import barriers, and a larger role of the private sector in the economy, including trade, and the decision to apply again to join the GATT.

Exchange rate policy

Concern over declining oil revenues, the Government's overspending, and its failure to reduce inflation accelerated the peso's erosion in 1985. ^{1/}180

^{1/} Operation of the Trade Agreements Program, 36th Report, 1984, p. 158.

The Government was compelled to take several steps during the year to temper the adverse effect of an overvalued currency on exports, tourism, and the balance of payments.

During January-June 1985, the administration stepped up the rate of devaluation in the peso's controlled rate from 17 to 21 centavos per day. 1/ However, this step proved to be inadequate; the peso began to plunge in free-exchange markets in early June, accompanied by renewed capital flight from the country.

The Government reacted first in July with a 20-percent devaluation of the controlled peso. Then, effective August 5, officials replaced the prevailing exchange control system with a "managed float." The automatic daily devaluations of the controlled rate were eliminated, providing instead for nonautomatic daily parity adjustments based on market conditions. The "managed float" was applicable to some 80 percent of all foreign exchange transactions; for the remainder of transactions, companies had to rely on free currency markets. Officials hoped that a more "realistic" exchange value of the controlled peso would succeed in discouraging imports, make exports and tourism more competitive, and stop capital flight from the country.

However, the value of the peso on free-exchange markets continued to fall, widening the spread between the "controlled" exchange rate and the free-market rate. The central bank expressed concern about speculative peso operations outside Mexico that caused capital flight to continue. As a result, in November 1985, the central bank prohibited the transfer of the peso to foreign bank accounts and restricted foreign peso operations in the international branches of Mexico's State-owned commercial banks. At this point, the free rate was 514 pesos to the dollar. However, following the November measures, the peso regained strength. At the end of 1985, the free rate was 450 pesos and the controlled rate 350 pesos to the dollar. 2/

Easing import controls

In 1985, the Mexican Government accelerated the reduction of import controls that began in 1984. Major changes were made in the customs tariff schedules and the overall level of tariff protection was reduced. The list of items that required prior import permits (PIP) was also reduced. Since the 1982 debt crisis, PIP has been the principal means used by Mexican officials to cut back imports. As recently as 1983, virtually all imports required prior licensing.

In March 1985, Mexican officials eliminated import-licensing requirements for 519 items covering a broad range of products, including steam turbines, agricultural machinery, dairy products, and dairy cows. In June, a program

1/ At the time, the official two-tiered exchange controls featured a so-called "free rate" and a controlled rate.

2/ In the first months of 1986, the collapse of crude oil prices triggered new lows in the peso's market value. The Government followed by making substantial devaluations of the controlled parity, narrowing the spread between the free and controlled rates. This gave rise to speculation that Mexico's dual parity system would soon be abolished.

granting exporters better access to imported materials, machinery, and parts was announced. The June program authorized exporters to use up to 30 percent of their export earnings to purchase foreign producers' goods without having to apply for import permits. Bank certificates called "DIMEX" (the Spanish acronym for Certificate of Right to Import for Export) authorized such imports in lieu of the earlier permits. These certificates also authorized users to obtain duty refunds for eligible imports.

The June program was in large measure intended to facilitate Mexico's nonoil exports. The program allowed exporters to freely allocate imports between foreign machinery, equipment, or materials, as needed. Officials hoped that such measures would make Mexican producers, who have traditionally concentrated on the home market, more interested in exporting. Officials also expected that Mexican producers of materials, machinery, and parts would attain greater efficiency in their own production by being forced to face the competition of imported inputs.

The June regulations also provided for 205 new exemptions from import licensing and revisions of duty rates for 900 items in Mexico's tariff schedules. Duties were raised by 30 to 50 percent for many products freed from prior import licensing. ^{1/} However, officials also reduced duties for many items, mostly those for which licensing requirements had not been changed. According to an unclassified report of the U.S. Embassy in Mexico, the average tariff in Mexico decreased from 50 to 30 percent. Duties were cut for a wide variety of goods, including high-technology products and pharmaceuticals. ^{2/}

The emergency economic provisions announced on July 24 and the measures announced in October included further relief from import controls and additional changes in duties. ^{3/} These brought the number of goods not needing import licenses to 7,168 from a total of 8,077 in the Mexican tariff schedule. Nevertheless, the approximately 900 articles that continue to require import permits still account for about 40 percent of Mexico's total imports (based on 1984 data.) Products requiring licensing in 1985 included agricultural products (grains, oilseeds, and vegetables), fuels, chemicals, pharmaceuticals, electronics, and automotive products. These are generally the product lines that Mexico wishes to expand domestically.

Mexico also has a list of products for which importation is completely banned. A later revision in the 1985 revision reduced this list from 520 to 311 products, comprising mostly luxury goods.

"Privatization" of trade

In keeping with its increasingly market-oriented economic policy, the Government of Mexico embarked on a program of increasing the role of the

^{1/} Since Mexico is not presently a GATT signatory, its duties are not bound by GATT rules. Mexico applies its tariffs on an MFN basis except for the preferential treatment of Latin American Integration Association (LAIA) members.

^{2/} Report from the U.S. Embassy, Mexico City, June 1985.

^{3/} See subsection on "The economic situation in 1985."

private sector in trade ("privatization"). Notably, in 1985, the State-owned Mexican agricultural marketing company (CONASUPO) lost its monopolistic control over the most important agricultural imports. For several years until the beginning of 1985, CONASUPO was the sole licensed importer of all grains, oilseeds, and other essential food imports. Under the 1985 regulations, licenses to import these commodities are granted to the private sector. 1/

Joining the GATT

On November 26, 1985, President de la Madrid issued a statement saying that Mexico would enter the GATT and ordered Commerce and Industrial Promotion Secretary Hector Hernandez to begin negotiations leading to Mexico's entry.

Joining the GATT will represent a historic change in Mexico's long-term reliance on protecting domestic companies from foreign competition. Mexico's earlier application for GATT membership was withdrawn in March 1980, when protectionist forces in the Government argued successfully that the country was not ready to participate in international competition.

Mexico is presently the only large Western nation that is not a member of the GATT. The decision to join marks the biggest step yet taken by Mexico's current administration to achieve its declared goal of opening up Mexico's economy to the world. The move should also help Mexico in its negotiations with the IMF and commercial creditors on debt repayment schedules and new loans.

U.S.-Mexican Bilateral Trade Issues

Conclusion in April 1985 of a long-awaited agreement on subsidies was a milestone in improving U.S.-Mexican commercial relations. 2/ Adding to its significance was the simultaneous announcement that the parties would begin to negotiate a comprehensive U.S.-Mexican commercial agreement on bilateral trade and investment.

Other developments in Mexico, such as liberalization of import controls and the Government's decision in November to join the GATT, also contributed to better relations. The United States has long advocated that Mexico should take this step and put an end to its economic isolationist policy. Certain modifications during the year in Mexico's controversial pharmaceutical decree also contributed to easing tensions.

On its part, Mexico continues to point to U.S. import barriers as the principal roadblocks to the expansion of its economically critical export industries. Mexican officials complain that, while they are now gradually dismantling their own protectionist structures, the United States is in the

1/ The "privatization" of agricultural trade affects principally the United States, Argentina, and Brazil. The Mexican Government has also allowed the use of U.S. Government export credits to the private sector for imports of U.S. agricultural commodities.

2/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p 162.

process of erecting new barriers against Mexican exports. During the year under review, the Mexican Government had been greatly concerned about the U.S. Congress' efforts to protect U.S. industries.

Accord on subsidies

In April 1985, the United States and Mexico agreed to a 3-year "understanding" on the matter of Mexican export subsidy programs and U.S. countervailing duties. Such an accord was first drafted 3 years earlier and came close to being signed in May 1984. 1/

More than any other issue, Mexican subsidies and U.S. countervailing actions have strained bilateral trade relations between the two countries in recent years. In an effort to diversify its export structure, Mexico supports nonoil exports with a wide range of direct and indirect subsidies that involve tax rebates, preferential financing, and other programs. 2/ In response, affected U.S. industries have increasingly resorted to bringing CVD proceedings against Mexican products. During the period 1980-85, there were 27 CVD cases involving Mexican products such as steel, cement, ceramic tiles, bricks, toy balloons, textiles, lime, and fresh flowers.

Prior to the 1985 agreement, Mexico was more vulnerable than other nations to U.S. producers' complaints against its export subsidies. As it is not a signatory of the GATT Subsidies Code, and an equivalent bilateral accord had not been in existence at the time, Mexico was not entitled to an injury test under the U.S. CVD law. 3/

Under the April 1985 accord, the United States agreed to use the injury test in investigations of Mexican imports under CVD statutes. The accord provided that, effective immediately, no CVD orders shall be issued on subsidized Mexican items unless the U.S. International Trade Commission finds injury under the statute. 4/ The injury test is expected to give Mexican exports better access to the U.S. market. In exchange for the injury test concession from the United States, the April accord commits Mexico to eliminate export subsidies that adversely affect U.S. industries. Among other specific provisions, Mexico agreed not to maintain preferential pricing practices for energy and basic petrochemical exports and consented to issue guidelines for the preferential preexport and export financing programs that are scheduled to be phased out by the end of 1986.

1/ See the Operation of Trade Agreements Program, 36th Report, 1984, p. 162.

2/ The primary mechanism of support is FOMEX, a government-established trust to promote the manufacture and sale of exported products through preexport and export financing.

3/ Once the International Trade Administration of the U.S. Department of Commerce found that a Mexican export item benefited from countervailable subsidies, it imposed penalty duties to offset their effect. By comparison, the subsidized exports of other major U.S. trading partners were countervailed only when the U.S. International Trade Commission made an additional determination that these imports were causing or threatening to cause injury to a U.S. industry (the injury test).

4/ The U.S. International Trade Commission instituted one preliminary CVD investigation involving a Mexican product since the agreement has been in force ending with a negative determination.

The accord on subsidies remains in force for 3 years from the date of signature. It may be terminated by either Government on 60 days notice. For example, the United States could consider terminating the agreement should Mexico reintroduce export subsidies.

Foreign investment

Despite measures easing Mexico's restrictive foreign investment policy in 1984, U.S. companies in Mexico still have to contend with major legal and procedural impediments. 1/ Mexico also has a generally poor foreign investment climate owing to a variety of reasons, such as local content requirements; mandatory export performance; and government control of prices, imports, and foreign exchange transactions. As a result of its restrictive foreign investment policy and pervasive controls, Mexico has the lowest share of foreign investment (about 5 percent of the total) of any large Western economy. According to the Mexican Secretariat of Commerce and Industrial Development (SECOFI) in 1985, the United States accounted for 68 percent of all direct investment in Mexico. 2/

Except for in-bond industries, the Mexican Government generally still prohibits majority foreign ownership. 3/ However, Mexico made a notable exception in July 1985, when, after long negotiations, its Government approved the request of IBM de Mexico for a U.S.-owned IBM microcomputer operation.

Regulations governing the predominantly foreign-owned Mexican automobile industry exemplify the restrictions in effect. Automotive assemblers in Mexico are required to use 60 percent local content in vehicles largely sold in the domestic market but the local content requirement is less for vehicles destined for export. Each foreign-owned firm is also required to export enough products to cover all foreign exchange costs incurred during specified periods. These firms must also meet one half of their foreign exchange needs by exporting components. Moreover, foreign companies are effectively excluded from the medium-sized truck market. 4/

The 1984 pharmaceutical decree is another notable Mexican measure containing restrictions that affect predominantly foreign operations (see below).

Pharmaceuticals

On April 3, 1985, shortly before the subsidies agreement was signed, the Mexican Government responded to urgings from the United States and announced modifications to its controversial pharmaceutical regulations. The pharmaceutical decree, announced in February 1984 with implementing regulations issued the following October, was designed to reduce the dominance

1/ See the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 159 and 160.

2/ The three other big foreign investors were the Federal Republic of Germany (8.1 percent); Japan (6.0 percent); and Switzerland (4.6 percent).

3/ For more on "in-bond" industries, see "Merchandise Trade With the United States" earlier in this section.

4/ For more on Mexico's automotive industry regulations see the Operation of Trade Agreements Program, 35th Report, 1983, p. 295, and Operation of Trade Agreements Program 36th Report, 1984, p. 161.

of foreign-based firms in Mexico's pharmaceutical production. Another objective of the decree was to increase the supply of low-cost medicines. The measure gave Mexican-owned firms preferential treatment in the form of subsidies and by awarding them government contracts. Controls applying to the industry--such as mandatory prices, generic labeling stipulations, mandatory disclosure of formulae (which could then be copied by competitors)--mainly affected foreign companies. 1/

Supported by the U.S. Government, U.S. pharmaceutical companies and other foreign companies operating in Mexico claimed that the decree eroded their patent and trademark protection; that the controlled prices failed to reflect their R&D costs; and that the regulations generally interfered with their ability to respond to market forces.

The revisions to the pharmaceutical decree announced in April 1985 responded to some of these objections. The changes provided that the controlled prices must adequately reflect the R&D costs of products. The new measures also reauthorized companies to display their trademarks on certain packages beside the generic names. Some exemptions from generic labeling were also allowed for 10 more years, and the rules on mandatory disclosure of formulae were eased. However, the industry still remains subject to private controls, generic labeling, and burdensome trade constraints.

Transborder trucking

In July 1985, a U.S. law entitled the "Motor Carrier Safety Act of 1984" took effect. This act requires Mexican-owned-controlled, or domiciled truckers to obtain special certificates of operation from the U.S. Interstate Commerce Commission when crossing the border into the United States. To get such a permit, operators must prove that their trucks are properly insured, meet all U.S. safety standards, and are current in Federal highway user tax payments. 2/ Enacted in October 1984, this law makes it more difficult and expensive for Mexican truckers to operate in U.S. territory, was issued in response to Mexico's longstanding refusal to allow U.S. trucks within its territory.

On May 17, 1985, the Interstate Commerce Commission issued rules of enforcement that clarified some controversial provisions of the new measure before they took effect. These rules responded to the fears of in-bond operations that traffic between their twin plants (with one twin located in Mexico, and the other in U.S. territory) would be affected. 3/ The Interstate Commerce Commission explained that transportation between twin plants is outside the scope of the act. The May regulations also elaborated on the distinctions the new law makes between Mexican trucking activities within the commercial border zones and such activities going beyond the zones into U.S. territory. The rules clarified the safety standards Mexican trucks will have to adopt and allayed some fears about the rigor of such standards.

1/ See the Operation of Trade Agreements Program, 36th Report, 1984, p. 160.

2/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 164.

3/ For a definition of in-bond plants see "Merchandise Trade With the United States" earlier in this section.

According to industry sources, in many instances, the new law will make it advisable to transfer shipments from Mexican trucks to U.S. trucks, causing delays and higher shipping costs. Particularly affected would be vegetables grown in Mexico and entering the United States through Arizona, California, and Texas. Prices of these items could increase and the volume of trade could decline.

TAIWAN

The Economic Situation in 1985

In 1985, Taiwan experienced a sharp economic downturn from its extraordinary performance in 1984. Taiwan's real GNP increased by 4.7 percent in 1985--considerably less than the 8.5 percent growth projected by government planners. Taiwan's 1985 performance, while considered a boom outside of East Asia, when compared with the 10.52-percent growth achieved in 1984, represents a disappointing performance. The economy began to slow during October-December 1984 and remained in the grip of an economic downturn through 1985.

The slowdown was mainly the result of a declining trade performance, resulting from lower demand for Taiwan's products in the United States and in its other major trading partners. Foreign trade, the engine of Taiwan's growth, has been declining since the end of 1984. In 1985, the percent increase in the dollar value of Taiwan's exports was only 0.9 percent.

Another factor contributing to Taiwan's export-led downturn included increased competition from other suppliers. Taiwan's tight control over the economy also contributed to the economic malaise. This control is reflected in constricting foreign-exchange controls, State ownership of most banks, and a lending policy biased towards State-owned enterprises. 1/ Conservative lending practices by the Taiwan authorities have forced private companies to turn to the unregulated loan market for up to 40 percent of their borrowing needs. 2/ Moreover, rapidly mounting foreign-exchange reserves are creating a variety of problems for Taiwan's planners.

Although large amounts of foreign reserves normally indicate a strong economy if kept at appropriate levels, it can create strong inflationary pressures, and in Taiwan's case, it also threatens to increase friction with the United States by drawing attention to the massive bilateral trade surplus in Taiwan's favor. 1/ At yearend 1985, Taiwan held \$22 billion in foreign reserves, compared with \$16.4 billion in 1984.

Gross fixed-capital formation in Taiwan has been stagnating since 1981. Taken as a proportion of GNP, investment declined from nearly 30 percent in the early 1980's to 23 percent in 1984 and below 20 percent through the first half of 1985. This trend threatens to slow economic growth for some years. Several reasons for the decline include uncertainty in the business community as to where to invest as authorities emphasize the development of

1/ Carl Goldstein, "After the boom is over," Far Eastern Economic Review, July 25, 1985, p. 51.

2/ Far Eastern Economic Yearbook, "Taiwan," 1986, p. 246.

1/ One way of judging the appropriate levels for a country's foreign-exchange holdings is by how many months' worth of imports it will buy. An import cover of 2 or 3 months is considered sufficient, while 6 months is often more than enough. Taiwan's holdings provide an import cover of approximately 12 months. Carl Goldstein, Far Eastern Economic Review, "The problems of plenty," Dec. 19, 1985, p. 102.

high-technology, capital-intensive industries over the traditional low-wage industries; funding problems caused by the outdated financial system; and long-term uncertainty caused by Taiwan's increasing diplomatic isolation and mainland China's rising international profile. ^{1/}

Taiwan's current account surplus was about \$9 billion at the end of 1985. This surplus stemmed from Taiwan's massive merchandise trade surplus, which was \$10.6 billion in 1985. Factors contributing to the surplus were terms of trade increasingly in Taiwan's favor, boosted by declines in international energy and commodity prices since 1981; low domestic investment that led to reduced capital-equipment imports; and high-tariff barriers that have kept imports down for many products. Taiwan's yearend foreign debt was about \$5.5 billion and its debt service ratio was only 7.5 percent. The mounting foreign-exchange assets and low per capita external debt has resulted in a healthy balance of payments status and an excellent credit rating in international markets.

Merchandise Trade With The United States

Foreign trade is the mainstay of Taiwan's economy; over 50 percent of the island's production is for export. Its major exports are electrical products and electronics, textiles, machinery, footwear, and sporting goods. The United States is the primary market for Taiwan's products; in 1985, it took 48.1 percent of Taiwan's merchandise exports, a slight decline from the previous year, while supplying only 23.6 percent of Taiwan's merchandise imports. Table 17 shows that two-way trade totaled \$20.7 billion in 1985, up from \$19.4 billion the previous year. Taiwan's merchandise trade surplus with the United States in 1985 was \$12 billion.

Taiwan was again the primary beneficiary country of the U.S. GSP program in 1985. About \$9.0 million in GSP-eligible articles were imported into the United States in 1985, or 24.2 percent of total GSP products entering the country. Taiwan is the leading GSP source for a variety of products that include: jewelery, rubber and/or plastic household articles, furniture parts, brass articles, stuffed toy animals, and sporting equipment.

Taiwan's huge trade surplus with the United States is due in part to its ability to produce low-cost, increasingly high-quality consumer goods that are very competitive in the United States. Leading exports to the United States are electronic products, textiles, footwear, sporting goods, and a variety of light industrial products (see B-10). In addition, tariff and nontariff barriers are often used to protect Taiwan's local industries from foreign competition, thus making substantial increases in imports very difficult. Moreover, Taiwan buys primarily agricultural products from the United States (corn, wheat, and soybeans), but also chemicals, machinery, and raw materials that it manufactures into finished products for sale back to its export markets (see table B-10 for details of U.S.-Taiwan trade).

Taiwan's major imports from worldwide sources are petroleum, electronics and electrical components, machinery, basic metals, chemicals, and grains. These items account for about two-thirds of total imports by value. For a variety of reasons, such as tariffs, nontariff barriers, and consumer

^{1/} Ibid.

Table 17.--U.S. merchandise trade with Taiwan, by SITC 1/ Nos. (Revision 2), 1983-85

		(In thousands of dollars)			
SITC section no.	Description	1983	1984	1985	
			U.S. exports		
0	Food and live animals	690,565	705,398	595,643	
1	Beverages and tobacco	56,408	71,601	66,348	
2	Crude materials--inedible, except fuel	846,716	1,005,588	885,419	
3	Mineral fuels, lubricants, etc	204,591	268,761	172,219	
4	Oils and fats--animal and vegetable	17,177	12,109	12,997	
5	Chemicals	709,151	722,674	573,385	
6	Manufactured goods classified by chief material	225,898	230,698	187,782	
7	Machinery and transportation equipment	1,306,314	1,397,087	1,594,071	
8	Miscellaneous manufactured articles	213,593	196,574	184,452	
9	Commodities and transactions n.e.c.	25,722	47,536	65,183	
	Total	4,296,135	4,658,027	4,337,499	
			U.S. imports		
0	Food and live animals	271,402	318,379	340,591	
1	Beverages and tobacco	859	898	1,598	
2	Crude materials--inedible, except fuel	25,134	39,147	46,283	
3	Mineral fuels, lubricants, etc	20,866	44,836	32,616	
4	Oils and fats--animal and vegetable	113	569	351	
5	Chemicals	158,473	194,846	192,472	
6	Manufactured goods classified by chief material	1,731,991	2,240,920	2,530,081	
7	Machinery and transportation equipment	3,461,270	4,859,115	5,332,777	
8	Miscellaneous manufactured articles	5,448,713	6,926,521	7,709,620	
9	Commodities and transactions n.e.c.	74,255	81,161	167,963	
	Total	11,193,077	14,706,390	16,354,353	

1/ Standard International Trade Classification.

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

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

preferences, U.S. industrial manufacturers do not have a strong market in Taiwan. 1/ U.S. sales to Taiwan in 1985 were also hurt by the island's fourth consecutive year of declining capital investment--the United States is a primary supplier of the capital equipment and machinery that normally make up the bulk of such investment. Furthermore, the Taiwan-Japan trading relationship indirectly contributed to the U.S. unfavorable bilateral position. Japan is Taiwan's largest supplier of imports. It sells chemicals, high-grade steels, and electronic components to Taiwan that in turn uses them to manufacture finished goods usually for sale to the United States. 2/ Japan supplied 27.6 percent of Taiwan's imports in 1985, but purchased only 11.3 percent of its exports. In contrast to the U.S. perennial trade deficit with Taiwan, Japan realized a trade surplus of \$2.1 billion in 1985, a level that has been relatively stable over the past few years.

Major Policy Developments Affecting Trade

Protection of Intellectual Property Rights

Progress on protection of intellectual property rights has not been particularly speedy in Taiwan. However, significant steps were taken in 1984 and in the year under review. The American Institute in Taiwan (AIT) and the Coordination Council for North American Affairs (CCNAA) held consultations on intellectual property rights in April 1984. 3/ Working groups were established on patent protection for chemicals, copyright issues, and fair trade practices. The Taiwan Ministry of Economic Affairs established a committee on anticounterfeiting to investigate cases of trademark infringement. The National Anticounterfeiting Committee was established in Taiwan's private sector to increase public awareness about the need to combat product counterfeiting.

Some major policy changes were also made during 1985 that will afford better protection. Taiwan passed an amended copyright law in June 1985 that increased penalties to violators and brought computer software under protection of the law for the first time. Taiwan also agreed to extend patent protection to foreign chemical and pharmaceutical products.

In November, a controversial provision of the trademark law requiring foreigners to register their works to gain protection--although Taiwan nationals did not need to do so--was removed. Taiwan's law now permits foreign corporate bodies or organizations to file suit against Taiwan for violations of their trademark, even though that trademark is not registered in Taiwan.

1/ Jack F. Williams, "The economies of Hong Kong and Taiwan and their future relationship with P.R.C.," Journal of Northeast Asian Studies, spring 1985, p. 71.

2/ Carl Goldstein, Far Eastern Economic Review, "Caught in the crossfire", Oct. 31, 1985, p. 95.

3/ When the United States normalized relations with China in 1979, all "official" diplomatic relations with Taiwan were broken off. However, the U.S.-Taiwan relationship continues through quasi-diplomatic means. Two separate agencies were set up to continue quasi-diplomatic relations under the Taiwan Relations Act of 1979. The U.S. Government created the AIT and Taiwan established the CCNAA.

Taiwan also revealed plans during the year to establish screening procedures for export products with trademarks, beginning with textile and apparel products in early 1986. 1/ Under this system, the Taiwan Textile Federation must issue "trademark-passed" certificates to manufacturers before they can apply for export permits.

Automobile Industry Development Plan

In July 1985, Taiwan adopted its first 6-year automobile industry development plan. Under this plan, the automotive manufacturing industry is identified as a "strategic industry" targeted for rapid expansion. This is part of Taiwan's macroeconomic plans to move away from labor-intensive industries and into capital-intensive areas. As a strategic industry, local automobile manufacturers will receive major benefits under the plan including the following:

- o A maximum tax rate of 22 percent.
- o Assistance in R&D efforts and in worker and management training.
- o A reduction in the commodity tax on autos (including an additional 9-percent reduction for any vehicle totally designed in Taiwan).
- o A 5-year tax holiday for manufacturers of locally designed autos.
- o A 5-year tax holiday and an installment payment plan on duties for new investors.
- o A 20 percent credit against local content requirements for imported parts purchases funded by export sales.
- o Export/import bank financing for development loans. 2/

The plan also continues the ban on imports of Japanese-made passenger cars while reducing the local content requirements for vehicles produced for the local market from 70 to 50 percent. For the first time, export companies will now be allowed to negotiate individual export performance requirements.

Local manufacturers have been critical of the plan, particularly since many of the provisions have yet to materialize. 3/ However, a large number of potential investors have been attracted by the policy. In September 1985, Nissan became the third foreign manufacturer to invest in Taiwan's industry by purchasing a 25 percent equity interest in Yue Loong. (Ford has a 70 percent interest in Ford Liu Ho, and Honda has a 13.9 percent interest in San Yong). 4/ In December, Toyota applied to Taiwan's Ministry of Economic Affairs to purchase 22 percent of a company manufacturing heavy-duty trucks.

1/ Taiwan Economic News, vol. 10, No. 1, January 1986, p. 4.

2/ Report from AIT, Taipei, Feb. 5, 1986.

3/ Ibid.

4/ Ibid.

Toyota eventually plans to produce 60,000 cars for the export market, particularly to Canada and the United States. The Council for Economic Planning and Development is projecting that Taiwan will export 450,000 vehicles by 1995.

Major infrastructure projects

In fiscal year 1985, Taiwan announced a program of 14 major projects to be implemented over a 6-year period (July 1985-June 1990). These infrastructure projects were moved forward as one method of stimulating the sluggish economy by boosting domestic demand and strengthening demand for merchandise imports. Taiwan plans to invest \$20 billion in these projects, and many offer excellent opportunities for foreign firms. Moreover, these projects could provide a quick and visible way to reduce Taiwan's bilateral trade surplus with the United States. They include the following:

- o Taipei Metropolitan Rapid Transit System.--Phase I of this project is expected to cost \$442.5 million, with \$75 million in foreign procurement. Phase II has a budget of \$5.5 billion. Completion is targeted for January 1991.
- o Kaohsiung Medium Transit System.--This project is budgeted for \$331 million over a 15-year period beginning in 1987.
- o Computerization of Taipower's Electricity Distribution System.--Taipower plans to completely automate its transmission control system at a cost of \$400 million over an 8-year period, including \$240 million in foreign procurement.
- o Taipower's Taichung Thermal Power Plants.--Taipower plans to construct several thermal power plants, beginning in 1987 or 1988, at a cost of \$2.5 billion, including foreign equipment purchases of \$530 million.
- o Integrated Service Digital Network.--Plans are set to spend \$5 billion within the next 6 years to establish an islandwide digital network service. The Directorate General of Telecommunications plans to procure about 30,000 to 45,000 lines of trailer-type digital switching systems annually, until 1989.
- o Liquid Natural Gas Receiving Terminal.--The Chinese Petroleum Corp. will invest \$800 million in construction of a receiving terminal and related inland transportation systems for liquified natural gas. Foreign-sourced equipment for the project is estimated at \$270 million. Bids will be open to U.S. and European firms only.
- o Fifth Naptha Cracking Plant.--Construction of the plant is estimated at \$400 million.
- o China Steel Corp. (CSC).--An expansion of CSC's iron and steel operations includes \$670 million in equipment imports. The largest expenditure will be for acquisition of a third blast furnace.
- o Harbor Facilities.--Existing facilities at seaports will be expanded at a total cost of \$350 million.

Taiwan also plans to invest about \$39 billion for the construction of highway and rail projects on the island between 1986 and 2000. Total investment for the South Link Railroad project (to be completed by 1990) is budgeted at over \$150 million, including foreign equipment purchases of about \$50 million. Other plans include expanding and upgrading medical facilities and refuse incinerator plants.

U.S. Taiwan Bilateral Trade Issues

Market Opening

Gaining increased access to Taiwan's markets for U.S. producers continued to be a source of trade friction between the United States and Taiwan in 1985. As mentioned previously, tariff and nontariff barriers are formidable restraints to imports into Taiwan. In addition to the high general tariff, there is a 5 percent customs uplift on all imports, a 4 percent harbor tax, and commodity taxes ranging up to 120 percent on many goods. Nontariff barriers include: temporary suspension of certain imports, orderly marketing arrangements under which import licenses are not issued unless there is no local production, restrictions on importers' qualifications, and import area restrictions. Imports can also be blocked by administrative actions, such as local content requirements, export requirements, and local market share restrictions. 1/

In August, the AIT submitted proposals to the CCNAA to ease barriers to Taiwan's banking, insurance, and motion picture distribution industries. Consultations between AIT and CCNAA were held in early October and resulted in signed agreements for several concessions by Taiwan. These concessions are described below.

Banking

The United States sought to improve access to Taiwan's financial sector because foreign banks operating in Taiwan are not offered national treatment and are subject to operational constraints that place them at a disadvantage to domestic bankers. For example, they are limited to one branch in either the city of Taipei or Kaoshiung, and have limited access to domestic funds. Foreign banks are also ineligible to receive consumer savings, except demand passbook accounts, and are denied a variety of Central Bank refinancing privileges tied to the export or import of essential goods and services. Foreign banks are also virtually eliminated from the consumer banking market because they are not permitted to make individual loans.

AIT proposed to CCNAA that Taiwan ease its restrictions on foreign banks and allow them to establish more than one branch and conduct foreign-exchange business with companies in the Export Processing Zones (EPZ's). AIT also proposed increased access to local currency funding and improved terms from loans. Taiwan agreed to allow foreign banks to offer foreign-exchange remittance services to companies operating in the island's EPZs. Negotiations on the other banking issues will continue.

1/ Report from AIT, Taipei, 1985.

Insurance

U.S. insurance companies operating in Taiwan are restricted to insuring only U.S. citizens or 100 percent U.S.-owned businesses. AIT proposed that Taiwan liberalize its insurance market by allowing foreign companies to offer property, casualty, and marine cargo insurance to joint-venture companies in which foreigners have any amount of equity participation. During the October bilateral talks, Taiwan agreed to this proposal.

Motion picture distribution

Motion pictures imported into Taiwan are subject to annual import quotas, taxes which result in higher admission prices than domestic films, and a fee of \$5,000 payable to the Fund for the Development of the Domestic Movie Industry. 1/ AIT proposed elimination of the import quota and the \$5,000 fee on foreign films. Taiwan authorities agreed to eliminate the \$5,000 fee and reduce the foreign film tax from 35 to 25 percent.

Taiwan's cigarette, beer, and wine monopoly

The Taiwan Tobacco and Wine Monopoly Board (TTWMB) produces and distributes cigarettes, beer, and wine in Taiwan. It also maintains monopoly control over the import and distribution of foreign products through high tariffs and nontariff barriers such as discriminatory rules on pricing and distribution practices. Imports of wine and other spirits are subject to a complex pricing structure that increases retail cost by at least 400 percent. 2/ This markup includes a 65 percent import tax and a 230 percent profit tax collected by TTWMB. 3/ Sales of foreign alcohol and tobacco products are only permitted at a few of the 70,000 retail outlets authorized by TTWMB. Foreign alcohol and tobacco products cannot be advertised on television or in the local press. Beer imports have been banned since 1983. As a result of these barriers, U.S. cigarette exports to Taiwan account for less than 1 percent of the island's \$840 million market and U.S. wine exports amounted to only 62 metric tons in 1984. 4/

Following the AIT-CCNAA consultations in October, Taiwan agreed to improve access to its market for U.S. wine, beer, and cigarettes, averting a possible section 301 unfair trade investigation into its practices. 5/ Under the terms of the agreement, Taiwan will allow U.S. alcohol and tobacco products at all retail outlets where domestic products are sold. TTWMB will continue to control all imports, distribution, and sales, but it will not apply price markups (including import duties, harbor tax, commodity tax, or

1/ In February 1984, the Motion Picture Export Association of America (MPEAA) filed a sec. 301 complaint against Taiwan's restrictive practices. Taiwan modified its restrictions in April 1984 and the MPEAA withdrew its sec. 301 complaint.

2/ White House Press Release, Oct. 16, 1985.

3/ The Asian Wall Street Journal, "Taiwan Eases Curbs on Imports of U.S. Alcohol, Tobacco, but Little Impact Seen," Oct. 28, 1985.

4/ White House Press Release, op. cit.

5/ Ibid.

TTWMB profit tax) on U.S. products at a rate higher than the overall markup applied to comparable domestic products. The USTR will keep the President informed about Taiwan's progress in implementing the agreement.

Customs Valuation

In a 1979 agreement between the AIT and CCNAA, Taiwan undertook to value its imports for customs purposes in accordance with the GATT Customs Valuation Code. During 1985, Taiwan applied artificial valuation criteria to selected products (e.g., cosmetics and apples) instead of assessing duties on the transaction value as provided for under the GATT Code. In the 1979 agreement Taiwan had until January 1986 to bring its customs valuation practices into compliance with the GATT Code. During AIT-CCNAA consultations held on this issue in February 1985, Taiwan was notified by the United States that it expected full compliance with the Code by January 1, 1986.

Tariffs

Taiwan has historically maintained high tariffs in conjunction with other nontariff barriers as a means to protect developing domestic industries. But many of its tariffs protect industries that are highly competitive in international markets. For example, Taiwan is the world's largest producer of umbrellas, yet it maintains a tariff of 50 percent on umbrella imports. There is a 60 percent tariff on many types of footwear imports, although Taiwan sold \$2.3 billion worth of footwear in 1984. High tariffs also apply to products not produced domestically, such as blueberries.

High tariffs--often ranging from 50 to 75 percent--account for a majority of the market access complaints about Taiwan from the U.S. private sector. In addition, a 5 percent customs uplift is applied to the price of all imports before calculating imports duties. (During the past several years, this has been progressively reduced from a pre-Tokyo Round level of 20 percent to the current 5 percent level.) A harbor tax of up to 4 percent is also applied to all imports but not exports.

In 1984, AIT requested tariff reductions on 59 articles of interest to the United States. Although some reductions were implemented in January 1985, tariffs remained generally high. During 1985, AIT continued talks with CCNAA to obtain additional tariff cuts for high priority products. AIT requested reductions on products such as meat products, fish, fresh fruits and vegetables, fruit juices, confectionary, soda ash, cosmetics, file, paper and wood products, leather, carpets, yarn and fibers, selected footwear, specialized glass products, air conditioning and refrigeration equipment, scientific equipment, household appliances, and computer terminals and related equipment. During the October talks, Taiwan agreed to lower tariffs on some goods, but not to the extent requested by AIT. Negotiations to further reduce Taiwan's tariff barriers are scheduled to continue.

REPUBLIC OF KOREA

The Economic Situation in 1985

Compared to recent past performances, 1985 was not a good year for the Korean economy. With the exception of a few industries such as autos and electronics, Korea's manufacturing industries either declined or experienced little growth, thus contributing to unemployment. Fueled in 1984 by the U.S. recovery, the Korean economy peaked in mid-1984 then began to decline as the U.S. economy cooled and Korean exports faced increased protectionism abroad. Exports that account for about one half of all economic activity, slowed significantly in U.S. and European markets and this, coupled with sluggish domestic investment, led to a slowdown in Korea's GNP growth. GNP growth was only 5.0 percent in 1985, compared to 7.6 percent the previous year. The weaker 1985 performance has also been attributed to continuing problems plaguing overseas construction in the Middle East.

In 1985, overseas construction revenues were down 43 percent from the previous year. This was a particularly significant development for the Korean economy since construction companies form the highly leveraged core of many of the country's major chaebol. 1/ The decline in construction revenues cut deeply into foreign-exchange earnings and contributed to an invisible trade deficit of \$1.4 billion, up from \$554 million in 1984. 2/

Despite the deterioration in its export performance, Korea's current account position improved in 1985, and helped restrain the growth of its foreign debt. Korea is the most heavily indebted nation in Asia and the world's fourth largest debtor after Brazil, Mexico, and Argentina. Korea's sovereign debt was over \$45 billion at yearend 1985, but it continued to enjoy an excellent credit rating in international capital markets. Korea's debt-service ratio, up from 15.4 percent in 1984, was about 20 percent in 1985--far below that of many debtor countries.

The economic sluggishness of 1985 was a primary concern of government planners, who placed increased focus on measures to develop a more flexible economy with a greater role for the domestic market to make the economy less vulnerable to external shocks. In support of an adjustment program designed to strengthen the country's external position through continued demand restraint and exchange-rate flexibility, in July 1985, the IMF approved an SDR 280 million stand-by arrangement with Korea for the period through March 1987. 3/

Merchandise Trade With the United States

As mentioned previously, with few exceptions, such as autos and electronics, many of Korea's industries were either in cyclical decline or experiencing no growth on the world market. Production in some problem

1/ Chaebol is the term used in Korea for large conglomerates.

2/ The Korea Herald, "Account deficit reduced in 1985," Jan. 26, 1986, p. 6.

3/ IMF Survey, Oct. 7, 1985, p. 303.

industries, such as textiles and footwear, actually declined. Heavy industry performed slightly better than light manufacturing industries but steel products were down by 3.9 percent, partly because of quotas introduced by the United States at the beginning of the year. The shipbuilding industry continued to be adversely affected by the worldwide shipping slump. Electronics and auto exports fared well; Hyundai's subcompact car became the best-selling import in Canada and plans were finalized during the year to enter the U.S. market in early 1986. ^{1/} Overall, manufacturing growth increased only 3.5 percent, down considerably from the 15.5 percent growth achieved in 1984. ^{2/}

Korea is the seventh largest merchandise trading partner of the United States, and its fifth largest market for agricultural products. The United States, Korea's largest market, takes about 37 percent of its worldwide exports. Until 1985, annual Korean exports to the United States increased significantly; from 1983 to 1984, exports increased 29.4 percent. Korea's exports to the United States lagged significantly in 1985, however, increasing by only 7.4 percent from the previous year. During that same period, total U.S. exports to Korea declined by 2.1 percent. Table 18 shows U.S.-Korean trade from 1983 to 1985. The U.S. deficit with Korea was \$4.3 billion in 1985, up from \$3.5 billion in 1984.

Korea was the second largest beneficiary of the U.S. GSP program in 1985. About \$3.7 million in GSP-eligible products were imported into the United States during that period. Korea had a share of 12.4 percent of all GSP products. Korea was the leading source for a variety of GSP products including: magnetic recording media, rubber articles, office machines, and telephone sets and related equipment.

The leading items in U.S. exports to Korea in 1985 were electronic tubes, transistors, and integrated circuits (down 9.3 percent from 1984), cotton (down 20.5 percent), aircraft parts (up 6.9 percent), wheat (down 8.1 percent), and whole cattle hides (up 10 percent see table B-11). The leading items imported to the United States from Korea were footwear (up about 64 percent from 1984), electronic tubes (down 43.3 percent), iron or steel pipes and tubes (down 0.5 percent), toys (up 33.3 percent), and color television receivers (see table 18).

The Korean won is tied to a trade-weighted basket of currencies that is heavily influenced by the U.S. dollar. ^{3/} From 1983 to 1984, the won depreciated 10.5 percent against the dollar, but increased 16.1 percent against the West German deutchmark and 20.6 percent against the British pound, resulting in a decline in competitiveness of Korean goods. In February 1985, the National Bank of Korea began to accelerate the depreciation of the won against the dollar to prevent further depreciation against nondollar currencies. This was accomplished by increasing the Japanese yen share of the currency basket. As the dollar began to depreciate during mid-year, the won

^{1/} International Economic Review, "The Pony is coming," January 1986, p. 4.

^{2/} Paul Ensor, Far Eastern Economic Review, "Seoul goes for growth", Feb. 13, 1986, pp. 77.

^{3/} Report from U.S. Embassy, Seoul, "Foreign Economic Trends for Korea," Nov. 14, 1985.

Table 18.--U.S. merchandise trade with the Republic of Korea, by SITC 1/ Nos. (Revision 2), 1983-85

		(In thousands of dollars)			
SITC section no.	Description	1983	1984	1985	
					U.S. exports
0	Food and live animals	1,017,674	702,258	549,527	
1	Beverages and tobacco	3,827	1,786	5,904	
2	Crude materials--inedible, except fuel	1,297,115	1,484,797	1,383,691	
3	Mineral fuels, lubricants, etc	246,599	271,810	386,242	
4	Oils and fats--animal and vegetable	39,275	47,794	40,803	
5	Chemicals	530,858	645,527	591,045	
6	Manufactured goods classified by chief material				
	Machinery and transportation equipment	307,453	336,739	316,642	
7	Machinery and transportation equipment	2,009,315	1,989,496	2,080,016	
8	Miscellaneous manufactured articles	206,110	264,134	245,912	
9	Commodities and transactions n.e.c.	26,378	41,626	66,720	
	Total	5,684,605	5,785,966	5,666,503	
					U.S. imports
0	Food and live animals	112,393	119,550	124,164	
1	Beverages and tobacco	49,804	19,561	22,238	
2	Crude materials--inedible, except fuel	8,735	8,776	10,432	
3	Mineral fuels, lubricants, etc	4,024	4,885	79,129	
4	Oils and fats--animal and vegetable	221	87	82	
5	Chemicals	57,360	78,442	86,105	
6	Manufactured goods classified by chief material				
	Machinery and transportation equipment	1,442,092	1,919,648	1,936,785	
7	Machinery and transportation equipment	2,100,644	2,712,981	2,828,873	
8	Miscellaneous manufactured articles	3,354,713	4,382,599	4,821,622	
9	Commodities and transactions n.e.c.	50,843	48,520	76,932	
	Total	7,180,827	9,295,050	9,986,363	

1/ Standard International Trade Classification.

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

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

maintained its level against the dollar while depreciating against the West German deutchmark and British pound by 18.4 percent and 29.4 percent, respectively.

Major Policy Developments Affecting Trade

Liberalization

In October 1985, Korea announced a comprehensive liberalization package for easing restrictions on trade and direct foreign investment over the next 3 years.

Financial sector liberalization

Although some progress has been made in opening the banking sector, progress toward full national treatment for foreign banks has been slow. Foreign banks operating in Korea are limited by restrictions that include the following: (1) the inability to issue negotiable certificates of deposit; (2) the inability to invest in other financial service industries; (3) the inability to extend financing secured by real property, or mortgages on vessels or aircraft; and (4) restrictions on opening new branches. 1/ Moreover, restrictions on foreign banks' local currency operations prevent them from remitting their earnings. During the year, Korea moved forward with plans to give national treatment to foreign banks. As a step in this direction, foreign banks will be allowed access to the Bank of Korea's rediscount facilities by 1986 for short-term export financing. In return, foreign banks will be required to provide 35 percent of new lending to small enterprises. (This requirement also applies to domestic banks.)

Investment sector liberalization

As part of the October liberalization package, the Korean Government announced an additional 102 industrial sectors open for foreign investment, bringing the total number of open industrial sectors to 762 out of a possible 999 industries. 2/

Since July 1984, Korea has implemented a negative list system under which foreign investment does not require explicit approval, except for in those sectors on the negative list. Included among the 102 newly opened industries are butter and cheese production, radio communication, broadcasting and related equipment, motor vehicle rental services, and architectural design and related services. 3/

1/ USTR, Annual Report on National Trade Estimates: 1985, Washington, DC, p 143.

2/ The Korea Standard Industrial Classification system recognizes 1,048 industrial sectors. Of these, 49 are closed to any foreign participation (educational, political, and administrative sectors). Of the 999 sectors eligible for foreign investment, 237 sectors are on the negative list; 53 are classified as "banned," and 184 are restricted. For further information regarding Korea's investment policies, see the Operations of the Trade Agreements Program, 36th Report, 1984.

3/ Ibid.

The new investment guidelines are also intended to simplify the review procedures for foreign investment proposals by reducing the amount of documentation required for review and by increasing the amount for investment proposals not subject to review. This amount was increased from \$1 million (or less) to \$3 million (or less) for new investment, and from \$3 million (or less) to \$5 million (or less) for additional investment. 1/ Processing time of the application was also reduced from 2 months to 1 month.

Commodity import liberalization

When Korea revised its tariff law in 1983, it adopted a 5-year schedule for reducing tariffs through 1988. Government efforts to liberalize imports under this schedule continued to proceed slowly in 1985--the average tariff was reduced from about 24 percent in 1983 to 21.3 percent in 1985. 2/ Moreover, the imposition of "emergency tariffs," "adjustment tariffs," and other fees in addition to the relatively high general tariff, continued to make the cost of importing many products into Korea prohibitive in 1985.

Since liberalization of imports began in 1983, Korea has regularly published import-eligible lists. In conjunction with the above-mentioned tariff reductions, the commodity import liberalization package included publication of an additional 302 products removed from the "restricted" list and placed on the import-eligible "automatic approval" list for 1986. 3/ This list included color televisions, nylon carpets, typewriters and duplicating machines, spark plugs, and speakers and amplifiers.

Import licensing requirements have historically constituted a major nontariff barrier in Korea. For example, most import licenses for manufactured goods require the approval of the appropriate government ministry or Korean industry association--whose members often compete with the imported goods. Since 1982, the Korean Government has effectively banned imports of microcomputers and minicomputers and peripherals that can be produced locally. Import approvals for medium and large computers give priority to suppliers who offer technology transfers.

Although treatment of a high proportion of products is now liberalized, with more frequent and receiving automatic approval, considerable restrictions continue. According to the Korean Government, the automatic approval category increased from 80.3 percent in 1983 to 87.7 percent by yearend 1985, meaning that almost 90 percent of all imports are free of import barriers other than tariffs. However, importers complain that the switch from one list to another has little significance, because increased tariffs and a variety of new restrictions placed on most liberalized products continue to make their importation prohibitively expensive or impractical. 4/

1/ Government of the Republic of Korea, "Korea's Liberalization Package," October 1985.

2/ The average tariff rate for 1986 is about 20 percent.

3/ According to the liberalization schedule, an additional 160 items will be liberalized in 1987, and another 141 items in 1988.

4/ Far Eastern Economic Yearbook 1986, "Korea," p. 177.

Accession to the GATT Antidumping Code

In 1985, the Korean Cabinet voted to join the GATT antidumping agreement. ^{1/} By acceding to the Code, Korea will be able to seek settlement through procedures based on the accord when disputes over dumping practices arise. The Government should sign the accord in early 1986.

U.S.-Korean Bilateral Trade Issues

Overview

South Korea has developed into an economic force through much hard work and the successful application of a development program that began emphasizing exports in the early 1960's. In 1985, Korea was the world's fourteenth largest trading nation. A significant factor in Korea's rapid development has been its economic relationship with the United States--first as a source of economic aid and later as an increasingly important export market. However, tensions have developed in the bilateral trading relationship, and in 1985, the trade friction between the two nations was particularly tense.

For both the United States and Korea, "fairness" in trade was the central issue in trade disputes. From the Korean perspective, it is unfair of the United States to demand immediate and equal access to their markets because, despite extraordinary growth, Korean industry is still in its infancy. U.S. trade actions during the year greatly increased Korea's concerns about future exports to its primary market. A series of proposed protectionist bills in the U.S. Congress initiated this concern. Concerns were also raised by the U.S. International Trade Commission's determination that imports were injuring the domestic shoe industry, although President Reagan decided against granting relief; and the USTR initiated two section 301 investigations viewed by the Koreans as an attempt to speed up their market-opening measures involving trade disputes of long standing. The increasing numbers of antidumping and other investigations against Korean exports in 1985 were viewed in that country as harassment. The Koreans also see themselves as victims in the U.S. trade battles with Japan. Any closing of U.S. markets is perceived as a menace to Korea's economic growth.

The U.S. perspective acknowledges that although Korea has pursued a meaningful trade liberalization policy over the past 5 years, it unfairly continues to keep competitive U.S. goods and services out of Korean markets, at the same time penetrating deep into U.S. markets with goods it can produce more cheaply. U.S. concerns about Korea's highly protected markets include the following: 1) the great difficulty faced by U.S. exporters in penetrating the Korean market with products they can sell readily elsewhere in the world; (2) the low value-added component of most U.S. exports to Korea (almost two-thirds are raw materials); (3) skepticism of market-opening policies that remove one import restriction only to replace it with another; and (4) the negative trade balance in Korea's favor. ^{2/} U.S. sentiment was so strong regarding unfair trading by Korea that in December, a group of 11 Senators sent a letter to the USTR requesting that Korea be stripped of certain GSP benefits

^{1/} The Korea Herald, Dec. 26, 1985, p. 1.

^{2/} Report from U.S. Embassy, Seoul, 1985.

because of its trade barriers against U.S. exports. The letter states that as one of the top three beneficiaries of GSP, Korea should be held to the highest possible standards. 1/

The Koreans have pointed out that the major beneficiary of their market-opening measures has been Japan. For example, in 1983, as requested by the United States, restrictions were removed from 31 products, including machine tools. U.S. exporters managed to capture a commanding market share in only one of these products. Japan continued to dominate the Korean market. Although machine tools were a top U.S. priority, the U.S. market share was 3.3 percent compared to Japan's 75.1 percent. 2/

Charges of Unfair Trading Practices

In late 1985, in accordance with section 301 of the U.S. Trade and Tariff Act of 1974, the USTR initiated unfair trade investigations into Korea's insurance industry policies and practices concerning intellectual property rights. Bilateral consultations began shortly after initiation of these cases. 3/

The insurance investigation was initiated in September 1985. The USTR charged that Korea's insurance market policy prohibits or restricts foreign firms from providing services under the same terms and conditions as those applicable to domestic companies. Foreign companies, for example, may not underwrite life insurance or certain types of fire insurance. 4/

Following bilateral negotiations held in December, an agreement was reached to open gradually the fire and life insurance sectors to foreign companies beginning in 1986. 5/ At yearend 1985, negotiations were continuing on the timing and extent of the insurance market opening.

1/ The letter called for elimination of Korea's competitive needs waivers--without which 35 products now imported to the U.S. would no longer be eligible for duty-free treatment because they exceed 50 percent of U.S. imports or \$63 million in value. International Trade Reports, vol. 2, No. 49, Dec. 11, 1985, p. 1150.

2/ South, "Trade barriers: The protection racket", February 1986, p. 37.

3/ Most 301 cases are resolved through bilateral consultations. However, if the dispute remains unresolved either through this method or through the dispute settlement procedures of the GATT within 1 year after initiation of the investigation, the USTR makes a recommendation to the President as to what action he should take.

4/ Life insurance accounts for three-fourths of the total Korean insurance market. Foreign firms are prohibited from writing the compulsory fire insurance that the Government requires for property owners. By excluding foreign firms from the compulsory market, they are effectively prevented from selling significant amounts of fire insurance because the property owner tends to use one insurer to supply all his fire protection needs. USTR, Annual Report on National Trade Estimates: 1985, p. 114.

5/ Far Eastern Economic Review, "closed door, open question," Jan. 2, 1986, p. 45.

The second 301 case regarding Korea was initiated in October. The United States charged that U.S. intellectual property is denied effective protection under Korean law. Of particular concern were practices involving trademarks, patents, and copyrights.

Trademark licenses in Korea are granted on a case-by-case basis and are only issued to a company in which a foreign firm is the majority partner or has an approved joint venture or technical assistance agreement. This restriction limits the licensing of most foreign trademarks in Korea. Since Korea's trademark law requires a trademark's use if registration is to be maintained, effective protection is denied since high tariffs and import restrictions keep many products out of the Korean marketplace.

The Korean patent law does not include foodstuffs or chemical compounds and compositions. Protection for chemicals and pharmaceuticals is limited to process patents only. Korea has a copyright law but it is not party to any international copyright agreement, nor does it have a bilateral copyright agreement with the United States. Thus, U.S. authors are not afforded copyright protection in Korea.

During the bilateral negotiations, accords were more readily reached in those areas requiring changes in the law or entering into international copyright agreements. Reaching agreements on remedies for Korea's lack of protection in the area of software and chemical-substance patents was most difficult. Changes in these laws could threaten some of Korea's major industries, such as pharmaceuticals. 1/ Korea agreed to stronger protection for trademarks and the easing of restrictions on licensing of foreign trademarks. 2/ An accord was not reached on copyright protection, although Korea agreed to revise its copyright law and join either the Universal Copyright Convention or the Berne Convention by 1988. 3/ No agreement was reached on product patents.

Photo albums

In an October determination, the U.S. Department of Commerce ruled that photo albums and filler pages from Korea were being sold in the United States at LTFV. The average margin of underselling was 64.81 percent ad valorem. 4/ The photo album investigation, covered prominently in the Korea press, generated complaints from Korean Government officials and strong public outcry at "harsh U.S. protectionism." 5/ Notwithstanding the size of the dumping

1/ Far Eastern Economic Review, "Closed door, open question," Jan. 2, 1986, p. 45.

2/ Business Korea, "Section 301 Talks: Promising concessions," Jan. 1986, p. 12.

3/ Korea Newsreview, "Seoul to join int'l copyright convention by 1988," Jan. 25, 1986, p. 20.

4/ Federal Register, vol. 50, no. 209, Oct. 29, 1985, pp. 43754-43757.

5/ See, for example, Korea Herald, "D.C. slaps 64.8% antidumping charges on Korean albums," Oct. 26, 1985, p. 1; Korea Herald, "Album exporters stand at crossroads of life or death," Oct. 27, 1985, p. 7.; Korea Herald, "Economic units show great surprise at D.C. ruling on albums," Oct. 27, 1985, p. 3; Korea Newsreview, "Album makers to file suit on U.S. duty," Nov. 2, 1985.

margin, much of the controversy surrounding the decision arose because the U.S. Department of Commerce had difficulty verifying information from the Korean respondents, and therefore used constructed value to determine the foreign market value of all photo albums and filler pages. The constructed value was determined on the basis of cost data submitted in the U.S. industry petitions. Commerce explained its reasons for using the U.S. industry data in its determination that reads, in part:

Based upon our attempted verification of the cost of production responses of the Korean companies, it was determined that these responses were not sufficiently supported by corporate cost accounting records and did not properly represent the costs to these companies of manufacturing the subject products.

Further,

...the scope of the required recalculations and revisions found in the verification process in this investigation goes far beyond the issues of accounting treatment and valuation and limited methodological problems and mathematical errors commonly uncovered at a verification. Faced with responses containing numerous fundamental flaws in both the methodology and mathematical calculations used in developing the production costs, the Department cannot properly base its determination on the information submitted by respondents. Nor is it acceptable in such situations that the Department bear the responsibility of attempting to identify and perform the numerous and substantial recalculations necessary for the development of representative and accurate production costs. 1/

At yearend, the Korean photo album makers planned to file a request for an expedited review of the U.S. Department of Commerce's ruling.

Import Barriers

Although Korea has pursued a meaningful trade liberalization policy over the past 5 years, it continues to maintain significant nontariff barriers. Tariff rates, although lower than in the past, are still very high. This is particularly true for products that have been recently liberalized, that is, moved from the "restricted" list to the "automatic approval" category.

Tariff Barriers

The average import tariff in Korea is currently about 20 percent. The imposition of emergency tariffs, adjustment tariffs, and/or other fees on top of this relatively high general tariff, makes imports (particularly of newly liberalized goods) prohibitively expensive. 2/ These additional duties,

1/ Federal Register, op. cit.

2/ See the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 174-175 for more details on Korea's flexible tariff system.

imposed to help local industry adjust to increased competition can be quite high. Cosmetics, for example, were recently liberalized but carry a 60 percent tariff; beer has an effective tariff of more than 500 percent. Products are also sometimes moved back to the restricted list after a brief period of liberalization, or are placed under "surveillance." ^{1/}

In April 1985, the United States requested tariff reductions on products of importance to U.S. exporters. These products included meat products, fresh and processed fruits and vegetables, fruit juices, nuts, wine, chocolate, cigarettes, selected chemicals, wood and paper products, carpets, auto parts, machine tools, construction equipment, loudspeakers, sporting goods, computers, and cosmetics. ^{2/} During bilateral economic consultations held in July, Korean negotiators said general tariff rates would not be modified in the immediate future. ^{3/} However, adjustment tariffs were removed from velveteen, corduroy, glassware, and certain chemical compounds as of July 1, 1985. Published general tariffs for these products continue to apply.

Nontariff Barriers

Import licensing

Although a higher proportion of products received automatic approval in 1985 compared with 1984, restrictions on import licenses continued to be a major nontariff barrier during the year. According to the Government's liberalization schedule, imports in the automatic approval category was 87.7 percent in 1985. However, foreign businessmen have argued that the liberalization is barely discernible because of the multitude of controls placed on automatic-approval goods. ^{4/} Because of these constraints, the proportion of liberalized items is reportedly closer to 66 percent in general, and 56 percent of imports from the United States. ^{5/}

Import licenses are required for all goods but are issued automatically for "automatic approval" categories, subject to some general limits. In October, the Ministry of Trade and Industry (MTI) announced a total of 603 articles to be liberalized for import over the next 3-year period ending in 1988--302 in 1986, 160 in 1987, and 141 in 1988. ^{6/} Under the "preannouncement" system established by MTI in early 1984, products to be liberalized for import will be announced 2 to 3 years in advance of the effective date. Among the goods to be liberalized for import during 1986 are color televisions, nylon carpets, typewriters and duplicating machines, certain auto parts, and speakers and amplifiers. Cranes, metalworking

^{1/} Imports of products on the "surveillance list" are monitored closely and may be subject to higher tariffs or other controls to minimize competition with local producers.

^{2/} US TR, Annual Report on National Trade Estimates: 1985, p. 134.

^{3/} Ibid.

^{4/} Paul Enser, Far Eastern Economic Review, "Footdraining is the game plan," Oct 24, 1985, p. 61.

^{5/} Ibid.

^{6/} Based on 8-digit CCCN classifications, a total of 7,915 items are imported by Korea annually.

machinery, soybean oil, automobile engines, certain passenger cars, Video Cassette Recorders (VCR's), and computers, and peripherals are scheduled for liberalization in 1988.

Trade associations

Industry associations, other private organizations, and Government ministries also acted as significant nontariff barriers in 1985. These organizations help control the granting of import licenses. For example, most agricultural products for immediate consumer consumption require the approval of the Ministry of Agriculture and Fisheries. Many articles of interest to U.S. farmers have seldom received approval. 1/ Confectionery was placed on the automatic approval list in 1984 and 1985, but the Association of Foreign Trade Agents of Korea has kept imports of confectionery very low. 2/

Cigarettes

South Korea, the world's 13th largest cigarette market, is perhaps the most closed cigarette market in the world. The \$1.8 billion market is protected by a highly effective nontariff barrier--it is illegal for Koreans to possess foreign cigarettes. Korea bans imported cigarettes for use by Korean nationals. Korean nationals may smoke cigarettes offered to them by foreigners, but possession in almost any other situation can result in arrest and fines. Reportedly, government officials have been fired for smoking foreign cigarettes. 3/

Tobacco is Korea's largest cash crop and a major source of government revenues. The industry is controlled by the Government's Office of Monopoly. Foreign cigarettes are sold exclusively to foreigners and are permitted for sale only in duty-free shops and foreign commissaries; they account for about .04 percent of domestic consumption. 4/

Efforts by the United States to open the Korean cigarette market intensified in 1985. The cigarette issue is a very sensitive one in Korea and any movement toward liberalization is likely to proceed very slowly. During bilateral economic consultations held in July, Korea indicated it might soon introduce legislation to transform the tobacco monopoly into a private entity. 5/ This could open up opportunities for joint ventures with foreign cigarette manufacturers. However, by yearend 1985, no action had been taken.

1/ USTR Annual Report on National Trade Estimates, 1985, p. 134.

2/ Paul Enser, *op. cit.*

3/ Paul Enser, Far Eastern Economic Review, "Tempers Up In Smoke: South Korea resists pressures from American cigarette firms to open its market," Feb. 21, 1985, p. 65.

4/ USTR, Annual Report on National Trade Estimates 1985, p. 135.

5/ *Ibid.*

BRAZIL

The Economic Situation in 1985

In March 1985, the first democratic administration took office in Brazil after 21 years of military rule. Jose Sarney, the new President, inherited the largest foreign debt among all LDC's, a rate of inflation well over 200 percent, and a budget out of control. In February 1985, the last month under the previous administration, the IMF suspended the release of \$1.5 billion to Brazil in credits, stating that the Government had not met the austerity conditions specified under a 3-year agreement (1983-85.) Even before this IMF action, Brazil had been intermittently out of compliance with its "letters of intent" based on this accord.

In July, Brazil's new Government announced a program of budget cuts and taxes designed to facilitate a new understanding with the IMF. However, the IMF rejected this program on the grounds that it continued to allow a sizable budget deficit that would have to be financed by an increased money supply or further borrowing. In the absence of IMF support, foreign creditor banks suspended the almost-concluded renegotiation of a long-term repayment schedule for some \$45 billion of Brazil's debt due between 1985 and 1991. Risking IMF support and difficulties with foreign commercial creditors, Brazil's new administration was unwilling to impose austerity measures that would have depressed economic growth. On July 22, President Sarney stated that an annual 5 percent minimum growth rate was necessary to create enough jobs for the 1 million Brazilians who enter the work force each year. The President also stressed that, although willing to honor Brazil's foreign debt of \$103 billion, he would subordinate any repayment commitment to the pressing economic and social needs of his country. 1/

In a marked departure from policies followed in Brazil for the past 21 years, President Sarney also announced that the role of State-owned companies would be curtailed and the private sector would take the lead in the economic recovery process. Indeed, the new Government began identifying unprofitable state enterprises for eventual transfer to the private sector.

The vigor of Brazil's growth performance in 1985 surprised most observers. Freed from austerity commitments to the IMF, producers were able to increasingly utilize the excess capacity of production facilities. Despite the severe recession of the prior 3 years, growth for the year was recorded at 7.5 percent compared with 4.4 percent in 1984. 2/ Industrial production rose at 7 percent and agricultural output 8 percent. Most industrial gains were concentrated in machinery, metalworking, electronics and communications, and consumers' durables.

It is believed that certain measures by the new Government contributed to this impressive performance. The Sarney Government instituted new social programs and raised real wages, thereby boosting domestic demand. According

1/ According to official estimates, between 1979 and 1984, real wages in Brazil have declined by some 30 percent.

2/ Economic Intelligence Unit, Quarterly Economic Review of Brazil, No. 4, 1985, p. 11.

to Brazil's prestigious Geographic and Statistics Institute (FIBGE), unemployment reached the lowest level in 10 years. In the first 8 months of 1985, real wages in the Sao Paulo area rose by an impressive 25 percent.

Brazil's international economy also remained strong during the year under review. 1/ By keeping up with interest payments, officials avoided adding to Brazil's already massive debt during the year. The Government further succeeded in maintaining the country's international reserves at their 1984 level, in excess of the \$9 billion target.

On the negative side, there was no noticeable progress in 1985 in taming Brazil's public sector deficit. As shown by preliminary FIBGE data, inflation reached a record annual rate of 234 percent. Defying new price controls that were introduced during the year to arrest inflation, this rate was 25 percentage points higher than in 1984. 2/

Brazil was unable to conclude a long-term debt rescheduling agreement with foreign banks before the end of 1985 due to the lack of IMF support. However, the Government obtained temporary extensions for some of its credit lines from these banks. Efforts will continue in 1986 to reach an understanding with the banks and the IMF.

The Sarney Government launched a package of new economic measures in December 1985, based on the National Development Plan (1986-89) published in November. The main goals of the December measures were to reduce inflation while sustaining economic growth and relieving the most urgent social problems.

Merchandise Trade With the United States

Although the United States is Brazil's principal trading partner, Brazil ranked 18th as a market for U.S. exports, and 11th as a source for imports in 1985. The balance of merchandise trade with Brazil has been negative for the United States since 1981. The U.S. deficit has grown rapidly through 1984 reflecting the rapid penetration of Brazilian products to the U.S. market (especially in 1984) and the decline of U.S. exports to Brazil during 1981-83. 3/

In 1985, the U.S. trade deficit with Brazil amounted to \$4.5 billion, slightly down from \$4.6 billion in 1984. This was attributable to rising U.S. exports to Brazil while imports from Brazil--which soared in prior years--edged up only slightly.

In 1985, U.S. exports to Brazil rose by 18.3 percent (table 19). These exports, amounting to \$3.1 billion, remained well below the levels attained in 1981 and 1982.

1/ Also see the following subsection.

2/ On Feb. 28, 1986, as part of a major economic stabilization package, Brazil replaced the cruzeiro with the "cruzado" (a new monetary unit, equal to 1,000 cruzeiros). The main objective was to combat inflation and put an end to the practice of indexation.

3/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 181.

Brazil's economic recovery and greater freedom of Brazilian producers to import capital goods were apparently responsible for a 48-percent surge in machinery and transportation equipment exports to Brazil. These items have traditionally constituted the leading product section of U.S. exports to Brazil, accounting in 1985 for 44 percent of the total. Leading items in the group included aircraft equipment, parts for Brazil's "informatics" industry (computers and electronic components), telecommunications equipment, electrical machinery and automotive products (see table B-13). U.S. exports rose in each of these categories in 1985 and, most notably, aircraft exports soared after a sharp decline in 1984. 1/

Aircraft and automotive trade between the United States and Brazil is two-way. In 1985, U.S. aircraft parts sales to Brazil were returned to the United States incorporated in the commuter aircraft called "Bandeirante." Almost 40 percent of Bandeirante is U.S. made.

As in preceding years, wheat continued to be the leading U.S. export category item to Brazil, followed by coal. Brazil is a beneficiary of U.S. credit guarantees under the export credit promotion program of the Commodity Credit Corp. for wheat. Brazil bought less U.S. wheat in 1985 as a result of a good domestic crop and efforts by the Brazilian Government to diversify its sources. The principal beneficiaries of diversification were Argentina and Canada.

U.S. imports from Brazil totaled \$7.5 billion in 1985, up 4.6 percent from 1984 (table 19). Food was the leading product section in this trade flow. The food category includes tropical items such as coffee, citrus juice, cocoa beans, and butter (see table B-14). Imports of Brazilian frozen orange juice concentrates fell appreciably owing to the recovery of the Florida orange crop. Imports of coffee dropped slightly in value but increased in volume in 1985. 2/

Among manufactures, imports from Brazil of goods classified by material dropped from their 1984 peak, while imports of miscellaneous items, machinery and transportation articles, and chemicals continued to increase. Reflecting the provisions of the October 1984 U.S. steel accord with Brazil, 3/ imports of finished steel products declined, but imports of semifinished goods continued to rise.

In 1985, footwear remained the leading U.S. import from Brazil. Footwear imports continued to rise in 1985 but at a slower rate than their earlier spectacular penetration of the U.S. market. It should be noted that U.S. escape clause action on footwear imports ended in September 1985 without leading to the imposition of any restrictions on imports from Brazil or other sources. 4/

1/ For years, barriers to sales of general aviation aircraft to Brazil, in sharp contrast with Brazilian penetration of the U.S. aircraft market, have been subject of bilateral consultations.

2/ During 1985, the coffee trade was not yet affected by the severe drought in the second half of the year that pushed up coffee prices worldwide and restricted the volume of Brazil's coffee exports in 1986.

3/ See the Operation of the Trade Agreements Program, 36th Report, 1984, p. 187.

4/ See also subsection "U.S.-Brazilian Bilateral Trade Issues" later in this section.

Table 19.--U.S. merchandise trade with Brazil, by SITC 1/ Nos. (Revision 2), 1983-85

SITC section no.	Description	1983	1984	1985
(In thousands of dollars)				
U.S. exports				
0	Food and live animals	456,604	448,723	408,080
1	Beverages and tobacco	668	675	650
2	Crude materials--inedible, except fuel	99,897	131,374	181,103
3	Mineral fuels, lubricants, etc	222,825	259,154	329,667
4	Oils and fats--animal and vegetable	1,500	35,104	2,121
5	Chemicals	461,377	524,453	468,320
6	Manufactured goods classified by chief material	101,313	104,933	111,048
7	Machinery and transportation equipment	988,408	920,109	1,360,394
8	Miscellaneous manufactured articles	159,346	131,093	157,857
9	Commodities and transactions n.e.c	28,040	29,625	39,542
	Total	2,519,977	2,585,245	3,058,782
U.S. imports				
0	Food and live animals	1,528,476	2,087,874	2,267,129
1	Beverages and tobacco	163,263	75,447	130,029
2	Crude materials--inedible, except fuel	162,003	239,428	225,571
3	Mineral fuels, lubricants, etc	564,920	729,746	698,237
4	Oils and fats--animal and vegetable	37,862	45,176	35,333
5	Chemicals	245,146	401,596	423,011
6	Manufactured goods classified by chief material	841,350	1,452,038	1,319,271
7	Machinery and transportation equipment	689,752	963,644	1,171,163
8	Miscellaneous manufactured articles	626,777	1,081,539	1,149,181
9	Commodities and transactions n.e.c	83,888	131,509	126,335
	Total	4,943,437	7,207,997	7,545,259

1/ Standard International Trade Classification.

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

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

Machinery and transportation equipment imports from Brazil consisted largely of aircraft (including the "Bandeirante" commuter aircraft) and automotive products.

Ethanol disappeared from the list of 20 top items from Brazil in 1985. Imports of this product which is a nonbeverage ethyl alcohol used as fuel, fell as a result of a 3 month embargo by Brazil earlier in the year in response to U.S. objections of market penetration. 1/ At the end of 1985, U.S. trade action was pending against ethanol imports from Brazil under U.S. antidumping and CVD statutes. 2/ Ethanol also has been one of the most discussed import from Brazil in bilateral consultations. Brazil is the world's largest low-cost producer of alcohol made of sugarcane, which it uses to substitute for imported gasoline.

The doubling of cigarette leaf imports from Brazil was another notable development in 1985 (see table B-14). Brazilian tobacco has been the subject of two U.S. International Trade Commission investigations in 1981 and 1985 under section 22 of the Agricultural Adjustment Act. However, these cases have not led to any measures that restricted the lower priced Brazilian tobacco from reaching the U.S. market.

As a developing country, Brazil is also a beneficiary of the GSP program of the United States. 3/ In 1985, merchandise valued at \$1.3 billion, or 9.6 percent of overall U.S. imports, entered duty free under this program. Brazil ranked third as beneficiary of the program after Taiwan and South Korea. Articles imported duty free under TSUS items 806.30 and 807 accounted for only 3.6 percent of the total.

Major Policy Developments Affecting Trade

Measures of Brazil's previous administration to liberalize foreign trade became effective on January 1, 1985. This program, which included provisions for easing imports and phasing out export subsidies, was announced in September 1984. 4/

Brazil, whose economy features a high degree of government control, has traditionally followed a protectionist trade policy. In recent years, the need to attain a large trade surplus to meet Brazil's debt service obligations has reinforced the Government's leaning toward protectionism. Through a combination of import restraints and export promotions, Brazil moved from a \$2.8 billion trade deficit in 1979 to a record \$13.1 billion surplus in 1984.

1/ It is widely believed, however, that an undetermined amount of ethanol may have been entering the United States under petrochemical classifications.

2/ The U.S. International Trade Commission determined on Mar. 4, 1986, that an industry in the United States is not materially injured, or threatened with material injury, nor is the establishment of an industry materially retarded, by reason of imports of certain ethyl alcohol from Brazil that are subsidized and that are being sold at LTFV.

3/ See also the section "GSP review" in ch. V.

4/ See also the Operation of the Trade Agreements Program, 36th Report, 1984, pp. 183 and 184.

After taking office, the Sarney Government was quick to remind trading partners that Brazil must continue to attain a large trade surplus to pay its debt. 1/ Indeed, Brazil's export drive did not subside after the new administration took over, and imports continued to be restricted. A 5-percent drop in both exports and imports from their 1984 level resulted in a \$12.4 billion merchandise trade surplus in 1985. This fell short of the previous year's surplus but was still the second largest on record for the country.

Easing import restrictions

Import liberalization measures that became effective on January 1, 1985, included the elimination of import surtaxes and their incorporation into the tariff system; duty reductions for certain high-tariff goods; less rigid controls of imports at the company level 2/, less strict import financing restrictions, reductions in the number of items placed under import ban, and a more lenient application of the "Law of Similarars." 3/

The trade impact of liberalization is believed to be small because of redundancies among Brazil's numerous import barriers. For example, the list of "suspended" goods--those that are, in fact, prohibited importation--were cut in half, yet the products removed from the "suspended" list continued to require import licenses. 4/ Further reductions in the number of goods prohibited for import are reportedly under consideration.

In 1985, licensing requirements continued to apply to virtually all imports into Brazil. Approval is granted on a case-by-case basis after close scrutiny. Brazil's Foreign Trade Department (CACEX) accords the highest priority to foreign inputs that are needed to produce Brazil's exports. These imports include coal, chemicals, certain electronic components, and, generally, capital goods. During the year, officials tried to relieve inordinate delays by decentralizing the licensing process to branch offices throughout Brazil.

Difficulties in securing import licenses are largely attributable to the "Law of Similarars." Since 1985, the applicability of this law was suspended for a limited range of capital goods provided their imports had foreign financing and did not benefit from local incentive programs. However, since about 90 percent of all Brazilian imports do benefit from some kind of incentive, the effect of this suspension is believed to be minimal. Moreover, the "Law of Similarars" continues to be applied to most of Brazil's imports, and CACEX has considerable discretion in determining "similarity." 5/

1/ In 1985, Brazil's debt service costs on medium-term and long-term debt accounted for some 50 percent of its total export revenues.

2/ Companies in Brazil have overall import quotas allocated to them on the basis of their imports in the prior year.

3/ The "Law of Similarars" prohibits imports of any article that is similar to one made in Brazil.

4/ This list of prohibited imports includes many consumer goods that have domestically made counterparts, such as textiles, cosmetics, and sporting goods.

5/ With most computer and electronic equipment, CACEX defers the basic licensing decision to the authorities enforcing Brazil's informatics policies and regulations.

Export drive

As a signatory of the GATT Subsidies Code, Brazil is committed to eliminate export subsidies that are inconsistent with this Code. The trade liberalizing measures announced in 1984 provided for phasing out Brazil's principal export subsidy, the 11-percent overrebate (rebate in excess of taxes paid) of the Industrial Product Tax (IPI) to exporters. 1/ IPI is a value-added tax on industrial goods. Indeed, by May 1, 1985, Brazil had eliminated this support program for certain exports, as scheduled. However, the Government continues the rebate in excess of taxes to exporters operating under special export contracts that are overseen by the Brazilian Commission on Fiscal Incentives for Special Export Programs (BEFIEEX). 2/ BEFIEEX programs are scheduled to expire in 1989.

In addition, Brazil maintains other forms of export subsidies in the form of tax exemptions and deductions, preferential production financing, and export financing. 3/ Brazil also applies export taxes to discourage the exports of certain key inputs needed by domestic industries.

Exchange-rate policy

In Brazil, exchange-rate policy plays an important role in efforts to maximize the trade surplus. In 1985, the Government continued its policy of applying frequent "minidevaluations" in line with inflation to lower the exchange rate of the cruzeiro, thus reduce export prices and raise import prices. In December 1985, the official exchange rate of the cruzeiro was 9,650 to the dollar, compared with 3,400 to the dollar in December 1984. 4/

Brazil also applies a 15-percent tax on foreign-exchange purchases for imports of a wide variety of goods and services. This tax--still another barrier to imports--constitutes a de facto multiple-exchange-rate practice. By the end of 1985, Brazil eliminated the tax on some imports--particularly those needed for exports--but has not completed the phaseout of this subsidy.

U.S.-Brazilian Bilateral Trade Issues

Overview

In the 1980's, Brazil has been an increasingly major contributor to the U.S. merchandise trade deficit. In their concern with the growing deficit, U.S. legislators and officials have given heightened attention to Brazil in 1985.

1/ IPI, the commonly use acronym for the tax, corresponds Brazilian title.

2/ BEFIEEX grants tax benefits to firms in return for export commitments or under specified conditions.

3/ See "U.S.-Brazilian Bilateral Trade Issues" later in this section on the countervailing of these subsidies under U.S. law.

4/ On Feb. 28, 1986, Brazil instituted a series of measures to halt inflation. Among others, the cruzeiro was replaced with a new monetary unit, the "cruzado."

The revised U.S. GSP program, effective January 5, 1985, provided an occasion during the year for reviewing the trade and investment practices of Brazil and other beneficiaries. 1/ These reviews were prompted by a provision of the new U.S. GSP that the trade and investment policies of beneficiaries will be a factor in future determinations of country eligibility and product-specific benefit levels. Comments concerning Brazil's questionable practices were received at public hearings and in written submissions to the GSP Subcommittee from interested parties during the year under review.

A report of the General Accounting Office (GAO), completed in September 1985, 2/ singled out Brazil as a major practitioner of bilateral trade arrangements (such as government-to-government trade accords) and countertrade. GAO also found that Brazil widely practiced trade-related industrial targeting and imposition of trade-related industrial performance requirements, such as standards for domestic content and export performance. While not prohibited under the GATT, these practices conflict with a multilateral free trade principles followed by the United States and embodied in the GATT. 3/

On Brazil's part, the Sarney Government reemphasized that a continued merchandise trade surplus with the United States (its principal partner) will be necessary. The new Government repeatedly pointed out that, without a surplus, Brazil could not meet its payments commitments, of which a large portion are to U.S. banks. Brazilian officials expressed concern with the diminishing access of Brazilian products such as steel and ethyl alcohol to the U.S. market and the growing "protectionist" sentiment in the U.S. Congress during the year.

In 1985, many of these issues were discussed bilaterally at various levels by the two Governments. The U.S.-Brazilian trade subgroup met once, and the bilateral task force on investment met twice during the year. An update of selected issues through the end of 1985 follows.

Bilateral accords and countertrade

The GAO report mentioned earlier found that Brazil tends to use government-to-government accords rather than open competitive bidding in awarding major contracts in selected sectors, such as electrical energy, informatics, and the aircraft industry. 4/ GAO also noted that Brazil considers willingness to engage in countertrade a significant competitive

1/ The review was performed by the GSP Subcommittee of the Trade Policy Committee under the direction of the Special Trade Representative. See also "GSP Review" in ch. V of this report.

2/ GAO, Report to the Chairman, Subcommittee on International Economic Policy, Senate Foreign Relations Committee: Emerging Issues in Export Competition: A Case Study of the Brazilian Market, Sep. 26, 1985

3/ (GAO/NSIAD-85-121) The GAO report advises that under existing multilateral rules these practices are not prohibited by GATT. However, GAO points out that the Brazilian practices opposed by the United States have an adverse effect on bilateral trade.

4/ Recognizing that such bilateral accords were the only way to compete in Brazil's electric power market, the United States also signed MOU's with Brazil in 1983. 218

advantage for a potential partner. 1/ Brazil has been cited by many analysts as one of the most significant users of countertrade outside the Eastern bloc. 2/

Notable are the efforts of PETROBRAS (Brazil's oil monopoly) to obtain countertrade arrangements on its foreign oil purchases. Exports offered by Brazil in exchange for foreign oil cover the full range of manufactured products and raw materials. Brazil's exports under countertrade arrangements tend to displace U.S. export items such as poultry, soybean meal, chemicals, cotton, paper, and steel on third-country markets. Moreover, countertrade limits U.S. access to Brazil's market to the extent Brazil shifts from U.S. suppliers to those third-country suppliers who accept Brazilian products in place of foreign exchange.

U.S. access to Brazil's market

Brazil has high tariffs with duties ranging from 0 to over 100 percent and averaging 40 percent, although duty reductions and exemptions are common under a variety of incentive programs. Complaints against Brazil's high-import duties were repeated in 1985 by U.S. producers of almonds, feed supplements, textile and apparel products, paper products, and many other items.

However, U.S. exporters cite Brazil's across-the-board import-licensing requirements, the wide application of the "law of similars" and company import quotas as the main causes of declining shipments to Brazil. 3/ The inability to obtain an import license has affected U.S. exports, ranging from apples and pears 4/ to general aviation aircraft, causing continued concern during the year under review. 5/

Government procurement practices that favor domestic suppliers have remained a major obstacle to U.S. market access in Brazil, given the large government control of Brazil's economy. Brazil is not a signatory to the GATT Government Procurement Code.

Brazil's penetration of the U.S. market

In the 1980's, Brazil's aggressive export promotion schemes triggered frequent charges of unfair export practices by U.S. producers. Between 1980 and the end of 1985, the U.S. Government instituted 14 antidumping and 32 CVD proceedings involving products from Brazil. Eight of these proceedings were instituted in 1985.

1/ GAO, op. cit., pp. 20-37.

2/ The use of countertrade is not formally prohibited by law but Government-mandated countertrade is strongly opposed by both U.S. and GATT policy.

3/ See previous subsection.

4/ See the Operation of the Trade Agreements Program, 35th Report, 1983, p. 328.

5/ A tentative agreement to reduce licensing difficulties that curtail U.S. general aviation sales in Brazil has been intermittently discussed since 1982--for the last time in 1985. 219

Brazil's export promotion practices have been frequently discussed in bilateral consultations in recent years, as U.S. officials questioned compliance with Brazil's GATT subsidies commitment. 1/ In 1985, U.S. officials expressed concern that Brazil reportedly was considering new forms of subsidies to replace the IPI tax rebate that is being phased out. 2/

In 1985, footwear and specialty steel ceased to be the most sensitive areas of Brazilian market penetration in the United States. 3/ In September 1985, U.S. escape clause action involving footwear from Brazil (and other countries) ended in Brazil's favor. At that time, President Reagan, overruling the majority recommendation of the International Trade Commission 4/ decided not to impose quotas on footwear imports. The President's decision, which was termed a "courageous action" by Brazil's President Jose Sarney, saved Brazil significant export earnings and jobs, affecting the predominantly shoe-manufacturing State of Rio Grande do Sul. But Brazilian officials, concerned that the U.S. President's decision resulted only in a temporary respite, continued to keep a close watch on the multitude of "protectionist" bills under consideration in the U.S. Congress during the year. U.S. action against steel from Brazil resulted in a bilateral accord signed in February 1985. Under this accord, limitations are imposed on Brazil's steel exports to the United States. 5/

Informatics

In 1985, the United States continued to object to Brazil's informatics policy during U.S.-Brazilian Investment Task Force consultations and through other official channels of communication. 6/ On September 7, along with cases involving other countries, President Reagan ordered the USTR to investigate and determine under authority of section 301 of the Trade Act of 1974 whether Brazil's informatics law constitutes unfair trade practices under GATT rules. 7/

"Informatics" is broadly defined in Brazil and covers designated categories of computers, telecommunications equipment, and any other product containing a digital component, including telecommunications and data processing services. 8/ Passed in October 1984, the informatics law reserves the domestic market for nationally owned suppliers in the designated areas through 1992.

1/ Brazil is a signatory of the GATT Subsidies Code.

2/ See previous subsection.

3/ The Operation of the Trade Agreements Program, 36th Report, 1984, pp. 187 and 188.

4/ Nonrubber Footwear, (Investigation No. TA-201-55), USITC Publication 1717, July 1985.

5/ See the Operation of the Trade Agreements Program , 36th Report, 1984, p. 187.

6/ This task force was established in October 1984.

7/ The President's radio address to the Nation on Sep. 7, 1985, and F.R. vol. 50, No. 179, Sep. 16, 1985.

8/ For additional information on Brazil's informatics controls, also see the Foreign Industrial Targeting and its Effects on U.S. Industries: Phase III, USITC Publication 1632, January 1985, p. 64; and the Operation of the U.S. Trade Agreements Program, 36th Report, 1984, p. 184.

Access of U.S. products and investment to the Brazilian informatics market had been sharply restricted for years before the 1984 legislation formalized restrictions already in effect. U.S. firms claimed that these practices prevented them from participating fully in the rapidly expanding Brazilian market. The implementing regulations for the 1984 law are presently being developed by CONIN, Brazil's policymaking authority on informatics. CONIN is comprised of public and private sector industry representatives.

Trade in textiles and apparel

On August 29, 1985, the United States and Brazil concluded a comprehensive, 3-year bilateral agreement on textiles and apparel trade that covers the period of April 1, 1985 through March 31, 1988. The accord, concluded under the MFA, succeeds an earlier one between the 2 countries, that had been in effect since April 1, 1982. 1/

Under the new agreement, the number of quotas on U.S. imports from Brazil of products of cotton and manmade fibers has expanded from 9 to 25. The new quotas include such items as dish towels, polypropylene bags, sheets, and certain corduroy apparel (i.e. trousers and suits). Also imports of certain products of wool are included for the first time under the new agreement. As a result of these changes, the share of U.S. textile and apparel imports from Brazil that are subject to MFA restraints increased from 55 to 81 percent in terms of quantity. The new agreement reduces the overall yearly quota growth rate on fibers, yarns, fabrics, and apparel of cotton and manmade fibers from 7 to 6 percent, whereas the growth rate on wool quotas will be the standard 1 percent.

Brazil is the largest supplier to the United States of non-MFA textile and apparel products in terms of volume. Low-valued sisal cordage (predominantly agricultural twine) is the leading non-MFA textile product shipped from Brazil to the United States.

U.S. intellectual property rights

Most of the comments received on Brazil's restrictive practices at the June 1985 GSP hearings involved lack of protection for U.S. intellectual property rights. 2/ Witnesses complained about the inadequacy of patent laws in Brazil, too many restrictions on licensing agreements, and poorly enforced copyright laws. U.S. agrochemical and pharmaceutical firms were particularly concerned about Brazil's patent laws that do not provide for patenting chemical compounds and pharmaceutical substances and the production processes of these items. Complaints also centered on copyright piracy in Brazil involving unauthorized public performances of motion pictures, video cassettes, and widespread piracy of computer software.

1/ See also the Operation of the Trade Agreements Program, 36th Report, 1984, p. 188.

2/ Report from the U.S. Embassy, Brasilia, July 1985.

Barriers to services

Throughout the year under review, Brazil was among a number of LDC's vigorously opposed to the U.S. proposal to include services in the agenda of the upcoming new round of trade negotiations under the GATT. 1/ Brazil protects not only domestic merchandise against foreign competition but also extends protections to domestic services such as transportation, communication, insurance, and financial and technical services. For example, all foreign technical services must be approved by the Industrial Property Institute (INPI) of Brazil, causing substantial delays and administrative difficulties for petitioners. Telecommunications, data processing, and information services are also protected under Brazil's "informatics" law. 2/ U.S. companies that have a competitive edge in providing these services are greatly restricted in Brazil by these measures. The section 301 action against the "informatics" law calls some of these protections into question.

Foreign investment

Although Brazil's new Government has declared to be in favor of foreign investment, U.S. officials continued in 1985 to question Brazil's poor foreign investment climate. Practices called into question include Brazil's reserving selected markets to domestic firms, 3/ providing insufficient intellectual property protections, controlling price and imports, and imposing local content and export performance conditions. Investments must be registered with the Central Bank to remit profit and repatriate capital. The United States claims that such restrictions discourage many actual and potential U.S. investors in Brazil.

In June 1985, on their second meeting during the year, the U.S.-Brazilian Investment Task Force produced a joint report for the U.S.-Brazilian trade group documenting foreign investment regulations and performance in Brazil. The report supports earlier findings that the flow of foreign direct investment in Brazil slowed considerably in recent years. Both parties agreed that increased investment flows from the United States to Brazil would be desirable. U.S. policy favors unrestricted direct investment flows between countries as preferable to loans in resolving the capital shortage in developing countries such as Brazil. Brazil remains one of the main recipients of direct U.S. foreign investment, despite declining overall foreign investment trends in that country.

Extension of the U.S.-Brazil maritime agreement

In December 1985, the United States and Brazil reached an agreement to extend their 15-year old maritime accord for one more year through December 1986. The original pact had been in effect since 1970 and was renewed in 1983. Under the terms of the recent extension, Brazil agreed to the entry of additional U.S. flag carriers to bilateral trade, and made still other

1/ See also ch. V of this report.

2/ See previous subsection on "Informatics."

3/ Brazil limits the entry of foreign investors to such "sensitive" sectors as informatics, electronics, petrochemicals, and aviation, and reportedly is preparing to do so in the area of certain chemicals and pharmaceuticals. ²²²

concessions to facilitate access for U.S. shipping lines. Brazil was in favor of an extension of the maritime accord and had the support of U.S. maritime interests because of modifications made in their favor. U.S. exporters, on the other hand, wanted the U.S. Government to let the accord lapse, and entrust bilateral trade to open shipping lines.

The original agreement grew out of a 1969 measure of Brazil's Government (Decree No. 666) that all "government cargo" must be reserved for Brazilian flag vessels. Because of this broad definition of what constitutes government cargo, and the strong role of the Government in Brazil's production, the measure made an overwhelming share of U.S.-Brazil ocean traffic subject to Brazilian cargo reservation. An exception was allowed under the measure for trading partners with whom Brazil concluded a special cargo-reservation agreement.

The accord concluded with the United States provides for equal access to U.S. and Brazilian vessels to that part of bilateral trade that Brazil considers "government cargo." The agreement accords 50-50 percent to each partner in hauling southbound trade and 40-40 percent in hauling northbound trade. This arrangement rules out the participation of third-country carriers in southbound traffic and allows a 20 percent third-country participation in northbound traffic.

Favoring the price-competitive third-country service, U.S. exporters objected to the agreement. Exporters claimed that shutting out third-country carriers from southbound traffic drove up freight rates for them and made U.S. exports generally more expensive.

In granting the 1985 extension, U.S. negotiators warned Brazil that, without a satisfactory resolution of outstanding issues, the pact would definitely lapse on December 31, 1986. The two countries are expected to meet frequently in 1986 to forge an accord that will be more acceptable by the United States. Discussions are likely to focus on Brazil's willingness to roll back their cargo preference laws, thus opening up bilateral maritime traffic to third-country competition.

CHAPTER V

ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

INTRODUCTION

This chapter reviews activities related to the administration of U.S. trade laws during 1985. Sections are included on U.S. actions under import relief and unfair trade laws. Import relief laws are designed to safeguard U.S. industries from injurious and increasing levels of imports when the fairness of trade practices is not at issue. Unfair trade laws are designed to counter the effect of foreign imports benefiting from unfair trade practices, such as dumping, certain subsidies, or other practices as defined by domestic statutes. A section reviewing the administration of other import programs covers actions under laws regulating trade with respect to agricultural products and national security considerations, and implementation of the Caribbean Basin Initiative and the renewed U.S. GSP.

In 1985, President Reagan announced that he would not implement the U.S. International Trade Commission's recommendations for granting import relief pursuant to section 201 of the Trade Act of 1974 for the domestic nonrubber footwear industry. For the footwear products concerned, the President instead directed the Secretary of Labor to work with State and local officials to develop a retraining and relocation assistance program designed to aid workers in the nonrubber footwear industry. The Department of Commerce and the International Trade Commission (hereafter, the Commission) continued to have a large caseload of antidumping and CVD investigations during the year. Unlike previous years, when the preponderance of investigations undertaken by the USTR on alleged violations of trade agreements by foreign governments focused on outstanding trade issues in U.S.-EC trade, in 1985, such investigations concerned a wider range of countries following the President's September trade initiative.

IMPORT RELIEF LAWS

Safeguard Actions

Temporary relief from imports may be provided to U.S. industries pursuant to section 201 of the Trade Act of 1974. 1/ Section 201 is based on article XIX of the GATT, which permits a country to "escape" temporarily from GATT obligations with respect to a particular product when certain conditions exist. Under section 201, the 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 U.S. industry producing an article like or directly competitive with the imported article. 2/ The Commission's findings, together with any dissenting or separate views, must be submitted to the President. If the

1/ See 19 U.S.C. § 2251.

2/ See 19 U.S.C. § 2251(b)(1).

statutory conditions are found to exist, 1/ the Commission must find and recommend to the President the import relief necessary to prevent or remedy injury, or, if it finds that the provision of adjustment assistance can remedy such injury, recommend the provision of such assistance. The President must, within 60 days, proclaim relief unless he determines that import relief is not in the national economic interest. 2/ The President may provide relief in the form of an increase in, or imposition of, tariffs; the imposition of tariff-rate quotas; 3/ the modification or imposition of quotas; the negotiation of orderly marketing agreements with the supplying countries; or any combination of such actions. 4/

Import relief under section 201 may be granted for an initial period of up to 5 years, and may be extended by the President for up to 3 additional years. 5/ Under section 203 of the Trade Act of 1974, the Commission is authorized to conduct reviews and advise the President of the probable economic effect on the industry concerned of the extension, reduction, or termination of import relief in place under section 201. 6/

During 1985, escape-clause relief continued in effect for heavyweight motorcycles and stainless and alloy tool steel, pursuant to Presidential actions taken in 1983. 7/ The Commission did not undertake or complete any section 203 activities in 1985.

The Commission completed two section 201 investigations in 1985: Potassium Permanganate (Investigation No. TA-201-54); and Nonrubber Footwear (Investigation No. TA-201-55). The Commission voted in the negative in Potassium Permanganate, and in the affirmative in Nonrubber Footwear. Commission recommendations and Presidential action regarding the affirmative determination in Nonrubber Footwear are described below.

Nonrubber Footwear

On July 1, 1985, the Commission found that nonrubber footwear provided for in items 700.05 through 700.45, inclusive; 700.56, 700.72 through 700.83, inclusive; and 700.95 of the TSUS was being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the U.S. industry producing articles like or directly competitive with the imported articles. A majority of the Commission recommended to the President that he impose quantitative restrictions on imports of nonrubber footwear valued over \$2.50 per pair for a 5-year period.

1/ If the Commissioners voting on a 201 determination are equally divided with respect to the determination, then the determination agreed upon by either group of Commissioners may be considered by the President as the Commission's determination. See 19 U.S.C. § 1330(d)(1).

2/ See 19 U.S.C. § 2252(a)(1)(A).

3/ A tariff-rate quota provides for an increased tariff when a certain quantity of imports is reached.

4/ See 19 U.S.C. § 2253(a). There are statutory limitations on the extent of the relief that the President is authorized to grant. See 19 U.S.C. § 2253(d).

5/ See 19 U.S.C. §§ 2253(h)(1) and (3).

6/ See 19 U.S.C. § 2253(i).

7/ For further information on the 1983 Presidential actions, see the Operation of the Trade Agreements Program, 35th Report, 1983, p. 342.

On August 28, 1985, the President determined that the imposition of import relief was not in the national economic interest. The President stated that the imposition of import relief would not promote industry adjustment to increased import competition, and that import relief "would place a costly and unjustifiable burden on U.S. consumers and the U.S. economy." Moreover, the President stated that import relief would damage U.S. trade by generating compensatory tariff reductions or retaliatory actions by foreign suppliers, and by weakening the ability of certain major foreign suppliers, such as Brazil, to retire heavy indebtedness and to import goods from the United States. In order to address problems faced by workers in the shoe industry, the President directed the Secretary of Labor to work with state and local officials to develop a retraining and relocation assistance program designed to aid workers in the nonrubber footwear industry. 1/

Market Disruption

Section 406 of the Trade Act of 1974 provides for investigations by the Commission to determine whether imports of an article originating in a nonmarket-economy (communist) country are causing market disruption with respect to an article produced by a U.S. industry. 2/ During 1985, the Commission did not conduct any section 406 investigations.

Adjustment Assistance

The Trade Adjustment Assistance Program--Title II of the Trade Act of 1974--provides for adjustment assistance to workers, firms, and industries adversely affected by import competition. Although the adjustment assistance program has been extended for several years, funding is scheduled to be terminated on September 30, 1986. 3/ Adjustment assistance to workers is administered through the Department of Labor in the form of cash benefits for direct trade readjustment allowances and service benefits that include allocations for job search, relocation, and training. Technical and financial assistance is awarded to firms and industries in the form of trade adjustment grants administered through the Commerce Department's International Trade

1/ Memorandum from the President to the USTR on August 28, 1985. 50 Fed. Reg. No. 169, p. 35205 (Aug. 28, 1985).

2/ If the Commission issues an affirmative determination, it must also recommend to the President a remedy for the existing or threatened market disruption. The remedy is directed only at the imports that are the source of the market disruption. A section 406 investigation can be based on a request by the President, the USTR, by resolution of certain committees of the U.S. Congress, or other requesters or petitioners enumerated in section 201(a)(1). If the President takes action following an affirmative Commission determination in a section 406 case, he has essentially the same options for import relief as those provided in sections 202 and 203 of the Trade Act of 1974.

3/ Authorization for the trade adjustment assistance program expired on December 19, 1985. New legislation reinstated the program effective April 7, 1986. The adjustment assistance provisions of the program which are retroactive to December 19, 1985 are scheduled to remain in effect through September 30, 1991.

Administration. 1/ Industrial aid through the International Trade Administration is designed to improve the home market competitive ability of U.S. firms dislocated as a result of national policy to liberalize trade barriers.

Assistance to workers

The Department of Labor instituted 1,022 investigations in fiscal year 1985 on the basis of petitions filed for eligibility to apply for trade adjustment assistance representing an increase of 136 percent from the 433 investigations instituted in fiscal year 1984. The results of investigations completed or terminated in fiscal year 1985, including those instituted in the previous year, but pending at the start of fiscal 1985, according to official statistics of the U.S. Department of Labor, were as in the following tabulation:

<u>Item</u>	<u>Number of investigations or petitions</u>	<u>Number of workers</u>
Complete certifications-----	449	36,504
Partial certifications-----	13	1,009
Petitions denied-----	250	40,072
Petitions terminated or withdrawn-----	<u>34</u>	<u>6,872</u>
Total-----	746	84,457

As a result of lower rates of eligibility for assistance, stemming, in part, from the Omnibus Budget Reconciliation Act (OBRA) of 1981 and subsequent Deficit Reduction Act of 1984, 2/ Department of Labor expenditures in fiscal year 1985 on direct cash benefits to certified workers decreased significantly to \$35.0 million, approximately \$300,000 less than the estimated total expenditures in fiscal year 1984. Funds allocated in 1985 were directed primarily to certified workers in the apparel, footwear, electronics, and metal products industries. In addition to direct financial assistance, the Department of Labor provided allocations in fiscal year 1985 for worker activities in the areas shown in the following tabulation:

1/ Certified firms are eligible to apply for the technical and financial assistance necessary to implement programs of economic recovery. Technical assistance includes assistance in engineering, marketing, production methods, and financial management. Financial assistance includes both direct loans and loan guarantees.

2/ The OBRA and Deficit Reduction Act made law changes designed to tighten the criterion used to determine eligibility. The principal change affecting petitions filed retroactive to Oct. 25, 1982, stipulated that increased imports must be determined to be a cause no less important than any other cause of worker separations as opposed to simply an important cause.

<u>Item</u>	<u>Number of workers</u>	<u>Expenditures</u>
Job search-----	916	\$205,008
Relocation allowances-----	1,692	1,729,759
Training-----	7,424	10,989,520

Assistance to firms and industries

The ITA in the Department of Commerce certified 319 firms as eligible to apply for trade adjustment assistance during fiscal year 1985, representing a decrease of 20 percent from the 398 firms certified in the previous fiscal year. The International Trade Administration approved the adjustment proposal of one certified firm and authorized financial assistance totaling \$400,000 in the form of direct loans. Additional direct loans and loan guarantees were available but not used by the firm. 1/ The International Trade Administration also provided direct technical assistance valued at \$13.9 million through its Trade Adjustment Assistance Centers to 825 firms dislocated as a result of import competition. Firms in the primary metals, fabricated metals, machinery, and miscellaneous manufacturing sectors accounted for 54 percent of all certification activity in fiscal year 1985. In contrast, firms in the apparel, leather goods, and textile sectors, which in the previous year had accounted for 28 percent of all firms certified, accounted for only 22 percent of all certification activity in fiscal year 1985. 2/

The Department of Commerce awarded trade adjustment technical assistance grants totaling \$2.6 million to four industry associations. These associations represented steel foundries and producers of apparel, gears, and electrical products. 3/

LAWS AGAINST UNFAIR TRADE PRACTICES

U.S. law provides U.S. industries with remedies against certain unfair trade practices including (1) the importation of merchandise sold at LTFV (i.e., dumped), (2) the importation of subsidized merchandise, and (3) the use of unfair methods of competition, such as patent infringement, in import trade. U.S. law also provides for the enforcement of rights under trade agreements and the application of remedies against unfair trade practices of

1/ The maximum amount of monetary assistance available under the adjustment assistance program, \$1 million in direct grants and \$3 million in loan guarantees, is in many instances less than firms are capable of obtaining from private or internal sources. The cost of even a relatively small capital investment in most industries would exceed the amount of assistance available through the program.

2/ Derived from official statistics of the U.S. Department of Commerce.

3/ Trade adjustment technical assistance programs initially funded in previous years continued in effect throughout fiscal year 1985 for industries that process wool and produce industrial fabrics, uniforms, textile machinery, jewelry, electronics, luggage, leather products, industrial machinery, machine tools, hardwood products, and onions.

foreign governments, that burden or restrict U.S. commerce. As a result of antidumping and CVD investigations undertaken in 1985 by the International Trade Commission and the Department of Commerce, 11 new antidumping orders and 16 new CVD orders were imposed. Of 39 Commission investigations into the alleged use of unfair methods of competition, 6 resulted in exclusion orders. Under section 301 provisions designed to address rights under trade agreements and remedy certain unfair trade practices of foreign governments, the USTR instituted five new investigations in 1985 concerning Japanese barriers to the sale of semiconductors and tobacco products, Korean practices concerning intellectual property rights and insurance policies, and Brazilian policies in the informatics sector.

Antidumping Actions

The antidumping statutes are designed to provide for the imposition of offsetting duties to prevent foreign producers from selling a class or kind of merchandise in the United States at prices lower than those charged in the producers' home market or below the cost of production. Under section 731 of the Tariff Act of 1930, as amended, 1/ the United States may impose antidumping duties to offset margins of dumping for those imports into the U.S. market that are determined to be priced below their fair value 2/ and materially injure or threaten to materially injure a domestic industry based on affirmative findings by the U.S. Department of Commerce and the Commission. The Department of Commerce investigates whether imports are being, or are likely to be, sold in the United States at LTFV. The International Trade Commission determines whether a domestic industry is materially injured, or threatened with material injury, or whether the establishment of a domestic industry is materially retarded by reason of such imports. 3/

1/ The Trade Agreement Act of 1979 amended the Tariff Act of 1930 by adding title VII, containing new antidumping provisions. These provisions were amended recently by the Trade and Tariff Act of 1984.

2/ Sales at LTFV exist whenever the price of goods exported to the United States is less than the price at which such or similar goods are sold in the market of the exporting country for home consumption. If the home market sale price is not based on normal commercial considerations, or if too few domestic sales have been made to provide an adequate basis for comparison, alternative methods, such as constructed value, are used.

3/ If the Commission issues an affirmative preliminary determination concerning material injury to a U.S. industry, a preliminary and a final investigation are conducted by the Department of Commerce to determine whether the imported product is being, or is likely to be, sold at LTFV, within the meaning of the Tariff Act of 1930. The Commission issues its final injury determination either 120 days after Commerce's preliminary affirmative determination, or 45 days after Commerce's final affirmative determination. If Commerce's preliminary determination is negative and its final determination is affirmative, the International Trade Commission issues its final injury determination within 75 days after the final affirmative determination.

The Department of Commerce completed 53 final antidumping investigations 1/ in 1985 under section 731 on the issue of price discrimination, a slight decrease from the 61 final investigations completed in 1984. Antidumping duties were imposed as a result of 11 of these investigations on a total of 10 products from 8 countries. The Commission completed 89 preliminary and 48 final antidumping investigations to determine material injury or threat thereof. 2/ Details of antidumping actions and orders--including suspension agreements in effect 3/ and revocations in 1985--are presented in table A-5. The following tabulation is a summary of antidumping cases in 1985:

Petitions filed-----	63
Investigations completed-----	80
Preliminary Commission negative determinations-----	16
Final Commerce determination:	
Negative-----	5
Affirmative-----	28
Terminated-----	20
Final Commission determination:	
Negative-----	7
Affirmative (includes partial affirmatives)-----	11
Terminated-----	30
Suspension of investigations-----	0
Termination of petitions-----	50
Final antidumping orders-----	11

Section 751 of the Tariff Act of 1930, provides for the annual review of outstanding antidumping and countervailing orders, and, if necessary, the adaptation of countermeasures to changing circumstances. 4/ Three actions are reviewable by Commerce under Section 751(a): antidumping orders, CVD orders, and suspensions of investigations. Section 751(a) requires review of these actions "at least once" during each 12-month period (commencing on the first anniversary of the action at issue) if a request for such review has been received by Commerce. Under Section 751(b), a review of a final determination or a suspension agreement shall be conducted by the Department of Commerce (to determine if the unfair practice still exists) or

1/ This figure includes investigations that resulted in determinations as well as investigations that did not result in determinations because the investigations were terminated before determinations were issued.

2/ These figures include investigations that resulted in determinations as well as investigations that did not end with a determination because the investigations were terminated before determinations were issued.

3/ An antidumping investigation can be suspended through a suspension agreement prior to a final determination by the Department of Commerce. Such termination may be effected if exporters accounting for substantially all of the imports of the merchandise under investigation agree to either eliminate the dumping or to cease exports of the merchandise to the United States within 6 months after suspension of the investigation or if extraordinary circumstances are present and the exporters agree to revise prices to completely eliminate the injurious effect of the imports. The investigation is reinstated at the same stage as suspended should less-than-fair-value sales recur.

4/ 19 U.S.C. § 1675.

the Commission (to determine if injury still exists) whenever Commerce or the Commission receives information or a request showing changed circumstances sufficient to warrant such review. Without good cause shown, however, no final determination or suspension agreement can be reviewed by the Commission within 24 months after the date of publication of notice of the determination. The party seeking revocation of an antidumping or CVD or suspension order has the burden of persuasion before the Commission as to whether there are changed circumstances sufficient to warrant revocation.

The Commission did not complete any administrative reviews of outstanding antidumping orders in 1985 under section 751 of the Tariff Act of 1930. The Department of Commerce, through its administrative review procedures (conducted in conformity with section 751 of the Tariff Act), revoked orders in 1985 on carbon steel wire rod from Argentina, Mexico, Poland, Spain and Brazil; hot-rolled carbon steel products from Brazil; oil country tubular goods from Argentina, Korea, Mexico, and Spain; stainless and clad steel plate from Japan; certain steel pipes and tubes from Japan; certain steel wire nails from Korea; certain rectangular welded carbon steel pipes and tubes from Korea; and certain welded carbon steel pipes and tubes from Korea.

Countervailing Duty Actions

U.S. CVD law, originally enacted in 1897 and amended most recently by the Trade and Tariff Act of 1984, is set forth in section 303 and title VII of the Tariff Act of 1930. It provides for the levying of special duties to countervail or offset foreign subsidies 1/ on products imported into the United States. A material injury test for dutiable imports was added to U.S. law in 1979 that aligned the law with U.S. obligations under the GATT Agreement of the Code on Subsidies and Countervailing Duties. 2/ Imported articles originating in a country that has been designated as a "country under the Agreement" for the purposes of title VII are entitled to have the injury test applied by the Commission prior to the issuance of a CVD order. 3/ With some exceptions, 4/ articles imported from other countries are subject to the imposition of CVD's regardless of whether or not there has been injury to a U.S. industry. In these cases, duties are levied by the Department of Commerce under section 303. 5/

1/ A subsidy is defined as a bounty or grant bestowed directly or indirectly on the manufacture, production, or export of products. See 19 U.S.C. §§ 1303(a)(1) and 1677(5).

2/ See 19 U.S.C. § 1671.

3/ Most of the major U.S. trading partners have signed the GATT Agreement on Subsidies and Countervailing Duties. The Commission also conducts preliminary and final injury investigations under section 303 if the imports enter the United States free of duty and the international obligations of the United States so require.

4/ Under section 303(a)(1), "[i]n the case of any imported article or merchandise which is free of duty, duties may be imposed under this section only if there are affirmative [injury] determinations by the Commission . . .; except that such a determination shall not be required unless a determination of injury is required by the international obligations of the United States." 19 U.S.C. § 1303(a)(2).

5/ 19 U.S.C. § 1303.

Procedurally, CVD law is similar to antidumping law. The Department of Commerce determines whether a subsidy exists and the margin of subsidy. The Commission, if an injury test is required, determines whether a U.S. industry has been materially injured, or is threatened with material injury, or whether the establishment of a U.S. industry has been materially retarded, by reason of imports of such subsidized merchandise.

The Department of Commerce completed 36 final CVD investigations 1/ in 1985, representing a slight decrease from the 39 investigations completed in 1984. CVD orders were imposed as a result of 19 of these investigations on a total of 12 products from 13 countries. The Commission completed 40 preliminary and 20 final investigations on the issue of material injury, or threat thereof, as a result of subsidized imports. 2/ Details of CVD actions and outstanding orders--including suspension agreements in effect 3/ and revocations in 1985--are presented in table A-6. The following tabulation is a summary of CVD cases in 1985:

Petitions filed-----	41
Investigations completed-----	52
Preliminary Commission negative determinations-----	10
Final Commerce determination:	
Negative-----	5
Affirmative-----	19
Terminated-----	12
Final Commission determination:	
Negative-----	5
Affirmative (includes partial affirmatives)-----	7
Terminated-----	8
Suspension of investigations-----	3
Termination of petitions-----	20
Final CVD orders-----	19

The Commission did not complete any administrative reviews in 1985 under section 751 of the Tariff Act of 1930 to determine whether revocation of a suspension agreement in effect would cause material injury, or threat thereof,

1/ This figure includes investigations that resulted in determinations as well as investigations that did not result determinations because the investigations were terminated before a determinations were issued.

2/ These figures include investigations that resulted in determinations as well as investigations that did not end in determinations because the investigations were terminated before determinations were issued.

3/ A CVD investigation can be terminated through a suspension agreement prior to a final determination by the Department of Commerce on the issue of subsidization, if (1) the government of the subsidizing country, or exporters accounting for substantially all of the imports of the merchandise under investigation, agree to eliminate the subsidy, to completely offset the net subsidy, or to cease exports of the merchandise to the United States within 6 months after suspension of the investigation; or (2) extraordinary circumstances are present and the government or exporters described above agree to take action that will completely eliminate the injurious effect of the imports of the merchandise under investigation. The investigation is²³³ reinstituted at the same stage where it was suspended if subsidization recurs.

or materially retard establishment of a U.S. industry. 1/ The Department of Commerce, through its administrative review procedures (conducted in conformity with section 751 of the Tariff Act), revoked orders in 1985 on oil country tubular goods from Argentina, Brazil, Korea, Mexico, and Spain; certain carbon steel products from Brazil; carbon steel wire rod from Spain and South Africa; certain steel structural shapes and cold rolled carbon steel sheet from Korea; deformed steel bars for concrete reinforcement from South Africa; cold-rolled carbon steel flat-rolled products from Korea; certain steel products from South Africa and Spain; and welded carbon steel pipes and tubes from Korea.

The Commission conducted three special administrative reviews, under the provisions of section 104 of the Trade Agreements Act of 1979, of outstanding CVD orders in 1985. These reviews are discussed below. No others were pending at the end of 1985. 2/

Under section 104 of the Trade Agreements Act of 1979, foreign governments or exporters of merchandise whose products were subject to outstanding CVD orders entered under section 303 of the Tariff Act of 1930, but which would otherwise be entitled to an injury test under the terms of the Trade Agreements Act of 1979, could, for a period of 3 years beginning January 1, 1980, request an injury review with respect to those outstanding orders. Review investigations conducted under section 104 are to determine whether a U.S. industry would be materially injured or threatened with material injury, or whether the establishment of a U.S. industry would be materially retarded, by reason of imports subject to these outstanding CVD orders.

On December 5, 1984, two section 104 investigations were instituted: Oleoresins From Spain (Investigation No. 104-TAA-24); and Oleoresins From India (Investigation No. 104-TAA-25). On January 7, 1985, the Commission received a letter from Kalisek, Inc., the original petitioner for both CVD orders, stating that the petitioner thereby withdrew its requests for the imposition of CVD's. Following a period during which the Commission sought public comment (no adverse comments were received), the Commission terminated the two investigations. The terminations had the same effect as determinations that an industry in the United States would not be materially injured, or threatened with material injury, nor would the establishment of such an industry be materially retarded, if the CVD orders were revoked. As a result, the Department of Commerce revoked the CVD orders on oleoresins from Spain and India.

In the only other investigation conducted under section 104 during 1985, concerning the sugar content of certain articles from Australia (Investigation No. 104-TAA-26), the Commission determined that industries in the United States would not be materially injured, or threatened with material injury,

1/ See discussion supra, at p. 6, regarding application of sec. 751, 19 U.S.C. § 1675.

2/ Administrative reviews under section 104 of the 1979 Trade Agreements Act apply only to CVD orders issued prior to Jan. 1, 1980, when an injury test on dutiable products was not required. The statutory deadline for foreign governments or exporters of merchandise to the United States to request a review investigation under section 104 was Jan. 1, 1983. The three investigations mentioned above represent the last cases outstanding subject to section 104 review.

nor would the establishment of an industry in the United States be materially retarded, by reason of imports of the sugar content of certain articles from Australia if the CVD order covering those imports were revoked. As a result, the Department of Commerce revoked the CVD order covering those products.

Unfair Practices Investigations

Section 337 of the Tariff Act of 1930 provides for investigations by the U.S. International Trade Commission to determine whether unfair methods of competition or unfair acts exist in the import or sale of imported articles in the United States. 1/ The Commission determines whether the effect or tendency of such acts is to destroy, or substantially injure, an efficient and economically operated U.S. industry, prevent the establishment of an industry, or restrain U.S. commerce. 2/ If the Commission determines that a violation exists, it can issue an order--subject to possible disapproval by the President for policy reasons--excluding the subject imports from entry into the United States or order the violating parties to cease and desist from the unlawful practices. 3/ Section 337 investigations are usually instituted on the basis of a formal complaint; the Commission can, however, institute an investigation on its own initiative. In 1985, as in previous years, most complaints of unfair acts brought before the Commission alleged infringement of a U.S. patent by imported merchandise. The exceptions in 1985 included cases involving trademark or copyright infringement, false advertising, passing, trade dress misappropriation, false designation of origin, and trade secret misappropriation. 4/ Unfair practices that involve the importation of dumped or subsidized merchandise must be pursued under antidumping and CVD

1/ See 19 U.S.C. § 1337.

2/ Proceedings are conducted before an administrative law judge in accord with the Administrative Procedure Act, 5 U.S.C. § 551 et seq. Following hearings, the administrative law judge transmits to the Commission a recommended determination. The Commissioners issue the final determination after reviewing the record and the recommended determination. If the Commission finds a violation, it must determine the appropriate remedy, the amount of any bond to be collected while the order is pending before the President, and whether public-interest considerations preclude the issuance of an exclusion or cease and desist order. Violation of a Commission order may be subject to civil penalties of up to \$10,000 per day.

3/ Typically, a patent provides its holder with the right to exclude others from manufacturing, using, or selling the patented product, process, or design for a 17-year period. An exclusion order banning imports of articles that infringe the patent for the duration of the 17-year period is often the remedy recommended in patent infringement cases. The Commission can order temporary exclusion of articles or issue a temporary cease-and-desist order during the pendency of an investigation. The Commission does not issue such orders if there are overriding public-interest considerations. The President may disapprove an order within 60 days of issuance for policy reasons.

4/ Other examples of unfair acts include breach of contract, collusive bidding, contributory infringement, failure to mark country of origin, refusal to deal or sell, trademark dilution, false labeling, antitrust violations, and fraudulent inducement to enter into a licensing agreement.

provisions of the trade laws and not under section 337. The Commission normally completes section 337 investigations within 12 months, but may take up to 18 months to complete cases declared to be more complicated.

The Commission completed 39 investigations in 1985 under section 337. No violation of the statute was found in 8 of the 39 investigations completed. Six investigations resulted in the issuance of exclusion orders. The remaining 25 investigations were terminated by the Commission prior to issuance of findings--13 on the basis of a settlement agreement, 2 on the basis of a consent order, 4 on the basis of combinations of settlement agreements and consent orders, 1 with prejudice to the complainant 1 on the basis of abatement, and 4 upon withdrawal of the complaint. Commission activities involving section 337 actions in 1985 are presented in table A-7.

As of December 31, 1985, a total of 35 outstanding exclusion orders based on violations of section 337 were in effect. All but 11 of these involved patent violations. Table A-8 lists the investigations that preceded the issuance of the orders.

Traditionally, the Commission has conducted investigations under section 603 of the Trade Act of 1974 to gather information necessary to determine whether a basis exists for instituting a section 337 investigation. The Commission is generally authorized under section 603 to conduct preliminary investigations to determine the scope and manner of its proceedings and to consolidate proceedings before it.

On April 11, 1984, the Commission instituted an investigation under section 603 to determine if allegations by the U.S. hydrogenerator industry of unfair import practices by Japanese producers merited a full section 337 investigation. The alleged unfair methods of competition consisted of the creation of a combination or conspiracy designed to restrain or monopolize trade and commerce in the United States, a combination or conspiracy to allocate customers or markets, and in the bidding on and sale, either individually or in concert, of hydrogenerators in the United States at predatory prices. On September 23, 1985, the Commission determined that no further investigation was needed, and this investigation was terminated.

Enforcement of Trade Agreements and Response to Unfair Foreign Practices

Section 301 of the Trade Act of 1974 1/ gives the President the authority and means to enforce U.S. rights under trade agreements, or to respond to any act, policy, or practice of a foreign country or instrumentality that is inconsistent with the provisions of, or otherwise denies benefits to the United States, under any trade agreement, including various nontariff agreements, or is unjustifiable, or discriminatory and burdens or restricts U.S. commerce. According to time limits imposed Under section 301, the President must take all appropriate and feasible action to enforce such rights or try to obtain the elimination of such act, policy, or practice. 2/ An interdepartmental committee headed by the USTR conducts these investigations

1/ 19 U.S.C. § 2411.

2/ Within this context, "commerce" includes services related to international trade, regardless of whether such services are related to specific products.

(including hearings, if requested), usually on the basis of petitions alleging section 301 violations, but a section 301 investigation may also be self-initiated by the USTR even if a private petition is not filed. 1/ If the foreign entity does not agree to change its practices, the President is empowered to (1) deny it the benefits of trade-agreement concessions, and (2) impose duties, fees, or other import restrictions, when appropriate.

Part of the President's September trade initiative included the resolve to be more aggressive in initiating section 301 cases. 2/ The President has directed the USTR to institute a total of four self-initiated section 301 cases by yearend. One private section 301 petition was filed in 1985 on semiconductor imports from Japan. The President retaliated against EC citrus preferences by raising tariffs on pasta, but the EC promptly counter-retaliated against U.S. imports of lemons and walnuts, so negotiations continue. Settlements were obtained in the cases on Japanese leather imports and EC canned fruit production subsidies. One investigation, on satellite launching services of the European Space Agency, was terminated when the President determined that the Agency's practices were not unreasonable. Table 20 provides a summary of the activity on section 301 cases during 1985 that is described in greater detail below.

Cases initiated in 1985

Japanese barriers to the domestic sale of foreign semiconductors 3/

In June 1985, the Semiconductor Industry Association filed a petition with the USTR alleging that the Japanese Government has created a protective structure that acts as a major barrier to the sale of foreign semiconductors in Japan. The USTR initiated the investigation in July 4/ and held initial consultations in August with the Japanese. Further consultations were held in September, November, and December. The USTR must submit recommendations to the President by July 10, 1986.

Brazil informatics policies 5/

In September 1985, the USTR self-initiated an investigation into Brazil's informatics policy. 6/ The policy encompasses a variety of measures such as

1/ The statute provides a number of procedures and time limits for action by the USTR. The USTR has 45 days from receipt of a petition to determine whether to initiate an investigation. Upon initiation, the use of international procedures are required, concurrent with the domestic investigation. Thus, consultations are requested with the foreign country or instrumentality involved. If a case involves a GATT contracting party or a signatory to a GATT code, the United States employs the dispute settlement provisions of these agreements. USTR must make a recommendation to the President in 12 months from the date of initiation in most cases, or within 30 days of the conclusion of the dispute settlement procedure for cases pursued under the GATT.

2/ For more information, see section entitled "The President's September 23 Trade Initiative" in ch. I.

3/ USTR Docket No. 301-48.

4/ See 50 F.R. 28866, July 16, 1985.

5/ See USTR Docket No. 301-49.

6/ See 50 F.R. 37608, Sept. 16, 1985.

Table 20.—Summary of activity on section 301 investigations during 1985

Doc. no./ date filed	Petitioner	Product or service/ country	Status at yearend 1985
301-6 Nov. 1975	Millers National Federation.	Wheat flour/Euro- pean Community.	GATT Subsidies Code panel declined to determine if EC violated code rules. Report not as yet adopted by Code members.
301-11 Nov. 1976	Florida Citrus Commission.	Citrus fruits and juices/ European Community.	U.S. Gov. imposed retaliatory duties on pasta pro- ducts on Nov. 1, 1985. EC imposed counter measures on lemons and walnuts. Inconclusive consultations held in Nov.
301-13 Aug. 1977	Tanners Council of America.	Leather/Japan	In Dec. Japan agreed to provide about \$236 million in compensation through reduced or bound tariffs. United States Gov. also to increase tariffs on about \$24 million in leather imports from Japan.
301-23 Sep. 1981	National Broiler Council.	Poultry/ European Community.	GATT Subsidies Code conciliation still pending.
301-25 Oct. 1981	National Pasta Association.	Pasta/ European Community.	GATT Subsidies Code panel findings never adopted, but United States Gov. took action on pasta in retaliation on citrus.
301-26 Oct. 1981	California Cling Peach Advisory Board.	Canned fruit and raisins/Euro- pean Community.	In Dec. 1985, the EC agreed to eliminate the canning subsidies for canned peaches and to reduce the production subsidies for canned pears.
301-34 Jul. 1982	J.I. Case Co.	Front-end loaders/ Canada.	Following informal GATT consultations, the USTR returned to the petitioner for further information to determine how to proceed with the case. Consultation with petitioner continuing.
301-35 Oct. 1982	Footwear Indus- tries of America, Inc.	Nonrubber foot- wear/Brazil.	In Nov. 1985, Brazil offered to liberalize its im- port surcharge and reduce tariffs. USTR due to report to President.
301-40 Apr. 1983	National Soybean Processors Association.	Soybean oil and meal/Brazil.	GATT Subsidies Code consultations to con- tinue into 1985 to confirm Brazil claim that barriers have been eliminated.
301-41 Apr. 1983	-----do.-----	Soybean oil and meal/ Portugal	Portugal agreed to phase out state tra- ding company purchases in favor of dir- ect purchases by private importers; implementation nearly complete.

Table 20.—Summary of activity on section 301 investigations during 1985—continued

Doc. no/ date filed	Petitioner	Product or service/ country	Status at yearend 1985
301-42 Apr. 1983	-----do-----	Soybean oil and meal/Spain.	Consultations are continuing.
301-44 Sep. 1983	Air Courier Conference of America.	Air transport of time-sensitive documents/Argentina.	Argentina agreed to temporarily lift the postal restrictions in 1984 and terminated them permanently in March 1985.
301-46 May 1984	Transpace Carriers, Inc.	Satellite launching services/European Community.	On July 17, 1985, the President found the European Space Agency's practices not to be unreasonable and terminated the investigation.
301-47 Aug. 1984	Fertilizer Institute.	Triple superphosphate/European Community.	Consultations under the GATT Standards Code, started in Dec. 1984, continue.
301-48 June 1985	Semiconductor Industry Association.	Semiconductors/Japan.	Consultations with Japan held in Aug., Sept., Nov., and Dec. USTR recommendations to be submitted to the President on or before July 10, 1986.
301-49 Sept. 1985	USTR initiated at President's direction.	Informatics Policy/Brazil.	Extensive discussions held with U.S. industry representatives. Consultations held with Brazil in Feb. 1986. USTR recommendations due to the President by Sep. 15, 1986.
301-50 Sept. 1985	USTR initiated at President's direction.	Tobacco Products/Japan.	Following discussion with U.S. industry, consultations were requested with Japan for Feb. 1986. USTR recommendations due to the President by Sep. 15, 1986.
301-51 Sept. 1985	USTR initiated at President's direction.	Insurance Practices/Korea.	Consultations held with Korea in Nov. and Dec. 1985. USTR recommendations due to the President by Sept. 15, 1986.
301-52 Nov. 1985	USTR initiated at President's direction.	Protection of intellectual property rights/Korea.	Consultations held with Korea in Nov. and Dec. 1985. USTR recommendations due to the President by Nov. 3, 1986.

investment restrictions, subsidies, and import restrictions. Efforts in 1985 centered on obtaining information from U.S. industry. The first consultations with Brazil on its policies took place in February 1986. By September 15, 1986, the USTR must submit recommendations to the President on action in this case.

Japanese barriers to tobacco products 1/

In September 1985, the USTR self-initiated an investigation of Japanese practices that act to restrict U.S. tobacco product exports to Japan. Among the practices named were high tariffs, restrictions against manufacturing, and distribution restrictions. 2/ After obtaining comments from U.S. industry, the USTR held consultations with Japan in February 1986. By September 15, 1986, the USTR must submit recommendations to the President on this case.

Korean insurance policies 3/

In September, the USTR self-initiated an investigation of Korean practices that restrict the ability of U.S. insurers to provide insurance services in the Korean market. 4/ The USTR held consultations with Korea in November and December 1985. By September 15, 1986, the USTR must submit its recommendations to the President.

Korean intellectual property rights 5/

On October 16, the President directed the USTR to initiate section 301 proceedings against what were termed unfair trade practices relating to Korea's intellectual property rights laws. The President's statement notes several aspects of Korean law that appear to deny effective protection for U.S. intellectual property. For example, the statement noted that Korea's patent law does not cover foodstuffs or chemical compounds and compositions, that protection for chemicals and pharmaceuticals is limited to process patents, and that works of U.S. authors are not protected under Korean copyright law. 6/ On November 4, the USTR initiated an investigation of Korea's lack of effective protection of intellectual property rights. 7/ The USTR held consultations with Korea in November and December. By November 1986, the USTR must submit recommendations to the President.

EC technical standards for fertilizers 8/

In a petition filed on August 17, 1984, the Fertilizer Institute alleged that a technical standard for water solubility of triple superphosphate adopted by the EC is inconsistent with the provisions of the GATT Standards

1/ USTR Docket No. 301-50.
2/ See 50 F.R. 37609, Sept. 16, 1985.
3/ USTR Docket No. 301-51.
4/ See 50 F.R. 37609, Sept. 16, 1985.
5/ USTR Docket No. 301-52.
6/ White House Press Release, Oct. 16, 1985.
7/ See 50 F.R. 45883, Nov. 4, 1985.
8/ USTR Docket No. 301-47.

Code. On October 1, 1984, the USTR initiated an investigation. Following preliminary consultations with the EC near the end of 1984, the USTR returned to the petitioner to collect further information on the case. In December 1984, consultations were held under the Standards Code. During 1985, the USTR is reported to have consulted with the petitioner on U.S. arguments in the case.

Cases resolved in 1985

EC subsidies on satellite launching services 1/

In a petition filed in May 1984, Transpace Carriers, Inc., alleged that the member governments of the European Space Agency (ESA)--Belgium, Denmark, France, Germany, Ireland, Italy, The Netherlands, Sweden, Spain, Switzerland, and the United Kingdom--and their space-related instrumentalities subsidize satellite launching services offered by Arianespace. Arianespace is a private company, incorporated in France, whose shareholders include the French national space agency, and aerospace companies and banks incorporated in ESA member countries. In July 1984, the USTR initiated the investigation and requested consultations with the members of the ESA. Consultations were held in November and December of 1984 and again in February and May 1985. In July 1985, the President made a determination that ESA's practices were not unreasonable and terminated the investigation. 2/

Argentine postal restrictions 3/

In a petition filed in September 1983, the Air Courier Conference of America alleged that Argentine regulations granting exclusive control over the international air transportation of time-sensitive commercial documents (i.e. express mail) to the Argentine postal system were unreasonable. Consultations with Argentina were held in March 1984. In November 1984, the President determined that Argentine practices were an unreasonable restriction on U.S. commerce. He directed the USTR to hold another consultation, as requested by Argentina, and to submit proposals for section 301 action within 30 days. By the end of 1984, Argentina had temporarily lifted the postal restrictions concerned. Early in 1985, the case was resolved when these restrictions were lifted permanently.

Japanese import restrictions on leather 4/

In a petition filed in August 1977, the Tanners Council of America alleged that Japan violated GATT article XI in imposing quantitative restrictions on imports of leather from the United States and alleged that Japanese tariffs were excessively high. The U.S. consultations with Japan under GATT article XXIII(1) in January 1979 resulted in an understanding that Japan would expand the quota on imported leather. In August 1980, the President directed the USTR to monitor implementation of the understanding. 5/

1/ USTR Docket No. 301-46

2/ See 50 F.R. 29631, July 22, 1985.

3/ USTR Docket No. 301-44.

4/ USTR Docket No. 301-13.

5/ See 45 F.R. 51171.

Since the terms of the understanding were not realized, the United States requested a GATT panel that was established in April 1983. The GATT Council first considered the panel report on this subject in March 1984. After Japan agreed to adoption of the report in May, it promised to take remedial measures. Japan initially proposed to replace the quota with a tariff increase implemented under GATT article XXVIII and to negotiate compensation under the terms of that article. Since the U.S. administration did not consider this solution satisfactory, the President announced, in September 1985, that retaliatory measures would be taken unless an acceptable resolution were reached by December 1. In December, the United States and Japan reached a compromise in which Japan will provide about \$236 million in compensation in the form of reduced or bound tariffs, and the United States will raise tariffs on about \$24 million in imports of Japanese leather and leather goods. 1/

Japanese import restrictions on nonrubber footwear 2/

The 1982 petition filed by Footwear Industries of America complained of Japanese import barriers affecting U.S. nonrubber footwear exports. The USTR consulted with Japan in January 1983, and in February 1984, initial GATT consultations were held. In April 1985, the USTR met with Japan in GATT article XXIII:1 consultations. In July 1985, the USTR proceeded under article XXIII:2 procedures and requested that the conclusions of the GATT panel on leather import restrictions (see above) be applied to the footwear case as well. On September 7, the President set a deadline of December 1, 1985, for resolution of both the leather and footwear cases. The compensatory and retaliatory measures agreed upon in December for the leather case also apply to leather footwear.

EC production subsidies on canned fruit and raisins 3/

In a petition filed in October 1981, the California Cling Peach Advisory Board alleged that the EC violated GATT article XVI in granting subsidies on member states' production of canned peaches, canned pears, and raisins. The petitioner claimed the subsidies, which caused EC sales to displace those of non-EC products in the EC, resulted in impairment of EC tariff concessions. Following unsuccessful consultations with the EC under GATT article XXIII(1), a GATT panel was set up to resolve the dispute. 4/ The panel circulated the report to the CP's in July of 1984. The panel report, finding that the introduction of production subsidies had nullified and impaired the benefits of EC tariff concessions, 5/ was considered at meetings of the GATT Council throughout 1985 but the EC could not agree to its adoption.

Consequently, the President set a December 1 deadline for resolving the case and directed the USTR to recommend retaliatory measures if this deadline

1/ Presidential Proclamation 5448 of Mar. 16, 1986 increased the rates of duty on certain articles from Japan, effective Apr. 1, 1986.

2/ USTR Docket No. 301-36.

3/ USTR Docket No. 301-26.

4/ For further information, see section the "Dispute Settlement" of chap. II.

5/ See 50 F.R. 47133, Nov. 14, 1985.

were not met. USTR requested comments on possible U.S. retaliation and scheduled a public hearing for November 22. 1/ In December, the EC agreed to eliminate the production subsidies for canned peaches and to reduce the production subsidies for canned pears. A resolution of the dispute regarding production subsidies for raisins was not required because the panel found that such subsidies did not interfere with trade.

Cases outstanding

EC export subsidies on wheat flour 2/

In a petition filed in November 1975, the Millers National Federation alleged that the EC violated GATT article XVI(3) in using export subsidies to gain more than its equitable share of world trade in wheat flour. GATT article XXII(1) consultations were held in 1977 and 1980, and technical discussions followed in 1981. The dispute settlement process under the GATT Code on Subsidies and Countervailing Duties began in September 1981. Conclusions of the Code panel charged with investigating the U.S. allegations were issued in early 1983. 3/ The panel report was considered several times by the Code Committee in 1983, but was not adopted. Consultations in the GATT Code to arrive at a resolution to this case continued throughout 1984. The Code Committee remains unable to reach consensus on adopting the report of the panel. 4/

EC citrus preferences 5/

In a petition filed on November 1976, the Florida Citrus Commission alleged that EC preferential import duties on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries adversely affected U.S. citrus producers. Following the 1979 Tokyo Round in which duty reduction was obtained only on fresh grapefruit, GATT article XXII:1 consultations were held. Informal discussions, formal consultations under GATT article XXIII(1), and GATT Council conciliation efforts all failed to produce a mutually satisfactory resolution. The GATT Council established a panel in November 1982, but disagreement on panel formation prevented the panel from meeting until near the end of 1983. The panel report, completed in 1984, reportedly did not specifically find that EC preferences violate GATT rules, but agreed that U.S. exports had been adversely affected. 6/ The report of the panel was considered by the GATT council in March and April 1985. In May, the USTR held a public hearing on proposed recommendations to the President. In June, after

1/ Ibid.

2/ USTR Docket No. 301-6.

3/ The panel report has not been officially released to the public. However, numerous press reports state that the panel declined to determine whether the EC export subsidies violated specific provisions of the agreement.

4/ See the section in ch. II entitled "Agreement on Subsidies and Countervailing Duties" for further information.

5/ USTR Docket No. 301-11.

6/ For further information, see the section "Dispute Settlement" of ch. II.

receiving the USTR recommendations, the President determined that the EC practices are unreasonable and discriminatory and constitute a burden on U.S. commerce. 1/

In June, the President announced retaliatory measures, to take effect in July, against imports of pasta from the EC. 2/ In response, the EC raised duties on lemons and walnuts imported from the United States. In July, the two countries suspended their duty increases to resume negotiations. The USTR announced that, by October 31, the EC would work to reduce the pasta export subsidies by 45 percent and to increase U.S. access to its citrus market. By October 31, when these goals had not been obtained, the United States reimposed the retaliatory duties on imports of EC pasta effective November 1. As expected, the EC resumed its counterretaliatory duties. On November 18 and 19, further inconclusive consultations were held.

EC and Brazilian export subsidies on poultry 3/

In a petition filed in September 1981, the National Broiler Council alleged that the EC violated GATT article XVI and the GATT Code on Subsidies and Countervailing Duties in using export subsidies that displace U.S. poultry exports to third-country markets. Although the EC subsidies were the original target of the complaint, the President later directed that Brazilian subsidies also be examined. 4/ The United States held consultations with the EC under the Code in February 1982. In June 1982, the United States submitted requests for information (under Code provisions) to both the EC and Brazil. After frequent consultations yielded no solution, the Code Committee began conciliation in November 1983. Conciliation efforts were repeated in 1984, but, due to their lack of success, the United States continued to hold consultations with the parties. The USTR described conciliations efforts as pending and no further action on this case was reported in 1985.

EC export subsidies on pasta 5/

In a petition filed in October 1981, the National Pasta Association alleged that the EC violated GATT article XVI and the GATT Code on Subsidies and Countervailing Duties in using export subsidies on a nonprimary product (pasta) that displaced U.S.-produced pasta in U.S. market. The United States requested a panel under the Code in April 1982. After several meetings, the panel divided 3 to 1 in favor of a report supporting the U.S. allegations and submitted it to the Code Committee in May 1984. In spite of considering the report several times, the Committee could not agree to adopt the report. Although the United States took no further action within the Code, it did react indirectly to the pasta dispute in choosing pasta imports for retaliatory duties in the dispute over EC citrus preferences (see above).

1/ See 50 F.R. 25685, June 21, 1985.

2/ See 50 F.R. 26143, June 25, 1985. A 40 percent ad valorem duty on pasta products not containing egg and a 25 percent ad valorem duty of pasta products containing egg. These rates of duty represent a significant increase over the normal rate of duty (0.12¢ per pound for TSUS 182.35 and 0.10¢ per pound for TSUS 182.36) with an ad valorem equivalent of less than 1 percent.

3/ USTR Docket No. 301-23.

4/ See 47 F.R. 30699.

5/ USTR Docket No. 301-25.

Canadian tax and customs measures on front-end loaders 1/

In a petition filed in July 1982, J.I. Case Co. alleged that Canada's regulations allowing remission of customs duties and sales tax on certain front-end loaders are unreasonable and discriminatory, burden and restrict U.S. commerce, and violate the GATT and the GATT Code on Subsidies and Countervailing Duties. In September 1982, the petition was amended and refiled. The investigation was initiated in October 1982 and public hearings were held. Informal consultations with Canada under GATT article XXII were held December 21, 1982. No further action on this case was reported in 1985.

Brazilian import restrictions on nonrubber footwear 2/

In a petition filed in October 1982, the Footwear Industries of America, Inc., alleged that Brazil's import restrictions on nonrubber footwear, which deny U.S. access to the Brazilian market, are inconsistent with the GATT and are unreasonable and/or discriminatory and a burden on U.S. commerce. Consultations were held under GATT article XXII in April 1983. During 1985, negotiations continued to encourage Brazil to liberalize market access for U.S. footwear exports. In November, Brazil offered to liberalize its import surcharge and reduce tariffs.

Barriers to U.S. exports of soybean oil and meal

In a petition filed April 6, 1983, the National Soybean Processors Association alleged that the Governments of Argentina, Brazil, Canada, Malaysia, Portugal, and Spain engage in unfair practices, including export and production subsidies and quantitative restrictions, that restrict U.S. exports of soybean oil and meal. In May 1983, after review of the petition, the USTR initiated investigations only against Brazil (Docket No. 301-40), Portugal (Docket No. 301-41), and Spain (Docket No. 301-42).

Consultations were first held with Brazil in November 1983 and reportedly continued into 1985 to examine the Brazilian claim that it has eliminated subsidy practices concerning these products. Consultations with Portugal and Spain, under GATT article XXII, were held in late 1983. In June 1984, Portugal began phasing out the practice of purchasing foreign soy products through a state trading company and to allow private purchasers to import directly. The USTR is monitoring Portuguese progress on this action. No action was reported on the Spanish case in 1985.

OTHER IMPORT ADMINISTRATION LAWS**Arrangement Regarding International Trade in Textiles**

The Arrangement Regarding International Trade in Textiles, generally known as the MFA, controls over 75 percent of U.S. imports of textiles and

1/ USTR Docket No. 301-34.

2/ USTR Docket No. 301-35. The petitioner originally complained against alleged restrictions taken by France, Italy, the United Kingdom, Spain, Brazil, Japan, Taiwan, and Korea. Once instituted, the petition was narrowed to investigations of the practices of Brazil, Japan, Korea, and Taiwan. The Korea and Taiwan cases are largely resolved.

apparel. Originally put into effect in 1974, the MFA has been extended twice. The current arrangement, the MFA III, will expire on July 31, 1986. In July 1985, negotiations for a new textile trade agreement were officially launched by the Textiles Committee of the GATT. 1/

Forty-three parties, including the EC as a single signatory, participate in the MFA III. One country--Panama--acceded to the arrangement in 1985.

The MFA was designed to promote the expansion and liberalization of world trade in textiles and at the same time avoid disruption of markets and production lines. Under the auspices of the GATT, it acts as an umbrella agreement by providing the legal framework under which bilateral accords are made. As of yearend 1985, the United States had bilateral agreements limiting imports of textiles with 41 nations or territories. 2/ Thirty-three of these accords were negotiated under the provisions of the MFA. Seven bilateral agreements were negotiated with nonparticipants in the MFA--Barbados, Costa Rica, Guatemala, Taiwan, Mauritius, Nepal, and Spain--under the authority of section 204 of the Agricultural Act of 1956. Limitations on exports from Guam were established under the authority contained in Executive Order No. 11651 of March 3, 1972. These bilateral agreements enable the United States to set aggregate limits on textile exports to the United States from a particular country and/or to set limits on exports of specific product categories or groups of categories. 3/ U.S. bilateral agreements generally cover almost all imports of textile products made of cotton, wool, and manmade fibers. Those agreements that were in effect in 1985 are listed in table 21.

Agricultural Adjustment Act

The U.S. International Trade Commission, at the direction of the President, conducts investigations under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) to determine the effects of imports on price-support or other programs of the U.S. Department of Agriculture (USDA). The President, following receipt of the Commission's report, may impose quotas or fees, not to exceed 50 percent of the imported product's value, to protect the USDA program in question. In instances in which the Secretary of Agriculture determines that an emergency exists, the President may take action before the Commission's investigation and report. Such emergency action continues in effect, pending the Commission's report and recommendation.

The Commission, in 1985, completed one section 22 investigation involving tobacco, and instituted two investigations with respect to sugar. In investigation No. 22-47, on flue-, fire-, and dark air-cured tobacco and

1/ See ch. II section on the GATT Textiles Committee for a discussion of MFA negotiations.

2/ Jamaica is not included, since it is a party to a bilateral, with the United States providing only for consultations.

3/ U.S. Department of Commerce, the Office of Textiles, has the responsibility for monitoring the agreements. In this capacity, it acts on behalf of the interagency Committee for the Implementation of Textile Agreements (CITA).

Table 21.--Status of quantitative limitations on U.S. imports of textiles under the MFA as of Dec. 31, 1985

Country	Current limitation on		Termination of current agreement
	import trade		
	12-month period	Quantity	
	starting date 1/	restrained	
		Million	
		square yard	
		equivalents	
Bangladesh-----	1/29/85	30.3	1/28/87
Barbados-----	3/29/85	2.6	3/28/86
Brazil-----	4/1/85	240.0	<u>2/</u> 3/31/88
China-----	1/1/85	1,027.2	12/31/87
Colombia-----	7/1/85	146.4	12/31/87
Costa Rica-----	1/1/85	10.6	12/31/87
Dominican Republic-----	6/1/85	44.8	5/31/88
Egypt-----	1/1/85	57.7	12/31/87
Guam-----	1/11/85	.2	10/31/86
Guatemala-----	1/1/85	5.1	12/31/88
Haiti-----	1/1/85	70.2	12/31/88
Hong Kong-----	1/1/85	990.0	12/31/87
Hungary-----	1/1/85	4.5	12/31/86
India-----	1/1/85	144.0	12/31/87
Indonesia-----	7/1/85	288.0	6/30/88
Israel-----	9/1/85	<u>3/</u>	3/31/86
Japan-----	1/1/85	392.5	12/31/85
Republic of Korea-----	1/1/85	1,046.5	12/31/87
Macau-----	1/1/85	61.6	<u>2/</u> 12/31/88
Malaysia-----	1/1/85	88.2	12/31/89
Maldives-----	9/29/84	.8	9/28/88
Mauritius-----	10/1/84	2.5	9/30/85
Mexico-----	1/1/85	272.8	12/31/87
Nepal-----	9/29/85	1.3	9/28/86
Pacific Island Trust-----	11/1/85	<u>4/</u>	10/31/86
Pakistan-----	1/1/85	247.4	<u>2/</u> 12/31/86
Panama-----	12/1/84	.6	11/30/85
Peru-----	5/1/85	116.5	4/30/89
Philippines-----	1/1/85	328.7	<u>2/</u> 12/31/86
Poland-----	1/1/85	69.2	<u>2/</u> 12/31/89
Portugal <u>5/</u> -----	10/31/85	27.0	10/30/86
	6/26/85	5.2	6/25/86
Romania <u>6/</u> -----	1/1/85	66.3	12/31/89
	1/1/85	48.6	12/31/87
Singapore-----	1/1/85	354.6	<u>2/</u> 12/31/87
South Africa-----	9/1/85	11.2	8/31/86
Spain-----	3/1/85	3.6	2/28/86
Sri Lanka-----	6/1/85	99.1	5/31/88
Taiwan-----	1/1/85	2,050.6	12/31/87
Thailand-----	1/1/85	167.4	12/31/87
Turkey-----	1/1/85	47.1	12/31/87

See footnotes at end of table.

Table 21.--Status of quantitative limitations on U.S. imports of textiles under the MFA as of Dec. 31, 1985--Continued

Country	Current limitation on		Termination of current agreement
	import trade		
	12-month period starting date 1/	Quantity restrained	
Uruguay-----	7/	6.3	6/30/87
Yugoslavia-----	1/1/85	1.5	12/31/86

1/ The starting date for the 12-month restraint period may vary according to the product category.

2/ Agreements with 6 countries--Brazil, Macau, Pakistan, the Philippines, Poland, and Singapore--have overall aggregate limits that are shown in this table. For all other countries, the figure shown represents the sum of limits established on specified groups or categories.

3/ Restraint limit is 750,000 numbers of cotton sheets.

4/ Restraint limit is 73,500 dozen sweaters of cotton, wool, or manmade fibers.

5/ 2 separate bilateral restraint agreements are concluded with Portugal, the first covering certain cotton fabric, cotton pillowcases, and cotton sheets and the second covering certain cotton and wool apparel.

6/ 2 separate bilateral restraint agreements are concluded with Romania, the first covering wool and manmade-fiber categories, and the second covering cotton categories.

7/ The starting date for the 12-month restraint period varies significantly between each product category under the U.S.-Uruguay bilateral textile agreement.

Source: U.S. Department of Commerce.

burley tobacco in unmanufactured form, 1/ the Commission determined on February 11, 1985, that the above-mentioned products were not being imported under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the USDA's price-support and production-adjustment programs for tobacco. Consequently, the President decided to take no further action on the imports. 2/

The President, in March 1985, directed the Commission to institute investigation No. 22-48 to determine whether certain articles containing sugar derived from sugarcane or sugar beets, not within the scope of other section 22 restrictions, 3/ were being, or were practically certain to be, imported under such conditions and in such quantities as to materially interfere with

1/ Provided for in items 170.20, 170.25, 170.32, 170.35, 170.40, 170.45, 170.50, 170.60, and 170.80 of the TSUS.

2/ A detailed description of the Commission's findings and recommendations is contained in Certain Tobacco: Report to the President on Investigation No. 22-47 Under Section 22 of the Agricultural Adjustment Act, as amended, USITC Publication 1644, Feb. 1985.

3/ Provided for in items 155.35, 156.45, 156.47, 157.10, 182.90, 182.92, 183.01, 183.05 and 184.7070 of the TSUS.

the USDA's price-support program for sugarcane and sugar beets. Concurrently, the President took emergency action to impose quotas on some of the articles. 1/ On May 17, 1985, the President took additional emergency action to modify the quotas. 2/

On October 1, 1985, the Commission unanimously determined that imports of certain sugar/dextrose blends and certain beverage mixes containing over 10 percent sugar included in the emergency quotas established through Presidential Proclamation No. 5294 were being or were practically certain to be imported in such quantities as to materially interfere with USDA price-support programs. The Commission, however, was equally divided on other sugar-containing articles included within the scope of this investigation; the articles included molasses, sweetened cocoa powder, confectioners' coatings, certain animal feeds, and candies and confections. The Commission recommended that an absolute quota of 50,000 short tons for certain sugar/dextrose blends and beverage mixes provided for in tariff item 183.05 be established.

The Commission, on March 29, 1985, in response to a second directive from the President, instituted investigation No. 22-49 to determine whether import fees for raw sugar 3/ may be terminated and whether import fees for refined and liquid sugar 4/ may be modified without resulting in sugar being imported into the United States under such conditions and in such quantities as to render, or tend to render ineffective, or materially interfere with, the USDA's price-support program for sugarcane and sugar beets or reduce substantially the amount of any product processed in the United States from sugar. Before the Commission instituted the investigation, the President issued emergency Proclamation No. 5313 on March 29, 1985, suspending import fees for raw sugar and modifying import fees for refined and liquid sugar. The Commission, on September 3, 1985, recommended that the President maintain the revised fee system set forth in Proclamation No. 5313.

At the close of 1985, the President, in both cases, had not acted on the Commission's recommendations, therefore, the findings remained confidential, and the President's emergency actions continued in effect.

Quantitative limits imposed in previous years under the authority of section 22 continued in effect throughout 1985 on cotton of certain specified staple lengths, cotton waste, and certain cotton products; peanuts; certain dairy products; and sugar, certain sugar syrups, and sugar-containing articles.

Generalized System of Preferences

The U.S. Generalized System of Preferences (GSP) is a temporary tariff preferences scheme designed to offer the products of developing countries a price advantage over other imports in U.S. markets. Nonreciprocal duty-free treatment for designated articles is intended to help beneficiary developing countries 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 USTR.

1/ For details, see Presidential Proclamation No. 5294, Jan. 28, 1985.

2/ See Presidential Proclamation No. 5340, May 17, 1985.

3/ Provided for in item 956.15 of the Appendix to the TSUS.

4/ Provided for in items 956.05 and 957.15 of the Appendix to the TSUS.

The original GSP scheme was scheduled to expire on January 3, 1985. Effective January 1, 1985, GSP was extended in a revised form until July 4, 1993. The new GSP scheme, which is the result of amendments by the Trade and Tariff Act of 1984, provides for a general review of the program by January 1987 which could result in significant modifications in the articles eligible for GSP duty-free treatment. Determinations based on this ongoing review will take effect on July 1, 1987.

The results of the 1984 annual review under the original GSP of the United States became effective on July 1, 1985. 1/ In the 1984 product review, four products, representing imports of \$41 million in 1984, were added to the list of GSP-eligible articles, compared with an addition of \$7 million (based on trade in 1983) in the previous review. Only one article (trifluralin, a chemical) was removed from the program in response to a petition filed by a U.S. producer.

Under the statutory competitive-need provision, products accounting for \$13.8 billion in 1984 imports were removed from the GSP list, 2/ making them subject to MFN rates of duty effective July 1, 1985. Removals based on competitiveness amounted to \$10.7 billion in the previous review (based on trade in 1983).

Under his discretionary authority the President "graduated" 3/ (i.e. did not redesignate) \$1.8 billion in 1984 imports from duty-free treatment. This compares with \$1.2 billion worth of graduations in the previous review. The value of the articles that were denied redesignation accounts for 88 percent of all 1984 shipments that were eligible for redesignation. Meanwhile, the

1/ In operating the GSP program, the interagency Trade Policy Staff Committee, chaired by a representative of the USTR, conducts annual reviews in which petitions are received from foreign governments, U.S. producers, and importers for modification in the list of items eligible for GSP duty-free treatment. The review also includes application of the competitive need criteria, which can result in products of certain beneficiary countries being excluded from or reinstated to eligibility for GSP treatment.

2/ The so-called competitive-need provisions of the GSP law establish dollar limits and import-share limits on the amount of any item that can be imported in a GSP eligible item in a year without triggering automatic loss of GSP benefits in the following years. For the purposes of this review, the absolute limit was \$63.8 million, and the share-of-imports limit was 50 percent of the appraised value of total imports in an item in 1984. Each limit was applicable to each GSP-eligible article from a beneficiary country.

Based on the ongoing general review of the new GSP program, the competitive-need limits will be lowered for products of those beneficiary countries that have demonstrated a sufficient degree of competitiveness. The President will use the advice from the U.S. International Trade Commission in making his product-specific determinations. For this purpose, at the request of the USTR, the Commission instituted investigation No. 332-218 during 1985. Meanwhile, the President will also base his decisions concerning GSP benefits on a number of factors that are non-product-specific, including the level of the beneficiary countries' economic development and the openness of their markets to U.S. goods, services, and investment.

3/ Graduation is recognition that a beneficiary country does not currently need GSP treatment for particular products in order to be competitive.

President redesignated items valued at \$246 million that were previously excluded from GSP duty-free treatment or 12 percent of the total value eligible for redesignation.

The value of products of advanced beneficiary countries (ABC's) removed from GSP eligibility in the latest review totaled \$163 million (based on imports in 1984). These new graduations were in response to petitions from U.S. producers and affected the products of Taiwan, South Korea, Israel, and Mexico, in that order.

Exclusions from eligibility under both statutory and discretionary provisions totaled \$15.6 billion (based on 1984 trade). For the second consecutive year in the 10-year history of the GSP, the value of these exclusions has exceeded the value of imports actually receiving GSP treatment (\$12.3 billion in 1984).

In 1985, 140 countries and territories were eligible for GSP treatment on about 3,000 articles, with manufactures and semimanufactures accounting for a large share. The \$13.3 billion worth of products the United States imported in 1985 free of duty under this system were approximately the same as in 1984 (table 22). Duty-free imports under the GSP accounted for 3.9 percent of overall U.S. imports and 11.8 percent of GSP-eligible imports during the year.

Seven ABC's supplied over 75 percent of overall U.S. imports that received duty-free treatment under the GSP in 1984. These leading GSP beneficiaries were Taiwan, Korea, Brazil, Mexico, Hong Kong, Israel, and Singapore. Overall duty-free imports from these ABC's under the GSP amounted to \$10 billion in 1985 (table 22). GSP imports from middle-income beneficiaries totaled \$3.2 billion, accounting for over 24 percent of the total. Low-income beneficiaries were responsible for 0.5 percent of all GSP imports.

Table 23 shows duty-free imports under GSP separately for the seven ABC's, and the ratio of such imports to the GSP-eligible and total U.S. imports from these countries in 1984. These leading beneficiaries of the GSP program were the same in 1985 as in 1984. Taiwan was number one in terms of its GSP-import value. Duty-free imports from Taiwan under GSP amounted to \$3.2 billion in 1985 and were responsible for close to one-fourth of all U.S. imports under the program. The highest share of overall imports from any country that entered the United States free of duty under the GSP was from Israel (35.3 percent). By contrast, only 6.6 percent of overall U.S. imports from Mexico entered under GSP, since petroleum, the dominant article in this trade flow, is not GSP-eligible.

Based on the five-digit TSUS classification system, sugar, continued to account in 1985 for the largest value among all GSP-eligible articles entering the United States duty free (table A-9). Ninety-one percent of overall U.S. sugar imports was GSP-eligible during the year and 46 percent of eligible imports entered free of duty. Table A-10 lists GSP-eligible imports by two-digit divisions of the SITC system, showing also the percentage of duty-free imports in total U.S. imports for the articles in question. Table A-11 gives the same information by divisions of the Standard Industrial Classification (SIC) system.

Table 22.--U.S. imports 1/ for consumption 2/ from GSP beneficiary countries
by development status, 3/ 1985

Item	Advanced GSP beneficiaries:	Middle - income GSP beneficiaries:	Low- income GSP beneficiaries:	Total, all beneficiary countries	Total, all countries
Total imports-----1000 dollars--	67,424,463	39,140,580	983,933	107,548,975	341,843,890
GSP-eligible products-----do-----	27,548,052	4,880,759	235,653	32,664,464	113,056,465
Duty-free imports under GSP---do---do---	10,023,332	3,226,284	73,249	13,322,865	13,322,865
Competitive-need exclusions---do---do---	14,463,440	789,232	17,723	15,270,395	15,270,395
Other-----do-----do-----	3,061,281	865,243	144,680	4,071,204	84,463,205
Noneligible product imports---do---do---	39,876,411	34,259,820	748,280	74,884,511	228,787,425
Ratio of--					
GSP-eligible imports to total imports-----percent-----	40.9	12.5	24.0	30.4	33.1
GSP duty-free imports to GSP eligible imports-----do-----	36.4	66.1	31.1	40.8	11.8
Competitive-need exclusions to GSP-eligible imports-----do-----	52.5	16.2	7.5	46.7	13.5
Other imports to GSP-eligible imports-----do-----	11.1	17.7	61.4	12.5	74.7
GSP duty-free to total imports-----do-----	14.9	8.2	7.4	12.4	3.9
Country group share of total GSP duty-free imports-----do-----	75.2	24.2	0.5	100.0	100.0
Country group share of total competitive-need exclusions---do---do---	94.7	5.2	0.1	100.0	100.0

1/ Customs value basis.

2/ In this and other tables in this section, U.S. import data exclude entries into the U.S. Virgin Islands, which totaled \$1.7 billion in 1985. This is consistent with the concept of U.S. imports used in the GSP program for the competitive-need determinations.

3/ For the purposes of this table, advanced GSP beneficiaries include Taiwan, Korea, Brazil, Mexico, Hong Kong, Israel, and Singapore. The low-income GSP beneficiary category includes the 26 countries designated as least developed developing countries in headnote 3(d) of the Tariff Schedules of the United States. The middle-income category includes the other 107 countries eligible.

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

Table 23.--U.S. imports under the GSP from advanced beneficiary countries, (ABC's) 1985

Rank	Source	Total value	U.S. imports of GSP eligible articles	Ratio of eligible to total	GSP imports	Share of GSP to eligible	Share of GSP to total	Country share of total
		Million dollars	Million dollars	Percent	Million dollars	Percent	Percent	Percent
1	Taiwan	16,353	8,991	55.0	3,221	35.8	19.7	24.2
2	Korea	9,986	3,735	37.4	1,655	44.3	16.6	12.4
3	Brazil	7,542	2,049	27.2	1,278	62.4	16.9	9.6
4	Mexico	18,807	6,023	32.0	1,239	20.6	6.6	9.3
5	Hong Kong	8,376	3,726	44.5	1,208	32.4	14.4	9.1
6	Israel	2,120	937	44.2	748	79.8	35.3	5.6
7	Singapore	4,242	2,088	49.2	675	32.3	15.9	5.1
	Top 7	67,424	27,548	40.9	10,023	36.4	14.9	75.2
	World	341,844	32,664	9.6	13,323	40.8	3.9	100.0

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

Caribbean Basin Economic Recovery Act (CBERA)

In 1985, the CBERA, 1/ which implemented the Caribbean Basin Initiative (CBI), had been in force for the second year. The CBERA was signed into law in August 1983 and became effective on January 1, 1984. A 12-year program, the CBI is designed to foster economic development in the Caribbean Basin by providing a combination of trade preferences, aid, and investment incentives to eligible countries. 2/

The centerpiece of the CBERA is a one-way trade preference program that allows duty-free access of eligible products to the U.S. market, provided 35 percent of their value is added in a Caribbean Basin country participating in the program. CBERA preferences constitute one of three major duty-free or duty-reduction programs available to Caribbean Basin countries from the United States. The other two, which have been in effect for years, are the GSP 3/ and duty provisions under TSUS items 806.30 and 807.00. Item 807.00 provides an exclusion from U.S. duties for the value of U.S. components in imported products that have been assembled in a foreign country and then returned to the United States. Item 806.30 provides similar treatment for certain metal products exported to a foreign country for processing and then returned to the United States. Table A-12 shows imports from the Caribbean region in 1985 separately under these programs.

Out of 27 potential beneficiaries, the President of the United States initially designated 20 countries for CBERA trade benefits. Effective March 14, 1985, the President also designated the Bahamas, which became the 21st beneficiary country. 4/ The list of all designated and nondesignated Caribbean countries and U.S. imports from these countries during 1983-85 is shown in table 24. 5/

In 1985, total U.S. imports from the Caribbean Basin amounted to \$6.8 billion. This was down 23 percent from such imports in 1984, and a second consecutive annual decline. The downtrend reflects to a large degree the shrinking value of Caribbean crude oil and refined oil products shipments to the United States. Imports of oil and oil products, which in 1984 still accounted for nearly one-half of all U.S. imports from the region, were responsible for only one-third in 1985. Oil and oil products are not eligible for duty-free treatment under the CBI (or any other preferential program). Notably, U.S. imports from the Caribbean in 1985 have dropped, even discounting the crude and refined oil products.

1/ Public Law 98-67, title II.

2/ For a discussion of the CBI and its implications, see the section entitled "Caribbean Basin Initiative," Operation of the Trade Agreements Program, 35th Report, 1983, p. 25.

3/ For a discussion of the GSP, see the previous section in this chapter.

4/ On April 11, 1986, Aruba, which became independent of the Netherlands Antilles on January 1, 1986, was separately designated as a CBERA beneficiary country. The designation is retroactive to Jan. 1, 1986.

5/ For the criteria the President must consider for designating a country for CBI benefits, see Operation of the Trade Agreements Program, 35th Report, 1983, pp. 27-28.

Table 24.--U.S. imports for consumption from the Caribbean Basin, by source, designated or nondesignated for CBERA benefits, 1983-85

(Customs value, in thousands of dollars)			
Source	1983	1984	1985
Designated countries:			
Caricom except Guyana			
Antigua-----	8,809	7,898	24,695
Bahamas-----	1,676,394	1,154,282	626,084
Barbados-----	202,047	252,598	202,194
Belize-----	27,315	42,843	46,951
Dominica-----	242	86	14,161
Grenada-----	211	766	1,309
Jamaica-----	262,360	396,949	267,016
Montserrat-----	924	989	3,620
St. Christopher-Nevis- Anguilla---	18,758	23,135	16,258
St. Lucia-----	4,700	7,397	13,796
St. Vincent and Grenadines---	4,276	2,958	9,643
Trinidad and Tobago-----	1,317,534	1,360,106	1,255,498
Subtotal-----	1,847,175	2,095,724	2,481,225
Central American except Nicaragua:			
Costa Rica-----	386,520	468,633	489,294
El Salvador-----	358,898	381,391	395,658
Guatemala-----	374,692	446,267	399,617
Honduras-----	364,742	393,769	370,219
Panama-----	336,086	311,687	393,605
Subtotal-----	1,820,937	2,001,747	2,048,393
Other designated:			
British Virgin Islands-----	880	1,335	11,902
Dominican Republic-----	806,520	994,427	965,847
Haiti-----	337,483	377,413	386,697
Netherlands Antilles-----	2,274,510	2,024,367	793,162
Subtotal-----	3,419,394	3,397,542	2,157,608
Total designated-----	7,087,506	7,494,954	6,687,226
Nondesignated countries:			
Cayman Islands-----	8,607	6,212	10,950
Guyana-----	67,332	74,417	46,010
Nicaragua-----	99,013	58,064	41,003
Suriname-----	63,147	104,636	60,091
Turks and Caicos Islands-----	3,965	3,935	4,649
Total nondesignated-----	1,918,459	1,401,545	162,703
Grand total, Caribbean Basin-----	9,005,965	8,896,499	6,849,929

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

In addition to oil, products ineligible for CBERA preferences include textiles and apparel, footwear, luggage, handbags, leather wearing apparel, and canned tuna. The imports of these excluded product groups from the Caribbean Basin in 1984 are shown in table A-13.

Table A-14 shows the leading imports from the Caribbean Basin. Principal nonoil products included coffee, fresh bananas, sugar, shellfish, bauxite, beef and veal, certain chemicals, and miscellaneous electronic and other manufactured products.

Duty-free imports entering under CBERA preferences (shown in table 25) totaled \$498 million in 1985 or 7.3 percent of overall U.S. imports from the region. This compares with \$578 million or 6.5 percent in 1984. The decline of sugar imports from beneficiary countries, subject to U.S. sugar quotas, depressed U.S. imports under CBERA in the first 2 years of the program.

Table 25 shows the principal imports from the Caribbean that entered the United States free of duty under the CBERA. 1/ Although imports under CBERA are dominated by agricultural products (beef, sugar, fruit juices, cigars, and rum), they also include industrial products such as chemicals, electrical articles, and toys.

Since the CBI was first proposed in February 1982, the United States has steadily increased economic assistance to the region. U.S. aid focuses on improving the business climate within the area, leading to increases in private investment and export-led growth. Preliminary data collected by the Commerce Department indicate a substantial new export-oriented flow of investments to the Caribbean Basin since January 1984. 2/ The CBERA program also contains special incentives to increase the area's revenues from tourism, allowing U.S. firms to deduct from their taxes convention expenses incurred in CBERA beneficiary countries.

Meat Import Act of 1979

The Meat Import Act of 1979 requires the President to impose quotas on imports of meat if the USDA estimates that annual imports of meat will equal or exceed a specified level. This level is based on U.S. production of meat. Included in the formula is a "counter-cyclical factor" that increases the maximum level of imports if U.S. domestic per capita supplies of meat are low and decreases the allowable level of imports if the domestic supply of meat is high. The USDA under the act monitors imports and U.S. production of certain meats. U.S. imports of certain meats, mainly fresh, chilled, or frozen beef, are subject to quantitative limitations imposed under authority of the act and to voluntary restraint agreements (VRA's) negotiated under authority of the Agricultural Act of 1956.

The USDA, in December 1984, estimated that imports of quota meat in 1985 would amount to 1,215 million pounds, approximately 104 million pounds below the "trigger" level of 1,319 million pounds mandating imposition of

1/ Sugar and beef also appear on the comprehensive list of leading import items from the area. See table A-12.

2/ Business America, July 22, 1985, p. 4.

Table 25.—Leading items in U.S. imports for consumption from CBERA countries by descending value of duty-free imports, 1985

TSUS item no.	Item	(In thousands of dollars)				Leading source
		Total U.S. imports for consumption from CBERA countries	Duty-free under CBERA	Share of CBERA duty-free to total CBERA		
106.10	Beef and veal, fresh, chilled	105,926	99,328	93.8	Costa Rica	
155.20	Sugars, sirups, and molasses	262,994	97,841	37.2	Dominican Republic	
685.90	Electrical switches	66,194	23,113	34.9	Haiti	
170.70	Cigars each valued 23 cents or more	33,564	19,115	57.0	Dominican Republic	
427.88	Ethyl alcohol for non-beverage	19,510	13,146	67.4	Jamaica	
685.80	Electrical capacitors	27,748	10,818	38.9	El Salvador	
148.96	Pineapples, fresh, in packages	10,550	9,947	94.3	Honduras	
165.29	Fruit juices, not mixed or orange	9,601	9,160	95.4	Belize	
169.14	Rum (including cane paraguays)	8,357	7,794	93.3	Jamaica	
136.00	Dasheens, fresh, chilled, or frozen	8,112	7,232	89.2	Dominican Republic	
687.74	Monolithic integrated circuits	170,020	6,956	4.1	El Salvador	
170.35	Cigarette leaf, not mixed or non-	8,142	6,775	83.2	Honduras	
686.10	Resistors, fixed	18,220	6,480	35.6	Barbados	
740.15	Jewelry etc and parts, of	7,449	5,838	78.4	Dominican Republic	
607.17	Wire rods of iron or steel, ns	13,205	5,486	41.5	Trinidad & Tobago	
170.32	Filler tobacco leaf, not stemmed	10,282	5,129	49.9	Guatemala	
432.10	Chemical mixtures, nspf, whole	6,370	5,104	80.1	Jamaica	
688.42	Electric synchros and transduc	7,331	5,059	69.0	Barbados	
427.97	Methyl alcohol not for production	19,145	4,904	25.6	Trinidad & Tobago	
740.70	Chains of precious metal	31,081	4,546	14.6	Dominican Republic	
	Total, above items	843,801	353,771	41.9		
	Total, all items from CBERA countries	6,687,226	497,642	7.3		

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

quantitative limitations. Actual imports of meat subject to the act totaled 1,312 million pounds in 1985. This figure was equivalent to 99.5 percent of the trigger level but approximately 97 million pounds above the USDA's original estimate. No quotas were imposed or VRA's negotiated on the covered categories of meats during 1985. The USDA on December 31, 1985, estimated that, in the absence of restraint, 1986 meat imports subject to the law would total 1,300 million pounds, 140 million pounds less than the 1986 trigger level of 1,440 million pounds.

National Security Import Restrictions

In 1985, the Department of Commerce through its Office of Industrial Resource Administration, convened an interdisciplinary working group to prepare a supplementary report on the effects of imports of machine tools on the national security of the United States. The report is the successor to the investigation on metal-cutting and -forming machine tools completed the previous year. 1/ The working group at the close of 1985 had not completed its supplementary investigation and both the results of the Department's initial report submitted to the President on February 27, 1984, and the group's current deliberations remained confidential.

The embargo on imports of crude oil originating in the Libyan Arab Jamahiriya imposed on December 22, 1983, through Presidential Proclamation No. 5141 remained in effect throughout 1985. 2/ Libyan policies and actions aided by proceeds from the exportation of oil to the United States were declared in 1982 to be adverse to the national security of the United States.

1/ Sec. 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862) requires the Secretary of Commerce, upon request or upon his own motion, to initiate investigations to determine the effects of imports of an article on the national security. If the Secretary finds the article is being imported in such quantities or under such circumstances as to threaten to impair the national security, the Secretary must advise the President. Unless the President reverses this finding, the President must take whatever action for any duration he considers necessary to control the imports of the article and its derivatives, thereby, precluding any impairment to U.S. national security from imports.

2/ Sec. 232 authorizes the President to impose restrictions on imports that threaten to impair the national security. This authority traditionally has been used by the President to impose quotas and fees on imports of petroleum and petroleum products.

APPENDIX A
STATISTICAL TABLES

Table A-1.--Antidumping actions reported by signatories to the GATT Committee on Subsidies and Antidumping practices, 1985

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Date and final outcome
Australia	Belgium	Tufted nylon carpet	1-11-85	1-5-85	11-27-85 - No dumping.
	Brazil	Phthalic anhydride	10-31-85	1-5-85	9-18-85 - Definitive duty.
	Canada	Electric motors ac 3-phase	2-13-85	8-22-85	
	China	Fluorescent lamps	12-19-83	12-11-84	9-19-85 - Definitive duty.
	China	Candles	5-28-84	3-27-85	3-27-85 - Definitive duty.
	China	Electric motors ac 3-phase	2-13-85	8-22-85	
	Czechoslovakia	do	do	do	
	Denmark	Canned ham	4-12-85		
	E. Germany	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.
	E. Germany	Electric motors ac 3-phase	2-13-85	8-22-85	8-22-85 - Definitive duty.
	France	Air circuit breakers	6-18-85	11-5-85	
	France	Replacement spark plugs	12-12-85		
	Finland	P.V.C. general purpose homopolymer	9-3-85	10-24-85	
	Hungary	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.
	Ireland	Canned ham	4-12-85	9-20-85	9-20-85 - Price undertaking.
	Israel	Phthalic anhydride	10-31-84	1-5-85	9-18-85 - Definitive duty.
	Italy	Air circuit breakers	7-25-85		
	Italy	Dextrose monohydrate	9-28-84	3-29-85	10-30-85 - Definitive duty.
	Italy	Low density polyethylene	1-11-85	8-14-85	8-14-85 - Case withdrawn.
	Italy	P.V.C. general purpose homopolymer	12-24-84	4-4-85	
	Italy	Urethane prepolymers	9-12-85		
	Italy	Electric motors ac 3-phase	2-13-85	11-29-85	11-29-85 - No injury.
	Japan	do	do	do	
	Japan	Air circuit breakers	6-18-85	11-5-85	8-22-85 - No dumping.
	Japan	Cold-rolled and galvanized steel sheet and coil	4-22-85	8-13-85	
	Japan	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.
	Japan	Gas space heaters	6-21-84		
	Japan	Industrial gear boxes 610kw and 970kw	6-14-85		9-13-85 - Case withdrawn.
	Japan	Domestic microwave	1-18-85	4-16-85	8-27-85 - Definitive duty.
	Japan	Welded carbon steel pipe and rectangular hollow sections	6-18-85	12-6-85	
	Korea	Bright steel bars	9-6-85		
	Korea	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.
	Korea	Di-Octyl phthalate	9-10-84	12-20-84	12-9-85 - Definitive duty.
	Korea	Welded carbon steel pipe	6-18-85	12-6-85	
	Korea	High-grade stearic acid	1-21-85		6-29-85 - No dumping.
	Korea	Polyethylene	7-31-84		3-12-85 - No injury.
	Korea	Normal butyl alcohol	9-12-85		
	Korea	Waxed cotton motorcycle garments	9-24-84	4-23-85	4-30-85 - No dumping.
	Malaysia	High-grade stearic acid	1-21-85	6-29-85	11-13-85 - No dumping.
	New Zealand	Porcelain enamelled steel baths	3-14-85	8-9-85	
	New Zealand	Hand hacksaw blades	3-19-85	do	
	New Zealand	Waterbed heaters	9-24-85		
	New Zealand	Refrigerators, display	6-1-84		8-9-85 - No dumping.
	Norway	Vinyl floor tiles	1-21-85	4-19-85	11-20-85 - Definitive duty.
	Philippines	Fluorescent lamps	12-19-83	12-11-84	9-19-85 - Definitive duty.
	Philippines	Sulphuric acid	1-16-85		
	Poland	Air circuit breakers	7-25-85		
	Poland	Electric motors ac 3-phase	2-13-85	8-22-85	8-22-85
	Qatar	Low-density polyethylene	3-1-85	8-28-85	11-8-85 - No dumping.
	Singapore	Dextrose monohydrate	9-28-84	3-29-85	10-30-85 - Definitive duty.
	Singapore	Microwave oven	4-18-85	7-26-85	12-6-85 - Other action.

Table A-1--Antidumping actions reported by signatories to the GATT Committee on Subsidies and Antidumping practices, 1985--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia--cont.	South Africa	Bright steel bars	7-8-85	9-6-85	10-10-85 - No injury.
	do	Pecan nuts	8-9-85		
	do	Uncoated woodfree paper	5-13-85		
	Sweden	Di-Octyl phthalate	8-22-84	2-22-85	12-9-85 - No dumping.
	do	Alloy steel chain and fittings	6-4-84	11-7-84	5-22-85 - Definitive duty.
	do	Bright steel bars	7-8-85	9-6-85	
	do	Cold rolled and galvanized steel sheet and coil	4-22-85	8-13-85	
	do	Di-Octyl phthalate	8-22-84	2-22-85	
	do	Fluorescent lamps	9-28-84	1-21-85	9-19-85 - Definitive duty.
	do	Diethylene glycol	8-23-85	11-6-85	
	do	Phthalic anhydride	10-31-84	1-5-85	9-18-85 - Definitive duty.
	do	Electric motors ac 3-phase	2-13-85	8-22-85	
	do	Vinyl acetate monomer	9-6-84		3-28-85 - No injury.
	do	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.
	Thailand	Polyolefin bags	1-14-83		3-29-85 - No dumping.
	do	Small-diameter welded carbon steel pipe and tube.	6-13-84	10-11-84	2-25-85 - No dumping.
	do	Electric motors ac 3-phase	2-13-85	8-22-85	10-24-85 - No injury.
	do	2,4D and salts esters	7-22-85		7-11-85 - No dumping.
	do	Polymeric plasticiser	9-13-85		7-10-85 - No injury.
	do	Engineers vices	5-8-85		1-21-85 - Price undertaking.
	United States	Battery operated work trucks	10-18-84	6-6-85	11-29-85 - No dumping.
	do	Dried vine fruits	3-8-85	6-11-85	
	do	Film laminate	2-20-85	7-24-85	12-20-85 - Definitive duty.
do	Monoammonium and diammonium phosphate	3-21-85			
do	Silicon sealants	10-10-85			
do	Outboard motors	1-16-84	9-24-84	3-19-85 - Definitive duty.	
do	Process cooling systems	1-7-85		3-27-85 - No injury.	
do	Urethane prepolymers	9-12-85		11-29-85 - Other action.	
do	Photographic printing paper	5-29-85		8-22-85 - Other action.	
U.S.R.	Electric motors ac 3-phase	2-13-85			
West Germany	Air circuit breakers	7-25-85	8-22-85		
do	Basalt-lined steel pipe and fittings	1-9-85		5-20-85 - No injury.	
do	2,4D and salts and esters	7-22-85	10-24-85		
do	Cold-rolled and galvanized steel sheet and coil	4-22-85		8-13-85 - No dumping.	
do	Fluorescent lamps	9-28-84	12-11-84	9-19-85 - Definitive duty.	
do	Electric motors ac 3-phase	2-13-85		8-22-85 - No dumping.	
do	Lead stabilizer lubricant	3-20-85		6-26-85 - No dumping.	
do	Barbed wire (carbon steel)	5-1-85	7-29-85	11-26-85 - Definitive duty.	
Argentina	Certain oil and gas well casting	9-20-85	12-17-85		
do	do	do	do		
Austria	Alloy tool steel bars, plate, and forgings	8-22-84	2-27-85	6-27-85 - Definitive duty.	
do	12 gauge shotshells	9-12-85	12-4-85		
Belgium	Polyphase induction motors	2-7-85	6-14-85	10-11-85 - Definitive duty.	
Brazil	Barbed wire (carbon steel)	5-1-85	7-29-85	11-26-85 - Definitive duty.	
do	Pentaerythritol	8-19-85	11-12-85		
China	Photo albums with self-adhesive leaves	9-20-85	10-17-85		
Czechoslovakia	Hockey pucks	8-21-85	11-18-85		
E. Germany	Carbon steel plate	7-11-85		9-10-85 - Price undertaking.	
do	Hockey pucks	8-21-85	11-18-85		
France	12 gauge shotshells	9-12-85	12-4-85		

Table A-1.--Antidumping actions reported by signatories to the GATT Committee on Subsidies and Antidumping practices, 1985--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Canada--cont.	Hong Kong	Photo albums with self-adhesive leaves and or component parts thereof.	7-13-84	12-28-84	4-26-85 - Definitive duty.
	Italy	Self-adhesive leaves	9-12-85	do	
	Italy	12 gauge shotshells	7-17-84	12-4-85	
	Japan	Stainless steel bars	7-16-84	12-19-84	4-19-85 - No injury.
	Japan	Nickel and nickel alloy pipe and tubing	7-3-84	2-11-85	6-11-85 - Definitive duty.
	Japan	High-voltage porcelain insulators	7-3-84	11-6-85	1-9-85 - Definitive duty.
	Japan	Locomotive axles and certain rail-car axles	1-24-85	4-24-85	7-23-85 - No dumping.
	Japan	Polyphase induction motors	2-7-85	6-14-85	10-11-85 - Definitive duty.
	Korea	Surgical adhesive tapes and plasters	5-8-85	8-6-85	12-4-85 - Definitive duty.
	Korea	Barbed wire	5-1-85	7-29-85	11-26-85 - Definitive duty.
	Korea	Barbed wire	9-3-85	11-29-85	
	Korea	Color televisions	9-20-85	12-17-85	
	Korea	Certain oil and gas well casting	7-13-84	12-28-84	4-26-85 - Definitive duty.
	Korea	Self-adhesive leaves	8-22-84	2-27-85	6-27-85 - Definitive duty.
	Korea	Alloy tool steel bars, plate, and forgings	5-1-85		
	Korea	Barbed wire (carbon steel)	2-7-85	6-14-85	10-11-85 - Definitive duty.
	Mexico	Polyphase induction motors	do	do	
	Poland	Barbed wire (carbon steel)	5-1-85	7-29-85	11-26-85 - Definitive duty.
	Poland	Polyphase induction motors	7-5-85	8-8-85	11-26-85 - No injury.
	Romania	Wide-flange steel shapes	7-27-84	2-8-85	5-9-85 - Terminated.
	Spain	Alloy tool steel bars, plate, and forgings	8-22-84	2-27-85	6-27-85 - Definitive duty.
	Taiwan	Polyphase induction motors	2-7-85	6-24-85	
	Taiwan	Alloy tool steel bars, plate, and forgings	8-22-84	2-27-85	6-27-85 - Definitive duty.
	United Kingdom	Alloy tool steel bars, plate, and forgings	1-24-85	4-24-84	8-22-85 - Definitive duty.
	United Kingdom	Locomotive axles and certain rail-car axles	9-12-85	12-4-85	
	United Kingdom	12 gauge shotshells	2-7-85	6-14-85	10-11-85 - Definitive duty.
	United States	High voltage porcelain insulators	7-3-84	11-6-84	1-19-85 - Definitive duty.
	United States	Two-door metal storage cabinets	10-3-84	12-20-85	1-15-85 - Price undertaking.
	United States	Potatoes	10-18-85		
	United States	Needles and syringes	11-8-85		1-6-86 - No injury.
	United States	Plywood concrete forming panels	10-4-84	12-21-84	4-2-85 - No injury.
	United States	Photo albums with self-adhesive leaves and or component parts thereof.	7-13-84	12-28-84	4-26-85 - Definitive duty.
	United States	Self-adhesive leaves	do	do	
	United States	Wear resistant steel pipe also known as abrasive resistant steel pipe.	7-3-84	11-13-84	2-11-85 - Definitive duty.
	United States	Certain oil and gas well casting	9-20-85	12-17-85	
	United States	Locomotive axles and certain railcar axles	1-24-85	4-24-84	8-22-85 - No injury.
	United States	Modular automate plants	2-14-85	Term. 5-15-85	
	United States	Frozen pot pies and compartment dinners	4-24-85		7-15-85 - Price undertaking.
	United States	Charcoal briquets	1-18-85	4-16-85	8-14-85 - Definitive duty.
	W. Germany	Certain oil and gas well casing	9-20-85	12-17-85	
	W. Germany	Container corner fittings	3-2-85		9-27-85 - Price undertaking.
	Austria	Oxalic acid	3-8-84	9-7-84	1-31-85 - Definitive duty.
	Austria	Wire rod	2-20-85		11-13-85 - No injury.
	Austria	Tube and pipe fittings	3-23-85		1-16-85 - Definitive duty.
	Canada	Pentaerythritol	3-13-84		
	Czechoslovakia	Certain categories of glass	8-8-85		
	Czechoslovakia	Standard wood particle board	11-16-84		10-10-85 - No injury.
	Czechoslovakia	Electric motors	11-26-85		
	Czechoslovakia	Ice skates	2-28-84		2-22-85 - No injury.

Table A-1.--Antidumping actions reported by signatories to the GATT Committee on Subsidies and Antidumping practices, 1985--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
EC--cont.					
	Hungary	Ice skates	8-3-84		2-22-85 - No injury.
	do	Electric motors	11-26-85		
	do	Certain categories of glass	8-8-85		
	Japan	Hydraulic excavators	7-31-84	3-8-85	7-6-85 - Definitive duty.
	do	Photo-copying apparatus	8-2-85		
	do	Electronic weighing scales	7-25-84	10-16-85	10-16-85 - Price undertaking.
	do	Outboard motors	11-26-85		
	do	Electronic typewriters	3-24-84	12-22-84	6-22-85 - Definitive duty.
	do	Tube and pipe fittings	3-23-85		
	do	Glycine	10-4-84	4-19-85	8-15-85 - Definitive duty.
	do	Titanium	9-7-84		
	do	Ball and tapered roller bearings	4-13-84	12-28-84	6-27-85 - Definitive duty.
	do	do	9-19-85		
	Poland				
	do	Standard wood particle	11-16-85		10-10-85 - No injury.
	do	Copper sulphate	3-31-84	10-18-84	2-12-85 - Definitive duty.
	do	Cement	4-2-85		
	Romania	Certain categories of glass	8-8-85		10-10-85 - No injury.
	do	Standard wood particle board	11-16-84		
	do	Electric motors	11-26-85		
	do	Ice skates	8-3-84		2-22-85 - No injury.
	do	Acrylic fibers	6-29-85		
	do	Plasterboard	10-16-84		
	Spain	Certain polystyrene sheet	8-4-84		3-29-85 - Price undertaking.
	do	Standard wood particle board	11-16-84	4-4-85	7-30-85 - Definitive duty.
	do	Cement	4-2-85		
	do	Polystyrene	8-4-84	4-4-85	
	do	Clogs	2-19-85	10-10-85	
	Sweden	Hardboard	do		
	Switzerland				
	do	Polyester yarn	9-25-84	9-13-85	4-26-85 - No dumping.
	do	Titanium	9-7-84		
	Yugoslavia	Certain categories of glass	8-8-85		10-10-85 - No injury.
	do	Standard wood particle board	11-16-84		
	do	Copper sulphate	11-7-85	11-8-85	
	do	Basic chromium sulphate	10-16-84	8-3-85	11-30-85 - Definitive duty.
	do	Freezers	2-11-85		
	do	Headboard	2-19-85		
	do	Ice skates	8-3-84		2-22-85 - No injury.
	do	Tube and pipe fittings	3-23-85		
	do	Cement	4-2-85		
	Italy	Medical Xray, sensitized on both sides	2-14-84	7-22-84	1-28-85 - Definitive duty.
	Czechoslovakia	Wood particle board	8-15-85	10-1-85	
	do	do	do	do	
	Poland				

Source: Compiled from documents of the Committee on Subsidies and Countervailing Measures, General Agreement on Tariffs and Trade.

Table A-2.--Countervailing duty actions reported by signatories to the GATT Committee on Subsidies and Countervailing Measures, 1985

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia	New Zealand	Porcelain enamelled steel baths	3/14/85	8/9/85	11-28-85 - Price undertaking.
	do	Hand hacksaw blades	3/19/85	do	
	do	Refrigerators, display	12/20/84	do	
	do	Stainless steel tubing	8/31/84	do	
	do	Waterbed heaters	10/1/85	do	
Canada	Brazil	Motors	2/8/85	6/14/85	10/11/84 - Definitive duty.
	EC	Frozen boneless beef	10/18/85		
	Spain	Wide-flange Steel Shapes	9/25/85	2/8/85	5/9/85 - Definitive duty.
Chile	Argentina	Mayonnaise	4/24/85	None	
	do	Zinc oxide	9/13/85		
	Brazil	Low-density polyethylene	10/10/85		
	do	Tubes and pipes of high-density polyethylene	11/29/85		
	Peru	do	do		
	Portugal	Drawn flat glass	9/20/85		
	Mexico	Dry yeast	12/09/85		

Source: Compiled from documents of the GATT Committee on Subsidies and Countervailing Measures.

A-3.-- Leading items exported to Israel, by Schedule B items, 1983-85

		(In thousands of dollars)			
Schedule:	Description	1983	1984	1985	
B					
item No.:					
694.65	: Parts for aircraft and spacecraft-----		297,801	263,012	
175.41	: Soybeans, other than seed for planting-----	212,649	96,892	85,897	
685.90	: Electrical apparatus for making, breaking, protecting, or : connecting to electrical circuits, switchboards, and control : panels, parts thereof.	99,919	113,984	74,934	
676.28	: Digital central processing units, auxiliary storage units, input : units, output units, and combinations thereof.	58,761	57,652	71,438	
685.60	: Radio navigational aid apparatus, radar apparatus, and radio : remote control apparatus, and parts thereof.	56,270	89,932	67,253	
676.55	: Parts of automatic data processing, photocopying, calculating, : accounting, and similar machines incorporating a calculating : mechanism.	40,921	55,997	62,569	
130.65	: Wheat-----			61,586	
130.40	: Grain sorghum-----	60,931	86,212	50,690	
660.52	: Parts of piston-type engines-----	54,607	73,644	47,853	
676.27	: Digital machines-----	19,239	37,810	37,186	
685.27	: Radiotelegraphics, radiotelephonic, and radiobroadcasting : transmission and reception apparatus, and parts thereof, : n.s.p.f.	11,652	17,179	36,462	
687.60	: Electronic tubes, transistors, integrated circuits, diodes, : rectifiers, mounted piezoelectric, related electronic : crystal components, parts.	16,854	16,522	33,414	
130.34	: Corn, seed for planting purpose-----	26,325	36,502		
520.33	: Diamonds, over 0.5 carat, cut-----	50,860	16,269	32,387	
520.32	: Diamonds, weighing not over 0.5 carat-----	12,128	17,328	28,320	
692.29	: Chassis, parts-----	27,039	35,379	28,104	
684.62	: Electrical telegraph (including printing and typewriting and : telephone apparatus and instruments), and parts thereof, : n.s.p.f.	12,975	18,411	29,445	
688.40	: Electrical articles, n.s.p.f., and electrical parts of articles : n.s.p.f.	21,442	20,824	24,658	
630.70	: Tungsten-----	41,964	28,458	23,863	
678.50	: Machines, n.s.p.f., and parts thereof-----	2,090	9,920	21,683	
	: Total-----	15,779	28,342	20,677	
	: Total, U.S. exports to Israel-----	906,019	1,155,059	1,098,431	
		1,715,348	1,927,094	1,808,005	

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

Note.--Trade does not include special category exports. Because of rounding, figures may not add to totals shown.

Table A-4.—Leading items imported from Israel, by TSUS items, 1983-85

		(In thousands of dollars)			
TSUSA item No.	Description	1983	1984	1985	
520.32	: Diamonds not over 1/2 carat, cut not set, suitable for jewelry-----	342,353	399,547	448,227	
520.33	: Diamonds over 1/2 carat, cut, not set, suitable for jewelry-----	132,145	259,524	340,924	
676.30	: Office machines, n.s.p.f-----	15,984	32,025	54,593	
800.00	: U.S. goods returned-----	37,958	46,973	53,970	
740.13	: Necklaces and neck chains, not rope or mixed link, almost wholly : of gold.	41,288	45,314	51,893	
740.14	: Jewelry and other objects of personal adornment, of precious : metals, n.e.s.	48,028	51,991	45,750	
688.42	: Electric synchros and transducers-----	1/	1/	40,402	
694.41	: Airplanes and parts thereof of civil aircraft and spacecraft	37,964	85,345	34,519	
694.67	: Parts of aircraft, excluding civil aircraft and spacecraft, n.e.s.--	9,656	24,443	34,018	
480.50	: Potassium chloride or muriate of potash-----	41,431	38,575	30,920	
709.63	: X-ray apparatus and parts thereof, excluding x-ray tubes, and : parts of tubes.	45,281	41,915	30,368	
709.17	: Electro-medical, excluding electro-surgical, apparatus, and parts : thereof.	16,635	33,766	29,537	
682.60	: Generators, motors, motor-generators, converters, transformers, : rectifiers, rectifying apparatus, inducers, other electrical : goods, parts, n.e.s.	4,707	15,192	26,465	
740.15	: Jewelry, etc., and parts of-----	3,031	9,213	21,629	
684.58	: Telephone sets and parts-----	2/	2/	17,179	
676.52	: Office machine parts, n.e.s-----	3,288	6,569	17,092	
475.25	: Motor fuel, including gasoline and jet fuel-----	0	0	16,062	
772.51	: Pneumatic tires, n.e.s-----	15,722	16,547	15,464	
709.15	: Electro-surgical apparatus-----	61	1,457	14,245	
660.61	: Internal combustion engines, non-piston-type, for aircraft, : certified for use in civil aircraft.	567	299	14,095	
	: Total-----	797,881	1,108,822	1,337,353	
	: Total, U.S. imports from Israel-----	1,250,228	1,748,684	2,119,862	

1/ Prior to Jan. 1, 1985, trade for TSUS item 688.42 was included in the more comprehensive item 688.43.

2/ Prior to Jan. 1, 1985, trade for TSUS item 684.58 was included in TSUS item 684.62.

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

Note.—Because of rounding, figures may not add to totals shown.

A-5.—Antidumping cases active in 1985, by final outcome and Commission investigation numbers

USITC investigation No.	Product	Country	Date		Preliminary determination		Final determination		Date of final action <u>2/</u>
			original petition filed	ITA <u>1/</u>	Commission	ITA <u>1/</u>	Commission		
Affirmative:									
731-TA-165	Brass connectors	Italy	1-23-84		A		A	P	2-19-85
731-TA-189	Calcium hypochlorite	Japan	4-25-84		A		A	A	4-4-85
731-TA-195	Oil country tubular goods	Spain	6-13-84		A		A	A	5-13-85
731-TA-196	Red raspberries	Canada	7-5-84		A		A	A	6-12-85
731-TA-199	Dried salted codfish	do	6-19-84		A		A	A	6-27-85
731-TA-206	Fabric and expanded neoprene laminate.	Japan	9-28-84		A		A	A	7-12-85
731-TA-207	Cellular mobile telephones	do	11-5-84		A		A	A	12-9-85
731-TA-208	Barbed wire and barbles wire strand.	Argentina	11-19-84		A		A	A	Do.
731-TA-240	Photo albums and filler pages	Hong Kong	1-30-85		A		A	A	Do.
731-TA-241	do	Korea	do		A		A	A	Do.
731-TA-246	Low-fuming brazing copper wire and rod.	New Zealand	2-19-85		A		A	A	11-29-85
Negative:									
731-TA-175	Cold-rolled carbon steel plate and sheet.	Argentina	2-10-84		A		A	N	1-28-85
731-TA-185	Potassium chloride	Israel	3-30-84		A		N	-	1-31-85
731-TA-187	do	U.S.S.R.	do		A		A	N	3-11-85
731-TA-191	Oil country tubular goods	Argentina	6-13-84		A		A	N	5-13-85
731-TA-201	Egg filler flats	Canada	8-3-84		A		A	N	7-15-85
731-TA-202	Tubular metal-framed stacking chairs.	Italy	8-10-84		A		A	N	7-11-85
731-TA-203	do	Taiwan	do		A		N	-	5-29-85
731-TA-204	Grand and upright pianos	Korea	8-21-84		A		N	-	9-16-85
731-TA-219	Hot-rolled carbon steel sheet	Austria	12-19-84		A		A	N	9-25-85
731-TA-224	Cold-rolled carbon steel plate and sheet.	do	do		A		N	T	8-19-85
731-TA-230	Galvanized carbon steel sheet	do	do		N		-	-	2-4-85
731-TA-231	do	East Germany	do		N		-	-	Do.
731-TA-232	do	Romania	do		N		-	-	Do.
731-TA-233	do	Venezuela	do		N		-	-	Do.
731-TA-234	Carbon steel structural shapes	Norway	do		A		A	N	11-29-85
731-TA-238	12-volt motorcycle batteries	Taiwan	1-11-85		N		-	-	2-25-85
731-TA-243	Expansion tanks	The Netherlands	2-14-85		N		-	-	4-1-85
731-TA-245	Low-fuming brazing copper wire and rod.	France	2-19-85		N		-	-	4-5-85
731-TA-255	Animal-feed-grade DL-methionine	do	4-3-85		N		-	-	5-20-85
731-TA-261	12-volt lead-acid-type automotive storage batteries.	Korea	5-8-85		N		-	-	6-24-85

See footnote at end of table.

A-5.—Antidumping cases active in 1985, by final outcome and Commission investigation numbers—Continued

USITC investigation No.	Product	Country	Date original petition filed	Preliminary determination		Final determination		Date of final action 2/
				Commission	ITA 1/	Commission	ITA 1/	
731-TA-283	Table wine	West Germany	9-10-85	N	T	-	-	10-25-85
731-TA-284	do	France	do	N	T	-	-	Do.
731-TA-285	do	Italy	do	N	T	-	-	Do.
731-TA-289 3/-	Welded steel wire fabric for concrete reinforcement.	Italy	10-24-85	N	T	-	-	12-9-85
731-TA-290 3/-	do	Mexico	do	N	T	-	-	Do.
731-TA-291 3/-	do	Venezuela	do	N	T	-	-	Do.
731-TA-295	Heavy-walled rectangular carbon steel pipe and tube.	Singapore	11-13-85	N	T	-	-	12-30-85
Terminated:								
731-TA-58 4/-	Hot-rolled carbon steel plate	Romania	1-11-82	A	A	T	T	7-3-85
731-TA-169	Carbon steel plate not in coils	Finland	2-10-84	A	A	T	T	1-22-85
731-TA-171 5/	Carbon steel plate whether or not in coils.	Spain	do	A	A	T	T	Do.
731-TA-177	Cold-rolled carbon steel plate and sheet.	do	do	A	A	T	T	Do.
731-TA-178	Galvanized carbon steel sheet	Australia	do	A	A	T	T	Do.
731-TA-180	do	Spain	do	A	A	T	T	Do.
731-TA-182	Certain steel structural shapes	do	do	A	A	T	T	Do.
731-TA-183	Large-diameter carbon steel welded pipe.	Brazil	3-21-84	A	A	T	T	3-4-85
731-TA-184	Potassium chloride	East Germany	3-30-84	A	A	T	T	11-20-85
731-TA-190	Stainless steel wire cloth	Japan	6-1-84	A	A	T	T	3-12-85
731-TA-192	Oil country tubular goods	Brazil	6-13-84	A	A	T	T	6-5-85
731-TA-194	do	Mexico	do	A	A	T	T	Do.
731-TA-197	Welded carbon steel pipe and tube	Brazil	4-17-84	A	A	T	T	3-20-85
731-TA-198	do	Spain	do	A	A	T	T	2-4-85
731-TA-205	Carbon steel wire rod	East Germany	9-26-84	A	A	T	T	7-30-85
731-TA-209	Barbed wire and barless wire strand.	Brazil	11-19-84	A	A	T	T	8-1-85
731-TA-210	do	Poland	do	A	A	T	T	7-16-85
731-TA-212	Certain welded carbon steel pipe and tube.	Venezuela	12-19-84	P	A	T	T	10-22-85
731-TA-213	Carbon steel plate whether or not in coils.	Czechoslovakia	do	A	T	-	-	6-4-85
731-TA-214	do	East Germany	do	A	A	T	T	8-12-85
731-TA-215	do	Hungary	do	A	T	-	-	6-4-85
731-TA-216	do	Poland	do	A	A	T	T	8-12-85
731-TA-217	do	Venezuela	do	A	A	T	T	7-19-85
731-TA-218	Carbon steel plate in coils	Finland	do	A	T	-	-	1-25-85
731-TA-220	Hot-rolled carbon steel sheet	do	do	T	T	-	-	Do.
731-TA-221	do	Hungary	do	A	T	-	-	6-4-85

See footnotes at end of table.

A-5.—Antidumping cases active in 1985, by final outcome and Commission investigation numbers—Continued

USITC investigation No.	Product	Country	Date original petition filed	Preliminary determination		Date of final action 2/
				ITA 1/	Commission	
(Code used for outcome: affirmative (A), negative (N), partial affirmative (P), and terminated (T))						
731-TA-222	Hot-rolled carbon steel sheet	Romania	12-19-84	A	T	7-19-85
731-TA-223	do	Venezuela	do	A	T	Do.
731-TA-225	Cold-rolled carbon steel plate and sheet.	Czechoslovakia	do	A	-	6-4-85
731-TA-226	do	East Germany	do	A	T	8-14-85
731-TA-227	do	Finland	do	T	-	1-25-85
731-TA-228	do	Romania	do	A	T	7-19-85
731-TA-229	do	Venezuela	do	A	T	Do.
731-TA-235	Carbon steel structural shapes	Poland	do	A	T	7-30-85
731-TA-242	Tapered tubular steel transmission structures.	Korea	2-11-85	T	-	3-1-85
731-TA-250	Oil country tubular goods.	Romania	2-28-85	A	-	8-12-85
731-TA-251	do	Venezuela	do	A	-	8-14-85
731-TA-253	Certain welded carbon steel pipe and tube.	do	do	A	T	12-4-85
731-TA-256	Carbon steel wire rod	Poland	4-8-85	A	-	9-18-85
731-TA-257	do	Portugal	do	A	T	11-7-85
731-TA-258	do	Venezuela	do	A	-	8-30-85
731-TA-267	Certain steel wire nails	Poland	6-5-85	A	-	Do.
Pending:						
731-TA-167 6/-	Table wine	France	1-27-84	A	-	Pending.
731-TA-168 6/-	do	Italy	do	A	-	Do.
731-TA-200 7/-	Radial ply tires	Korea	7-20-84	A	-	Do.
731-TA-211	Welded carbon steel pipe and tube	Taiwan	12-18-84	A	-	Do.
731-TA-236	Hydrogenated castor oil	Brazil	12-27-84	A	-	Do.
731-TA-237	12-hydroxystearic acid	Brazil	12-27-84	A	N	Do.
731-TA-239	Rock salt	Canada	1-28-85	A	-	Do.
731-TA-244	Natural bristle paint brushes	China	2-19-85	A	-	Do.
731-TA-247	Low-fuming brazing copper wire and rod.	South Africa	do	A	-	Do.
731-TA-248	Ethyl alcohol	Brazil	2-25-85	A	-	Do.
731-TA-249	Oil country tubular goods	Austria	2-28-85	A	-	Do.
731-TA-252	Welded carbon steel pipe and tube	Thailand	do	A	-	Do.
731-TA-254	Heavy-walled rectangular welded carbon steel pipe and tube.	Canada	3-25-85	A	-	Do.
731-TA-259	Offshore platform jackets and piles.	Korea	4-18-85	A	-	Do.
731-TA-260	do	Japan	do	A	-	Do.
731-TA-262	Iron construction castings	Brazil	5-13-85	A	-	Do.
731-TA-263	do	Canada	do	A	-	Do.
731-TA-264	do	India	do	A	-	Do.
731-TA-265	do	China	do	A	-	Do.
731-TA-266	Steel wire nails	do	6-5-85	A	-	Do.
731-TA-268	do	Yugoslavia	do	A	-	Do.

See footnotes at end of table.

A-5.--Antidumping cases active in 1985, by final outcome and Commission investigation numbers--Continued

USITC investigation No.	Product	Country	Date of original petition filed	Preliminary determination		Date of final action 2/
				ITA 1/	Commission	
731-TA-269	Nylon impression fabric	Japan	6-11-85	A	-	Pending.
731-TA-270	64K dynamic random access memory components.	do	6-24-85	A	-	Do.
731-TA-271	do	India	7-16-85	A	-	Do.
731-TA-272	do	Turkey	do	A	-	Do.
731-TA-273	do	Taiwan	do	A	-	Do.
731-TA-274	do	Yugoslavia	do	P	-	Do.
731-TA-275	Oil country tubular goods	Argentina	7-22-85	A	-	Do.
731-TA-276	do	Canada	do	A	-	Do.
731-TA-277	do	Taiwan	do	-	-	Do.
731-TA-278	Malleable cast-iron pipe fittings	Brazil	7-31-85	A	-	Do.
731-TA-279	do	Korea	do	-	-	Do.
731-TA-280	Nonmalleable cast-iron pipe fittings.	Taiwan	do	A	-	Do.
731-TA-281	Malleable cast-iron pipe fittings	do	do	A	-	Do.
731-TA-282	Candles	China	9-4-85	A	-	Do.
731-TA-286	Anhydrous sodium metasilicate	United Kingdom	9-16-85	A	-	Do.
731-AI-287	In-shell pistachio nuts	Iran	9-26-85	A	-	Do.
731-TA-288	Erasable programmable read only memories.	Japan	9-30-85	A	-	Do.
731-TA-292	Standard welded carbon steel pipe and tube.	China	11-13-85	A	-	Do.
731-TA-293	do	Philippines	do	A	-	Do.
731-TA-294	do	Singapore	do	A	-	Do.
731-TA-296	Certain light-walled rectangular carbon steel pipe and tube.	do	do	A	-	Do.
731-TA-297	Porcelain-on-steel cooking ware	Mexico	12-4-85	-	-	Do.
731-TA-299	do	China	do	-	-	Do.
731-TA-300	Dynamic random access memory semiconductors.	Taiwan	do	-	-	Do.
		Japan	12-11-85	-	-	Do.

1/ U.S. Department of Commerce, International Trade Administration.
 2/ For cases in which the final action was taken by the ITA, the date shown is the Federal Register notice date of that decision.
 3/ Terminated before preliminary finding. Replaced by investigations Nos. 731-TA-289(A), 731-TA-290(A), and 731-TA-291(A).
 4/ The Department of Commerce effective Jan. 4, 1983, terminated this investigation through a suspension agreement prior to its final determination on the issue of dumping. Commerce's action was based on assurances from the Romanian producer that it would adjust its prices to prevent sales to the United States at less than fair value. The final investigation--reinstated after Commerce determined that the suspension agreement was not in the public interest--was terminated effective July 14, 1985, by Commerce at the request of the petitioner.
 5/ Includes products originally covered by investigation No. 731-TA-171 (Preliminary)--carbon steel plate not in coils provided for in ITSS item 607.66 from Spain--and investigation No. 731-TA-173--carbon steel plate in coils.
 6/ Remanded by court order for reevaluation effective Dec. 12, 1985. Original petition filed on Jan. 27, 1984.
 7/ Remanded by court order for reevaluation effective Dec. 26, 1985. Original petition filed on July 20, 1984.

Source: Casis Database, Office of Economics, U.S. International Trade Commission.

A-6.--Countervailing-duty cases active in 1985, by final outcome and Commission investigations numbers

USITC investigation No.	Product	Country	Date original petition filed 1/	Preliminary determination		Date of final action 2/
				Commission	ITA 2/	
Code used for outcome:				Final determination		Date of final action 2/
affirmative (A), negative (N), partial affirmative (P), suspension agreement (S), and terminated (T)				ITA 2/	Commission	
Affirmative:						
4/	Textile mill products and apparel	Sri Lanka	8-14-84	-	A	3-12-85
4/	do	Peru	do	-	P	Do.
4/	do	Argentina	do	-	A	Do.
4/	Apparel	Thailand	do	-	A	Do.
4/	Textile mill products and apparel	Mexico	8-17-84	-	A	3-18-85
4/	Fabricated automotive glass	do	8-27-84	-	A	1-14-85
4/	Welded circular carbon steel pipe and tube.	Thailand	3-27-85	-	A	8-14-85
4/	Lamb meat	New Zealand	4-23-85	-	A	9-17-85
4/	Deformed steel concrete reinforcing bars.	Peru	7-11-85	-	A	11-27-85
4/	Welded carbon steel pipe and tube	Yugoslavia	8-9-85	-	A	12-31-85
701-TA-215	Oil country tubular goods	Brazil	6-13-84	A	A	1-9-85
701-TA-217	do	Spain	do	A	A	Do.
701-TA-218	Cold-rolled carbon steel sheet	Korea	6-18-84	A	A	1-15-85
701-TA-223	Agricultural tillage tools	Brazil	9-28-84	A	P	10-7-85
701-TA-224	Live swine and pork	Canada	11-2-84	A	A	7-31-85
701-TA-230	Cold-rolled carbon steel plate and sheet.	Austria	12-19-84	A	A	9-25-85
701-TA-231	do	Sweden	do	A	A	Do.
701-TA-238	Low-fuming brazing cooper wire and rod.	New Zealand	2-19-85	T	A	4-1-85
Negative:						
4/	Textile mill products and apparel	Singapore	8-14-84	-	N	3-12-85
4/	do	Malaysia	do	-	A	Do.
4/	Low-fuming brazing copper rod and wire.	South Africa	3-19-85	-	N	8-5-85
701-TA-216	Oil country tubular goods	Korea	6-13-84	A	A	1-9-85
701-TA-221	Cast-iron pipe fittings	Brazil	9-18-84	A	A	4-17-85
701-TA-225	Carbon steel plate whether or not in coils.	Sweden	12-19-84	A	A	9-18-85
701-TA-227	Hot-rolled carbon steel sheet	Austria	do	A	A	9-25-85
701-TA-228	do	Sweden	do	A	A	Do.
701-TA-233	Galvanized carbon steel sheet	Austria	do	T	T	2-4-85
701-TA-234	do	Venezuela	do	T	T	Do.
701-TA-237	Low-fuming brazing cooper wire and rod.	France	2-19-85	N	T	4-5-85
701-TA-258	Table wine	West Germany	9-10-85	N	T	10-25-85
701-TA-259	do	France	do	N	T	Do.
701-TA-260	do	Italy	do	N	T	Do.

See footnotes at end of table.

A-6.--Countervailing-duty cases active in 1985, by final outcome and Commission investigation numbers--Continued

USITC investigation No.	Product	Country	Date original petition filed 1/	Preliminary determination		Date of final action 3/
				ITA 2/	ITA 2/	
Code used for outcome:	affirmative (A), negative (N), partial affirmative (P), suspension agreement (S), and terminated (T)					
701-TA-261 5/-	Welded steel wire fabric for concrete reinforcement.	Italy	10-24-85	N	-	12-9-85
701-TA-263 5/-	do	Mexico	do	N	-	Do.
701-TA-264 5/-	do	Venezuela	do	N	-	Do.
303-TA-16 6/	Lime oil	Peru	5-29-85	N	-	
Suspended:						
4/	Textile mill products and apparel	Colombia	8-17-84	-	S	3-12-85
4/	do	Thailand	do	-	S	Do.
701-TA-235	Iron ore pellets	Brasil	12-20-84	A	S	6-10-85
Terminated:						
4/	Welded carbon steel pipe and tube	Spain	8-13-84	-	T	2-11-85
4/	do	Mexico	11-23-84	-	T	4-4-85
4/	Portable aluminum ladders	do	4-23-85	-	-	5-24-85
701-TA-220	Welded carbon steel pipe and tube	Spain	7-17-84	A	T	2-4-85
701-TA-226	Carbon steel plate whether or not in coils.	Venezuela	12-19-84	A	T	7-17-85
701-TA-229	Hot-rolled carbon steel sheet	do	do	A	T	7-19-85
701-TA-232	Cold-rolled carbon steel plate and sheet.	do	do	A	T	Do.
701-TA-236	Tapered tubular steel transmission structures.	Korea	2-11-85	T	-	3-1-85
701-TA-241	Oil country tubular goods	Venezuela	2-28-85	A	-	8-12-85
701-TA-242	Welded carbon steel pipe and tube	Portugal	4-8-85	A	T	11-13-85
701-TA-243	Carbon steel wire rod	Venezuela	do	A	T	12-10-85
701-TA-244	do	Turkey	8-15-84	A	T	8-6-85
701-TA-245	Textile mill products and apparel	Indonesia	do	-	T	Do.
701-TA-246	do	Philippines	do	-	T	Do.
701-TA-247	Converted paper-related school and office supplies.	Mexico	8-30-85	-	T	6-12-85
701-TA-250	do	Mexico	5-14-85	T	-	
701-TA-262	Welded steel wire fabric for concrete reinforcement.	Korea	10-24-85	T	-	11-6-85

See footnotes at end of table.

A-6.--Countervailing-duty cases active in 1985, by final outcome and Commission investigation numbers--Continued

USITC investigation No.	Product	Country	Date original petition filed 1/	Preliminary determination		Date of final action 3/
				Commission	ITA 2/	
Pending:						
4/	Carbon steel wire rod	Saudi Arabia	7-11-85	-	-	Pending.
7/	do	Singapore	9-5-85	-	-	Do.
4/	Rice	Thailand	10-21-85	-	-	Do.
7/	In-shell pistachio nuts	Iran	10-23-85	-	-	Do.
4/	Carbon steel wire rod	New Zealand	10-28-85	-	-	Do.
701-TA-210 7/	Table wine	France	1-27-84	-	-	Do.
701-TA-211 7/	do	Italy	do	-	-	Do.
701-TA-239	Ethyl alcohol	Brazil	2-25-85	-	-	Do.
701-TA-240	Oil country tubular goods	Austria	2-28-85	-	-	Do.
701-TA-248	Offshore platform jackets and piles.	Korea	4-18-85	-	-	Do.
701-TA-249	Iron construction castings	Brazil	5-13-85	P	-	Do.
701-TA-251	Welded carbon steel pipe and tube	India	7-16-85	A	N	Do.
701-TA-252	do	Taiwan	do	A	N	Do.
701-TA-253	Welded carbon steel pipe and tube	Turkey	7-16-85	A	-	Do.
701-TA-254	Red raspberries	Canada	7-18-85	A	-	Do.
701-TA-255	Oil country tubular goods	Canada	7-22-85	A	-	Do.
701-TA-256	do	Taiwan	do	N	-	Do.
701-TA-257	Fresh atlantic groundfish	Canada	8-5-85	A	-	Do.
701-TA-265	Porcelain-on-steel cooking ware	Mexico	12-4-85	-	-	Do.
701-TA-266	do	Taiwan	do	-	-	Do.

1/ For cases in which no petition is filed with the Commission, the date of the Federal Register notice announcing the initiation of the investigation by the Department of Commerce is listed.
 2/ U.S. Department of Commerce, International Trade Administration.
 3/ For cases in which the final action was taken by the ITA, the date shown is of the Federal Register notice date of that decision.
 4/ Cases involving imports from countries not entitled to a material injury test under U.S. countervailing duty statutes do not come before the Commission and therefore have no Commission case numbers or determinations.
 5/ Terminated before preliminary finding. Replaced by investigation Nos. 701-TA-261(A), 701-TA-263(A), and 701-TA-264(A).
 6/ The Commission does not conduct an "injury test" on imports from countries not otherwise entitled to this test if the subject imports enter the United States duty free. The legislative basis for these determinations is contained in certain provisions under sec. 303 (19 U.S.C. 1303).
 7/ Remanded by court order for reevaluation effective Dec. 12, 1985. Original petition filed on Jan. 27, 1984.

Source: Casis Database, Office of Economics, U.S. International Trade Commission.

Note.--The International Trade Commission conducts preliminary and final investigations under sec. 701 if the imports originate in a country that has signed the International Subsidies Code or undertaken comparable obligations. Similarly, it conducts preliminary and final investigations under sec. 303 if the imports enter the United States free of duty and the international obligations of the United States so require. Most of the major free-world trading nations have signed the Code. With respect to dutiable imports from those countries which have neither signed the Code or undertaken substantially equivalent obligations, countervailing duties may be imposed after an affirmative finding by the Department of Commerce under sec. 303 of the Tariff Act of 1930 without an injury investigation by the International Trade Commission. Exceptions are granted in instances in which the exporting country becomes a signatory to the Code or an equivalent agreement during the pendency of the investigation. New Zealand in response to U.S. invocation of non-application provisions of the Code was removed from the list of designees of "countries under the Agreement" in 1985; whereas, Indonesia, Mexico, Turkey, and the Philippines were designated as "countries under the Agreement" during the pendency of the above proceedings.

Table A-7.—Section 337 investigations completed by the U.S. International Trade Commission during 1985 and those pending on Dec. 31, 1985

Status of investigation	Article	Country affected	Commission determination or other action
COMPLETED:			
337-TA-75	Certain large video matrix display systems and components thereof.	Switzerland	No violation.
337-TA-174	Certain woodworking machines	Taiwan and South Africa.	General exclusion order.
337-TA-180	Certain xray intensifier tubes	Netherlands	Termination on the basis of a settlement agreement.
337-TA-181	Certain meat deboning machines	do	No violation.
337-TA-184	Certain foam earplugs	West Germany, Sweden, and Spain.	General exclusion order.
337-TA-185	Certain rotary wheel printing systems	Japan and West Germany.	No violation.
337-TA-187	Certain glass construction blocks	France, West Germany, and Spain.	Termination on the basis of a consent order and settlement agreement.
337-TA-189	Certain optical waveguide fibers	Japan	No violation.
337-TA-190	Certain softballs and polyurethane core thereof	do	Termination on the basis of a settlement agreement.
337-TA-192	Certain spring balanced arm lamp heads	Taiwan	Withdrawal of the complaint.
337-TA-193	Certain rowing machines and components thereof	do	Limited exclusion order.
337-TA-194	Certain aramid fibers	Netherlands	General exclusion order.
337-TA-195	Certain cloisonne jewelry	Taiwan	General exclusion order and (2) cease and desist orders.
337-TA-196	Certain apparatus for installing electrical lines and components thereof.	Canada	General exclusion order and cease and desist order.
337-TA-197	Certain compound action metal-cutting snips and components thereof.	Taiwan	Termination on the basis of a settlement agreement.
337-TA-198	Certain portable electronic calculators	Hong Kong	No violation.
337-TA-199	Certain anodes for cathodic protection and components thereof.	United Kingdom	Termination on the basis of a settlement agreement and consent order.
337-TA-200	Certain ink jet printing systems and components thereof.	Taiwan	Terminated on the basis of a settlement agreement.
337-TA-202	Certain telephones base housing and related packaging and printed materials.	Korea	Consent order.
337-TA-203	Certain floppy disk drives and components thereof	do	No violation.
337-TA-204	Certain pull-type golf carts and wheels thereof	Taiwan	Withdrawal of complaint.
337-TA-205	Certain dialyzers using telescopes connectors for fluid lines.	Japan	Consent order.
337-TA-206	Certain surgical implants for fixation of bone fragments.	Spain	Terminated on the basis of a settlement agreement and consent order.
337-TA-207	Certain automotive transmission shifters	Japan	Terminated on the basis of settlement agreement.
337-TA-208	Certain shoe stiffener components	United Kingdom	Do.
337-TA-209	Certain, aluminum frame, fabric-covered luggage, and components thereof.	Taiwan	Terminated on the basis of a settlement agreement and consent order.
337-TA-210	Certain motor graders with adjustable control consoles and components thereof.	Japan	Terminated on the basis of a settlement agreement.
337-TA-211	Certain electrical connectors	West Germany and the United Kingdom.	Do.

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See footnote at end of table.

Table A-7.--Section 337 investigations completed by the U.S. International Trade Commission during 1985 and those pending on Dec. 31, 1985--Continued

Status of investigation	Article	Country affected	Commission determination or other action
COMPLETED--			
CONTINUED:			
337-TA-212	Certain convertible rowing exercisers	Taiwan	No violation.
337-TA-213	Certain fluidized bed combustion systems	Sweden	Arbitration.
337-TA-214	Certain frozen beverage dispensing machines	1/ West Germany	Terminated on the basis of a settlement agreement.
337-TA-216	Certain ceramic drainage foils and components thereof.		Do.
337-TA-217	Certain expansion tanks and components thereof	Netherlands	Do.
337-TA-218	Certain automatic bowling machines printed circuit boards and components thereof.	do	Do.
337-TA-219	Certain porch, patio and lawn gliders	Taiwan	Terminated with prejudice to the complaint.
337-TA-220	Certain spring retainers for garage door hardware	do	Terminated on the basis of a settlement agreement.
337-TA-221	Certain apparatus for disintegration of urinary calculi.	West Germany	Do.
337-TA-222	Certain automotive visor/illuminated mirror packages	Hong Kong	Do
337-TA-223	Certain key telephone systems	do	Withdrawal of complaint.
PENDING:			
337-TA-83	Certain adjustable window shades and components thereof.	Taiwan	
337-TA-110	Certain methods for extruding plastic tubing	do	
337-TA-143	Certain amorphous metal alloys and amorphous metal articles.	West Germany and Japan.	
337-TA-147	Certain papermaking machine forming sections for the continuous production of paper.	Finland	
337-TA-154	Certain dot matrix line printers and components thereof.	Japan	
337-TA-183	Certain indomethacin	Canada, Italy, Poland, and Spain.	
337-TA-191	Certain wrapping apparatus and components thereof	Canada	
337-TA-196	Certain apparatus for installing electrical lines and components thereof.	do	
337-TA-201	Certain products with Gremlin character depictions	Taiwan	
337-TA-215	Certain double-sided floppy disk drives and components thereof.	Japan	
337-TA-224	Certain cellulose acetate hollow fiber artificial kidneys.	do	
337-TA-225	Certain multi-level touch control lighting switches	Hong Kong, Taiwan, and Canada.	
337-TA-226	Certain mass spectrometer and components thereof	France and England	
337-TA-227	Certain one piece cold forged bicycle cranks	Japan	
337-TA-228	Certain fans with brushless DC motors	do	
337-TA-229	Certain nut jewelry and parts thereof	Philippines and Taiwan	
337-TA-230	Certain unitary electromagnetic flowmeters with sealed coils.	West Germany	
337-TA-231	Certain soft sculpture dolls, popularly known as "Cabbage Patch Kids", related literature and packaging therefor.	Spain, S. Africa, France, England, Japan, and West Germany.	

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See footnote at end of table.

Table A-7.—Section 337 investigations completed by the U.S. International Trade Commission during 1985 and those pending on Dec. 31, 1985—Continued

Status of investigation	Article	Country affected	Commission determination or other action
PENDING—			
CONTINUED:			
337-TA-232	Certain glass firescreens for fireplaces	Canada	-
337-TA-233	Certain pharmaceutical closures	West Germany and Denmark.	-
337-TA-234	Certain upper body protector apparatus for use in motorsports.	Italy	-
337-TA-235	Certain human-powered vehicles with combination steering, braking and propulsion means.	Taiwan	-
337-TA-236	Certain portable bag sewing machines and parts thereof.	Japan	-

1/ Not known where imports were coming from.

Table A-8.—Outstanding section 337 exclusion orders as of Dec. 31, 1985

Investigation no.	Article	Country	U.S. patent no.	Date patent expires
337-TA-2	Certain convertible game tables and components thereof.	Taiwan	3,711,009	Jan. 16, 1990
337-TA-24	Certain exercising devices	Hong Kong and Taiwan	3,743,280	July 3, 1990
337-TA-30	Certain display devices for photographs and the like.	Hong Kong and Japan	3,774,332	Nov. 27, 1990
337-TA-39	Certain luggage products	Taiwan and Korea	242,181 <u>1</u> /	Nov. 2, 1990
337-TA-42	Certain electric slow cookers.	Japan and Hong Kong	3,881,090	Apr. 29, 1992
337-TA-44	Certain roller units	Japan	4,024,600	
337-TA-47	Certain flexible foam sandals.	Taiwan	3,979,596	
337-TA-55	Certain novelty glasses	Hong Kong	Nonpatent	
337-TA-56	Certain thermometer sheath packages.	Sweden	3,552,538	
337-TA-59	Certain pump top insulated containers.	Korea and Taiwan	4,113,147	
337-TA-62	Certain rotary scraping tools.	Taiwan	3,958,294	
337-TA-69	Certain airtight cast-iron stoves.	Taiwan and Korea	Nonpatent	
337-TA-74	Certain rotatable photograph and card display units and components thereof.	Hong Kong	3,791,059	
337-TA-75	Certain video matrix display systems.	Switzerland	3,495,762	July 20, 1988
337-TA-82A	Certain headboxes and papermaking machine forming sections for the continuous production of paper, and components thereof.	Sweden	28,269 <u>2</u> /	Dec. 19, 1991
337-TA-83	Certain adjustable window shades and components thereof.	Taiwan	4,006,770	Feb. 7, 1994
337-TA-87	Certain coin-operated audio-visual games and components thereof.	Japan	Nonpatent	
337-TA-88	Certain spring assemblies and components thereof, methods of their manufacture.	Canada	3,782,708	Jan. 19, 1991
337-TA-105	Certain coin-operated audio-visual games and components thereof.	Japan and Taiwan	3,866,287	Feb. 19, 1992

See footnote at end of table.

Table A-8.—Outstanding section 337 exclusion orders as of Dec. 31, 1985—Continued

Investigation no.	Article	Country	U.S. patent no.	Date patent expires
337-TA-110	Certain methods for extruding plastic tubing.	Taiwan	28,959 2/	Dec. 2, 1987
337-TA-112	Certain cube puzzles	Taiwan, Japan and Canada.	Nonpatent	-
337-TA-114	Certain miniature plug-in blade fuses.	Taiwan	3,903,767 4,040,175	Sept. 30, 1992 Aug. 9, 1994
337-TA-118	Certain sneakers with fabric uppers and rubber soles.	Taiwan	4,056,884 4,131,869	Nov. 8, 1994 Dec. 26, 1995
337-TA-120	Certain silica-coated lead chromate pigments.	Japan	3,639,133	-
337-TA-137	Certain heavy duty staple gun tackers.	Taiwan	Nonpatent	-
337-TA-139	Certain caulking guns	Taiwan and Hong Kong.	4,081,112	Mar. 28, 1995
337-TA-140	Certain personal computers and components thereof.	Taiwan, Hong Kong, Singapore, and Switzerland.	4,136,359 4,278,972	Jan. 23, 1996 July 17, 1998
337-TA-143	Certain amorphous metal alloys and amorphous metal articles.	Japan and W. Germany.	4,221,257	Sept. 9, 1997
337-TA-146	Certain canape makers	Taiwan	268,318 1/	Mar. 28, 1995
337-TA-148	Certain processes for the manufacture of skinless sausage casings and resulting products.	Spain	3,461,484	Aug. 19, 1986
337-TA-152	Certain plastic food storage containers.	Hong Kong and Taiwan.	Nonpatent	-
337-TA-161	Certain trolley wheel assemblies.	Korea	4,109,343	Aug. 29, 1995
337-TA-167	Certain single handle faucets	Taiwan	Nonpatent	-
337-TA-170	Certain bag closure clips	Israel	4,356,600	Nov. 2, 1999
337-TA-171	Certain glass tempering systems	Finland	4,394,791 3,994,711	July 26, 2000
337-TA-174	Certain woodworking machines	Taiwan and S. Africa.	3,754,496 4,174,100	Aug. 28, 1990 Nov. 13, 1996
337-TA-178	Certain foam blocks	Hong Kong	4,436,126	Mar. 13, 2001
337-TA-184	Certain foam earplugs	Germany, Sweden and Japan.	3,518,786 29,487	July 7, 1987 May 21, 1991

See footnote at end of table.

Table A-8.—Outstanding section 337 exclusion orders as of Dec. 31, 1985—Continued

Investigation no.	Article	Country	U.S. patent no.	Date patent expires
337-TA-195	Certain cloisonne jewelry	Taiwan	Nonpatent	-
337-TA-196	Certain apparatus for installing electrical lines and components therefor.	Canada	3,611,549	Oct. 12, 1988
			3,697,188	Oct. 10, 1989
337-TA-197	Certain compound action metal cutting snips and components thereof.	Taiwan	Nonpatent	-

1/ Design patent.

2/ Reissued.

Source: U.S. International Trade Commission, Office of the General Counsel.

A-9.—Imports for consumption 1/ of leading GSP-eligible items, by descending value of GSP duty-free imports, 1985

Rank	TSUS item No.	Description	Total U.S. imports for consumption		GSP-eligible		Duty free under GSP		Mandatory and discretionary competitive-need exclusions
			1,000 dollars	Share of total U.S. imports	1,000 dollars	Share of total U.S. imports	1,000 dollars	Share of total eligible imports	
1	155.20	Sugar, syrup, and molasses	811,743	90.8	736,788	90.8	337,807	45.8	369,234
2	407.16	Mixtures in whole or part of any of the industrial organic chemical products.	362,830	90.7	329,062	90.7	308,070	93.6	4,580
3	740.38	Jewelry, etc. and parts	386,312	81.6	315,068	81.6	223,562	71.0	84,895
4	676.15	Accounting, computing and other data processing machines.	1,443,241	23.5	339,746	23.5	181,050	53.3	78,263
5	727.35	Furniture, wood n.s.p.f.	1,088,245	40.2	437,759	40.2	174,997	40.0	250,938
6	724.45	Magnetic recording media	1,067,329	19.0	203,052	19.0	174,621	86.0	-
7	737.95	Toys and parts, n.s.p.f.	860,030	67.0	575,888	67.0	156,510	27.2	378,672
8	774.55	Articles, n.s.p.f., of rubber	773,199	38.9	300,737	38.9	155,345	51.7	117,699
9	685.90	Switchboard panels	1,903,381	37.9	721,217	37.9	154,299	21.4	469,148
10	772.51	Pneumatic tires, n.e.s.	1,779,825	20.7	368,891	20.7	142,684	38.7	218,011
11	772.15	Household articles of rubber or plastic, n.s.p.f.	218,406	65.7	143,556	65.7	140,813	98.1	-
12	676.30	Office machines, n.s.p.f.	3,964,689	17.4	688,569	17.4	136,464	19.8	362,475
13	791.27	Leather, other than patent	141,598	96.8	137,090	96.8	134,670	98.2	-
14	727.40	Furniture parts of wood, n.s.p.f.	161,881	77.4	125,237	77.4	123,453	98.6	-
15	740.14	Jewelry, n.e.s. of precious metal	847,662	22.7	192,097	22.7	112,303	58.5	39,436
16	727.29	Nonfolding chairs of wood other than teak.	272,392	60.7	165,324	60.7	107,748	65.2	54,104
17	660.67	Parts of piston-type	569,927	26.8	153,005	26.8	107,548	70.3	-
18	684.58	Telephone sets and other terminal equipment and parts thereof.	828,970	38.5	319,171	38.5	103,334	32.4	192,871
19	685.70	Electric sounds or visual signaling apparatus and parts.	513,886	50.1	257,271	50.1	91,134	35.4	42,809
20	678.50	Machines, n.s.p.f.	3,114,712	30.7	956,447	30.7	91,095	9.5	829,485
21	727.11	Furniture of unspun fibrous rattan: matterials and parts, n.s.p.f.	110,519	86.8	95,964	86.8	90,357	94.2	-
22	684.25	Microwave ovens	775,578	43.4	336,507	43.4	88,204	26.2	244,991
23	654.25	Brass articles, wares	112,789	80.0	90,208	80.0	88,199	97.8	-
24	412.22	Antipyretics, angle	177,673	49.0	87,115	49.0	84,837	97.4	-

A-9. Imports for consumption 1/ of leading GSP-eligible items, by descending value of GSP duty-free imports, 1985--Continued

Rank	TSUS item No.	Description	Total U.S. imports for consumption		GSP-eligible		Duty free under GSP			Mandatory and discretionary competitive-need exclusions
			1,000 dollars	Share of total U.S. imports	Value	Share of total U.S. imports	Value	Share of total eligible imports	Leading GSP source	
			1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	
25	737.30	Stuffed toy animals	429,395	85.1	365,429	85.1	82,207	22.5	Taiwan	268,352
26	692.32	Parts n.s.p.f. of motor	3,715,366	20.9	776,548	20.9	81,651	10.5	Republic of Korea	685,324
27	612.06	Unwrought copper, n.e.s.	507,470	59.4	301,618	59.4	77,820	25.8	Zaire	215,457
28	688.42	Other connection apparatus	863,013	51.8	447,405	51.8	76,180	17.0	Israel	213,875
29	772.20	Containers for packing	204,370	37.6	76,828	37.6	71,726	93.4	Taiwan	-
30	657.25	Articles of iron or steel	529,876	30.3	160,472	30.3	71,151	44.3	Republic of Korea	77,610
31	734.77	Golf equipment, n.s.p.f.	101,817	77.0	78,403	77.0	70,798	90.3	Taiwan	-
32	660.71	Parts for internal combustion engines, n.s.p.f.	750,201	11.1	83,028	11.1	69,118	83.2	Brazil	-
33	207.00	Articles, n.s.p.f., of wood	195,118	54.6	106,484	54.6	68,842	64.6	Taiwan	34,393
34	735.20	Game, sport, playground	328,377	73.9	242,817	73.9	66,861	27.5	Republic of Korea	171,647
35	712.49	Electrical measuring instruments	1,280,318	11.5	146,738	11.5	65,642	44.7	Taiwan	-
36	735.06	Ski bindings, poles	113,847	62.1	70,711	62.1	65,289	92.3	do	-
37	737.40	Toy animals, etc., n.s.p.f.	123,670	85.6	105,822	85.6	64,959	61.4	Hong Kong	34,516
38	618.06	Unwrought alloys of aluminum	527,358	12.8	67,494	12.8	64,843	96.1	Argentina	-
39	664.08	Mechanical shovels	1,125,149	7.4	83,623	7.4	64,633	77.3	Brazil	-
40	709.27	Medical and surgical instruments	165,595	42.3	70,102	42.3	63,533	90.6	Singapore	-
41	685.39	Telephone answering machines	194,003	50.8	98,641	50.8	63,413	64.3	Hong Kong	-
42	661.35	Refrigerators and refrigerating equipments.	269,172	26.3	70,888	26.3	62,832	88.6	Republic of Korea	-
43	618.02	Unwrought aluminum	486,221	13.4	65,188	13.4	60,558	92.9	Brazil	1,185
44	740.13	Necklaces, and chains, n.e.s.	522,703	13.6	70,832	13.6	59,613	84.2	Israel	2,071
45	680.17	Taps, cocks, valves, etc., of iron or steel.	223,729	28.3	63,362	28.3	59,325	93.6	Taiwan	-
46	155.40	Beet or cane molasses	88,466	68.0	60,188	68.0	58,903	97.9	Brazil	-
47	657.35	Articles of copper not coated or plated with precious metal.	111,868	72.6	81,202	72.6	57,579	70.9	Taiwan	19,200
48	682.60	Generator, motors	1,378,290	39.9	549,482	39.9	57,242	10.4	Israel	444,261
49	688.04	Insulated electrical conductors	186,957	32.3	60,434	32.3	54,567	90.3	Brazil	-
50	389.61	Artificial flowers	173,463	76.0	131,746	76.0	54,151	41.1	Macao	75,177
		Total, above items	36,882,625	33.9	12,511,256	33.9	5,222,539	41.7	-	5,980,680
		Total, all GSP items	113,036,465	28.9	32,664,464	28.9	13,322,865	40.8	-	15,270,395

1/ In this and other tables in the section; U.S. import data exclude entries into the U.S. Virgin Islands, which totaled \$1.7 billion in 1985. This is consistent with the concept of U.S. imports used in the GSP program for the competitive-need determinations.

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

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

A-10.—Total U.S. imports for consumption and imports eligible for GSP treatment, by SITC number, 1985

SITC No.	Description	Total U.S. imports for consumption	GSP-eligible		Duty-free under GSP		Mandatory and discretionary competitive-need exclusions
			Value	Share of total U.S. imports	Value	Share of total eligible imports	
		Million dollars	Percent	Million dollars	Percent	Million dollars	Million dollars
00	Live animals chiefly for food	615	-	-	-	-	-
01	Meat and meat preparations	2,236	94	4.2	41	43.6	49
02	Dairy products and birds' eggs	404	3	.8	3	92.9	-
03	Fish, crustaceans, and mollusks	3,978	72	1.8	46	63.2	2
04	Cereals and cereal preparation	502	55	10.9	49	89.6	1
05	Vegetables and fruit	4,104	591	14.4	119	20.2	421
06	Sugar, sugar preparations, and honey	1,221	843	69.0	436	51.8	370
07	Coffee, tea, cocoa, and spices	5,056	82	1.6	79	96.5	-
08	Feeding stuff for animals	187	-	.2	-	20.0	-
09	Miscellaneous edible products	348	78	22.5	71	90.5	-
11	Beverages	2,971	163	5.5	69	42.3	63
12	Tobacco and tobacco manufactures	649	50	7.7	25	50.0	-
21	Hides, skins, and furskins, raw	249	1	.2	-	77.4	-
22	Oil seeds and oleaginous fruit	91	-	.3	-	78.9	-
23	Crude rubber (including synthetic)	973	39	4.0	38	95.7	-
24	Cork and wood	3,142	6	.2	4	70.4	1
25	Pulp and waste paper	1,531	-	-	-	-	-
26	Textile fibers and their waste	434	6	1.4	6	96.3	-
27	Crude fertilizers and crude minerals	1,001	93	9.3	71	76.4	16
28	Metalliferous ores and metal stones	2,180	70	3.2	30	43.1	4
29	Crude animal and vegetable materials	895	202	22.6	66	32.5	96
32	Coal, coke, and briquettes	175	-	-	-	-	-
33	Petroleum, and petroleum products	47,670	1	-	1	92.7	-
34	Gas, natural and manufactured	4,019	-	-	-	-	-
41	Animal oils and fats	10	-	2.2	-	77.7	-
42	Fixed vegetable oils and fats	614	34	5.5	33	98.1	-
43	Animal and vegetable oils	25	2	10.0	2	71.6	-
51	Organic chemicals	4,522	546	12.1	490	89.7	10
52	Inorganic chemicals	3,183	117	3.7	98	84.0	8
53	Dyeing, tanning, and coloring materials	629	20	3.1	17	89.2	-
54	Medicinal and pharmaceutical products	1,519	198	13.0	127	64.0	-
55	Essential oils and perfume materials	742	94	12.6	78	83.6	5
56	Fertilizers, manufactured	967	-	-	-	100.0	-
57	Explosives and pyrotechnic products	97	2	2.1	2	93.7	-
58	Artificial resins and plastic	1,510	347	22.9	241	69.6	95
59	Chemical materials and products	1,017	73	7.2	67	91.2	-
61	Leather, leather manufactures	790	466	59.0	332	71.2	96

A-10.--Total U.S. imports for consumption and imports eligible for GSP treatment, by SITC number, 1985

SITC No.	Description	Total U.S. imports for consumption		GSP-eligible		Duty-free under GSP		Mandatory and discretionary competitive-need exclusions	
		Million dollars	Percent	Value	Share of total U.S. imports	Value	Share of total eligible imports		Million dollars
62	Rubber manufactures, n.e.s.	2,428	22.2	539	22.2	217	40.3	Taiwan	308
63	Cork and wood manufactures	1,641	28.8	473	28.8	271	57.3	Taiwan	148
64	Paper, paperboard, and articles	6,015	6.1	369	6.1	191	51.7	Mexico	166
65	Textile yarn, fabrics	4,604	4.6	210	4.6	135	64.2	Taiwan	60
66	Nonmetallic mineral manufactures	7,382	8.1	601	8.1	432	71.9	Taiwan	109
67	Iron and steel	10,217	1.5	155	1.5	102	65.9	Taiwan	47
68	Nonferrous metals	6,957	717	155	10.3	426	59.4	Brazil	254
69	Manufactures of metal, n.e.s.	6,635	1,735	1,735	26.2	1,142	65.8	Taiwan	474
71	Power generating machinery	8,153	1,444	1,444	17.7	376	26.0	Brazil	946
72	Machinery specialized for particular industries	8,163	421	421	5.2	246	58.4	Taiwan	125
73	Metalworking machinery	2,758	246	246	8.9	140	57.0	Taiwan	86
74	General industrial machinery	7,675	1,259	1,259	16.4	539	42.8	Taiwan	504
75	Office machines and automatic	11,512	3,144	3,144	27.3	407	13.0	Republic of Korea	2,358
76	Telecommunications and sound recording	18,301	3,006	3,006	16.4	509	16.9	Taiwan	1,872
77	Electrical machinery, apparatus	17,662	4,682	4,682	26.5	1,285	27.4	Taiwan	2,499
78	Road vehicles	58,131	856	856	1.5	122	14.2	Republic of Korea	715
79	Other transport equipment	4,369	264	264	6.0	54	20.5	Hong Kong	112
81	Sanitary, plumbing, heating and lighting fixtures	465	317	317	68.1	187	59.0	Taiwan	114
82	Furniture and parts thereof	3,356	1,279	1,279	38.1	648	50.7	Taiwan	599
83	Travel goods, handbags, and similar containers	1,363	37	37	2.7	11	29.0	Republic of Korea	23
84	Articles of apparel and clothing	15,047	559	559	3.7	329	58.9	Taiwan	210
85	Footwear	5,700	18	18	0.3	4	22.6	Hong Kong	14
86	Watch movements	1	-	-	0.0	-	-	-	-
87	Professional, scientific, and controlling instruments	3,271	507	507	15.5	289	57.0	Taiwan	24
88	Photographic apparatus, equipment	4,305	456	456	10.6	208	45.6	Republic of Korea	160
89	Miscellaneous manufactures articles	14,364	4,981	4,981	34.7	2,387	47.9	Taiwan	2,104
93	Special transactions, n.e.s.	8,161	3	3	0.0	3	90.9	Hong Kong	-
94	Animals, live, n.e.s.	55	7	7	12.5	7	95.8	Argentina	-
95	Armaments	206	28	28	13.8	14	50.8	Israel	-
97	Gold	2,688	-	-	-	-	-	-	-
	Total	341,844	32,664	32,664	9.6	13,323	40.8	-	15,270

1/ Less than \$500,000.

2/ Trust Territory of the Pacific Islands.

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

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

A-11.—Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard Industrial Classification (SIC), 1985

SIC No.	Description	Total U.S. imports for consumption		GSP-eligible		Duty-free under GSP		Mandatory and discretionary competitive-need exclusions
		Value	Share of total U.S. imports	Value	Share of total U.S. imports	Value	Share of total U.S. imports	
		Million dollars	Percent	Million dollars	Percent	Million dollars	Percent	Million dollars
01	Agricultural products	7,483	8.0	596	8.0	104	17.4	Mexico
02	Livestock and livestock products	933	1.0	9	1.0	8	87.4	Argentina
08	Forestry products	830	-	-	-	-	100.0	Taiwan
09	Fish and other marine products	3,558	1.7	62	1.7	30	48.9	Chile
10	Metallic ores and concentrates	1,260	2.6	33	2.6	25	77.5	Bolivia
12	Coal and lignite	70	-	-	-	-	-	-
13	Oil and gas	34,363	-	-	-	-	-	-
14	Nonmetallic minerals, except fuel	1,804	5.1	93	5.1	71	76.5	Mexico
20	Food products	12,508	12.5	1,564	12.5	885	56.6	Brazil
21	Tobacco manufactures	78	50.5	39	19	19	48.1	Dominican Republic
22	Textile mill products	3,615	3.7	134	3.7	101	75.3	Taiwan
23	Apparel and related products	15,701	3.4	537	3.4	216	40.2	do
24	Lumber and wood products	5,105	14.1	719	14.1	497	69.0	do
25	Furniture and fixtures	3,220	38.0	1,224	38.0	511	41.7	Yugoslavia
26	Paper and allied products	7,493	4.7	350	4.7	222	63.6	Taiwan
27	Printing	1,200	8.0	96	8.0	54	55.9	Hong Kong
28	Chemicals and allied products	12,780	9.1	1,169	9.1	982	84.0	Mexico
29	Petroleum refining products	18,213	2	2	-	1	74.9	Argentina
30	Rubber and miscellaneous plastics	4,721	29.5	1,394	29.5	802	57.6	Taiwan
31	Leather and leather products	7,721	6.9	533	6.9	349	65.5	India
32	Stone, clay, glass, and concrete	4,289	16.2	595	16.2	510	73.3	Taiwan
33	Primary metal products	20,439	5.4	1,106	5.4	613	55.4	Brazil
34	Fabricated metal products	7,754	25.8	1,997	25.8	1,191	59.6	Taiwan
35	Machinery, except electrical	31,309	16.7	5,226	16.7	1,467	28.1	do
36	Electrical machinery, equipment	37,949	21.3	8,076	21.3	2,056	25.5	Republic of Korea
37	Transportation equipment	65,938	2.9	1,943	2.9	288	14.8	Brazil
38	Measuring, analyzing, instruments	8,773	11.1	975	11.1	491	50.4	Taiwan
39	Miscellaneous manufactured	11,092	36.1	4,000	36.1	1,810	45.3	do
99	Other imports	11,647	.8	92	.8	20	21.6	do
	Total	341,844	9.6	32,664	9.6	13,323	40.8	

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

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

A-12.--U.S. imports for consumption from the world and from the Caribbean Basin, 1983-85

Item	1983	1984	1985
Imports from the world-----1,000 dollars--	256,679,524	322,989,519	343,553,150
Imports from the Caribbean Basin-----do-----	9,005,965	8,896,499	6,849,928
Ratio of imports from Caribbean Basin to imports from the world-----percent--	3.5	2.8	2.0
Dutiable value of imports from Caribbean Basin-1,000 dollars--	6,236,632	5,169,164	3,525,447
Imports under items 806.30 and 807.00 ^{1/} -----do-----	752,052	824,002	786,443
Ratio of 806.30 and 807.00 imports to dutiable imports from the Caribbean Basin-----percent--	12.1	15.9	22.3
Ratio of 806.30 and 807.00 imports to total imports from the Caribbean Basin-----do-----	8.4	9.3	11.5
Duty-free value of imports from the Caribbean Basin-----1,000 dollars--	2,769,333	3,727,335	3,324,481
GSP duty-free imports from Caribbean Basin-----do-----	604,137	626,007	540,992
Ratio of GSP duty-free imports to duty-free imports from the Caribbean Basin-----percent--	21.8	16.8	16.3
Ratio of GSP duty-free imports to total imports from the Caribbean Basin-----do-----	6.7	7.0	7.9
CBERA imports from Caribbean Basin-----1,000 dollars--	-	577,704	497,642
Ratio of CBERA imports to duty-free imports from the Caribbean Basin-----percent--	-	15.5	15.0
Ratio of CBERA imports to total imports from the Caribbean Basin-----do-----	-	6.5	7.3

^{1/} All imports from the Caribbean Basin under TSUS items 806.30 and 807.00 are shown as dutiable because no breakdown of the dutiable and duty-free part is available for 1985. As a result, the dutiable share of overall U.S. imports from the Caribbean Basin is overstated and the duty-free share is understated.

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

A-13.--U.S. imports for consumption of selected ineligible products from the Caribbean Basin, 1985

Product category 1/	Major		Caribbean Basin		Share of imports	
	Caribbean Basin	supplier	Value	share of all	from the	806.00 and
				U.S. imports	Caribbean Basin	807.00 share
					of total	
			1,000			
			dollars,			
			customs-			
			value basis		Percent	
Petroleum-----	Trinidad and Tobago		2,384,444	4.5	34.8	-
Textiles-----	Dominican Republic		650,299	3.7	9.5	85.0
Certain leather products-----	Haiti		20,398	1.1	.3	60.3
Certain footwear products-----	do		8,792	.2	.1	30.5
Canned tuna-----			-	-	-	-
Total-----			3,063,931	3.9	44.7	18.5

1/ Petroleum and petroleum products are in p. 10, schedule 4, of the TSUS. Textile products constitute schedule 3 of the TSUS. Certain leather products are certain leather, rubber, and plastic gloves, TSUS items 705.35 and 705.85-86; luggage, handbags, flat goods, TSUS items 706.05-706.16, 706.21-706.32, 706.34, 706.36, 706.38, 706.41, 706.43, 706.55, and 706.62; certain leather wearing apparel, TSUS item 791.76. Footwear products, TSUS items 700.05-700.27, 700.29-700.53, 700.56-700.89, and 700.91-700.95. Canned tuna products, TSUS items 112.30, 112.34, and 112.90.

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

A-14.--Leading items in U.S. imports for consumption for the Caribbean Basin,
1983-85

TSUSA number	Description	1983	1984	1985
	(Customs value, in thousands of dollars)			
475.10	Crude petroleum, 25 degrees a.p.i.	1,861,888	1,631,003	1,224,251
475.05	Crude petroleum, 25 degrees a.p.i. or more.	2,190,510	1,948,851	812,549
160.10	Coffee, crude, roasted or ground	520,503	596,151	642,667
146.40	Bananas, fresh	381,966	391,542	439,818
155.20	Sugars, syrups, and molasses	436,963	443,667	267,726
114.45	Shellfish other than clams	213,521	235,815	233,806
475.25	Motor fuel	400,749	320,194	215,494
687.74	Monolithic integrated circuits	159,101	217,819	170,204
605.20	Gold or silver bullion/ore	124,800	184,458	129,619
106.10	Beef and veal, fresh, chilled	132,850	99,822	117,807
800.00	U.S. goods returned	190,478	120,572	113,853
417.12	Aluminum hydroxide and oxide	147,198	207,510	109,121
475.35	Napthas	480,874	286,648	97,826
376.24	Lace or net body-support garments	68,503	66,259	82,305
412.22	Analgesics, antipyretics	51,036	54,837	78,105
480.65	Nitrogenous fertilizers	66,571	126,661	71,448
601.06	Bauxite	114,231	171,883	67,267
685.90	Electrical switches	79,357	94,034	66,247
156.10	Cocoa beans	54,822	80,569	65,239
383.47	Other women's, girls', or infants' wearing apparel.	13,838	31,098	44,954
520.33	Diamonds, greater than .5 carat	2,738	1,293	41,385
606.20	Ferrous nickel	29,730	36,444	40,292
521.11	Asphaltum, bitumen, and limestone	50,947	22,652	40,012
791.27	Leather, other than patent leather	27,433	41,332	39,887
734.56	Baseball equipment and parts	39,034	38,651	38,322
376.28	Body-supporting garments	31,716	29,052	37,716
379.62	Other men's or boys' wearing apparel, not ornamented.	16,976	32,658	34,319
170.70	Cigars each valued 23 cents or over	35,058	36,888	33,826
379.95	Other men's and boys' wearing apparel, not ornamented.	20,522	31,762	32,979
383.90	Other women's, girls', or infants' wearing apparel.	39,082	42,474	31,088
	Total	7,982,996	7,622,601	5,420,131
	Total, all items imported from Caribbean Basin	9,005,965	8,896,499	6,849,928

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

APPENDIX B

**LEADING ITEMS OF TRADE BETWEEN THE UNITED STATES
AND MAJOR TRADING PARTNERS**

Table B-1.--Leading items exported to Canada, by Schedule B items, 1983-85
(In thousands of dollars)

Schedule: B item No.:	Description	1983	1984	1985
692.29	Parts of motor vehicles, n.e.s.	4,830,004	6,266,397	6,378,491
692.10	On-the-highway, 4-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles.	3,880,784	4,590,582	5,752,937
818.90	General merchandise valued under \$1001, except shipments requiring a validated export license.	1/ 818,217	1/ 1,195,987	1,823,209
692.05	Automobile trucks, except truck tractors	568,201	1,048,890	1,548,306
818.80	Shipments valued \$10,000 and under, not identified by kind	2/ 731,146	2/ 1,227,219	2/ 1,371,970
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.		1,106,824	1,214,877
660.48	Piston-type internal combustion engines, other than compression-ignition engines.	849,914	697,495	928,089
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	972,364	1,139,338	891,733
676.28	Digital central processing units, auxiliary storage units, input units, output units, and combinations thereof.	575,748	837,264	809,524
605.20	Gold or silver bullion, dore, and gold or silver precipitates	760,148	799,864	764,536
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	361,190	500,412	567,181
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	408,086	460,340	536,560
694.65	Parts, for aircraft and spacecraft	288,846	405,105	436,662
660.52	Parts of piston-type engines, other than compression-ignition engines.	416,209	549,878	425,692
661.22	Air-conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity of air, and parts thereof.	243,133	325,811	366,280
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	344,372	428,199	359,206
692.20	Bodies (including cabs), and chassis for automobile trucks, truck tractors, and motorbuses.	369,424	444,728	347,120
660.41	Compression-ignition piston-type engines (diesel)	263,181	390,155	344,284
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, and parts thereof.	276,959	368,850	342,523
666.00	Agricultural and horticultural machinery, and parts	360,802	407,863	330,303
	Total	17,318,690	23,191,202	25,539,483
	Total, U.S. exports to Canada	36,544,897	44,515,081	45,028,947

1/ Prior to Jan. 1, 1985, Schedule B item 818.90 included only general merchandise valued \$500 or less.
2/ Prior to Jan. 1, 1984, trade was assigned to the most likely commodity item in schedules 1-7. General merchandise valued \$500 and less in 1983 and 1984, or \$1,000 and less in 1985, were reported under Schedule B item 818.90.

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-B-2.--Leading items imported from Canada, by TSUS items, 1983-85

TSUS item No.:	Description	(In thousands of dollars)			
		1983	1984	1985	
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles (Automotive Products Trade Act).	7,278,947	10,125,335	11,163,086	
692.33	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined (Automotive Products Trade Act).	2,791,045	3,780,775	4,237,870	
475.15	Natural gas, methane, ethane, propane, butane, and mixtures thereof.	4,263,742	4,192,140	3,786,751	
692.03	Trucks valued at \$1000 or more each (Automotive Products Trade Act)---	2,737,179	3,692,754	3,612,865	
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	1,895,869	2,477,699	3,518,568	
252.65	Standard newsprint paper	2,732,234	3,224,596	3,495,625	
800.00	U.S. goods returned	1,768,688	1,964,899	2,048,794	
202.03	Spruce lumber	1,624,955	1,746,306	1,881,712	
605.20	Gold or silver bullion, dore, and precipitates	1,359,470	1,832,407	1,823,558	
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees a.p.i.	1,492,531	1,777,058	1,727,402	
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	1,363,975	1,678,908	1,385,871	
660.49	Piston-type engines other than compression-ignition engines for automobiles, including trucks and buses (Automotive Products Trade Act).	1,013,837	1,370,253	1,252,380	
692.21	Automobile truck and motorbus chassis and bodies (Automotive Products Trade Act).	589,842	543,022	688,916	
694.62	Parts of civil aircraft, certified for use in civil aircraft	250,803	248,082	540,991	
475.25	Motor fuel, including gasoline and jet fuel	283,129	337,229	523,709	
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	365,696	546,428	512,753	
727.07	Furniture designed for motor-vehicle use, and parts thereof (Automotive Products Trade Act).	268,951	379,537	449,410	
772.51	Pneumatic tires, n.e.s.	366,186	486,885	447,888	
480.50	Potassium chloride or muriate of potash	485,093	577,687	438,605	
676.52	Office machine parts, n.e.s.	246,120	410,456	436,498	
	Total	33,178,296	41,392,456	43,973,252	
	Total, U.S. imports from Canada	51,982,346	66,342,454	68,883,572	

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 B-3.--Leading items exported to the European Community (EC), by Schedule B items, 1983-85

Schedule B item no.:	Description	1983	1984	1985
(In thousands of dollars)				
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	2,392,731	3,046,662	3,013,548
676.28	Digital central processing units, auxiliary storage units, input units; output units, and combinations thereof.	2,145,334	2,648,975	2,369,799
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	1,395,641	1,514,639	1,791,331
694.40	Airlanes-----	1,112,107	1,027,215	1,700,447
694.65	Parts, for aircraft and spacecraft-----	1,413,759	1,470,228	1,521,124
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	1,191,283	1,261,055	1,401,292
175.41	Soybeans, other than seed for planting-----	2,190,285	1,766,404	1,272,587
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, parts.	630,077	823,152	778,130
184.80	Other animal feeds and ingredients therefor, n.s.p.f-----	805,879	728,974	618,134
664.05	Excavating, leveling, boring, extracting machinery, excluding machinery, excluding front-end loaders, pile drivers, not self-propelled snowplows, and parts.	625,338	605,333	612,564
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	650,196	677,733	600,481
712.50	Instruments and apparatus for measuring or checking electrical electrical quantities, except electricity meters, and parts parts thereof.	520,980	564,989	598,655
678.50	Machines not specially provided for, and parts thereof-----	367,746	509,823	589,520
676.27	Digital machines comprising in one housing the central processing unit and input and output capability.	452,898	470,666	536,644
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	401,455	504,642	500,777
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed-----	426,314	471,983	452,860
692.29	Parts of motor vehicles, n.e.s-----	404,148	395,975	433,421
818.90	General merchandise valued under \$1001, except shipments requiring a validated export license.	1/ 197,675	1/ 240,038	406,042
433.10	Chemical mixtures and preparations, n.e.s-----	419,250	403,945	404,722
660.49	Non-piston-type internal combustion engines-----	416,833	494,618	386,964
	Total-----	18,159,928	19,627,066	19,989,044
	Total, U.S. exports to the EC-----	42,420,383	44,795,655	43,595,970
1/ Prior to Jan. 1, 1985, Schedule B item 818.90 included only general merchandise valued \$500 or less.				

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 B-4.--Leading items imported from the European Community (EC), by TSUS items, 1983-85
(In thousands of dollars)

TSUS item No.:	Description	1983	1984	1985
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1000, and other miscellaneous vehicles.	4,862,718	6,199,971	8,287,250
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	4,360,843	4,683,164	2,999,563
800.00	U.S. goods returned	1,064,611	1,428,986	1,462,389
475.25	Motor fuel, including gasoline and jet fuel	801,491	1,064,310	1,434,738
694.41	Airplanes and parts thereof of civil aircraft and spacecraft.	549,784	883,814	1,233,495
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	565,225	776,252	961,549
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft.	464,008	532,162	787,249
422.52	Uranium compounds except uranium oxide	429,775	546,634	660,701
676.52	Office machine parts, n.e.s.	314,162	541,386	648,971
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	467,371	552,510	639,191
167.30	Still wine from grapes, not over 14 percent alcohol, in containers not over 1 gallon.	563,423	605,615	628,159
660.73	Parts for internal combustion engines, certified for use in civil aircraft.	348,998	374,651	610,944
678.50	Machines, n.s.p.f., and parts thereof	298,240	528,220	581,860
712.49	Electrical measuring, checking, analyzing, or automatically controlling instruments or apparatus, n.s.p.f., and parts thereof.	315,923	454,655	561,343
676.15	Accounting, computing, and other data processing machines	126,558	237,054	550,502
740.14	Jewelry and other objects of personal adornment, of precious metals, n.e.s.	218,645	336,300	547,653
692.34	Tractors suitable for agricultural use and parts thereof	508,881	617,433	545,792
999.95	Under \$251 formal and informal entries, and nonexempt items from \$251 to \$1000, estimated.	1/ 105,249	1/ 137,599	530,716
765.03	Paintings, pastels, drawings, and sketches executed wholly by hand, original or not.	410,426	475,601	497,197
520.32	Diamonds not over 1/2 carat, cut, not set, suitable for jewelry	388,261	476,172	491,275
	Total	17,164,591	21,452,490	24,660,539
	Total, U.S. imports from the EC	43,767,725	56,876,278	64,506,294
	1/ Prior to Jan. 1, 1985, TSUS item 999.95 included only formal and informal entries under \$251.			

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 B-5.--Leading items exported to Japan, by Schedule B items, 1983-85

Schedule: B item No.:	Description	1983	1984	1985
(In thousands of dollars)				
130.34	Corn or maize, not donated for relief or charity	1,764,341	1,999,244	1,304,713
175.41	Soybeans, other than seed for planting	1,209,373	1,171,696	936,982
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	1,132,895	986,084	926,383
694.40	Airplanes	786,034	523,062	903,579
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared.	695,493	640,430	682,239
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism.	414,164	513,923	615,972
694.65	Parts, for aircraft and spacecraft	498,220	518,954	573,550
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	436,005	475,558	507,348
110.46	Fish, fresh, chilled, or frozen, whole or eviscerated, but not otherwise prepared or preserved, and live eels.	361,241	355,130	503,731
676.28	Digital central processing units, auxiliary storage units, input units, output units, and combinations thereof.	357,871	461,553	496,485
130.65	Wheat	589,324	534,445	468,970
422.55	Uranium compounds, excluding uranium oxide and thorium compounds	268,127	437,719	437,338
106.10	Beef and veal, carcasses and primal cuts, excluding offal, fresh, chilled, or frozen.	251,345	320,519	344,598
678.50	Machines n.s.p.f., and parts thereof	276,085	431,152	343,525
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches.	493,865	590,173	332,798
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed	335,398	284,154	300,558
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	299,076	335,563	284,015
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	202,011	227,721	277,658
120.14	Whole cattle hides	224,111	305,022	276,077
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	288,841	395,136	269,492
	Total	10,883,822	11,507,237	10,786,010
	Total, U.S. exports to Japan	21,225,749	22,692,129	21,602,930

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 B-6.--Leading items imported from Japan, by TSUS items, 1983-85

TSUS item No.:	Description	1983	1984	1985
	(In thousands of dollars)			
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	11,441,178	13,674,952	17,896,142
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	<u>1/</u> 2,079,909	<u>1/</u> 3,391,877	4,635,750
692.02	Trucks valued at \$1,000 or more each	1,755,177	2,350,539	3,389,238
676.30	Office machines, n.s.p.f.	1,443,625	2,306,620	2,565,157
676.52	Office machine parts, n.e.s.	1,019,157	1,623,113	1,727,659
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	655,293	1,004,695	1,282,379
678.50	Machines, n.s.p.f., and parts thereof	684,580	1,001,109	1,186,385
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts.	698,423	1,575,771	901,359
724.45	Magnetic recording media, no material recorded thereon	394,905	536,732	756,603
608.13	Sheets of iron and steel, n.s.p.f., not alloyed, coated or plated with metal valued over 10¢ per pound.	451,554	760,462	673,867
685.49	Radiotelegraphic, radiotelephonic, and other devices for the transmission, reception, and reproduction of sound or image, n.s.p.f.	<u>2/</u>	<u>2/</u>	633,791
692.53	Motorcycles, having engines with total piston displacement of 700 cubic centimeters or less.	<u>3/</u> 212,588	391,685	620,352
684.92	Complete television receivers	<u>4/</u> 287,781	<u>4/</u> 490,405	603,049
684.70	Microphones, loudspeaker, headphones, etc. and parts	291,114	445,954	582,032
685.08	Other television apparatus and parts thereof, n.e.s.	<u>5/</u>	<u>5/</u> 379,909	<u>5/</u> 555,904
722.51	Pneumatic tires, n.e.s.	390,134	491,885	539,725
722.16	Photographic cameras, other than fixed-focus, over \$10 each, lens not over 50 percent of value.	432,470	534,299	507,897
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	318,907	469,025	477,837
674.35	Metalworking machine tools, n.e.s.	226,742	407,767	475,924
684.25	Microwave ovens	195,445	288,682	438,898
	Total	22,978,981	32,125,480	40,449,949
	Total, U.S. imports from Japan	40,887,306	56,595,926	68,241,856

1/ Prior to Jan. 1, 1985, trade for TSUS item 685.40 included imports now reported under item 685.39.

2/ Prior to Jan. 1, 1985, trade for TSUS item 685.49 was included in the more comprehensive item 685.50.

3/ Prior to Apr. 1, 1983, trade for TSUS item 692.53 was included in the more comprehensive item 692.50.

4/ Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under item number 685.11.

5/ Prior to Jan. 1, 1985, trade for TSUS item 685.08 was reported under item number 685.22. Trade carryover for item 685.22 was also included in the 1985 total.

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 B-7.—Leading items exported to Mexico, by Schedule B items, 1983-85

		(In thousands of dollars)		
Schedule:	Description	1983	1984	1985
B	item No.:			
692.29	: Parts of motor vehicles, n.e.s.	458,374	812,998	1,176,965
175.41	: Soybeans, other than seed for planting	234,653	474,303	385,486
687.60	: Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, parts.	247,870	387,932	372,698
685.90	: Electrical apparatus for making, breaking, protecting, or connecting: to electrical circuits, switchboards, and control panels, and parts thereof.	198,029	315,085	340,178
130.40	: Grain sorghum	454,746	299,299	295,136
676.55	: Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	158,543	277,445	289,278
688.12	: Ignition wiring sets and wiring sets designed for use in motor vehicles, aircraft, spacecraft, ships, boats, and other vessels.	114,168	178,706	280,645
660.52	: Parts of piston-type engines, other than compression-ignition engines.	128,703	219,499	224,533
660.54	: Parts of compression-ignition piston-type engines, and non-piston-type engines.	71,150	163,614	220,619
818.90	: General merchandise valued under \$1,001, except shipments requiring a validated export license.	1/ 68,688	1/ 96,748	206,880
130.34	: Corn or maize, not donated for relief or charity	676,117	415,146	203,587
475.67	: Mixtures of hydrocarbons n.s.p.f., wholly of petroleum, shale oil, natural gas, containing by weight not over 50 percent of any single compound.	109,697	128,039	202,435
685.20	: Television apparatus, and parts thereof	167,896	199,650	189,236
685.27	: Radiotelegraphic, radiotelephonic, and radio broadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	104,302	188,585	167,342
682.60	: Generators, motor-generators, rotating converters, rectifiers and rectifying apparatus, coils, inductors, lamp ballasts, and parts thereof.	94,082	154,432	158,547
664.05	: Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snowplows, and parts.	56,984	97,859	148,299
475.07	: Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	450	74,510	137,112
818.80	: Shipments valued \$10,000 and under, not identified by kind	2/	2/ 95,307	2/ 135,121
678.50	: Machines n.s.p.f., and parts thereof	77,870	103,985	130,739
256.71	: Other paper and paperboard, cut to size or shape; other articles of pulp, papiermache, paper, or paperboard n.e.s.	134,660	114,382	121,614
	: Total	3,556,982	4,797,524	5,386,451
	: Total, U.S. exports to Mexico	8,755,231	11,461,203	13,084,252

1/ Prior to Jan. 1, 1985, Schedule B item 818.90 included only general merchandise valued \$500 or less.

2/ Prior to Jan. 1, 1984, trade was assigned to the most likely commodity item in schedules 1-7. General merchandise valued \$500 and less in 1983 and 1984, or \$1,000 and less in 1985, were reported under Schedule B item 818.90.

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 B-8.—Leading items imported from Mexico, by TSUS items, 1983-85
(In thousands of dollars)

TSUS item No.:	Description	1983	1984	1985
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees a.p.i.	4,218,931	3,990,415	4,338,249
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	3,637,542	3,336,311	3,309,848
660.48	Piston-type engines other than compression-ignition for automobiles, including trucks and buses.	413,205	513,505	599,259
688.12	Ignition wiring sets and wiring sets for transportation equipment	206,685	308,277	471,745
800.00	United States goods returned	265,168	303,854	422,456
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	262,569	394,614	406,844
160.10	Coffee, crude, roasted or ground	275,373	322,501	367,773
114.45	Shellfish other than clams, crabs, or oysters	404,601	389,603	312,299
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, and making connections to or in circuits.	226,259	292,658	309,080
676.52	Office machine parts, n.e.s.	168,795	258,312	287,031
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	27,972	52,119	282,651
678.50	Machines, n.s.p.f., and parts thereof	123,300	183,295	262,934
605.20	Gold or silver bullion, dore, and precipitates	324,830	319,431	247,409
692.02	Trucks valued at \$1,000 or more each	6	41,518	217,306
682.60	Generators, motors, motor-generators, converters, transformers, rectifying apparatus, inducers, other electrical goods, parts, n.e.s.	132,797	213,091	190,027
685.00	Printed circuit boards and ceramic substrates with components assembled thereon, for color televisions, n.e.s.	1/ 250,590	1/ 244,330	184,216
512.21	Plaster rock or gypsum, not ground and not wholly or partly calcined.	6,463	7,392	182,481
685.08	Other television apparatus and parts thereof, n.e.s.	2/	2/ 171,151	2/ 180,595
685.12	Solid-state radio receivers, designed for motor-vehicle installation.	3/ 127,191	3/ 129,789	171,916
407.16	Mixtures of industrial organic benzenoid chemicals, n.e.s.	990	114,645	138,780
	Total	11,073,268	11,586,812	12,882,899
	Total, U.S. imports from Mexico	16,618,938	17,762,399	18,938,246

1/ Prior to Jan. 1, 1985, trade for TSUS item 685.00 was reported under item number 685.16.

2/ Prior to Jan. 1, 1985, trade for TSUS item 685.08 was reported under item number 685.22. Prior to Apr. 1, 1984, this trade was included in the more comprehensive item 685.19. Trade carryover for item 685.22 was also included in the 1985 total.

3/ Prior to Jan. 1, 1985, trade for TSUS item 685.12 was reported under item number 685.23 and prior to Apr. 1, 1984, under 685.21.

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 B-9.--Leading items exported to Taiwan, by Schedule B items, 1983-85

Schedule B item No.:	Description	1983	1984	1985
(In thousands of dollars)				
130.34	Corn or maize, not donated for relief or charity	431,229	424,915	374,299
175.41	Soybeans, other than seed for planting	362,647	390,637	321,720
694.65	Parts, for aircraft and spacecraft	161,209	216,454	253,570
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	181,778	193,028	183,275
521.31	Coal; petroleum and other coke; and compositions of coal, coke, or other carbonaceous material used for fuel.	83,084	109,180	134,044
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/18 inches.	89,487	152,014	112,386
120.14	Whole cattle hides	87,154	117,280	112,247
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism.	96,319	130,441	107,664
130.65	Wheat	106,693	109,118	99,082
404.22	Polycarboxylic acids, anhydrides, and their derivatives	38,678	20,087	92,527
660.10	Steam, other vapor generating boilers (not central heating hot water boilers capable of producing low-pressure steam), parts thereof, n.s.p.f.	49,820	40,855	90,353
676.28	Digital central processing units, auxiliary storage units, input units, output units, and combinations thereof.	50,526	82,685	85,293
660.30	Steam engines, steam turbines, and other vapor power units, and parts thereof, n.s.p.f.	9,871	10,220	71,139
694.40	Airplanes	44,367	14,776	64,586
401.01	Benzene, toluene, xylenes, cumene, naphthalene, and other specified hydrocarbons.	54,351	67,905	64,377
250.04	Waste paper and paperboard; scrap paper and paperboard products fit only for remanufacture; flax and hemp fibers to be used in paper making.	53,178	73,320	61,697
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed	50,363	64,514	60,612
678.50	Machines not specially provided for, and parts thereof	32,815	40,318	56,081
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	58,710	55,748	50,327
684.62	Electrical telegraph (including printing and typewriting) and telephone apparatus and instruments; and parts thereof, n.s.p.f.	13,761	22,411	47,666
Total		2,056,042	2,335,906	2,442,944
Total, U.S. exports to Taiwan		4,296,135	4,658,027	4,337,499

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 B-10.—Leading items imported from Taiwan, by TSUS items, 1983-85
(In thousands of dollars)

TSUS item No.:	Description	1983	1984	1985
700.56	Footwear having uppers over 90 percent of exterior surface area of rubber or plastics, n.e.s.	539,249	717,899	963,621
383.80	Women's, girls', or infants' knit blouses, body shirts, body suits, shirts, and sweaters, of manmade fibers, not ornamented.	302,031	326,208	1/ 354,822
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys.	190,806	267,407	341,849
661.06	Fans and blowers, and parts, n.s.p.f., whether operated by hand or any kind of power unit.	191,377	328,256	326,765
379.95	Men's or boys' coats, shirts, suits, swimwear, trousers, slacks, and shorts.	255,553	341,744	2/ 309,958
684.92	Complete television receivers	3/ 280,735	3/ 318,216	308,365
676.30	Office machines, n.s.p.f.	139,492	348,391	295,755
678.50	Machines, n.s.p.f., and parts thereof	122,518	191,655	293,493
676.52	Office machine parts, n.e.s.	144,423	224,184	254,467
727.35	Furniture of wood, other than chairs	126,204	167,662	253,125
383.90	Women's, girls', or infants' blouses, coats, shirts, suits, trousers, slacks, and shorts, not knit, of manmade fibers, not ornamented.	210,379	237,102	4/ 240,995
685.49	Radiotelegraphic, radiotelephonic, and other devices for the transmission, reception, and reproduction of sound or image, n.s.p.f.	5/	5/	239,213
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths or boys.	126,165	178,601	229,801
685.08	Other television apparatus and parts thereof, n.e.s.	6/	6/ 148,149	6/ 219,139
706.62	Luggage and handbags, fitted or unfitted, of materials n.e.s.	157,142	171,304	211,524
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts.	133,022	214,589	207,464
727.70	Furniture, and parts thereof, n.s.p.f.	7/ 99,950	7/ 145,509	198,944
676.15	Accounting, computing, and other data processing machines	14,873	98,225	190,331
706.41	Other handbags and luggage of textile materials n.s.p.f.	213,298	253,986	189,801
735.20	Puzzles; game, sport, gymnastic, athletic, or playground equipment; all the foregoing and parts thereof, n.s.p.f.	84,668	137,057	172,768
	Total	3,331,885	4,816,143	5,802,200
	Total, U.S. imports from Taiwan	11,193,077	14,706,390	16,354,353

1/ TSUS item 383.80 was discontinued on Sept. 1, 1985. TSUS items 384.80 and 384.81 replaced it on that date.
2/ TSUS item 379.95 was discontinued on Sept. 1, 1985. TSUS items 381.94 and 381.95 replaced it on that date.
3/ Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under item number 685.11.
4/ TSUS item 383.90 was discontinued on Sept. 1, 1985. TSUS items 384.90 and 384.91 replaced it on that date.
5/ Prior to Jan. 1, 1985, trade for TSUS item 685.49 was included in the more comprehensive item 685.50.
6/ Prior to Jan. 1, 1985, trade for TSUS item 685.08 was reported under item number 685.22. Prior to Apr. 1, 1984, this trade was included in the more comprehensive item 685.19. Trade carryover for item 685.22 was also included in the 1985 total.
7/ Prior to Apr. 1, 1984, trade under TSUS item 727.70 was reported under item number 727.55.

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 B-11.--Leading items exported to the Republic of Korea, by Schedule B items, 1983-85

Schedule B item No.:	Description	1983	1984	1985
(In thousands of dollars)				
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	390,449	481,760	436,960
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches.	355,196	418,623	332,691
694.65	Parts, for aircraft and spacecraft-----	249,589	256,736	274,543
130.65	Wheat-----	304,772	293,819	270,158
120.14	Whole cattle hides-----	165,354	242,639	267,353
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	125,498	126,832	214,160
694.40	Airplanes-----	2,322	95,472	211,432
130.34	Corn or maize, not donated for relief or charity-----	559,692	327,829	209,868
175.41	Soybeans, other than seed for planting-----	201,200	186,788	185,476
678.50	Machines n.s.p.f., and parts thereof-----	57,157	117,618	160,740
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	108,145	121,780	157,087
607.08	Carbon steel and iron waste and scrap-----	109,770	158,710	155,631
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	88,071	75,442	103,204
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared.	96,797	87,745	98,141
684.62	Electrical telegraph (including printing and typewriting) and telephone apparatus and instruments; and parts thereof, n.s.p.f.	169,905	100,106	96,144
250.02	Wood pulp, rag pulp, and other pulps derived from cellulonic fibrous materials and suitable for paper making.	71,717	75,573	77,099
250.04	Waste paper and paperboard; scrap paper and paperboard products fit only for remanufacture; flax and hemp fibers to be used in paper making.	73,234	103,367	72,318
676.28	Digital central processing units, auxiliary storage units, input units, output units, and combinations thereof.	60,629	64,994	69,116
404.22	Polycarboxylic acids, anhydrides, and their derivatives-----	28,332	47,383	63,038
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof.	29,347	57,036	56,264
	Total-----	3,247,176	3,440,251	3,511,424
	Total, U.S. exports to the Republic of Korea-----	5,684,605	5,785,966	5,666,503

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 B-12.--Leading items imported from the Republic of Korea, by TSUS items, 1983-85

TSUS Item No.:	Description	1983	1984	1985
	(in thousands of dollars)			
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys	251,616	324,845	528,171
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts.	448,810	721,651	409,307
379.95	Men's or boys' coats, shirts, suits, swimwear, trousers, slacks, and shorts.	302,491	424,175	1/ 395,741
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	102,504	173,200	289,741
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter.	229,994	270,520	269,143
684.92	Complete television receivers	2/ 340,534	2/ 409,432	247,363
737.30	Stuffed toy figures of animate objects, valued over 10 cents per inch of height.	63,268	170,368	227,056
791.76	Leather wearing apparel, n.s.p.f., other than reptile leather, and other than in chief weight of textile material.	175,293	252,722	225,407
684.25	Microwave ovens	93,741	173,569	219,648
678.50	Machines, n.s.p.f., and parts thereof	124,958	179,773	202,544
383.80	Women's, girls', or infants' knit blouses, body shirts, body suits, shirts, and sweaters, of manmade fibers, not ornamented.	183,005	169,290	3/ 195,476
772.51	Pneumatic tires, n.e.s.	124,202	158,166	181,608
685.49	Radiotelegraphic, radiotelephonic, and other devices for the transmission, reception, and reproduction of sound or image, n.s.p.f.	4/	4/	178,926
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	5/ 54,701	5/ 77,396	172,753
676.30	Office machines, n.s.p.f.	54,509	119,023	160,696
384.53	Women's, girls', infants' wearing apparel, knit, not ornamented, of vegetable fiber except cotton, not subject to specified fiber restraints.	6/ 2,038	6/ 34,967	6/ 145,553
791.15	Fur wearing apparel n.s.p.f., of mink and other animals n.e.s.	77,935	109,568	131,291
338.59	Woven fabrics, of man-made fibers, except containing over 17 percent wool, and except of glass.	7/ 102,230	7/ 108,493	7/ 125,923
607.83	Plates and sheets of iron and steel, not alloyed, not coated or plated with metal and not clad, pickled and cold rolled.	72,100	143,505	104,746
724.45	Magnetic recording media, no material recorded thereon	18,765	36,990	98,615
	Total	2,822,694	4,057,654	4,509,707
	Total, U.S. imports from the Republic of Korea	7,180,827	9,295,050	9,986,363

1/ TSUS item 379.95 was discontinued on Sept. 1, 1985. TSUS items 381.94 and 381.95 replaced it on that date.

2/ Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under item No. 685.11.

3/ TSUS item 383.80 was discontinued on Sept. 1, 1985. TSUS items 384.80 and 384.81 replaced it on that date.

4/ Prior to Jan. 1, 1985, trade for TSUS item 685.49 was included in the more comprehensive item 685.50.

5/ Prior to Jan. 1, 1985, trade for TSUS item 685.40 included imports now reported under item 685.39.

6/ Prior to Sept. 1, 1985, trade for TSUS item 384.53 was reported under the more comprehensive item 383.52.

7/ Prior to Apr. 1, 1985, trade for TSUS item 338.59 was reported under item No. 338.50.

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 B-13.—Leading items exported to Brazil, by Schedule B items, 1983-85

Schedule: B item No.:	Description	(In thousands of dollars)		
		1983	1984	1985
130.65	Wheat	423,196	395,834	307,992
521.31	Coal; petroleum and other coke; and compositions of coal, coke, or other carbonaceous material used for fuel.	201,653	250,178	307,190
694.40	Airplanes	142,743	26,539	238,915
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	95,754	151,974	173,004
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.—	64,253	80,717	103,845
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snowplows, and parts.	139,037	104,379	92,458
694.65	Parts, for aircraft and spacecraft	88,915	63,000	89,474
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	61,809	69,805	72,728
480.10	Fertilizers and fertilizer materials	1/ 19,430	1/ 113,769	1/ 65,997
130.34	Corn or maize, not donated for relief or charity	7,622	11,339	64,183
692.29	Parts of motor vehicles, n.e.s.	22,325	28,894	60,011
676.28	Digital central processing units; auxiliary storage units, input units, output units, and combinations thereof.	43,819	43,204	59,497
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	33,814	43,488	56,627
433.10	Chemical mixtures and preparations, n.e.s.	54,003	57,416	47,568
446.15	Synthetic rubber	41,499	48,240	47,435
175.41	Soybeans, other than seed for planting	-	-	45,757
415.45	Sulfur, native elemental, or recovered	11,810	23,903	26,617
676.27	Digital machines comprising in one housing the central processing unit and input and output capability.	8,201	4,099	25,071
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	22,012	25,721	25,021
660.52	Parts of piston-type engines, other than compression-ignition engines.	11,315	16,178	23,612
	Total	1,493,209	1,558,677	1,933,004
	Total, U.S. exports to Brazil	2,519,977	2,585,245	3,058,782
	1/ To avoid disclosure of confidential business information, trade statistics under Schedule B items 480.25 through 480.95 were combined and presented under item No. 480.10, effective July 1, 1985.			

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 B-14.--Leading items imported from Brazil, by TSUS items, 1983-85

TSUS item No.	Description	1983	1984	1985
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	435,375	725,490	737,980
160.10	Coffee, crude, roasted or ground	563,897	677,889	670,002
165.29	Orange juice, concentrated or made from a juice having a degree of concentration of 1.5 or more, not over 1 percent ethyl alcohol by volume.	1/	1/	669,863
475.25	Motor fuel, including gasoline and jet fuel	262,117	378,517	319,542
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees a.p.i.	255,708	312,088	234,472
660.48	Piston-type engines other than compression-ignition for automobiles, including trucks and buses.	186,463	205,387	203,066
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	58,033	121,986	164,043
622.02	Tin other than alloys of tin, unwrought	70,885	126,190	127,128
155.20	Sugars, syrups, and molasses, derived from sugar cane or sugar beets, principally or crystalline structure or in dry amorphous form.	119,034	129,071	126,460
156.35	Cocoa butter	49,581	75,585	119,688
114.45	Shellfish other than clams, crabs, or oysters	75,405	114,044	117,944
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys	67,003	109,954	116,904
170.35	Filler tobacco, cigarette leaf, stemmed, mixed, or packed with 0 to 35 percent wrapper tobacco.	9,719	50,376	103,958
160.20	Coffee, soluble or instant, not containing sugar or other additives	109,148	119,930	98,837
772.51	Pneumatic tires, n.e.s.	20,291	74,628	97,845
607.66	Plates, of nonalloy iron or steel, not cut, pressed, nor stamped to nonrectangular shape, not coated, not pickled, and not cold rolled.	49,776	8,086	97,331
145.44	Cashews, shelled, blanched, or otherwise prepared or preserved	54,092	50,385	81,638
475.65	Mixtures of hydrocarbons n.s.p.f., from petroleum, shale oil, and/or natural gas, not over 50 percent by weight of any hydrocarbon, liquid.	-	-	74,581
685.12	Solid-state radio receivers, designed for motor-vehicle installation.	2/ 64,195	2/ 72,494	68,148
660.67	Parts of piston-type engines, other than compression-ignition engines.	38,306	57,536	67,351
	Total	2,489,030	3,409,636	4,296,780
	Total, U.S. imports from Brazil	4,943,437	7,207,997	7,545,259

1/ Prior to Jan. 1, 1985, TSUS item 165.29 was reported under portions of items 165.30 and 165.35.

2/ Prior to Jan. 1, 1985, trade for TSUS item 685.12 was reported under item No. 685.23, and prior to Apr. 1, 1984, under 685.21.

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

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

