UNITED STATES TARIFF COMMISSION

OPERATION OF THE TRADE AGREEMENTS PROGRAM

23d Report

1971

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

Washington
1974

Preface

This is the 23rd report issued by the United States Tariff Commission on the operation of the trade agreements program and relates to the Calendar year 1971. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of trade agreements program. 1/

This report describes principal developments during 1971 that relate to obligations of the United States under the trade agreements program, actions initiated by the Contracting Parties to the General Agreement on Tariffs and Trade to implement that agreement, and commercial policy developments in the major countries with which the United States has trade agreements. Developments within and among the major regional trading blocs also are covered.

The report was prepared by Eileen Slack, Mary Tuttle, Robert Cornell, and John Hennessey, Jr., all of the Office of Economic Research. The report was reviewed by the Commission and by its Staff Coordinating Committee.

1/ The immediately preceding report in this series was U.S. Tariff Commission, Operation of the Trade Agreements Program, 22nd Report, 1970, TC Publication 594, 1972. Hereafter that report is cited as Operation of the Trade Agreements Program, 22nd report. Other reports of the Tariff Commission on the operation of the trade agreements program are cited in a similar short form.

CONTENTS

Chapter I. U.S. Activities Relating to the Trade Agreements Program

CONTENTS

Chapter I. U.S. Activities Relating to the Trade Agreements Program--Continued

Chapter II. The General Agreement on Tariffs and Trade

CONTENTS

Chapter III. Developments in Europe, Latin America, Canada, and Japan

CONTENTS

Chapter III. Developments in Europe, Latin America, Canada, and Japan--Continued

Introduction

The year 1971 marked the 37th year of the trade agreements program and the 9th year of its operation under the Trade Expansion Act of 1962 (TEA). The program includes all activities consisting of or related to the negotiation or administration of trade agreements (other than treaties) concluded pursuant to authority vested in the President by the Constitution, section 350 of the Tariff Act of 1930, as amended, or the TEA.

The TEA was enacted "to promote the general welfare, foreign policy, and security of the United States through international trade agreements and through adjustment assistance to domestic industry, agriculture, and labor . . . ." The President's authority to negotiate trade agreements with other countries, delegated under the TEA, expired in 1967 but his authority to administer the trade agreements program and take action under various safeguard provisions of law continued. Existing duties and other important restrictions could be modified or extended and new restrictions could be imposed by Presidential proclamation.

United States imports grew substantially more than exports in 1971, resulting in the first trade deficit in this century. During the year, the dollar lost ground against other currencies and outflows of short term capital increased. In order to stem these pressures on the balances of payments, the President announced on August 16 that the United States had imposed a temporary surcharge on imports and had suspended convertibility of the dollar into gold and other official reserve assets. At the same time, wage and price controls were adopted for the domestic economy. The surcharge on imports was terminated on December 20, 1971, following conclusion 2 days earlier of the Smithsonian agreement for a temporary realignment of exchange-rate relationships of major currencies.

The U.S. merchandise trade account moved from a surplus of $2,164 million in 1970 to a deficit of $2,689 million in 1971, a swing of nearly $5 billion in 1 year. The U.S. trade deficit with Japan increased from $1.2 billion in 1970 to $3.2 billion in 1971, that with Canada increased from $2 billion to $2.3 billion, while the U.S. trade surplus with Western Europe declined from $3.3 billion in 1970 to $1.5 billion in 1971. Meanwhile, domestic prices continued to advance. There were pressures for tighter import restrictions and for improving the international competitive position of the United States. The new national economic policy adopted in August 1971 was designed to correct the imbalances that had been building up in the economy.

Chapter I

U.S. ACTIVITIES RELATING TO THE TRADE AGREEMENTS PROGRAM

Government Actions Under Safeguard Provisions

Safeguarding domestic interests from undesirable consequences of merchandise imports is provided for in most trade and tariff law. In the United States, restrictions may be imposed by administrative (Executive) action when domestic industries are found injured or clearly threatened by injury from increased imports resulting from concessions made under trade agreements, when imports threaten to impair the nation's security, or when imports interfere with certain Government-sponsored agricultural programs.

Safeguard actions are considered to be temporary and flexible measures for relief. Except in certain emergency situations, however, these actions are not taken unless full investigation has been made by one or more Government agencies. The investigations made and actions taken by the United States during 1971 under tariff adjustment (escape clause), adjustment assistance, and national security provisions of the Trade Expansion Act of 1962 (TEA), and the provision for limiting imports of agricultural products under section 22 of the Agricultural Adjustment Act are discussed below: 1/

1/ Reference to U.S. actions in 1971 with respect to investigation of cases involving the dumping of foreign goods in U.S. markets and imposition of dumping duties under provisions of the U.S. antidumping act is made in Ch. 2, below.

Trade Expansion Act of 1962

For many years, trade agreements to which the United States has been a party have included a standard escape clause--a safeguard provision permitting tariff adjustment (modification or withdrawal of tariff concessions) if increased imports resulting from concessions cause or threaten to cause injury to a domestic industry producing like or directly competitive articles. Article XIX of the General Agreement on Tariffs and Trade (GATT) permits actions of this type for such time as necessary to remedy or prevent injury to domestic producers resulting from unforeseen developments and from the effect of obligations incurred under the General Agreement. Modification and renegotiation of the national tariff schedules, annexed to the General Agreement, were provided for under GATT article XXVIII; escape-clause action would provide temporary and moderate modification of the tariff rates.

The escape clause provision of the TEA authorized the President to increase or impose any duty or import restrictions he determined to be necessary to prevent or remedy serious injury if an affirmative finding of such injury had been made by the U.S. Tariff Commission in accordance with the criteria set forth in the statute. Affirmative determinations by the Commission were to be accompanied by recommendations as to the amount of duty increase or other import restriction necessary to prevent or remedy for such injury. The statute provided for periodic review by the Commission of the effects of escape-clause actions and for inquiry into the probable economic effect of terminating them; it inaugurated the U. S. program for adjustment assistance whereby firms and workers found injured in consequence of import competition might seek economic relief in various forms.

Tariff adjustment.--In 1971, the Tariff Commission conducted four escape-clause investigations under Section 301(b) of the TEA. The industries concerned were engaged in the manufacture of nonrubber footwear; bagatelle, billiard, and pool balls; marble and travertine products; and television receivers. The footwear investigation was the first escape-clause investigation since inauguration of the trade agreements program in 1934 that had been undertaken in response to a Presidential request. It was part of a program of assistance to the nonrubber footwear industry developed by the executive branch on the basis of a previous study made by an interagency task force of the impact of imports on the footwear industry. 1/

The Tariff Commission's findings in these four investigations were as follows: 1/

TEA-I-18	Nonrubber footwear	Equally divided vote 2/
TEA-I-19	Bagatelle, etc., balls	Negative
TEA-I-20	Marble and Travertine Products	Equally divided vote
TEA-I-21	Television receivers	Negative

1/ If the Commission's vote was equally divided into two groups, the President could accept the finding of either group.
2/ The Commission's vote was equally divided except with respect to work and athletic shoes on which its vote was negative.

1/ U.S. Department of State, Bulletin, July 20, 1970, pp. 91-92.

On January 28, 1972, the President accepted the affirmative finding in the marble and travertine products case as the finding of the Commission for adjustment assistance to firms and groups of workers; however, the President decided not to proclain the tariff increases contained in the affirmative finding but to recommend to Congress the elimination of duties on the rough and certain semifinished forms of the stone.

At the end of 1971, three other industry investigations of this type were in progress, concerning ceramic table and kitchen articles (including dinner ware); flat and tempered glass; and electron microscopes, apparatus, and parts. All three cases were decided by the Commission during the first half of 1972.

The following actions were taken during the year concerning escape-clause tariff adjustment already in effect on window glass, pianos and certain carpets.

Window glass: Escape-clause duties on window glass as previously modified were extended by Presidential proclamation, effective April 30, 1970, through January 1972. These rates were to decline thereafter in three annual steps from an escape-clause rate of 20.9 percent to the 15-percent trade-agreement rate. In addition, workers in the industry were authorized to apply for adjustment assistance; this action followed the Tariff Commission's findings in an escape-clause investigation that concerned the industry producing flat glass and specially tempered glass, completed in 1969.

In February 1971, the Commission reported to the President on its annual review of this industry, as required under section 351(d) (1) of the TEA. In December, as the result of a petition filed earlier on behalf of the industry, the Commission completed an investigation under section 351(d)(3) of the TEA, to advise the President of the Commission's judgment as to the probable economic effect on the industry of the scheduled termination of the increased import restrictions. The Commission reported to the President that in its opinion the termination of the first stage of current modified escape-action rates of duty on imported window glass would impair the efforts of the domestic industry producing sheet glass to achieve viable operations. Following receipt of the Commission's report, the President extended the effective period for the increased rates of duty to April 30, 1973. 1/

Pianos: By Presidential proclamation of February 21, 1970, the 13.5-percent rate, or the second stage rate of the reduction on pianos negotiated in the Kennedy Round, was reestablished for pianos except grand pianos to be continued for a 3-year period; if no action had been taken, the decline in the duty on these pianos would have continued until a rate of 8.5 percent was reached effective on January 1, 1972. Firms and workers in the domestic piano industry were authorized to apply for adjustment assistance. In February 1971, the Commission submitted to the President its annual review of the industry under section 351(d)(1) of the TEA. No further action occurred.

1/ Presidential Proclamation 4102, Jan. 29, 1972, 37F.R.2417.

Wilton and velvet carpets.--The U.S. Tariff Commission concluded one report (in December 1971) concerning Wilton and velvet carpets and rugs, imports of which were subject to escape-caluse rates. This report met the statutory requirement (under section 351 (d)(1), TEA) for formal review of developments in an industry in whose interests escape-clause action had been taken. The higher duties had been extended by Presidential action from January 1, 1970, through December 31, 1972, on imports of these carpets and rugs of other than oriental design; the duty on imitation oriental floor coverings had been permitted to revert to the trade-agreement rate.

Adjustment assistance.--The tax-funded aid program incorporated in the TEA was intended to provide for adjustment to growth in imports that might result from trade liberalization in consequence of multilateral tariff concessions. Some segments of industry might suffer; others might gain, particularly if they were producing for export. Special benefits--adjustment assistance--could be available through government facilities to firms and workers found to be seriously injured, or so threatened, as a result in major part of increased imports from concessions granted under trade agreements. Thus, the criteria for eligibility for benefits were interlocking, and the approach to the problem of adjustment was ex post. 1/ Benefits could, however, include technical advice and counseling, as well as financial assistance for firms, and testing, retraining, and placement services for workers.

1/ The different approaches to such adjustment and how other countries deal with the problem are discussed in Frances M. Geiger, "The U.S. Adjustment Assistance Program and Analogous Programs of other OECD Countries," in National Planning Association, Planning Pamplet No. 130, Washington, 1971, pp. 202-211.

For many U.S. industries, 1971 was a year of heightened competition in home markets, and besides the petitions for tariff adjustment under the escape-clause provision, numerous requests for determinations of eligibility for adjustment assistance were filed on behalf of firms or workers. The number of investigations conducted by the Tariff Commission under the TEA exceeded by far the number in any previous year, and in contrast to other years, many findings were affirmative by virtue of either majority or evenly divided decisions following which the President concurred in the affirmative finding. Firms and workers in industries producing consumer goods and components of such products predominated--they included footwear, television receivers and other electronic and electrical appliances, typewriters, stainless steel tableware, and textiles.

Twenty-three investigations concerning firms were completed by the Tariff Commission during 1971. A total of eight firms, producing shoes, radio and TV receivers, stainless steel flatware, and textile products, became eligible to receive adjustment assistance--four on the basis of affirmative findings by the Commission, and four others as a result of Presidential decisions to accept affirmative findings as those of the Commission in cases where the Commission's votes were equally divided.

Ninety-one investigations were undertaken by the Tariff Commission in response to petitions on behalf of workers; six were in progress at yearend, due for completion in early 1972. Of the cases decided during 1971, the Commission's findings were affirmative in eight and its votes were equally divided in eighteen others. In each of the latter cases, the President accepted the affirmative finding as that of the Commission, with the result that workers involved in a total of 26 cases became eligible to receive adjustment assistance. During the year, the Secretary of Labor issued certifications of eligibility to receive adjustment assistance to groups which covered about 12,300 workers.

National security.--In general, import restrictions may not be decreased or eliminated if the President determines that such action would threaten impairment of the nation's security. Furthermore, Section 232 of the TEA provided that, in cases where increased imports of articles might be adversely affecting the country's capacity to meet national security requirements, investigations could be undertaken by the Director of the Office of Emergency Preparedness (OEP)--either on his own motion or in response to certain requests. Affirmative findings might lead the President to adjust import restrictions for such time as he deemed necessary. Consideration would be given not simply to the capacity of domestic industries to meet projected defense requirements, but also to the impact of import competition on the economic welfare of industries, employment and skills, and Government revenues.

An investigation concerning miniature and instrument precision ball bearings, started in 1969, was completed in May 1971, when the Director of OEP reported that impairment of national security was not evident, but that the producing firms essential to the country's mobilization base were facing serious economic difficulties. The Department of Defense therefore adopted a policy that all such bearings used in military-procured items be obtained insofar as possible from U.S. or Canadian manufacturers.

Under the authority of the same section 232 of the TEA, restrictions on imports of petroleum and certain products thereof were imposed by Executive action. The current program for controlling oil imports, the Mandatory Oil Import Program (MOIP) administered by the Department of the Interior, was established by Presidential proclamation in March 1959. In February 1970, the President had assigned the Director of OEP the responsibility for managing this program and also established an oil policy committee, comprised of the Secretaries of State, the Treasury, Defense, the Interior, and Commerce; the Attorney General; the Chairman of the Council of Economic Advisers; and to be chaired by the Director of OEP. The MOIP was a system of controlling imports by quotas, and during the early 1970's, the principal problems faced by the program's administrators were those connected with making the necessary modifications to allow imports to fill the gap between domestic production and burgeoning domestic demand. The two Presidential proclamations concerning the MOIP that were issued during 1971 1/ were both concerned with relaxing import restrictions. One related to fuel oil imports, the other to imports of crude oil from Canada. 2/

1/ Proclamations 4092, Nov. 5, 1971: and 4099, Dec. 5, 1971.
2/ For more information on Government programs concerning the U.S. oil import program and petroleum supply in 1971, see U.S. Congress, annual reports of the Activities of the Joint Committee on Defense Production.

Section 22 of the Agricultural Adjustment Act: Imports and Domestic Price Support Programs

Programs to stabilize U.S. farm prices and incomes have been maintained since 1933, and by virtue of section 22 of the Agricultural Adjustment Act of 1933, enacted in 1935, the President has been authorized to impose duties and quantitative limitations on imports of agricultural commodities found by the U.S. Tariff Commission to interfere with price support programs of the U.S. Department of Agriculture. 1/ (In cases of emergency the President could take immediate action pending the Tariff Commission's finding and recommendations--import restrictions imposed under section 22 were not to be affected by any actions taken under the TEA, however.)

In 1971 the Tariff Commission made a finding with respect to certain cheeses and recommended imposition of absolute quotas to be administered in full observance of GATT article XIII. It also recommended that the purchase price concept should be eliminated from the quota provisions. The President subsequently (in 1972) imposed quotas on imports of the subject cheeses if they are priced per pound less than the Commodity Credit Corporation purchase price for Cheddar cheese, rounded to the nearest whole cent, plus 7 cents. On January 1, 1971, new quotas had gone into effect by Presidential Proclamation 4026 on certain dairy products (ice cream, chocolate and articles containing chocolate, animal feeds containing milk or milk derivatives, cheese

1/ Section 22, which was added by the Agricultural Adjustment Act of 1935, was revised in its entirety by section 3 of the Agricultural Act of 1948 and again by section 3 of the Act of 1950. (U.S. Department of Agriculture, Agriculture Handbook, No. 408, 1971, p. 353.)

and cheese substitutes) which had been the subject of a Tariff Commission investigation on which findings were made in 1970. 1/

Accommodation of obligations under this domestic legislation and those under the GATT was made in 1955 when under GATT article XXV:5 the Contracting Parties granted the United States a waiver of its commitments under provisions of GATT articles II and XI. 2/ This waiver had no expiry date but required submission of an annual report on reasons for maintaining the restrictions and the steps taken to solve the problem of agricultural surpluses. In 1971, the fifteenth such report was submitted for review by the working party concerned.

Article XXVIII of the GATT: Modification of Tariff Schedules

The United States invoked GATT article XXVIII, Modification of Schedules, for the first time on August 3, 1970. In an effort to meet the problems of rising imports of stainless-steel table flatware, the United States, having previously reserved its right to modify or withdraw concessions, notified the Contracting Parties to the GATT that it was prepared to commence renegotiation of its tariff concessions on this merchandise. In August 1971, the United States proceeded to impose a tariff-rate quota on certain stainless steel flatware valued at less than 25 cents per piece. Japan, the principal supplier of the imports in question, responded with a claim for trade impairment compensation,

1/ For details, see Operation of the Trade Agreements Program, 22nd Report, page 15.

2/ A discussion of the U.S. request for a waiver and the conditions and rules to be followed whenever restrictions are imposed under sec. 22, is given in U.S. Tariff Commission, Operation of Trade Agreements Program, 8th Report, pp. 43-47.

and a settlement--which also involved outstanding U.S. claims against Japan--was hammered out during the year.

U.S. claims for compensation under article XXVIII (and article XIX) with respect to foreign import restrictions were pressed during the year, and led to foreign concessions valued at over $19 million, in settlements with Greece, Japan, India, and Canada. At the end of the year, similar negotiations were still in progress with Australia, Norway, South Africa, and Peru, on a variety of products.

Implementation of the United States-Canadian Automotive Products Agreement

In 1971 the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, 1/ had been in operation for nearly 7 years. 2/ This agreement established conditions for limited free trade between the two countries in products of and for the automobile industry--in which there was already a high degree of sectoral integration and interrelationship of home markets.

By virtue of this special type of bilateral agreement of unlimited duration (each government having the right to terminate it 12 months after giving written notice), both countries extended under specified conditions duty-free treatment on vehicles, 3/ original equipment (except

1/ U.S. Department of State, U.S. Treaties and Other International Agreements, TIAS No. 6093.

2/ For details on earlier implementation of the Agreement, see Operation of the Trade Agreements Program, 17th through 22nd reports.

3/ Generally including passenger cars, automobile trucks, motor buses and snowmobiles.

tires and tubes unless mounted on completed vehicles), and parts. Free access for parts and equipment was accorded by both countries only when these articles were imported by vehicle manufacturers. Such items have accounted for an increasing share in the total twoway trade in automotive products; this proved to be a boon to secondary manufacture in Canada. For automobiles, free access was accorded by the United States regardless of purchaser but by Canada only when imported by domestic manufacturers. 1/ The agreement, which aimed to expand markets and promote trade between the countries, provided conditions for growth in the Canadian share of production. To this end, Canadian producers--the Canadian subsidiaries of American Motors, Chrysler, Ford, and General Motors--individually undertook to increase the Canadian value added in Canadian production by an amount correlated with growth in the Canadian home market for vehicles. 2/

1/ To implement this agreement the United States enacted the Automotive Products Trade Act of 1965 and subsequently obtained a waiver of its most-favored-nation obligations under the GATT. In requesting the waiver, the United States declared that it did not intend to cause imports into the U.S. market of products of Canada in place of imports of products from other sources (GATT, Basic Instruments and Selected Documents, 14th Supp., p. 38.) Canada implemented the agreement through an Order in Council, but did not request waiver of GATT obligations since its conditions for preferential treatment on imports were applicable regardless of source.

2/ Letters of undertaking from company officials to Canada's Minister of Industry were reproduced in U.S. Congress, House, Committee on Ways and Means, United States-Canada Automotive Products Agreement, Hearings, 1965, pp. 148-150, 158-159, 189-191, and 194-195.

United States and Canadian Production and Trade in Automotive Products

U.S. production of motor vehicles totaled 10.6 million units in 1971, which was about 29 percent above the 1970 total. Canadian production of motor vehicles amounted to 1.4 million units (about the same as in 1969), about 16 percent more than in 1970, and about twice that of 1964. In 1971 the Canadian share in the aggregate number of motor vehicles produced in the two countries was 11.3 percent, compared with 12.4 percent in 1970 and 7 percent in 1964 (see table on following page). 1/

Average monthly employment in the U.S. motor vehicle industry increased to 873,800 workers in 1971, a gain of 8.5 percent over employment in 1970. Average monthly employment in the Canadian automotive industry rose to 93,700, a record high. This represented a 12.4 percent increase over 1970 and was 14.4 percent higher than the number employed in 1965.

Total two-way trade in automotive products between the United States and Canada (see table) reached over $7.9 billion in 1971, compared with $6.1 billion in 1970 and $778 million in 1964. Although exports of automotive products from the United States to Canada and imports from Canada to the United States increased substantially, U.S. imports rose proportionately much more. The Canadian market for automotive products has experienced a faster rate of growth than the United States

1/ The Canadian share of the combined two-country output of motor vehicles was materially smaller than the percentages indicate, since Canadian-assembled vehicles contained a substantial proportion of parts and accessories manufactured in the United States, while United States-assembled vehicles contained only a negligible proportion of parts and accessories made in Canada.

Summary of U.S. and Canadian production and trade in automotive products, 1964, 1970, and 1971

(Quantity in units; value in thousands of U.S. dollars)

Item	Quantity			Value		
	1964	1970	1971	1964	1970	1971
U.S. factory sales, total	9,292,275	8,239,257	10,637,738	18,060,391	19,000,000	1/ 25,900,000
Passenger cars	7,751,822	6,546,817	8,584,592	14,836,822	14,500,000	1/ 20,000,000
Trucks and buses 2/	1,540,453	1,692,440	2,053,146	3,223,569	4,500,000	1/ 5,900,000
Canadian factory sales, total	796,988	1,171,311	1,355,197	3/	3/	3/
Passenger cars	684,218	919,232	1,075,457	3/	3/	3/
Trucks and buses 2/	112,770	252,079	279,740	3/	3/	3/
U.S. exports 4/ to Canada, total 5/	18,344	301,190	413,233	666,637	2,513,730	3,275,231
Passenger cars	15,644	245,630	348,404	45,223	625,117	945,932
Trucks and buses 2/	2,700	55,560	64,829	14,984	215,177	267,433
Other vehicles	3/	3/	3/	3,456	29,146	42,603
Parts	3/	3/	3/	1/ 602,974	1,644,290	2,019,263
U.S. imports 6/ from Canada, total 5/	9,299	806,227	936,257	111,254	3,608,231	4,650,061
Passenger cars	9,201	692,783	802,281	18,703	1,806,036	2,396,808
Trucks and buses 2/	98	113,444	133,976	381	318,639	427,958
Other vechicles	3/	3/	3/	4,354	152,928	133,315
Parts	3/	3/	3/	87,816	1,330,628	1,691,980
U.S. trade balance with Canada, total 5/	+9,045	-505,037	-523,023	+555,413	-1,094,501	-1,374,830
Passenger cars	+6,443	-447,153	-453,877	+26,520	-1,180,919	-1,450,876
Trucks and buses 2/	+2,602	-57,884	-69,146	+14,603	-103,462	-160,525
Other vehicles	3/	3/	3/	-868	-123,782	-90,712
Parts	3/	3/	3/	+515,158	+313,662	+327,283
U.S. trade balance with all other countries, total 5/	-198,924	-1,236,017	-1,733,143	+1,671,214	-1,154,912	-2,235,876
Passenger cars	-361,512	-1,280,965	-1,746,956	-290,639	-1,798,583	-2,612,818
Trucks and buses	+162,588	+44,948	+13,813	-381,823	+171,613	+134,155
Other vehicles	3/	3/	3/	+50,037	+90,752	+50,785
Parts	3/	3/	3/	+1,529,993	+381,306	+192,002

1/ Estimated figure.
2/ Includes only trucks valued at over $1,000.
3/ Not available.
4/ U.S. exports of domestic merchandise; includes both APTA and non-APTA trade with Canada.
5/ Totals do not include quantity entries noted "not available." Therefore, quantity and value totals are not comparable.
6/ U.S. imports for consumption; includes both APTA and non-APTA trade with Canada.

Source: Compilations and estimates by the U.S. Tariff Commission from official statistics of the U.S. Department of Commerce and from data supplied by industry sources. For additional detail, see Addendum to Sixth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, Washington, U.S. Government Printing Office, 1973.

market, but the principal cause of Canadian export expansion has undoubtedly been the implementation of the automotive products agreement with the United States.

U.S. exports of motors, vehicles, and parts to Canada amounted to almost $3.3 billion in 1971, compared with $2.5 billion in 1970 and $667 million in 1964. Parts and accessories alone accounted for $2.0 billion in 1971, $1.6 billion in 1970, and $603 million in 1964. Total U.S. imports of motor vehicles and parts from Canada soared to a high of $4.65 billion in 1971, compared with $3.6 billion in 1970 and only $111 million in 1964. As a result, the net U.S. deficit in automotive trade with Canada rose to $1.4 billion in 1971 compared with $1.1 billion in 1970 and a surplus of $555 million in 1964. Meanwhile, the once-customary annual U.S. export surplus in total trade with Canada shifted from a positive balance of $555 million in 1964 to a deficit of nearly $1.2 billion in 1969, $2.0 billion in 1970, and $2.3 billion in 1971.

In 1971 Canada remained the principal foreign market and chief supplier of the United States with regard to automotive products. Canada took about 70 percent of U.S. exports of these products, compared with about 22 percent in 1964. At the same time, Canada supplied about 56 percent of such U.S. imports, in contrast to only 13.5 percent in 1964. However, the Canadian share of the U.S. automotive market was down from a high of 64 percent in 1969, due to sharply higher U.S. imports from Western Europe and Japan. In the entire period from 1964 through 1971, the deterioration of the U.S. balance of trade in automotive products with countries other than Canada was, in fact, significantly greater than the total adverse shift in the comparable balance with Canada; worldwide (excluding Canada), the movement into deficit totalled $3.9 billion, whereas the movement vis-a-vis Canada was about half as large, at $1.9 billion.

Canadian and United States government negotiators continued during 1971 to discuss the eventual elimination of transitional restrictions on Canadian imports of motor vehicles and parts from the United States. Owing to differences in the size and the relative production costs of the automotive industries of the two countries at the time the agreement was negotiated, Canada had requested transitional arrangements, preferential to its automotive manufacturers, until its smaller automotive industry could adjust to the much larger combined United States-Canadian market. Discussions on these issues had begun as early as 1968 but 1971 again saw no resolution of them and the Canadian restrictions on imports of U.S.-made vehicles remained in force into 1972.

Petitions filed for Adjustment Assistance

Under the Automotive Products Trade Act of 1965 (APTA), 1/ firms or groups of workers could apply to the Automotive Agreement Adjustment Assistance Board to be compensated for dislocations attributable to the implementation of the act. 2/ After June 30, 1968,

1/ This act granted the President of the United States authority to carry out the automotive agreement.

2/ Petitions from groups of workers were filed with the Automotive Agreement Adjustment Assistance Board, comprising the Secretaries of Commerce, Labor, and the Treasury. The President had delegated to the Board the responsibility of determining the eligibility of petitioners for adjustment assistance. In accordance with the act, the Tariff Commission was requested by the Board to conduct an investigation of the facts relating to each petition and to prepare a report which would assist the Board in making its determination.

petitions from groups of workers requesting determination of their eligibility to apply for adjustment assistance were handled under the Trade Expansion Act of 1962, and no longer under the special provisions of the APTA.

Between 1965 and July 1, 1968, 21 groups of workers filed petitions for adjustment assistance under the APTA. Seven petitions were denied by the Board, but certifications of eligibility for such assistance were issued in the other 14 cases, affecting more than 2,500 workers in six States. Of these workers, about 1,950 actually received weekly allowance payments, which ultimately totalled $4.1 million. During the entire 1965-68 period, no petitions for assistance were submitted by firms. 1/

1/ Adjustment assistance to firms could be in the form of technical, financial, or tax assistance.

Other U. S. Bilateral Agreements

U. S. Philippine Agreement

The exchange of goods between the United States and the Republic of the Philippines continued in 1971 to be subject to bilateral agreement. The executive agreement covering trade and related matters during the transitional period following institution of Philippine independence, entered into by the two Governments in 1946, was to end on July 3, 1974. In the United States this agreement was authorized by the Philippine Trade Act of 1946, later revised and incorporated in the Philippine Trade Agreement Revision Act of 1955.

The question of the Philippines becoming a contracting party to the GATT had not been an issue since the early 1950's. At that time, the United States declared that it would vote for the accession of the Philippines but availed itself of article XXXV of the GATT, which permits nonapplication of the General Agreement between particular contracting parties when either party becomes a contracting party. 1/

The United States was the Philippines chief trading partner and the chief foreign market for some Philippine products. Each country's preferential tariff treatment of the imports from the other country continued as provided for in the revised trade agreement. 2/ It established schedules for progressively increasing the proportion of applicable

1/ See George Reeves, Tariff Preferences for Developing Countries, U.S. Tariff Commission, Staff Research Studies, 1971, p. 127.

2/ Reciprocal preferential arrangements between the United States and the Philippines have been in effect since 1899, see e.g., Reeves, *op. cit.* pp. 124-132.

duties--from 5 percent in 1956-58 to 80 percent in 1971-73 on U.S. imports of Philippine articles and from 25 percent in 1956-58 to 90 percent in 1965-73 on Philippine imports of U.S. articles, full duties to be imposed by both countries during the last 6 months of the life of the agreement. Accordingly, in 1971 Philippine articles as defined in the Tariff Schedules of the United States were subject to 80 percent of applicable U.S. duties and U.S. articles that entered the Philippines were subject to 90 percent of applicable Philippine rates.

The revised trade agreement also provided for absolute quotas on U.S. imports of some Philippine products, notably sugar, and declining duty-free quotas on other products. The sugar quotas were, however, without prejudice to any increase the U.S. Congress might allocate to the Phillipines in the future. 1/ In fact the higher annual quotas set by the U.S. Sugar Act determined the level of U.S. imports of Philippine sugar, for which the United States has been virtually the only foreign market. Most U.S. imports of sugar entered under a special quota system at prices based on domestic prices. The United States was not participating in the International Sugar Agreement, which went into effect in 1969.

Exports of cotton textiles by the Philippines to the United States have been subject to a separate agreement since 1964. In November 1970 the agreement that entered into force on January 1, 1968, was amended and extended through December 31, 1973.

1/ These quotas were administered by the Secretary of Agriculture as provided in the Sugar Act of 1948; in 1965 this act was amended and extended through 1971.

Agreements under Reciprocal Trade Agreements Legislation

During the period after the Trade Agreements Act of 1934 was enacted and January 1, 1948, when the GATT entered into force, the United States had concluded a large number of bilateral trade agreements. Most of these lapsed in the postwar period. The five bilateral agreements still in force at the close of 1971 are noted below by partner country.

Argentina.--After Argentina fully acceded to the GATT in 1967, the 1941 bilateral trade agreement with the United States was amended so as to keep the agreement in effect until schedule XX (a consolidated schedule of GATT-U.S. concessions) "shall have been completed and proclamation thereof by the President of the United States shall have become effective." At the close of 1971, the bilateral agreement continued in force.

El Salvador, Honduras, and Paraguay.--The schedules of U.S. concessions and relevant provisions were terminated in the early 1960's but the bilateral agreements with these three countries continued in force.

Venezuela.--The reciprocal trade agreement signed in 1939 (with supplementary provisions of 1952) continued in force. However, its utility had diminished considerably over the years--because of both the imposition of import quotas on petroleum by the United States, and Venezuela's use of an import licensing system. During 1971, the Venezuelan Government notified the United States of its desire to revise the agreement in the light of current conditions, and some preliminary talks were held between the two governments. Then, on December 31, 1971, the Government of Venezuela gave formal notice of its intention to terminate the agreement six months later. Discussions were to continue during 1972.

International Commodity Agreements and Arrangements

Long-term Arrangement Regarding International Trade in Cotton Textiles

Section 204 of the Agricultural Act of 1956, as amended, in part authorizes the President, whenever he determines it appropriate, to negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries and the importation into the United States of any textiles or textile products.

Pursuant to this authority, imports of cotton manufactures have been subject to restraint since 1962 under the provisions of the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). 1/ A multilateral arrangement negotiated by the GATT Cotton Textile Committee (CTC), 2/ the LTA came into effect October 1, 1962, for an initial period of 5 years. It subsequently was extended for two successive three-year periods, the second of which was due to expire on September 30, 1973.

Prior to the inception of the LTA, the United States had made some effort to curb its imports of cotton textiles through voluntary foreign

---

1/ A preliminary short-term arrangement, set up under the GATT controlled cotton textile trade from Oct. 1, 1961 through Sept. 30, 1962.

2/ The CTC is composed of representatives of countries party to the LTA.

controls. Japan had imposed voluntary controls since 1957 over a wide range of cotton textile items exported to the United States. Italy had voluntarily controlled its exports of cotton velveteen to this country. These early efforts, however, neither comprehensively nor equitably controlled shipments of cotton textiles to the United States. Therefore, the United States proposed the LTA as a means of insuring a more orderly development of trade in cotton textiles than had occurred in the 1950's when, as one of the few open markets, it bore the brunt of sharply rising exports from new suppliers.

The LTA allows the United States and other importing countries to limit cotton textile imports in order to prevent disruption of their domestic markets, and also assures exporting countries of the opportunity for orderly growth in their cotton textile exports. At the time the LTA entered into force (October 1, 1962) three additional countries joined the 19 participants in the predecessor short-term arrangement to bring to a total of 22 the number of countries initially participating in the LTA. The addition of two countries in 1963 and four in 1964 raised the total to 28. In the three years from January 1, 1965, through December 31, 1967, the number of participants increased by two, 1/ then remained stable at 30 throughout 1968 and 1969. By the end of 1971, 29 countries had accepted the protocol for the LTA's second 3-year extension, opened for acceptance on June 15, 1970.

1/ Greece in 1966 and Poland in 1967.

Definition and Classification of Cotton Textiles.--In its administration of the arrangement, the United States defines as cotton textiles those items in which cotton is the chief fiber by value. These textiles are classified into 64 categories. 1/

Controls.--The major import-control provisions of the LTA are contained in articles 3 and 4 of the arrangement. 2/

Article 3: restraints.--Article 3 authorizes participating importer countries to request restraints 3/ on exports of product(s) from participating supplier countries when such exports cause or threaten to cause market disruption. An importing country can request an exporting country to limit shipments of the cotton textiles which are causing disruption

1/ Cotton textiles were defined in the LTA as including yarns, piece goods, madeup articles, garments and other textile manufactured products in which cotton represented more than 50 percent by weight of the fiber content--any country applying a criterion based on value being free to continue to use that criterion; for administrative purposes, textiles have long been classified under 64 product categories in three groups, beginning with carded yarns and running through final products, as follows: Group I, yarns (categories 1 through 4); Group II, fabrics (categories 5 through 27); Group III, madeup apparel and miscellaneous goods (categories 28 through 64). For a more complete description of the categories, see U.S. Tariff Commission, Summaries of Trade and Tariffs Information, schedule 3, volume 3, TC Publication 346, 1970.

2/ Support for U.S. application of these controls to nonparticipants in the LTA derives from sec. 204 of the Agricultural Act of 1956, as amended, which authorizes the United States to control imports from nonparticipants in a multilateral agreement if the trade of countries participating in the agreement accounts "for a significant part of world trade in the articles with respect to which the agreement was concluded."

3/ A restraint is a restriction of imports of cotton textiles classified in a specified category (or categories) from a single country to the level requested by the importing country. A country may have in force more than one restraint against imports from another country at any given time. A restraint is customarily for a 12-month period at a level not less than the level of trade in the article(s) concerned during the first 12 of the last 15 months prior to the request by the importing country. If a restraint is continued for an additional 12-month period, the level is increased by at least 5 percent (annex B, LTA).

in the requesting country. If the exporting country does not accede to the request with 60 days, the importing country can impose an import quota on the designated product(s), within terms specified in the arrangement. To assure equity for participating supplier countries, article 6(c) provides that exports of participating countries cannot be restrained more severely than exports of nonparticipants.

Article 4: bilateral agreements.--Article 4 of the LTA contains the authority under which the negotiation of bilateral trade agreements may be used to regulate cotton textile trade, to the extent that the terms are consistent with the basic objectives of the arrangement. Such agreements may be negotiated between participants in the LTA as well as between participants and nonparticipants.

In general the bilateral agreements are more comprehensive in product coverage and extend over longer periods than the restraints imposed under article 3. Under bilateral agreements, exporting countries benefit from increased flexibility, assured access to and share of foreign markets, and greater control over their own exports; 1/ importing countries benefit from the comprehensive coverage of the agreements.

U.S. Participation in 1971

During 1971 the United States continued its participation in the LTA, along with 28 other countries that had acceded to the second

1/ At the close of 1971, U.S. bilateral agreements in force under the LTA covered periods from 1 to 6 years. Most of the agreements were for 3 or 4 years.

extension of the arrangement by the end of the year. Also participating was the European Economic Community (not a party to the GATT), whose accession in 1970 was an indication of the Community's readiness as an entity to assume the rights and obligations of its member states under the Arrangement. All but two countries 1/ participating in the LTA were parties to the GATT.

Parties to the LTA, December 31, 1971

Australia	India	Portugal
Austria	Israel	Spain
Belgium	Italy	Sweden
Canada	Jamaica	Turkey
China, Republic of	Japan	United Kingdom 2/
Denmark	Korea, Republic of	United States
Egypt	Luxembourg	
European Economic Community	Mexico	
Finland	Netherlands 1/	
France	Norway	
Germany, Federal Republic of	Pakistan	
Greece	Poland	

1/ Extended to Surinam and the Netherlands Antilles.
2/ The Government of the United Kingdom accepted the arrangement for Hong Kong on Sept. 27, 1962, and continues as the official representative of Hong Kong in the LTA. Although sometimes listed with parties to the LTA, Hong Kong, a Crown Colony of the United Kingdom, is not an independent signatory.

Source: U.S. Dept. of State, Treaties in Force: A List of Treaties and Other International Agreements of the United States in Force on January 1, 1972, (Dept. of State Pub. 8628), p. 384.

Application of Controls.-- Under the terms of the LTA, the U.S. Government has moved steadily to regulate imports of cotton textiles into the United States. In its construction and application of the provisions of the LTA, especially articles 3, 6 (c), and 4, the United States

1/ Republic of China and Mexico (both eligible for participation under the provisions of para. 2, art. 11 of the arrangement).

draws on the authority vested in the President by section 204 of the Agricultural Act of 1956, as amended.

Article 3 restraints 1/.--At the end of 1971 the United States had in effect under article 3 of the LTA 11 restraints on imports of cotton textile articles classified in eight different categories, from eight countries. In the aggregate, these restraints amounted to an article 3 ceiling of nearly 10 million equivalent square yards 2/ on imports of cotton textiles. Seven of the eight countries under article 3 restraint by the United States were not parties to the LTA or partners of bilateral agreements with the United States under the LTA. The eighth country--Israel--was a party to the arrangement. Five of the countries were contracting parties to the GATT. 3/ The other three had no identification with the GATT. Of the eight countries, moreover, only Ceylon and Israel had been under similar restraint in 1970. Restraints in effect in 1970 against Haiti and Romania had been converted to bilateral agreements under Article 4 of the LTA by the end of 1971.

1/ As indicated above, art. 3 of the LTA permits the unilateral imposition of restraints against cotton textile imports from participating countries when such imports cause or threaten to cause market disruption; and art. 6(c) requires that imports from participating countries shall not be restrained more severely under art. 3 than are imports from nonparticipants which are causing or threatening to cause market disruption. In meeting this requirement, the U.S. Government applied the procedures of art. 3 against nonparticipants in the situations envisaged in art. 6(c). The term "article 3 restraint," therefore is often used to refer to unilateral restraints imposed against LTA nonparticipants as well as participants.

2/ To facilitate comparison, the U.S. Department of Commerce converts statistics on U.S. imports of cotton textiles reported in other units of measure (e.g., pounds, dozens, pairs) into equivalent square yards.

3/ Barbados, Ceylon, Israel, Mauritius, and Nicaragua.

The table below lists the countries against which the United States had article 3 restraints in effect at the end of 1971, and indicates for each country the number of cotton textile categories affected and the aggregate quantitative impact of these restraints (in million equivalent square yards). It is immediately apparent from the table that the overall quantitative impact of the U. S. effort to control imports under article 3 of the LTA during 1969 was greatest in Israel, Costa Rica, Nicaragua, and Thailand, which together accounted for three-quarters of the total volume of article 3 restraints in effect.

U.S. import Restraints in Effect under LTA Article 3
Dec. 31, 1971 1/

Country	Number of categories affected 2/	Aggregate quantity
		Million equivalent square yards
Barbados	1	0.5
Ceylon	1	1.0
Costa Rica	2	1.8
El Salvador	1	0.9
Israel	2	2.0
Mauritius	1	0.1
Nicaragua	2	1.8
Thailand	1	1.8
Total	11	9.9

1/ For further detail see U.S. Dept. of Commerce, Office of Textiles, Summary of Restraints Affecting U.S. Imports of Textile Manufacturers, April 1972, Part II.

2/ The same category may be restrained for more than one country.

Bilateral agreements under Article 4.--At the end of 1971 the United States had in force 28 1/ bilateral agreements under article 4 with 26 countries and two dependencies. This was two more than in 1970, new agreements with Haiti, Peru, and Romania having entered into force and the restraint against Costa Rica having shifted to Article 3 status. Fifteen of the 26 partner countries to these agreements were participants in the LTA. All except five 2/ were identified with the GATT. All agreements, except that with Italy, 3/ covered a part, parts, or all of each of the 64 categories into which the United States has classified cotton textiles for LTA administrative purposes.

On the following page is a list of the countries and dependencies with which the United States had LTA article 4 bilateral agreements in effect at the end of 1971, with the aggregate trade limitations covered by those agreements:

1/ This figure includes an agreement covering the Ryukyu Islands, which were still under the provisional jurisdiction of the United States. Therefore, it is not a true bilateral agreement. Accordingly, it is often omitted from Government listings and counts of U.S. bilateral agreements under the LTA.

2/ Republic of China, Colombia, Hungary, Mexico, and the Philippines.

3/ The agreement with Italy covered only category 7.

Country or dependency 1/	Trade limitations aggregate quantity
	Million equivalent square yards
Brazil 1/	78.8
China, Republic of	94.5
Colombia 1/	40.0
Czechoslovakia 1/	2.8
Egypt	55.1
Greece	10.9
Haiti 1/	4.5
Hong Kong	454.4
Hungary 1/	4.5
India	115.5
Italy	2.3
Jamaica	27.3
Japan	453.5
Korea	36.8
Malaysia 1/	21.0
Malta 1/	16.2
Mexico	98.1
Pakistan	89.2
Peru 1/	5.0
Philippines 1/	60.2
Poland	6.4
Portugal	119.2
Romania 1/	9.4
Ryukyu Islands 1/ 2/	11.7
Singapore 1/	47.1
Spain	51.4
Turkey	3.9
Yugoslavia 1/	24.5
Total	1,944.2

1/ Not a party to the LTA.

2/ Also referred to as Nansei-Nanpo.

In 1971, as in past years, limitations on annual shipments to the United States agreed to under bilateral agreements sanctioned by article 4 exceeded by far the restraints imposed under article 3-- restraints intended to be used only sparingly. The bilateral agreements generally provided for percentage increases in already established quantity limitations or set up new ones on products not previously considered disruptive in U.S. markets; they contained provisions for consultation and exchange of statistics.

Summary.--At the end of 1971, trade restrictions in force between the United States and other countries under the provisions of the LTA covered an aggregate of approximately two billion equivalent square yards of cotton textiles. In its overall trade impact, this was tantamount to an aggregate U.S. import ceiling of equal size on the cotton textiles affected. Bilateral agreements under article 4 accounted for 99.5 percent of this aggregate limitation, with article 3 restraints accounting for the small remainder.

Other Textiles

By 1970 the problems of changing patterns of international trade in textiles had become acute for both exporting countries and importing countries. At an informal meeting of representatives of the United States, the European Community, the United Kingdom, and Japan, held in Geneva on July 31 and August 1, 1970, the proposal was made to establish a working party to study the situation in the textile sector, as such, including wool and manmade fibers. 1/

No action toward instituting a multinational arrangement to regulate trade in other-than-cotton textiles was taken in 1970. In the latter

1/ A special GATT study of overall textile problems was authorized in 1972, following agreement on a proposal to set up a fact-finding committee.

part of the year, however, the United States and Malaysia negotiated the first of a number of bilateral arrangements covering exports of noncotton textile products to the United States. Under this agreement, Malaysia's exportation of wool and manmade-fiber textile products to the United States would be limited for a 4-year period beginning September 1, 1970. During the first year of the agreement, such textile products in five product categories would be subject to an overall limit equivalent to 5 million square yards. 1/

During 1971, the United States signed four more such bilateral agreements--5-year agreements with Hong Kong, Korea, and the Republic of China, and a 3-year agreement with Japan--which became effective on October 1, 1971. On September 1, the Malaysian restraint level was increased to 5.5 million equivalent square yards. With these steps, U.S. restraints on textiles and textile manufactures of man-made fibers applicable to the five countries involved came to approximate the total volume of restraints in effect on cotton textile products, while the restraints on wool and manmade fiber textiles combined grew to exceed the total limits applied to cotton textiles (see following table). When the three five-year agreements were signed, the participating countries also entered into multilateral agreements concerning market access in each participating country, thus providing for steps to limit disruptive imports from nonparticipating countries.

1/ Since wool textiles were not being produced in Malaysia, the specific limits set forth in the agreement actually applied only to manmade fiber textiles.

Restraints on U.S. Imports of Textile Manufactures of Wool and Manmade Fibers, in Effect on December 31, 1971

(Millions of equivalent square yards)

Country	Wool textiles	Manmade textiles	Total
Republic of China	4.7	467.5	472.2
Hong Kong	40.0	210.0	250.0
Republic of Korea	12.7	344.3	357.0
Japan	42.8	954.7	997.5
Malaysia	negl.	5.5	5.5
Total	100.2	1,982.0	2,082.2

Source: U.S. Department of Commerce, Office of Textiles, Summary of Restraints Affecting U.S. Imports of Textile Manufactures, April 1972, Part III.

Other International Commodity Agreements and Arrangements

A number of international marketing agreements and arrangements were in operation in 1971, and many intergovernmental study groups were following movements in international markets. Systematic attempts to order international commodity markets, particularly primary commodities, have been made or attempted since the first part of the twentieth century; such agreements vary in form, but all try to find a solution for regulating supply. The GATT proscribed, at least in principle, the use of quantitative restrictions. Article XI generally provided for elimination of such restrictions, but article XX provided that nothing in the General Agreement was to prevent adoption or enforcement of measures undertaken under intergovernment commodity agreements conforming to criteria submitted to and not disapproved by the Contracting Parties. 1/ In the period since part IV was added to the

1/ "The General Agreement, since it was not intended to be a comprehensive commercial policy instrument but merely a limited agreement on tariffs and certain trade barriers, does not contain any of the ITO provisions on commodity agreements" (John H. Jackson, World Trade and the Law of the GATT, Bobbs-Merrill Co., 1969, p. 722.)

GATT in 1965 and the United Nations Conference on Trade and Development (UNCTAD) was established as a permanent body, both chiefly because of the special economic problems of developing countries, some of the consultation and negotiation has been done through the United Nations.

In 1971 the United States was participating in two international commodity agreements, those concerning coffee and grains (wheat), and continuing participation in the international arrangement regarding cotton textiles, dating from the early 1960's. The United States was not a signatory to the international tin, olive oil, and sugar agreements but during 1971, as in past years, it continued its observer status in their governing bodies' deliberations. Moreover, U.S. representatives were present at most of the many other international discussions--sponsored by UNCTAD, FAO, or interested national governments--on commodities not covered by agreements. These included cocoa, rubber, oilseeds, oils and fats, hard fibers, silver, and sulfur.

Coffee

Coffee, for many years a leading earner of foreign exchange for several developing countries, also is a leading import product of the United States--the annual value of imports has ranged around $1 billion. The share of the coffee market accounted for by the United States in 1971 was about 44 percent of total world imports, up sharply from 37 percent in 1970 but considerably less than its 52-percent share in the early 1960's, whereas Europe's share has increased over the years to about 50 percent. With respect to green coffee, U.S. imports in 1971 reached 21.7 million bags 1/, 10 percent more than in 1970 but 15 percent less than in 1968, a peak year. U.S. imports of green coffee had dropped in six of the nine years preceding 1971. Some 63 percent of U.S. coffee imports in 1971 originated in Latin America, mostly from Brazil and Colombia.

For 1971 as a whole, world coffee prices showed an easing trend. There was a firming of prices during the final quarter of the year (due to demand increases and dock strikes in the United States) but it was not sufficient quite to offset the more substantial declines of the first three quarters. In 1971 the U.S. retail price of regular coffee averaged 79.8 cents per pound, mostly unchanged from 1970. Soluble ("instant") coffee retail prices averaged $2.92 per pound, off two cents from 1970 levels.

Nineteen seventy-one was the third year of operation of the International Coffee Agreement of 1968 (ICA), which had continued in modified form the coffee agreement of 1962--the first such agreement. The ICA, scheduled to run for 5 years ending September 30, 1973, was subscribed to by 41 coffee producing countries and 21 coffee importing countries, including the United States (see table). It aimed not only to alleviate the hardships stemming from surpluses and volatile prices in the short run, but also to move toward rationalizing production and demand.

1/ Standard bags of 60 kg. (132.276 lbs.) each.

Members of the 1968 International Coffee Agreement (ICA) at the end of 1971

Exporting countries (41)

Bolivia	Gabon	Nicaragua
Brazil	Ghana	Nigeria
Burundi	Guatemala	Panama
Cameroon	Guinea	Paraguay
Central African Republic	Haiti	Peru
Colombia	Honduras	Portugal
Congo (Brazzaville)	India	Rwanda
Congo (Dem. Rep.)	Indonesia	Sierra Leone
Costa Rica	Ivory Coast	Togo
Dahomey	Jamaica	Trinidad and Tobago
Dominican Republic	Kenya	Uganda
Ecuador	Liberia	United Republic of Tanzania
El Salvador	Madagascar	Venezuela
Ethiopia	Mexico	

Importing countries (21)

Australia	W. Germany	New Zealand
Austria	France	Norway
Belgium-Luxembourg	Israel	Spain
Canada	Italy (provisional)	Sweden
Cyprus	Japan	Switzerland
Czechoslovakia	Netherlands	United Kingdom
Denmark		United States

Source: Pan American Coffee Bureau, Annual Coffee Statistics, 1971, No. 35, New York, 1972, p. 12.

Under the ICA, prices are maintained at or above certain levels by means of alloting export quotas to producing members for each coffee year (October through September). Quotas are to be based on dollar prices--an important aspect of the arrangement in view of exchange-rate problems--and may be changed in response to the movements of a daily composite price for all coffees. During 1971, as in several previous years, the International Coffee Council, which administers the agreement, exercised a special provision permitting use of a flexible system of selective quotas in response to current market conditions; annual and quarterly quotas previously set for four principal types of coffee might be changed whenever prices remained for 15 days below or above established floor or ceiling prices. Several downward adjustments in these quotas were made during the year, as demand increases failed to meet original expectations, but on balance 1971 was a fairly good year for exporting countries. Overall world exports of green coffee were 53.3 million bags in 1971, roughly the same as the year before but under the 1968-69 levels of well over 54 million bags annually. The producing countries' foreign exchange earnings from coffee exports were estimated at $2.88 billion in 1971, 7 percent to 8 percent less than in 1970.

Trade in soluble coffee processed in coffee-growing countries, chiefly Brazil, increased in 1971, but output still was relatively small compared to green coffee production in the exporting countries. The United States, by far the principal market in the world for soluble coffee, imported a total of 36.4 million pounds of soluble coffee-equivalent in 1971, as compared with a peak level of 39.5 million pounds in 1969 and 35.7 million pounds in 1970. In 1971, U.S. soluble coffee imports were 20 percent of the volume of domestically processed "instant" coffee and 17 percent of the total amount available for domestic consumption. In 1969, these percentages had been 22 percent and 19 percent, respectively. Brazil supplied 62 percent of U.S. soluble coffee imports in 1971, continuing a sharp downtrend from 65 percent in 1970, 70 percent in 1969, and 84 percent in 1968.

One of the articles of the 1968 coffee agreement prohibits discriminatory treatment by producing country governments in favor of their exports of processed coffee. A U.S. complaint against Brazil that a Brazilian levy of taxes on green coffee but not on soluble coffee violated this provision was, until 1971, a source of long-standing dispute between the two countries. The United States contended that Brazilian-processed instant coffee was thereby being given competitive advantage in foreign markets. This dispute was settled in April, 1971, in a complex agreement that involved compromise on Brazilian taxation of both green and processed coffee exports.

The ICA called for setting up production goals and establishing a fund to finance a program to assist producing countries in diverting resources from coffee production to other uses. Exporting countries were to be required to contribute to this diversification fund and other countries might participate in it; the United States offered to loan $15 million and up to $15 million additional to match contributions from other importing countries, the funds to be administered within the provisions adopted for such loan activities. By October 1970, plans of 15 countries had been approved and six countries had received loans to finance plans and projects; at the end of the year, diversification projects proposed by eight countries--Brazil was one--had been submitted. Not until early 1971, however, was the first loan for an actual development project made--an interest-free loan to Kenya for livestock development. Several grants also were made during the year, including one to Guatemala ($3.3 million) and one to the Ivory Coast ($5.9 million).

Grains

The International Grains Arrangement (IGA) of 1967 ended its 3-year statutory life on June 30, 1971. It was replaced by a new International Wheat Agreement (IWA) that entered into force on July 1. Like its predecessor, the IWA comprises two legal instruments, the Wheat Trade Convention (WTC) and the Food Aid Convention (FAC). The wheat convention is essentially a modified extention of the International Wheat Agreement of 1949 which, according to the preamble to the IGA, had been revised, renewed, or extended in 1953, 1956, 1959, 1962, and 1966. The arrangement of 1971 was negotiated under United Nations auspices, at a U. N. Wheat Conference which met early in 1971 in Geneva. The IWA also continues the life of its administrative bodies, the International Wheat Council (IWC), the Wheat Council Secretariat, and the Executive Committee. In addition, it creates a new body, the Advisory Subcommittee on Market Conditions, which is a panel of government experts that keeps the world wheat market under constant scrutiny.

Some 42 of the world's major exporting and/or importing countries were among the signatories to the Wheat Trade Convention by the end of 1971 (see table). The European Economic Community, as well as its member states, are represented and the convention specifically provides that the prices at which the European Community would make wheat available to importing members of the convention would be not greater than established maximum prices.

Signatories to the Wheat Trade Convention, Dec. 31, 1971

Exporting countries

Argentina
Australia
Canada
European Economic Community
France
Greece
Kenya
Spain
Sweden
United States

Importing countries

Barbados
Belgium
Brazil
China
Costa Rica
Cuba
Denmark
Ecuador
Eygpt
European Economic Community
Finland
Germany, Federal Republic
Guatemala
India
Ireland
Italy
Japan
Lebanon
Luxembourg
Mauritius
Netherlands
Norway
Pakistan
Peru
Portugal
Saudi Arabia
South Africa
Switzerland
Syrian Arab Republic
Trinidad and Tobago
United Kingdom 1/
Union of Soviet Socialist Republics

1/ Extended to Bermuda, British Honduras, British Virgin Islands, Dominica, Gibraltar, Gilbert and Ellice Islands, Guernsey, Hong Kong, Isle of Man, Montserrat, St. Helena, and the Seychelles.

Source: U.S. Dept. of State, Treaties In Force, Pub. 8628, 1962 p. 390.

Because of a serious lack of agreement among the signatories on the issue of wheat prices--especially the price of a reference wheat--the WTC went forward without price provisions. By resolution at the time of ratification (July 24, 1971), the U.S. Senate expressed its wish for a separate conference to settle the pricing issue as soon as possible. By the end of the year, however, the IWC still did not feel that conditions would permit successful negotiations, and it merely ordered its Executive Committee to keep the question under review.

The new Food Aid Convention pledged nine donors to total annual contributions to less developed countries during 1971-73 of 3.97 million metric tons of wheat or other food grains. It continued the Food Aid Committee as its administrative body. The U.S. contribution is the largest of the nine (see tabulation below). It is covered by P.L. 480, and consists of shipments on concessional terms that may include donations, sales for nonconvertible currencies, or sales on long-term credits.

Average Annual Food Aid Contributions, 1971-73

Country	Thousand Metric Tons
Argentina	23
Australia	225
Canada	495
European Economic Community	1,035
Finland	14
Japan	225
Sweden	35
Switzerland	32
United States	1,890
Total	3,974

Source: U.S. Department of Agriculture, Economic Research Service, Wheat Situation, August 1971, p. 9.

In the wheat crop year ended June 30, 1971, world wheat production (Mainland China excluded) was 287.2 million tons, essentially unchanged from the year before. At the same time, however, world trade in wheat was up some 7 percent from 1969-70 to 53.7 million tons, the increase being the result of both climatic factors in various countries and a general worldwide increase in demand. Through the end of 1970 (the first half of the 1970-71 crop year), wheat prices rose sharply. The first six months of 1971 saw an easing trend of somewhat lesser strength. In the following crop year (1971-72), world wheat production hit a record 319 million tons, up 11 percent from the preceding year. However, with a decline in demand in the principal importing countries, world wheat trade fell off 2.6 percent from 1970-71, to only 52.3 million tons. In consequence, prices softened considerably during the first quarter of the crop year (July-September) when estimates and forecasts of anticipated crops for the year as a whole were first available to the markets. Subsequently, prices showed considerable stability for the remainder of calendar 1971 and the first half of 1972. 1/

1/ International Wheat Council, Review of the World Wheat Situation (annual) 1970-71 and 1971-72 issues, London, 1971 and 1972.

Other U.S. Import Programs

During 1971, formal restraints on U.S. imports of steel and meat were maintained through quantity limitations on exports arranged with foreign suppliers. Such arrangements are not officially part of the U.S. trade agreements program but relate to it, particularly with respect to the GATT. Unlike the controls set within the framework of international arrangements, these restraints were worked out independently--the voluntary steel arrangement, with steel producers in Japan and Europe and the meat restraint program, through government-to-government agreements. Such measures for relieving pressures from import competition were considered to be much more flexible than legislated controls or multilateral arrangements.

Steel: Voluntary steel arrangement

For the 3-year period 1969-71, restraints on exports of steel mill products to the United States were voluntarily agreed to by the steel producers of Japan and the European Coal and Steel Community (ECSC). Letters of intent were forwarded in December 1968 to the Secretary of State by the Chairman of Japan's iron and steel exporters' association and the associations of steel producers of the ECSC. 1/ At that time, U.S. imports of these products represented about 17 percent of U.S. market supply--some 108 million short tons in 1968; about 80 percent of the imports were products of Japan and the ECSC. Stated in these bilateral understandings were assumptions that in 1969 total exports to

1/ The texts of these communications were published in Department of State, Bulletin, Feb. 3, 1969, pp. 93-94.

U.S. markets from all foreign sources would not exceed approximately 14 million tons, with annual increases of 5 percent in each of the years 1970 and 1971; that attempt would be made to maintain the prevailing product mix of imports; that no increase in duties or new restrictions on imports of these products would be imposed by the United States; and that these agreements would not infringe on any U.S. laws and would conform to international laws.

In 1970, as in 1969, U.S. imports of steel mill products did not exceed agreed-on limitations and were in fact considerably below the 1968 level; in 1970, imports accounted for about 14 percent of U.S. market supply. In 1971, however, imports of steel from parties to the voluntary arrangements increased well beyond the voluntary restraint limits, and steel imports gained a share of almost 18 percent of U.S. market supply. Chiefly at issue here were steel imports from the EC, with the voluntary system virtually breaking down when the Association of EC steel producers used the occasion of the import surcharges announced by the President on August 15 as justification for a public renunciation of voluntary restraints on their exports to the United States. Steel imports were further stimulated by hedge buying early in the year in anticipation of strikes in the U.S. steel industry and, later in the year, by anticipatory purchases generated when severe labor troubles disrupted U.S. port operations during the second half. In 1971, as in the previous year, U.S. steel producers voiced increasing concern over rising imports of specialty steels and fabricated structures, which were not covered by the voluntary restraints. At yearend, discussions between the U. S. Department of State and representatives of Japanese and European steel interests were proceeding, with the objective of designing a new voluntary restraint program to replace that which expired with 1971.

Meat restraint program

With enactment of Public Law 88-482 in 1965, 1/ a policy concerning acceptable levels of U. S. imports of certain meats--at about 5 percent of domestic output--was established: imports should not exceed a restraint level specified for each calendar year, such level to take into account changes in domestic production and growth of the market. When imports were likely to equal or exceed 110 percent of specified levels, the President might by proclamation limit aggregate imports to the restraint level and quotas would be allocated to the supplying countries according to respective market shares in a representative period. Aggregate import limits might, however, be suspended or revised upward by the President whenever the interests of the economy or of national security overrode--these included the economic wellbeing of the domestic livestock industry, when supplies were inadequate to meet domestic demand at reasonable prices, or when trade agreements ensured that this Congressional policy was being carried out. 2/

Restraints on imports of fresh, chilled, or frozen cattle meat and meat of goats and sheep (except lambs) went into effect in 1968, and

1/ Between 1961 and 1964, U.S. production and imports of beef had been rising faster than demand, causing a precipitous drop in wholesale prices. (Donald Pryor, "Livestock: The Road to Market," Finance and Development, Nov. 1970, p. 25.)

2/ The authority for such action derives from section 204 of the Agricultural Act of 1956.

bilateral agreements embodied in exchanges of notes were worked out between the Government of the United States and the governments of meat supplying countries, setting limitations on the export of these meats to the United States. In 1970, agreements were signed with Australia, Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Ireland, Mexico, New Zealand, Nicaragua, and Panama. Agreements were not concluded with Canada or the United Kingdom, however, except to prohibit transshipments from Australia, New Zealand, and Ireland.

In 1970, projected U.S. imports exceeded for the first time the level (1,099 million pounds) which would have triggered import limitations and associated quotas. At midyear, however, the President by proclamation suspended the restraint limitation and the quotas that these imports had triggered and by Executive Order delegated the authority to negotiate agreements concerning imports of these meats to the Secretary of State, with concurrence of the Secretary of Agriculture and the Special Representative for Trade Negotiations. This action was taken on grounds of the national economic interest. As a result the restraint level was raised first to 1,140 million pounds and later (in October 1970) to 1,160 million pounds. Actual imports for the full year reached 1,170 million pounds (including meat shipments from Canada and the United Kingdom, both non-participant countries).

In 1971, some of these same kinds of developments were repeated. With total imports subject to Public Law 88-482 again set at 1,160 million pounds, the President also suspended quotas once again as a matter of national economic interest. Meat imports did not respond as strongly as expected to the quota suspension, however. By November, it was clear that, even with quotas suspended, there would be a 44 million pound shortfall in imports from several countries, as compared with their normal quotas. As a result, these amounts were reallocated to the quotas of other countries with which the U.S. had restraint agreements. For the year as a whole, total imports subject to Public Law 88-482 reached only 1,133 million pounds, despite the higher restraint level and the quota suspension.

Customs Cooperation Council

On November 5, 1970, the Convention Establishing a Customs Cooperation Council and Protocol concerning the European Customs Union Study Group, done at Brussels on December 15, 1950, entered into force for the United States. 1/ The Council, based in Brussels, was set up to administer the Brussels Nomenclature for the Classification of Goods in Customs Tariffs (BTN), which had been developed by the European Customs Union Study Group. U.S. accession to this convention had been approved by the President, on advice by the Senate, on October 8, 1968, to become effective on the date the instrument was deposited. 2/ On June 30, 1971, the Council was composed of 66 members.

1/ The United States acceded with a reservation relating to the extent of privileges and immunities generally accorded to international organizations under U.S. law.

2/ The instrument of accession was deposited on November 5, 1970 and the action was proclaimed by President Nixon on March 1, 1971 (U.S. Department of State, U.S. Treaties and Other International Agreements, TIAS 7063.)

Accession to the customs council was a condition for accession to two related international agreements, also opened for signature on December 15, 1950--the Convention on the Valuation of Goods for Customs Purposes and the Convention on the BTN. In 1971 the United States had not acceded to either of these conventions. According to the terms of the convention that established it, the functions of the customs council included <u>inter alia</u> examining "the technical aspects, as well as the economic factors" relating to customs matters "with a view to proposing to its members practical means of attaining the highest possible degree of harmony and uniformity," and "to make recommendations to ensure the uniform interpretation and application of the Conventions concluded as a result of its work as well as those concerning the Nomenclature for Classification of Goods in Customs Tariffs and the Valuation of Goods for Customs Purposes. . . ."

By 1971 (June 30) the BTN was being applied by 108 nations, some of which had not acceded formally to the convention, and it had been adopted for the common external tariff of the European Communities. 1/

1/ The origins, characteristics, and application of the Brussels Tariff Nomenclature are described in Customs Cooperation Council (Brussels), Document 15. 540, February 1, 1970; for further historical background, see e.g., Howard L. Friedenberg, <u>The Development of a Uniform International Nomenclature From 1953 to 1967 With Emphasis on the Brussels Tariff Nomenclature</u>; U.S. Tariff Commission, TC Publication 237, 1968, p. 45. For a chronological history of the Customs Cooperation Council's activities, Customs Cooperation Council, <u>The Activities of the Council Brussels</u> (annual). Bulletin No. 16 in this series covers the year ended June 30, 1971, Bulletin No. 17 covers 1971-72.

Thirteen other nations had adopted the BTN in draft tariffs. In addition, a total of 82 countries applied the Brussels Definition of Value (BDV) for customs valuation, in addition to their use of the BTN nomenclature scheme.

Chapter II

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Introduction

"Our long-term principle is to develop a viable trade system on a multilateral basis with a monetary system that will oil the wheels and will service the trade system. These two systems working together will be in the interests of all countries. We are committed to see that the GATT is a business-like organization and a decision-making organization." 1/ So remarked Ambassador Eberle, U.S. Representative, on November 25, 1971, in Geneva, at the 27th session of the Contracting Parties to the General Agreement. This session of highest level meetings of GATT "members" took place over a ten-day period during the interval between mid-August, when the United States *inter alia* suspended convertibility of the dollar and imposed a surcharge on imported goods, and mid-December, when the the Smithsonian agreement to partially realign the exchange rates of major currencies was negotiated in Washington--the United States also agreeing to raise the par value of the dollar in terms of gold from $35 to $38 an ounce and to lift its import surcharge.

In 1971 the GATT was clearly functioning organizationally, providing an active forum for consultations, facilities for monitoring conduct, underwriting research on trade matters, and (jointly with UNCTAD) sponsoring publications and training programs to benefit

---

1/ In this chapter, GATT, the General Agreement, and the Agreement all refer to the General Agreement on Tariffs and Trade.

developing countries. As an instrument for expanding trade, however, the GATT was being badly battered. Monetary and fiscal policies of GATT participants required more than conventional review of devellopments and approval of exceptions to accommodate short-run problems. Trading nations were confronted by the need for a new monetary system just when they were about to declare their intent to hold a new multilateral round of GATT negotiations for liberalizing trade. In the next round of such negotiations, expected to be opened in 1974, frontal attack on import curbs other than tariffs, direct and indirect, would be attempted. Use of nontariff restrictions was firmly believed to have been greatly stimulated by the lowering of tariffs on merchandise trade negotiated in the Kennedy Round--the fourth of five annual steps of those duty reductions was placed in effect by most contracting parties by January 1, 1971.

Constrained by monetary problems and the prospective impact of an enlarged European Common Market linked up with the European Free Trade Association, the 27th session yielded few decisions and no steps for operational change. Concern during the year about stalemates and stumbling blocks, however, had prompted introduction of many proposals for new approaches to old problems, two of which were considered but not adopted at the November meetings. One was Australia's proposal for appointing a small group of independent experts to work out, for all countries, solutions to agricultural problems; the other was Sweden's proposal for setting up a high-level trade policy group to recommend methods for approaching fundamental issues. Before the session ended, the delegates reportedly reached a consensus to:

> Initiate consultations on the terms of the agreements to be concluded for the prospective new accessions to the European Community;
>
> Retain the special high-level committee, known as the group of three, that had been working on problems relating to the trade of developing countries;
>
> Examine regional and preferential agreements at regular 2-year intervals;
>
> Undertake a statistical study of contracting parties' trade at most-favored-nation and other rates of duty;
>
> Issue a statement on trade policy.

Earlier in the year, a decision was made to set up a special group to examine, on request, the impact on international trade of the national measures instituted for environmental control.

In the rather uncoordinated statement on trade policy, which the delegates worked out after a "wide-ranging" debate, the Contracting Parties reaffirmed their intention to continue to work together in the framework of the GATT and their determination to give particular attention to trade problems of developing countries. According to the published version of the statement, the Contracting Parties agreed to pursue through their existing program for trade expansion, every opportunity to progress toward trade liberalization with respect to "individual measures" or "groups of measures," and as soon as feasible to pursue a "major initiative" for dealing with longer-term problems. A "large majority" reportedly favored addition of an instruction for resolving in 1972, short-run problems capable of early settlement and for studying "alternative techniques" for dealing with other problems.

This chapter chronicles some of the events in the GATT year. It does not attempt to analyze legal and political aspects of the Agreement's applicability, or to treat economic effects of the Agreement's operation.

Participation in the General Agreement

At the end of 1971, 96 nations, some with centrally planned economies, were subscribing in principle to the objectives of the GATT and ostensibly attempting to adhere to its provisions. Eighty were full-fledged contracting parties; one was continuing in provisional status; and 15, former territories of original contracting parties, were maintaining what was termed de facto application of the Agreement, pending decisions on trade policy. During the year, Romania and Zaire (then the Democratic Republic of the Congo) had become contracting parties. Both were accepted under article XXXIII on terms worked out according to customary GATT procedures and embodied in protocols of accession, Zaire having opted to negotiate new terms rather than to apply as a former territory.

In acceding to the GATT, Romania, with a nonmarket economy and no customs tariff, adopted a policy of nondiscrimination with respect to trade with other contracting parties on the understanding that it would receive like treatment. 1/ As its main trade concession, Romania would develop and diversify its trade with contracting parties and increase overall imports from such sources at a rate no less

1/ This posed a problem for the United States since it lacked legislative authority to negotiate a most-favored-nation (MFN) agreement with Romania, one of the communist countries not benefiting from trade-agreement concessions at the time section 231 of the Trade Expansion Act of 1962 was amended. The United States was therefore obliged to invoke GATT article XXXV (non-application of the Agreement between particular contracting parties), but informed Romania of its intention to seek MFN treatment as part of a commercial agreement. The United States was authorized to grant such treatment on imports from Poland and Yugoslavia, but not Czechoslovakia, the other three countries of Eastern Europe that were contracting parties.

than stipulated for total imports in its 5-year economic plans. This commitment could be modified in accordance with article XXVII (withholding or withdrawal of concessions) or at any time Romania might introduce a customs tariff. In exchange matters, Romania would act, so long as it was not a member of the International Monetary Fund, in accordance with the intent of the Agreement and in a manner fully consistent with the principles set down in a special agreement adopted by the Contracting Parties in June 1949.

Accession of the Republic of the Philippines, which was participating in GATT activities in "observer status," seemed remote in 1971; in fact, the Secretary of Finance of the Philippines denied in a press conference that his country was contemplating joining and indicated that congressional approval for the necessary negotiating authority was not in prospect. Trade between the United States and the Philippines was continuing to be subject to residual preferences under the longstanding bilateral agreement due to expire in 1974.

The status of the Republic of China, which in 1965 had been granted permission to attend sessions of the Contracting Parties, was discussed at the opening of the 27th session in November 1971. On the basis of what was termed a "consensus" to follow decisions of the United Nations with respect to political matters, a request was made that the representative of Republic of China withdraw. Several contracting parties, including the United States, opposed this decision and the basis on which it was made.

The ninety-six nations participating in the GATT are listed below:

Full contracting parties

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

Provisional accession: Tunisia

De facto application:

Algeria
Bahrein
Botswana
Equatorial Guinea
Fiji
Khmer Republic 1/
Lesotho
Maldives
Mali
Qatar
Singapore
Southern Yemen
Swaziland
Tonga
Zambia

1/ In October, Cambodia became the Khmer Republic.

Balance-of-Payments Problems

Introduction

Consideration of the restrictive measures taken by countries for balance-of-payments reasons constitutes one of the most important responsibilities within GATT. In 1971 the United States resorted to import restrictions to alleviate balance-of-payments problems; the U.S. action was dramatic and placed a difficult issue before the GATT. Other activities in connection with balance-of-payments problems included reexamining the need for Uruguay's system of import surcharges and Turkey's stamp duty, and referring study of Denmark's new import surcharge to a working party. During the year, the Contracting Parties were advised that Spain had elimated its import deposit scheme; Israel would reduce its import deposit rate but needed to maintain an import surcharge; that Yugoslavia had abolished its system of import deposits and intended to remove its import surcharge by the end of the year; that South Africa, needing to intensify its import restrictions, was revoking article XII (restrictions to safeguard the balance of payments); and that Argentina had taken certain measures with regard to imports, including a general suspension of imports during October. Consultations by the GATT committee on balance of payments restrictions were carried out with Brazil, Ceylon, Ghana, Iceland, Israel, Korea, and New Zealand.

United States actions

On August 16, 1971, the GATT was officially notified that the United States had imposed a temporary surcharge on imports, effective on the same date, and that the Executive branch planned to submit legislation providing for tax treatment for U.S. exporters that would be more comparable to that permitted many U.S. competitors abroad. Consideration of these and other measures affecting trade, instituted or proposed by the United States because of problems in its domestic economy and external financial position, was immediately undertaken by the Contracting Parties.

The U.S. measures were part of a program announced by President Nixon at a time when balance-of-payments problems were serious: the dollar was losing ground vis-a-vis other currencies, outflows of short term capital were increasing, and deficits on the merchandise trade account were pressing down on the basic balance (the net balance on the trade, services, and long-term capital accounts). In addition to the import surcharge and proposed tax deferral on export sales to be effected through establishment of a special export organization (Domestic International Sales Corporation, known as the DISC), the program included *inter alia* suspending for the first time since 1934 convertibility of the dollar into gold and other official reserve assets, controlling prices and wages, and for so long as the import surcharge would be in effect, confining accelerated tax credits on new investment goods to those produced domestically (the job development tax credit).

The surcharge on imports was imposed by Presidential proclamation 1/ as a supplemental duty of 10 percent ad valorem on most dutiable articles, the total duty on any article not to exceed the statutory rates under the Tariff Act of 1930 as provided for in column 2 of the Tariff Schedules of the United States, then applying only to products of communist countries not granted MFN treatment. 2/ Thus, for some items the additional duty was much less than 10 percent. Numerous items were exempted, many of which were primary products of export interest to developing countries. Furthermore, the surcharge did not apply to items that had not been the subject of trade concessions or to those under mandatory quantitative restrictions (such as cotton textiles under LTA arrangements, petroleum products, sugar, certain meats and other agricultural products). Goods to which the additional duty did apply accounted for about one-half the value of total U.S. imports, then running at an annual rate of around $45 billion. The surcharge, intended to be temporary, was to be removed when some agreement on revision or reform of the international trade and payments system could be reached. It was in fact terminated on December 20, 1971, 3/ following conclusion on December 18, 1971, of the Smithsonian agreement for a temporary realignment of exchange-rate relationships of major currencies.

1/ Presidential Proclamation 4074.

2/ Because of residual preferential relations with the Philippines, the duty on products of the Philippines would not exceed 80 percent of the combined total rate.

3/ Presidential Proclamation 4098.

In proclaiming the surcharge, the President declared a national emergency--calling on the public and private sectors to make the efforts necessary to strengthen the international economic position of the United States--and terminated in part, for such period as might be necessary, or modified prior Presidential Proclamations which carried out trade agreements to the extent they were inconsistent or proclaimed different duties. The President had cited the balance-of payments position of the United States as requiring imposition of a surcharge on dutiable imports, but the United States, in notifying the Contracting Parties of its action, did not invoke any provision of the General Agreement on the ground that the world trade and monetary situation transcended such a limit. The GATT permitted recourse to import quotas when a country's external financial position needed strengthening, but did not provide for increasing duties to correct balance-of-payments problems, or any problems. As noted by the United States, however, there was plenty of precedent among GATT members for import surcharges. 1/

The new U.S. trade measures were discussed at a special meeting of the Council (of representatives of contracting parties), convened in Geneva on August 24-25, at which time the United States presented a statement of the aims of the President's economic program and the relationship to the GATTof actions taken in pursuance of that program. 2/ Most of the delegates questioned the appropriateness of the

1/ See, for example, OECD, Trade Measures and Adjustment of Balance of payments, Paris, 1971, pp. 33-43.

2/ Nathaniel Samuels, Statement Before the Council of the General Agreement on Tariffs and Trade at Geneva on August 24, 1971 (Department of State Bulletin, Sept. 20, 1971, pp. 305-308).

measures and called for early removal of the U.S. import surcharge. In their view the U.S. balance-of-payments difficulties were not related to (merchandise) trade. Delegates from developing countries generally found the surcharge in conflict with the objectives of generalized preferences and with the standstill principle provided for under article XXXVII (commitments) of part IV of the Agreement. Many delegates referred to the proposed tax relief on U.S.-produced capital goods as discriminatory and to the proposed tax deferral for exporters as an export subsidy. It was decided, without prejudice to the legal issues involved, to set up a working party to examine and report on the U.S. surcharge and to exchange views on other elements, of a nonmonetary nature, in the U.S. program that bore directly on international trade. The following contracting parties were represented on the working party, chaired by the representative of Finland:

Argentina	Ghana	Sweden
Australia	Greece	Switzerland
Austria	India	Trinidad and Tobago
Canada	Japan	United Kingdom
Chile	New Zealand	United States
European Communities and their member states	Pakistan	
	Poland	
	Spain	

The working party's report 1/ contained a statement on the consultations held with the IMF, as called for under GATT article XV (exchange arrangements); a discussion of the techncalities of the surcharge and its implications; a full restatement of the U.S. position

1/ GATT Document L/3573, adopted by the Council on Sept. 16, 1971.

by the U.S. representative; accounts of the statements of other delegations; and the working party's conclusions. The U.S. contention that its balance of payments was in disequilibrium in consequence largely of the effect of a deteriorating trade account on the basic balance was in essence supported by the IMF which concluded that although the import surcharge could be regarded as being within the bounds of what was necessary to stop a serious deterioration in the U.S. balance-of-payments position, it could be justified as a means of improving the position only until effective action could be taken in the field of exchange rates. A summary table, supplied by the IMF, showing the balances on U.S. international accounts as compiled by the U.S. Department of Commerce was annexed to the report. The IMF summary, which related to 1969, 1970, and the first half of 1971, is reproduced in the table on the following page. The balances that appear in the summary as revised for the year 1970 and developed for the year 1971 are given below (in billions of dollars): 1/

	1970	1971
Merchandise trade balance	2.16	-2.67
Balance on goods and Services	3.56	0.75
Balance on current account and long-term capital (basic balance)	-3.06	-9.28
Net liquidity balance	-3.85	-22.00
Official reserve transactions balance	-9.84	-29.76

1/ Department of Commerce, Survey of Current Business, March 1973, Table A1, p. 23.

United States: Balance-of-Payments Summary

(In billions of dollars)

	1969	1970			1971	
		Year	First half	Second half	First quarter	Second quarter
Exports	36.49	41.98	41.65	42.31	44.13	42.84
Imports	-35.83	-39.87	-39.12	-40.62	-43.04	-47.00
Merchandise trade balance	0.66	2.11	2.53	1.69	1.09	-4.16
Military transactions (net)	-3.34	-3.37	-3.43	-3.31	-2.71	-
Travel and transportation (net)	-1.78	-1.98	-1.90	-2.06	-1.94	-
Investment income (net)	5.98	6.24	6.09	6.39	6.91	-
Other services (net)	0.50	0.59	0.56	0.61	0.85	-
Balance on goods and services	2.01	3.59	3.85	3.33	4.20	-2.20
Remittances, pensions and other transfers	-1.27	-1.41	-1.40	-1.42	-1.40	-
U.S. Government grants (excluding military)	-1.64	-1.74	-1.62	-1.86	-1.73	-
Balance on current account	-0.90	0.44	0.83	0.05	1.07	-
U.S. Government capital flows (net)	-1.93	-2.03	-2.09	-1.97	-2.75	-
U.S. private long-term capital (net)	-4.86	-5.78	-6.11	-5.46	-6.77	-
Foreign private long-term capital (net)	4.81	4.33	3.62	5.03	2.78	-
Balance on current account and long-term capital	-2.88	-3.04	-3.73	-2.34	-5.66	-
Non-liquid short-term private capital flows (net)	-0.60	-0.55	-0.54	-0.55	-0.40	-
Allocations of SDRs	-	0.87	0.87	0.87	0.72	0.72
Errors and ommissions (net)	-2.60	-1.13	-0.98	-1.28	-4.64	-
Net liquidity balance	-6.08	-3.85	-4.39	-3.31	-9.98	-23.39
Liquid private claims	0.12	0.27	0.35	0.19	-1.41	0.42
Liquid liabilities to private foreigners	8.66	-6.24	-4.50	-7.99	-10.72	-0.10
Official reserve transactions balance	2.70	-9.82	-8.53	-11.11	-22.11	-23.06

Source: U.S. Department of Commerce.

Note: Semi-annual and quarterly figures are at seasonally adjusted annual rates.

Obviously, from 1970 to 1971, the U.S. trade balance (and basic balance) was not only deteriorating greatly, but the net liquidity balance (probably accounted for mainly by increases in short-term outflows of capital) and the balance on overall reserve transactions were dropping precipitously.

Despite all-time high deficits on these U.S. accounts, the working party was generally unsympathetic to the U.S. position. In its view, the massive outflows of short-term capital reflected a loss of confidence in the stability of the U.S. economy and the magnitude of the balance-of-payments disequilibrium was not accounted for by the sizes of the fluctuations on the trade account. Some members of the working party questioned whether a sizable U.S. trade surplus was an essential feature of world trade and whether a constant U.S. trade surplus was tenable. In its conclusions the working party (one member reserved his position) considered the surcharge inappropriate as a remedy for the U.S. balance-of-payments situation and the interests of the developing countries were stressed for abolishing the surcharge. It also noted that the surcharge would be incompatible with GATT to the extent that it raised customs duties beyond the maximum rates bound under article II (schedules of concessions) of the Agreement.

Views on two U.S. fiscal proposals were also exchanged. With respect to the job development tax credit, the U.S. representative pointed to the fact that increases in U.S. imports of capital goods had outpaced growth in his country's total imports and in its GNP. As could be anticipated, particularly since in the past several complaints about special credits for machinery had been considered in the GATT, 1/ the representatives of the EC and countries producing capital equipment expressed concern about the protective and discriminatory effect of excluding foreign-produced equipment, or equipment containing more than 50 percent imported components. They generally found the proposal inconsistent with the GATT provision for guarding against the use of internal taxes to protect domestic production (article III, national treatment on internal taxation and regulation). 2/

The proposal for a tax incentive to U.S. exports through the DISC also brought unfavorable comment. According to a note on exchange of views, 3/ the EC representative pointed out that such tax privileges or similar treatment of exports did not exist in the Community and institution of the DISC would prompt similar actions in other countries. The United States objected to and did not participate in this discussion on the grounds that the topic was not part of the U.S. program as presented by the United States, notwithstanding the fact that the U.S. communication to the Contracting Parties of August 16th had notified both the imposition of the surcharge and the legislative proposal for the DISC.

In early December, prior to lifting the import surcharge, the United States enacted into law provisions permitting establishment of the DISC and allowing for the job development credit. 4/

1/ John H. Jackson, "The New Economic Policy and U.S. International Obligations," American Journal of International Law, Vol. 66, No. 1 (Jan. 1972), p. 112-113.
2/ GATT Document L/3575, Sept. 13, 1971.
3/ GATT Document L/3574, Sept. 13, 1971.
4/ Revenue Act of 1971, Pl 92-178.

Antidumping Activities

Debate over dumping and antidumping practices intensified during 1971; some nations felt that proceedings under national antidumping laws were more significant as nontariff barriers to trade than as means for dealing with price discrimination from foreign goods. GATT article VI (antidumping and countervailing duties) explicitly condemned the practice of dumping if it caused or threatened material injury to an established industry, or materially retarded establishment of an industry, and permitted the levying of offsetting preventative duties or an exception to the MFN obligation under GATT--after injury has been determined.

The GATT committee on antidumping practices continued to meet and examine changes in national laws and antidumping actions reported by contracting parties. As in the past, the United States reported far more cases than any other notifying party. For the period July 1, 1971, to June 30, 1972, the United States reported 39 investigations opened, duties imposed in 16 cases, settlement through price undertakings in 6 cases, and 9 cases dismissed; 34 cases were pending at the beginning of the period and 44 cases at the end of the period.

In calendar year 1971, the U.S. Tariff Commission made determinations of injury in 13 of the 18 investigations it instituted. U.S. law did not however, define injury or provide statutory criteria for determining injury. Products concerned in these cases were exports of Japan (6 cases), Canada (3 cases), West Germany (3 cases), Finland (1 case), Italy (1 case), Mexico (1 case), France (1 case), Taiwan (1 case), and the United Kingdom (1 case). One of these cases, that concerning television receiving sets imported from Japan, involved more in value of trade than had any previous dumping case in the history of U.S. dumping actions; in this case, sales at "less than fair value" as defined in U.S. law appeared to have been other than "sporadic."

The committee continued an effort to see that the provisions of the executive agreement of 1967 on implementation of GATT article VI, which had come to be called the International Dumping Code, were being followed, and to work with countries that had not been able to accept the code. A working party to study the special problems of dumping with respect to exports of developing countries held its first meeting in 1971. Austria (effective January 1, 1972) and Malta were the only new adherents to the agreement on implementing article VI.

In reporting on regulations and procedures under its domestic law, the United States informed the GATT secretariat that it had eliminated its "25-percent rule," whereby the home market of the country of exportation was considered inadequate as a basis for determining fair value if it accounted for less than 25 percent of the quantity sold other than for exportation to the United States. The United States also advised the Contracting Parties that, because of a wide increase in interest in and recourse to its antidumping legislation, it was undertaking a broad review of relevant regulations and procedures; this review was expected to extend over an appreciable period of time.

Emergency Action on Imports of Particular Products under Article XIX

Article XIX, which applies in cases concerning particular products, was intended to serve as the escape clause of the General Agreement but as such has been invoked mostly in cases involving relatively small values of trade. Under the article, tariff concessions are specified as GATT obligations that can cause or threaten serious injury to domestic producers. The article provides for consultation--one of the "19 clauses in the GATT Treaty that obligates the parties to GATT to consult in specific instances," 1/ making compensatory settlement possible by withdrawal or acceptance of concessions. The GATT permits exporting countries to receive compensation or to retaliate, and temporary escape action taken by the importing party without satisfactory settlement has, in several very important cases, resulted in severe retaliation. In 1971, article XIX was invoked by Canada in connection with imports of textiles and of strawberries. In the textile case, the Government of Canada advised the contracting Parties that its newly established Textile and Clothing Board, 2/ had concluded that imports of men's and boys' shirts had caused serious injury to domestic producers, that Canada's shirt industry was viable in the long run, and that a global quota with a minimum guaranteed each

1/ John H. Jackson, World Trade and the Law of GATT, Bobbs-Merrill Co., Inc., pp. 164-165 and pp. 556-567.

2/ Canada's Textile and Clothing Board was set up in May 1971 to carry out selective product-by-product inquiries, to make determinations with respect to serious injury or the threat of serious injury by reason of imports, and to recommend special protective action if it found injury in cases where domestic products had prospects of being competitive with foreign goods (GATT Document L/3736, Report of the Cotton Textile Committee, adopted Oct. 25, 1972).

supplier had been introduced. In the case concerning strawberries, because of imports "at disruptingly low prices," Canada imposed a temporary import surtax on this fruit in fresh, frozen, and preserved forms; some modification of dates and an offering of compensatory concessions, however, resulted from consultations that were requested by the United States. The Contracting Parties were also notified during the year that the protection--suspension of tariff concessions--afforded certain foundry pig iron introduced in 1964 by the ECSC (European Coal and Steel Community) had been terminated as of the end of 1970, and that Israel, by canceling a temporary duty of 45 percent and reestablishing a 30-percent bound rate, had restored its concession on radiotelegraphic and radiotelephonic apparatus.

Compliance under Article XXIII

Article XXIII, chief GATT provision for "obtaining and maintaning compliance," provides for consultation between the contracting parties concerned on almost any matter thought to nullify or impair attainment of GATT objectives. Matters that could not be resolved through consultation could be examined by the Contracting Parties acting jointly and, in sufficiently serious situations, the Contracting Parties could authorize a contracting party to suspend application to another contracting party or parties of concessions or other obligations under the Agreement.

In 1971, the United States was preparing to introduce as a matter for consideration under article XXIII the system of compensatory taxes the EC was using to offset the effects of changes in exchange rates on trade in agricultural products with third countries. Variable levies on imports and subsidies to export provided for under the common agricultural policy of the EC had long complicated the problem of balancing trade in agriculture through concessions; the new system permitted imposition of new tax on imports in the case of revaluation, and of an import subsidy in the case of devaluation, of national currencies. These new taxes were instituted by the EC subsequent to the revaluation of the German mark and the Netherlands guilder that followed the withdrawal in May 1971 of central-bank support of official exchange rates vis-a-vis the dollar. The United States would contend that for many products the additional tax on imports raised EC import charges above levels permitted under GATT tariff bindings, thus violating article II (schedules of concessions), estimating the annual value of U.S. trade affected by the new measures at more than $40 million. The matter was discussed by the GATT Council in November 1971, but formal consideration did not take place until the following year.

Modification of Schedules under Article XXVIII

Article XXVIII provides for negotiations for the purpose of modfying or withdrawing concessions in the tariff schedules annexed to the General Agreement. The United States invoked this article for the first time in 1970 when it notified the Contracting Parties that it was prepared to commence renegotiation of its tariff concessions on stainless steel flatware. Subsequently, discussions were held between the United States and Japan, the chief U.S. foreign source of this merchandise, the EC, and the United Kingdom; in 1971 the United States notified the Contracting Parties that it would impose a tariff quota for 5 years on this flatware valued under 25 cents per piece. Allocation of the quota would be made quarterly among supplying sources on the basis of their average shares of the market in the period, 1968-69.

Industrial Products

Committee on Trade in Industrial Products

The GATT standing committee on trade in industrial products continued to be responsible for coordinating operational work, including work preparatory for the trade negotations expected to start in 1973. It had completed two basic post-Kennedy Round assignments: computerizing tariff and import data for the principal developed countries and documenting nontariff barriers to trade.

In 1971, three series of summary tables of tariff and import data were published. These were summaries of the GATT Tariff Study, based on data of EC members, the United States, Canada, Japan, United Kingdom, Austria, Denmark, Finland, Norway, Sweden, and Switzerland, completed in 1970. The summaries were made available in the following volumes:

Volume 1, Tariff and Trade Summaries by BTN Headings, presented average duty levels and import data by country;

Volume 2, Tariffand Trade Profiles by Product Categories, presented tariff and import data by country according to 23 categories and 119 subcategories of industrial products;

Volume 3, Tariff and Trade Profiles by Stages of Processing, presented data on raw materials, semiproducts, and finished products for the categories of particular interest to developing countries.

On the basis of this massive tariff study and further work that might be done on it, an analysis of "the tariff situation as it might exist" after the Kennedy Round concessions were fully in effect--the fifth and final staged annual reduction was scheduled for January 1, 1972--was undertaken by a working party established in February. The feasibility of developing better measures of the trade effects of tariffs was also to be examined by this working party.

With a catalog of nontariff barriers in hand, the committee started to draft proposals for reducing or eliminating those barriers that seemed to be the most conspicuously trade distorting; from a practical point of view, this meant selecting areas suitable for separate treatment or for which generalized solutions seemed plausible, giving due consideration to the trade needs of developing countries. Draft proposals were to be submitted to governments. During 1971, two sections of text were completed on existing systems of valuation for customs purposes, 1/ much work was done on documenting import licensing systems, 2/ and some progress was made on formulating an approach to the complexities of standards and their enforcement.

1/ The United States had long held that use of a common valuation system could be desirable--although differences in systems did not necessarily constitute trade barriers--but was not really persuaded that the Brussels Definition of Value was superior to its own valuation system.

2/ Of particular concern to many contracting parties, notably the United States, was Japan's licensing system of automatic import quotas and automatic approval.

In one of its reports on the subject of valuation for customs purposes, the U.S. Tariff Commission set down the commitments of the Contracting Parties with respect to GATT valuation principles, as follows: 1/

> The contracting parties to the General Agreement on Tariffs and Trade agreed to certain broad valuation principles and to certain individual elements of value which each member country undertakes to observe in its customs laws and administration. . . .
>
> Most of the provisions relating to customs valuation are in Part II of the agreement, which nearly all contracting parties, including the United States, apply only provisionally. 2/ Under the provisional commitments, each country agreed to abide by the terms of the valuation provisions in the General Agreement to the fullest extent not inconsistent with its existing legislation (i. e., as of October 30, 1947). Nevertheless, each member is obliged not to adopt new legislation or regulations that would violate the GATT provisions. Moreover, the framers of the General Agreement anticipated that the members would gradually bring their domestic legislation into conformity with the GATT guidelines.
>
> Each contracting party is committed not to alter its valuation standards in a manner that would impair any concessions granted to other contracting parties in GATT negotiations. A change in a contracting party's valuation standards that would result in an increase in the dutiable value of articles on which it has made concessions would contravene that commitment. A contracting party wishing to adopt a new customs valuation standard that would increase dutiable values may be permitted to do so under GATT requirements if the increases are offset by appropriate changes in the rates of duty or if new compensatory concessions are granted.

1/ U.S. Congress, Senate, Customs Valuation, Report of the U.S. Tariff Commission to the Committee on Finance and the Subcomittee on International Trade, Committee print, 93d Cong., 1st sess, 1973, pp. 33-37.

2/ Part II, which contains most of the GATT trade rules includes articles III through XXIII . . . .

GATT valuation principles

The valuation provisions of the General Agreement are discussed below.

Goods upon which dutiable value should be based. --The GATT provides that the dutiable value of imported goods should be based on the actual value, or the nearest ascertainable equivalent, of either the imported merchandise on which duty is assessed or like merchandise of foreign origin. It should not be based on the value of domestic merchandise nor on arbitrary or fictitous values. The uniform use of either the imported merchandise or like foreign merchandise would comply with the GATT provisions.

Quantity. --The General Agreement provides that, to the extent the price of merchandise is governed by the quantity in a particular transaction, the price to be considered in determining dutiable value should uniformly be related to either comparable quantities or quanties not less favorable to importers than those in which the greater volume of such merchandise is sold in the trade between the countries of exportation and importation.

Internal taxes. --With regard to the treatment of internal taxes in valuation standards, the GATT rules provide no option. The General Agreement provides that the value for customs purposes of imported goods should not include the amount of any internal tax levied in the country of origin or exportation from which the goods concerned either have been excepted or will be relieved.

Fully competitive conditions. --Under GATT provisions, the dutiable value of imported merchandise should be based on sales or offers for sale in the ordinary course of trade under fully competitive conditions. Interpretative notes in Annex I of the GATT state that goods may be regarded as not having been sold or offered for sale under fully competitive conditions if the buyer and seller were not independent of each other and price were not the sole consideration, or if the purchase price reflected special discounts limited to exclusive agents.

Currency conversion.--Several provisions of the General Agreement establish rules for converting currencies when determing the dutiable value of imported goods. They are treated briefly below.

The conversion by a contracting party of prices or values expressed in a foreign currency to determine the dutiable value of imported goods in terms of its own currency must be based on the par values of the currencies involved (as established pursuant to the Articles of Agreement of the International Monetary Fund or in accordance with a special exchange agreement entered into pursuant to Article XV of the General Agreement) or on the rate of exchange recognized by the Fund. In the absence of such established par values or rates of exchange, the conversion rate must reflect the current value of the foreign currency in commercial transaction. 1/

Additional provisions.--The GATT further provides that the bases and methods for determining dutiable value should not be subject to frequent change; the valuation laws should be administered in a uniform, impartial, and reasonable manner; that valuation laws, regulations, judicial decisions, and administrative rulings should be published promptly in a manner that will enable interested parties to become acquainted with them; and that independent tribunals should be provided to review administrative actions related to customs matters.

In the principles stated above the GATT members have, in effect, agreed on a number of conceptual elements of value which they deem ought to be included in the valuation standard of the contracting parties. The GATT provisions, however, do not set forth the elements of a complete valuation standard. Lacking are certain elements commonly present in such standards which the contracting parties are left free to define as they wish. For example, the GATT provisions do not restrict the contracting parties in

1/ Article VII:4(c)... provides that the contracting parties to the General Agreement and the International Monetary Fund shall formulate rules governing the conversion of currencies for which there are multiple rates of exchange. Such rules have never been established. In their absence, contracting parties are permitted by the GATT provisions to use conversion factors which reflect the value of the currency involved in commercial transactions.

> their choice of time and place. Thus the General Agreement does not make a choice between c. i. f. and f. o. b. valuation. Likewise, the GATT permits valuation based on the actual quantity under appraisement or on the usual wholesale quantity.

The Contracting Parties decided that the next nontariff problems for study would be (1) export subsidies as defined generally in paragraph 4 of article XVI as subsidies resulting in the sale for export of products (other than primary products) at prices below those charged in domestic markets; (2) import documentation; and (3) packaging and labeling. In reporting to the GATT Council, the Committee on Trade in Industrial Products noted that, even in the short period since the GATT basic inventory of nontariff barriers was compiled, important new and additional barriers had been introduced.

U.S. trade subject to the U.S.-Canadian Automotive Products Agreement

The Contracting Parties' decision of December 20, 1965, to permit the United States to waive its MFN obligations under GATT so as to allow elimination of customs duties on certain automotive products of Canada without extending the same tariff treatment to like products of other contracting parties, required--besides submission of an annual report--a review, biennially if necessary, of the operation of the waiver and consideration of how far the United States would continue to need cover to implement its agreement with Canada. 1/ The decision

1/ Canada was not obliged to obtain such a waiver, since it applied conditions of its preferential treatment regardless of the source of imports.

also provided that the United States should consult with any contracting party that requested consultation on the grounds that it had a substantial interest in the trade in an automotive product in the U.S. market and that eliminating U.S. duties on that product when imported from Canada was diverting or threatening to divert imports from its economy.

A biennial review was made by the Council early in 1971 on the basis of the fourth annual report of the United States. 1/ During the review, the U.S. representative stated that his Government had no evidence that the rapid expansion in this trade between the two countries had damaged the interests of other contracting parties and that no requests for consultation had been received. The representative of Japan expressed the hope that in the not too far distant future the United States would eliminate, on an MFN basis, the duties on products covered in this bilateral agreement.

1/ These U.S. reports were based on the reports of the President sent to the Congress each year in accordance with the U.S. implementing legislation, the Automotive Products Trade Act of 1965. Trade data showing duty-free trade in automobiles and parts under the agreement for the year 1971, as compiled by the U.S. Department of Commerce, appeared in the sixth report of the President; trade statistics for the years 1964-71, as compiled by the U.S. Tariff Commission, were presented as an addendum (U.S. Congress, Senate, Committee on Finance, Sixth Annual Report of the President to the Congress on the Operation of the Automotive Products Act of 1965, Committee print, Washington, 1973).

Agricultural Products

Agriculture Committee

In light of the impasse that continued after the Kennedy Round with respect to trade in agricultural products, it was clear to the Contracting Parties that agriculture with its nontariff problems would be important in the next round of multilateral trade negotiations. Fraught with support programs and deep-rooted protection, this sector had almost defied negotiation in the Kennedy Round. 1/ If significant liberalization were to be achieved, a new approach would have to be devised. For 1971, however, the GATT Committee on Agriculture reported virtually no progress in carrying out its assignment to find a mutually acceptable avenue to solutions, notwithstanding the vast documentation and intensive study of national (and regional) practices that had been done in four working groups.

Various proposals for tackling production and trade matters in agriculture, obtained from contracting parties, were discussed in committee but none was adopted. The EC could not have come to a common position for change during a period when its pricing system under the common agricultural policy was disturbed by uncertain currency values.

1/ For a discussion of the difficulties of negotiating reduction of barriers to the trade in agricultural products in the Kennedy Round, see U.S. Tariff Commission, Operation of the Trade Agreements Program, 19th report, pp. 198-214.

Among the proposals discussed were the separate ones of the United States for working toward eliminating export subsidies, replacing import quotas and variable levies with fixed fees, and shifting from price supports to income supplements. The United States indicated, however, that it had authority to negotiate only with respect to export subsidies. Australia made a strong effort during the year to persuade the Contracting Parties to come to grips with the whole constellation of barriers to agricultural trade. It proposed that independent experts be engaged not only to review GATT provisions and methods used in attempts to carry them out, but also to draft specific proposals for negotiable solutions. At their 27th session in November, the Contracting Parties considered but did not adopt this proposal.

U.S. imports subject to section 22 restrictions

Section 22 of the U.S. Agricultural Adjustment Act, as amended, which authorized the President to impose duties and quantitative ceilings on agricultural imports found by the U.S. Tariff Commission to interfere with price support programs of the U.S. Department of Agriculture, explicity provided that no trade agreement or other international agreement entered into by the United States should be applied so as to be inconsistent with the requirements of the section. Since quantitative import restrictions were generally prohibited under GATT, except when used to alleviate balance-of-payments problems, the Contracting Parties granted the United States a waiver of commitments under articles II (schedules of concessions) and XI (general elimination of quantitative restrictions) so as to permit actions under section 22. 1/ The waiver, granted in 1955, required annual reporting on any modifications or removal of restrictions, restrictions currently in effect, the reasons why such restrictions (regardless of whether covered by the waiver) continued to be applied, and steps taken toward solution of problems of surpluses of agricultural commodities.

The 15th U. S. report, 2/ submitted early in 1971, included a detailed review of the commodities then subject to import regulations under section 22: wheat and wheat products, cotton of certain specified staple lengths, cotton waste and cotton picker lap, peanuts, and certain manufactured dairy products--all of which were under continuing regulations; and ice cream, chocolate crumb containing 5.5 percent or less butterfat, certain cheeses containing 0.5 percent or less butterfat, and animal feeds containing milk or milk derivatives--which were subject to newly established annual quotas. The four products on which quotas had been newly imposed had only recently appeared in international trade. The report summarized steps taken to influence supply and stimulate consumption, and also listed various levels of price supports. In presenting the report to the Council, the U. S. representative stated that his Government regretted maintaining these import restrictions, but had no choice since it could not alone solve through liberalization the problem of the present state of agricultural trade and noted that

1/ It is noted here that the joint working group on quantitative import restrictions, set up to study the dismantling of such restrictions through consultations, was put on a permanent basis in 1971; it was not to be concerned with restrictions imposed for balance-of-payments reasons, however.

2/ GATT Document L/3511, March 22, 1971.

during the same period other countries in similar positions had also strengthened their import controls. The comments made by several U.S. trading partners reflected continuation of dissatisfaction with the exception granted the United States under the waiver, and the EC reserved the right to propose establishing a working party to examine the waiver which in its view was an anachronism.

Subsequent to submission of the U.S. report, the Contracting Parties were informed that the U.S. Tariff Commission had undertaken an investigation to determine the effect of imports of certain cheeses on the U.S. price support program for milk and the processing of products made from domestic milk. In the event import controls were found to be necessary, examination was to be made of the feasibility of continuing price breaks at specified levels, including those which may fluctuate with the price of milk, as well as the feasibility of quotas at all levels. The United States took no action before the year ended.

Developing Countries

Preferences

In 1971, the Contracting Parties granted two waivers of article I (general most-favored-nation treatment) that permitted preferential trade for the diverse group of "developing" countries, both among themselves and with "developed" trading partners.

Generalized preferences.--One of the outstanding events of the GATT year was considered to have been the Contracting Parties' decision of June 25 to waive for 10 years the provisions of article I of the Agreement, which provides for general MFN treatment, to the extent necessary to permit developed contracting parties to accord preferential tariff treatment to products of territories and countries with developing economies--without according such treatment to like products of other contracting parties. 1/ The Contracting Parties had expressed willingness to take such joint action in 1968 at their 24th session and in 1970 at their 26th session, so as to permit introduction of preferences under the generalized system that had been worked out through UNCTAD.

Although article I was waived without prejudice to any other article of the Agreement, it was nevertheless "an exception of barn-door width." The granting of these preferences was not, however, to constitute a binding commitment nor an impediment to tariff reduction on an MFN basis. In a Council meeting in May 1971, some delegates expressed

1/ In 1966, Australia was granted permission to waive the provisions of paragraph 1 of article I so as to permit preferential tariffs on certain imports from contracting parties in the early stages of development (GATT, Basic Instrument and Selected Documents, 14th Supp. pp. 23-31).

the opinion that the freedom to be given donor countries in determining the beneficiaries to whom they would extend preferences was contrary to the principles of nondiscrimination and self-election.

Before the end of the year, the EC, Japan, and Norway had notified their intention to introduce preferences under the generalized system and had submitted information on their proposed plans. Any benefits the system might yield developing countries would, of course, be constrained by existing restrictions, such as those imposed under the LTA (Long Term Arrangement Regarding International Trade in Cotton Textiles), and the product exceptions and import ceilings imposed by donors, as well as by nonparticipation of potentially important donors. 1/

The United States continued to lack legislative authority for instituting special tariff treatment for developing countries, but continued its position in favor of generalized preferences. In November at the 27th session, the U.S. Representative remarked, in effect, that the United States recognized that it provided the largest single market for exports of developing countries and was still hoping for passage of the requisite legislation.

Exchange of preferences.--At the 27th session, the Contracting Parties agreed on a second waiver of the MFN clause in favor of developing countries, 2/ thereby approving an arrangement reached

---

1/ For an examination of the generalized system of preferences, see Tracy Murray, "How Helpful is the Generalized System of Preferences to Developing Countries," Economic Journal, June 1973, pp. 449-455.

2/ The United States did not participate in this decision of the Contracting Parties, although it had voted in favor of the waiver permitting generalized preferences, since it found some provisions of the implementing protocol to be unclear.

by sixteen developing countries 1/ for the exchange of preferences among themselves. This was an arrangement for tariff concessions that would expand mutual trade globally, not just on a regional or subregional basis. It had been worked out over a 10-year period by a trade negotiations committee of developing countries set up after the Kennedy Round was concluded. Bilateral arrangements agreed to multilaterally were open to other developing countries, whether or not members of GATT, but not to developed countries. Concessions were in the form of a preferential duty, or a binding of a margin of preference, and did not in general involve nontariff barriers. The implementing protocol, dated December 8, 1971, was to enter into force 30 days after acceptance by one-half the number of participants. Parties to the protocol that were participating in customs unions or free-trade areas declared their intention to use their best efforts to ensure that the provisions of their trade arrangements governing treatment applicable to third countries would not prevent implementation of the protocol or attainment of its objectives.

Committee on Trade Development and the Group of Three

Inability to settle issues to the satisfaction of developing countries had historically inhibited progress in GATT undertakings. In an attempt to expedite work on the problems of these countries, the GATT Committee on Trade and Development, which was mainly concerned with

1/ Brazil, Chile, Egypt, Greece, India, Israel, Korea, Mexico, Pakistan, Peru, the Philippines, Spain, Tunisia, Turkey, Uruguay, and Yugoslavia. (Mexico and Philippines were not contracting parties.)

operation of part IV of the General Agreement, 1/ requested that the top-level "group of three" make specific recommendations for positive action. This group comprised the chairmen of the three standing committees for the GATT work program and reported to both the Committee on Trade and Development and the Council. Set up in January 1971, the group planned to tackle selected trade problems on which some solid work had already been done in GATT or elsewhere, and for which there were prospects for good results. These problems centered on:

> Eliminating or reducing quantitative restrictions on products of interest to developing countries;
>
> Eliminating other nontariff barriers of particular interest to developing countries;
>
> Improving trade in tropical products;
>
> Tariff escalation, particularly regarding tropical products and vegetable oils.

Consideration of the year's events overshadowed planned work, however. In reporting its findings and recommendations, the group noted that, although the effects of the temporary 10-percent surcharge imposed by the United States would be manifold, the levying of this extra duty was only one aspect of a monetary and commercial crisis that might have serious consequences for world trade and particularly for developing countries, since "when whales fight, the small fish die." It recommended, in effect, that the United States either remove its surcharge within a short time or exempt the exports of developing countries; that in adjusting to the international monetary crisis, countries make it a

---

1/ Part IV, added to the General Agreement in 1965, made provisions for "enabling less-developed contracting parties to use special measures to promote their trade and development."

policy to select measures that would not damage the export interest of developing countries; and that by the end of the year industrialized countries should carry out commitments in regard to preferences, with delay by one donor country not affecting implementation by other donor countries. The group also noted that by January 1972 all industrialized countries except the United States had plans to put generalized preferences into effect.

The group reported that, outside the field of textiles, most developed countries maintained no quantitative restrictions on industrial products of interest to developing countries and recommended that the textile problem be studied. It found very restrictive measures regarding temperate zone products, suggested that there was plenty of work to be done toward liberalizing trade in fruits and vegetables, believed that solution to the cocoa problem was through international agreement, and urged elimination of the dual list of country classifications maintained by France and West Germany.

In general, the group felt that the development process--broadening the economic base and increasing foreign exchange earnings through diversification--was being hampered by the tariff structure of developed countries where low or zero tariffs on raw materials and relatively high tariffs on manufactures and semimanufactures resulted in high rates of effective protection. For example, the group strongly recommended that developed countries eliminate or reduce tariffs on vegetable oils, since from an economic point of view processing should take place in the developing countries producing the oilseeds. 1/

Besides giving attention to the work of the Group of Three, the Committee on Trade and Development was concerned with the implications for developing countries of a larger European Community, the multinational corporation in international trade, and the use made by developed countries of the GATT escape clause (article XIX, emergency action on imports of particular products).

Operation of part IV.--By means of reports submitted by governments, the Committee on Trade and Development carried on its review of operation of part IV of the Agreement. The United States reported that with the fourth stage of the Kennedy Round tariff cut it had put into effect on January 1, 1971, imports from developing countries having a 1970 value of $32 million became duty free. The 1971 value of such imports that would become duty free with the fifth and final stage of the Kennedy Round reductions, announced in December to become effective on January 1, 1972, would rise to an estimated $285 million.

1/ At their 27th sessions in November 1971, the Contracting Parties agreed that the Group of Three should be retained so as to ensure follow-up action on its recommendations and to study ways better to implement part IV of the Agreement.

Regional and Other Trading Arrangements

With respect to economic integration, GATT administrative responsibilities had not only become burdensome, but the effectivenesss of the Agreement's provisions relating to customs unions and free trade areas was increasingly questioned. Discriminatory features of regional and nonregional integration seemed to be swallowing up efforts made for universal nondiscrimination. By 1971, consideration of several special arrangements had become an important part of the GATT program: (1) existing EEC association and preferential agreements; (2) the agreements being negotiated for new accessions to the Treaty of Rome 1/ and for association between the EEC and the remaining members of the geographically more widespread EFTA; and (3) the agreements for formation of various systems and subsystems throughout the developing world. It was by then apparent that differences in stages of economic development and in economic systems were resulting in an asymmetrical pattern of trading blocs, which raised important questions for GATT.

What would be the trade effects of these trading arrangements in terms of GATT objectives? How could they be measured so that article XXIV could be administered and its purpose served? How compatible was article XXIV with the most-favored-nation clause? What actions could the United States and other nations not part of a free trade or preferential network take with respect to what they considered to be discrinimation against their exports? Even integration theory seemed

1/ Accession of Denmark, Ireland, and the United Kingdom would become effective on January 1, 1973.

to be stagnating; empirical studies tended to be more descriptive than analytic.

Under GATT, customs unions and free trade areas apparently were expected to be more trade creating than trade diverting, as they were assumed to be means for developing trade among constituent members while not raising barriers against contracting parties that were not members. In that sense they were not to be prevented under GATT rules. The GATT criteria on customs unions were explicit with respect to tariffs "and other regulations of commerce," but with one possible exception (an arrangement between India and Pakistan), no provision was made for dealing with common positions and harmonized or common policies that could lessen national sovereignty.

The Agreement called for notification of decisions made to enter not only existing customs unions and free trade arrangements, but also interim agreements leading to such formations; information necessary to judge conformity with GATT article XXIV would be furnished. Reaching such judgement has in many cases proved to be impossible, and so certainly with respect to the EEC and its historical preferences. For the most part, GATT working parties assigned to examine particular trade arrangements have been able merely to report the pros and cons expressed respectively by participants and nonparticipants, reaching only tenuous conclusions, if any. Periodic reporting on the progess and operations of the trade arrangements examined has usually been called for, but obtaining and reviewing these reports has posed an administrative problem. In 1971, the Contracting Parties adopted a U.S. proposal for regularly scheduled biennial reviews.

During 1971, the several reports on examinations made by working parties were adopted. The Caribbean Free Trade Agreement, which according to the report had been in operation for 3 years and had resulted in the dismantling of import duties and other import restrictions on substantially all trade between its twelve members, was found to conform generally to the relevant provisions of article XXIV, although concern was expressed about the possible discriminatory effect of an arrangement for the orderly marketing of agricultural products. An EC decision on extending an association agreement with certain non-European countries and territories 1/ was reviewed. The report stated that no real conclusion could be reached as to whether or not a free-trade area had been achieved. Two preferential agreements, those between the EEC and Israel and between the EEC and Spain, also were reported on. Because of differing views the working parties reserved right for further discussion.

During the year the Contracting Parties were notified of an agreement establishing a customs union between the EEC and Malta and of an additional protocol to the agreement between the EEC and Turkey. It also received reports on the Arab Common Market, which in 1971 was to introduce a common external tariff; on developments within EFTA under the Stockholm Convention and on the Anglo-Irish free trade area; on the trade arrangement of India, Egypt, and Yugoslavia;and on the New Zealand-Australia free trade agreement.

1/ Surinam, Netherlands Antilles, St. Pierre and Miquelon, Comoro Archipelago, French Territory of the Afars and the Issas, New Caledonia, Wallis and Futuna Islands, French Polynesia, and Southern and Antarctic Territories.

In late 1971, a study of trade at most-favored-nation and other rates, initially proposed by the United States, was undertaken by a working party of the GATT Secretariat. Its purpose was to show the impact customs unions and other special tariff arrangements were having on world trade patterns. Calculations were made for the 1965-70 period on the basis of import data of 33 contracting parties and Hong Kong, which for 1970 accounted for 85 percent of the total imports of GATT "members." The results of this study were published in 1972. 1/

1/ General Agreement on Tariffs and Trade, International Trade 1971, Geneva, 1972, pp. 6-8.

Chapter III

DEVELOPMENTS IN EUROPE, LATIN AMERICA, CANADA, AND JAPAN

European Community

Introduction

During 1971, the European Community (EC) was embarked on the second year of its "final stage" for completing economic union. The general outlines of hoped-for progress during the 1970's had been laid down in the mandates of a summit conference of the Six at The Hague toward the close of 1969. 1/ One of the major objectives cited at that conference had been the enlargement of the Community by addition of new members, as well as the broadening and tightening of economic and political relations with non-member European States. Consequently, the bulk of Community activity at the diplomatic and ministerial levels during 1971 was concerned with complex negotiations with the United Kingdom and other countries for their accession to EC membership. By the end of the year, the main agreements to this end had been reached, and the path was virtually cleared for the creation of a "Community of Ten" to begin operation in 1973.

Negotiations leading to the accession agreements

The idea of enlarging the Community was an old and controversial one. For almost a decade, intensive negotiations and near-agreements --especially with the British--had foundered on French opposition,

1/ See Operation of the Trade Agreements Program, 22nd Report (1970).

specifically that of President De Gaulle. Gallist vetoes of British entry in both 1963 and 1967 had effectively stymied all progress. Thus, the clear negotiating mandate that resulted from the Hague Conference represented a major breakthrough. It was a primary result of changed political curcumstances in the two dominant countries of the Six. In France, the French Government, although Gaullist in outlook, was willing to take a far more positive attitude toward enlargement, while in Germany the new Government not only adopted the proenlargement policies of its predecessor but also was prepared to counter French objections in EC councils with considerably more vigor.

The formal negotiations that eventually led to agreement on nearly all important points actually began at Brussels on June 30, 1970. They were essentially completed at the political level on June 24, 1971. During the talks, there were four applicants for membership--the United Kingdom, Ireland, Denmark, and Norway--but practically all attention was focused on settlement of the problems of United Kingdom accession, which were by far the most complex. The ultimate agreement with the United Kingdom served as the model on which the other accession agreements were built, with particular issues relating to special problems of the other applicants (e.g., the Norwegian fisheries arrangements) left for separate talks. With the British as the principal negotiators on one side, the French still feared isolation in the event that the EC side were to be represented by delegates from all six member states; therefore, the Community was represented by only a single negotiator at any one time, namely the particular foreign minister presiding over the EC's Council of Ministers at the moment--a job that rotates every six months.

With the negotiations completed in June and given final sanction at a ministerial-level meeting on July 11-13, 1971, the way was prepared for the drafting of a Treaty of Accession, known as the "Treaty of Brussels," which was to be signed by the Six and the four applicants on January 22, 1972. The Treaty--and the formal start of the life of the enlarged Community--were to become effective on January 1, 1973, following ratification by the ten national parliaments involved. Nine Ratifications ultimately took place during 1972: those of the Six, the United Kingdom, Ireland, and Denmark (the latter after a binding popular referendum). Norway did not ratify the treaty--despite a settlement on the fisheries issue which essentially kept Norway's territorial waters inviolate by other Community fishermen--as its Parliament (Storting) decided to accede to the negative vote of a "consultative" popular referendum.

Terms of the Accession Agreement

From the start of the final, intensive negotiations in 1970, the applicants--with the British in the negotiating lead--had adopted the Six's basic principles for enlargement, as laid down by the Treaty of Rome. These principles, designed to safeguard the Community and its essential structure, required the applicant states to "accept the Treaties (of the Community) and their political objectives, the decisions of all kinds taken since their entry into force, including agreements with third countries, and the choices made in the development field." 1/ Thus, enlargement could brook no changes in the Community itself; applicants were required to merge with the existing community, and the emphasis would be on the working-out of transitional arrangements to this end rather than on changes in basic Community rules that would adapt the EC to the situations of its prospective new members.

These principles were not compromized during the negotiations, and the resultant "model" agreement with the British conformed to them. The principal elements of this agreement are discussed below.

Transitional arrangements.--The EC actually consists of three "communities" under a single executive--the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and the European Atomic Energy Community (EURATOM). Britain's entry into the latter two posed few problems. Both the British Steel Corporation (BSC) and the National Coal Board are nationalized industries in the United Kingdom, established on rules similar to those of the Community. Hence, there would be no transitional period for ECSC entry, except for a gradual alignment of industrial tariffs on coal and steel products. Britain's contribution to the ECSC budget was set at $57 million, to be paid in three annual installments. Similarly, it was decided that full British entry to Euratom, including full integration with the Euratom nuclear energy and research programs as well as

1/ The Fifth General Report on the Activities of the Community, 1971, pp. 14-15, 20, Brussels, 1972.

any incidental tariff alignments, could be accomplished within a short transitional period of one year.

Entry into the EEC, however, was a more complex matter. Following patterns of adaptation which had worked earlier during the formation of the EEC itself, the negotiators settled on a single overall transition period of five years, starting January 1, 1973, during which the United Kingdom would adopt the Community's rules and regulations and gradually integrate its economy within the larger EEC framework. These objectives were to be accomplished in stages, according to pre-set rates and time schedules.

In the industrial sector, the principal objective was the formation of a customs union of the type already in effect among the Six. This implied (1) a dismantling of intra-union tariffs; and (2) British adoption of the Community's Common External Tariff (CXT). The accession treaty provided for the former via a straightforward timetable of reciprocal 20 percent internal tariff reductions in five stages extending from April 1, 1973 through July 1, 1977. Concomitantly, British alignment with the CXT would proceed in four stages, as follows: on July 1, 1974, 40 percent of the difference between United Kingdom tariffs and the CXT would be removed; two more shifts of 20 percent each would occur on January 1, 1975 and 1976; and the remaining 20 percent of the gap would disappear on July 1, 1977, at which time the customs union would be complete. With certain exceptions, Britain was pledged to apply the CXT to imports of manufactures from the Commonwealth countries. This represented a considerable concession to the

Community. It was compensated by the Community's permission of the suspension of certain CXT duties to allow virtually duty-free entry (under quotas) of 90 percent of British requirements of twelve industrial products 1/ and tea.

In the farm sector, the United Kingdom accepted the Community's existing Common Agriculture Policy (CAP), agreeing to the main principle of Community preference under which agricultural products of EC members are guaranteed access to Community markets at lower prices than imports from third countries. The transition was difficult to negotiate because the United Kingdom historically had maintained a farm support system different from that of the Six. Whereas the CAP is essentially a system of guaranteed high prices to bolster Community farm incomes at the direct expense of consumers, the United Kingdom system allowed farm products prices in consumer markets to approximate the lower, world price levels, with farm incomes bolstered directly by "deficiency payments" out of the public budget. Thus, British adherence to the CAP involved basically an increase in United Kingdom price levels on agricultural products, as well as participation in the Community's complicated system of market mechanisms and the application of EC-type variable levies against imports from third countries (including, with certain exceptions, Commonwealth countries that traditionally had been important suppliers of farm products to British markets).

1/ Notably paper pulp, newsprint, unwrought lead and zinc, phosphorous, plywood panels, and alumina.

The transitional arrangements for the agricultral sector are themselves complex. They will occur in six staged steps over the general five-year transitional period, but, beginning in 1975, some flexibility in the form of up to a 10 percent "tolerance" on either side of the target adjusted prices for a period will be permitted. Any price differences or market disruptions occurring between the United Kingdom and the original Community during the transitional period were to be offset by a parallel system of compensatory payments among members of the enlarged EC. In addition, other special arrangements were made for British imports of horticultural products (tomatoes, lettuce, flowers, and bulbs) from the Community, and for grants and subsidies to the United Kingdom's 17,000 or so marginal farmers.

Fisheries represented a special problem in the negotiations, especially for the Norwegians who, as noted above, decided not to opt for entry after all, despite a resolution of the issues in their favor. In February 1971, the Six had placed in effect a fisheries policy that allowed all members access to each others' fishing grounds. In the ensuing enlargement negotiations, this free access rule was in effect suspended for ten years, with the possibility of a further suspension for Norway, so that members could enforce at will a "six mile limit" on fishing in their territorial waters. The limit was further extended to twelve miles for certain prime fishing grounds off the United Kingdom, Ireland, Denmark, Norway, and France.

Common Trade Policy.--Upon entry into the Community, the applicant states became bound by all trade policies vis-a-vis third countries currently in force within the EC. These included bilateral and multilateral trade treaties, systems of preferences on imports from certain third countries (including the associated states), and trade agreements with state-trading countries. Certain transitional arrangements were allowed, however. For example, new members would not be required to enforce the EC's system of generalized preferences until January 1, 1974 (one year later for Ireland), and applicant's existing long-term trade agreements with state-trading countries could remain in effect until the end of 1974. Another specific obligation undertaken by the United Kingdom and other applicants was that of adhering to terms of reference, to be decided by the EC Council of Ministers, regarding new trade agreements expected to be negotiated with non-candidate countries of the European Free Trade Area (EFTA).

Commonwealth Relations.--Accession to the EC meant, for the United Kingdom, the termination of a matrix of special trading relationships and preferences that the British traditionally had maintained with the overseas countries of the Commonwealth. Although they were not as large or as pervasive by 1971 as in former decades, these ties with the Commonwealth still presented formidable problems for the negotiators on both sides, who were at least not insensitive to their obligations to the Commonwealth countries, most of which are developing nations.

The over-riding principle in the negotiations was, of course, that most if not all existing economic arrangements between the United Kingdom and the Commonwealth would have to be superseded in the interest of accepting the EC's rules and regulations. However, in accordance with positions taken as long ago as the first British talks on EC entry in the early 1960's, this principle did not preclude the adoption of special arrangements, agreements, and safeguards for the Commonwealth countries, as part of the United Kingdom accession package.

In general, the issues involved in the negotiations with respect to the Commonwealth (and the United Kingdom dependent territories) covered three broad areas: (1) the types of formal relationships to be established between the enlarged Community and the Commonwealth countries concerned; (2) the settlement of specifie trade problems; and (3) the dismantling of existing British commodity arrangements and agreements with the Commonwealth.

Most of the independent developing Commonwealth countries in Africa, the Indian Ocean, the Pacific, and the Caribbean were offered a choice among three types of association with the enlarged EC: (a) membership in a renewed association on the pattern of the Association of African States and Malagasy with the Community, after the expiration of the second Yaounde Convention on January 31, 1975; 1/ (b) some special form of association based on article 238 of the Treaty of Rome; 2/ or (c) participation in a trade agreement with the EC, on preferential

1/ Mauritius already was a signatory of the second Yaounde Convention.

2/ An example of such an agreement is the Arusha Agreement already in force between the EC and the East African Community of Kenya, Tanzania and Uganda, all Commonwealth countries. The terms of this pact are similar to those of the Yaounde Conventions, but not as inclusive.

terms. Association agreements--also with preferential trading arrangements--would be offered to Malta and Cyprus.

The settlement of crucial trade issues was of particular importance to India, Ceylon (Sri Lanka), Malaysia, Pakistan, and Singapore. One key difficulty, Commonwealth tea exports, was resolved forthwith by the Community's suspension of its tariff on tea. The sugar issue, however, extended to a number of countries with close ties to the United Kingdom. It was settled by two measures. First, the Commonwealth Sugar Agreement was to remain in force until its regular expiration in 1974, along with existing domestic restrictions on beet sugar production in the United Kingdom. Second, the expiration of the Agreement was to be accompanied by specific safeguard arrangements set up in the interest of the producing countries.

A final complex set of trade problems which occupied much of the negotiators' attention concerned New Zealand's exports of agricultural products--especially dairy products--which had been entering the United Kingdom under preferential terms. The final resolution was to allow New Zealand to retain guaranteed but declining shares of the United Kingdom market for dairy products over a five-year transitional period, with the possibility of a continuation of the arrangement after 1978. As a result of this settlement, New Zealand expected the Community to continue as its main market for agricultural products after enlargement.

To summarize: negotiated arrangements for the Commonwealth countries ensured that, on balance, they would not be left isolated or subject to severe trade disruptions when enlargement took place. Indeed, special settlements of particular trade issues, along with various options for association or special trade agreements and--for all the developing members of the Commonwealth--participation in the EC's system of generalized trade preferences, probably served mainly to extend and solidify the EC's growing network of preferential connections with the non-industrial countries. This network, founded on the association agreements already concluded under the Yaounde Conventions and with most of the countries of the Mediterranean Basin, was encountering increasing criticism from the United States and other nations as a basic violation of the principle of multilateral free trade.

The Community financial system and the British contribution to the Community budget.--Since the beginnings of the EEC, the Commission, the Community's executive body, had functioned without budgetary resources of its own. This, of course, severely limited its autonomy as an institution. On January 1, 1971, however, the EC's "own resources" system of financing began to be implemented, although its introduction would be gradual, over a period of seven years. At the end of that period, the member states' payments of revenue to the Community were to become fully automatic, consisting of (1) 90 percent of all levies collected on imported farm products; (2) all import duties on all other goods; and (3) up to one percent of each member's collections domestically from the value-added tax (VAT) which by then would have been introduced in all the Community states. During the transition period, national contributions to the budget of the Community would continue to be based in part on the individual members' shares of the total Community Gross National Product (GNP).

United Kingdom accession meant adoption of this general system. However, the United Kingdom was allowed an additional two years for transition--until 1980--and for the first five years of the transitional period, the British contribution based on GNP would represent scaled-down, but rising proportions of the United Kingdom's share of the over-all Community GNP. These concessions were justified as necessary to avoid an abrupt drain on British resources at the time of accession.

Monetary issues and the pound sterling.--As a reserve currency country, the United Kingdom approached Community membership with a special problem. The so-called "sterling balances"--reserves of other countries held in London--represented massive obligations which other members of the Community would in a sense be required to shoulder if the EC's plans for full economic and monetary union during the 1970's made any significant progress. Hence, an essential condition for British entry was a United Kingdom pledge to phase out the sterling balances and shed the pound reserve currency role. As stated in rather vague terms, this was to be accomplished by a stabilization of the level of the balances at the outset, followed by a gradual, orderly run-down. However, this dismantling process is, as yet, subject to no fixed timetable.

Institutional changes.--The entry of a sizeable number of new members required considerable alteration and enlargement of the Community's main institutions, so that the new members would be adequately represented in EC decisions and administration. Article 237 of the Treaty of Rome provided the Council of Ministers with adequate authority to arrange for the necessary insitutional modifications. The most fundamental of these modifications assured the United Kingdom that in terms of both representation and voting weight in the enlarged EC, it would have parity with the other large countries of the Community, France, Germany, and Italy.

The new Council of Ministers, still the most powerful EC decision-making body, was to have ten members, one from each country, with six votes required for a simple majority. On issues subject to a weighted vote, a majority would consist of 43 votes out of a total of 61, to be distributed as follows: ten each for Germany, France, Italy, and the United Kingdom; five each for Belgium and the Netherlands; three each for Denmark, Ireland, and Norway; and two for Luxembourg.

The European Commission, the EC's main administrative body would have fourteen members, two from each of the four big powers and one from each of the others. Commissioners' terms would run for four years. In addition, a President and five Vice-Presidents would serve two-year terms.

In the European Court of Justice, the tradition of maintaining odd numbers of Judges and Advocates General was upheld. The numbers were raised to eleven and three, respectively. Finally, the European Parliament was likewise expanded to include 208 representatives. Representation was to be allocated as follows: 36 members each for Germany, France, Italy, and the United Kingdom; 14 each for Belgium and the Netherlands; 10 each for Denmark, Ireland, and Norway; and six for Luxembourg. As the EC matures, it is expected that the European

Parliament will gradually assume a more powerful role. A major step in this direction will be made when the Community's "own resources" system of financing is fully implemented, because it will be accompanied by a transfer of budgetary power to the European Parliament from the Council of Ministers and, through the council, the member governments.

Impact of enlargement and profile of the enlarged Community

Despite many hopes and even agreed plans to move the EC into the stage of economic and monetary union, it remains true that, so far as economic effects are concerned, the chief accomplishment of the EC in its first decade of existence was the creation of a full customs union among its members. While this is no mean accomplishment, it falls far short of the merging of economic sovereignties that economic and monetary union implies. As the community is enlarged by admission of new members, it is again the formation of a customs union that can be expected as the chief result most likely to be realized in the short and even the medium term extending for perhaps as long as another decade. "Customs union" is a limited concept; simply put, it embraces the creation of free trade within its borders and the erection of a common tariff (and non-tariff) wall against products originating outside the union.

The effects of customs union may be twofold, namely trade "creation" and/or trade "diversion." The former is of benefit to the union and the world as a whole; the latter is at best neutral and at worst of serious consequence for third countries. Beyond these two effects, it has been alleged that the widening of markets and economic contacts within blocs like the EC has effects which generate faster economic growth than otherwise would have occurred.

Trade creation occurs when the removal of internal trade barriers within the union increases the economic efficiency of the bloc as a whole and leads to an absolute increase in the volume of intra-union trade along with, possibly, spillover effects that increase the union's demand for third-country products. It is most likely to occur in the industrial sector, and it probably did occur in the EC of the Six, although the extent to which this happened never has been adequately and definitively measured. Trade diversion, on the other hand, merely shifts import demand from extra-union to intra-union sources. In the enlarged EC, this is almost certain to occur in the agricultural sector, where the adoption of the CAP has caused recognizable and serious problems for both the United States and farm products exporters of the Commonwealth.

For the new entrants to the EC, especially the United Kingdom, the greatest expectations of gain center on the hoped-for growth effects. Throughout the 1960's, as the Community of the Six bounded from success to success in the economic growth "race," the United Kingdom found itself moving only sluggishly. In Britain, it has been widely believed that membership in the wider Community would help the economy to move out of this situation of relative stagnation and to show an economic performance more in line with that of the Continental European nations.

As the statistical "profile" in table 1 below indicates, the enlarged Community of the Nine (excluding Norway which opted out by popular referendum in 1972) represents a concentration of market size, productive capacity, and trade activity which rivals that of the United States. In the final analysis, the question of whether this enlarged economic bloc becomes a real "rival" or merely a staunch competitor of the United States depends ultimately on the degree to which the new Community is willing to keep the protectionism implied by the CXT and the existing panoply of non-tariff barriers to tolerable levels that will permit the development of expanding trade with the United States and the other non-member industrial countries.

A statistical "profile" of the European Community and the United States, 1971

(Amounts in billions of dollars, except as noted)

	Community of six	Community of nine	United States
Population (millions)	189.3	252.8	207.1
Gross national product	476.6	643.4	1055.5
Gross national product, per capita (dollars)	2518	2545	5098
Gross international monetary reserves	41.0	49.3	13.2
Total exports	108.2	136.9	44.1
Total imports	106.5	138.4	48.3
Exports internal to community	65.1	78.1	-
Imports internal to community	65.9	78.5	-
Exports to United States	10.8	13.9	-
Imports from United States	12.2	15.4	-
Electricity consumption (kwh per person)	3687	3805	7661
Crude steel production (million metric tons, 1970)	109.2	138.1	122.1

Source: International Monetary Fund, International Financial Statistics, November 1973 and Direction of Trade Annual, 1968-72; and European Communities Information Service.

Community relations with the non-applicant EFTA countries

With four members of the European Free Trade Association (EFTA) negotiating for EC entry, it had become clear as early as 1969 that the breakup of EFTA was imminent upon enlargement of the EC, because the maintenance of the new EC members' EFTA obligations would be inconsistent with requirements of EC membership. Both the Six and the prospective members agreed, however, that the establishment of some form of free trade arrangements with the non-applicant EFTA countries was desirable. In July 1971, the European Commission proposed that negotiations be begun with these countries towards working out trade agreements--to be adapted to the circumstances of each EFTA nation involved--that would in general cover free trade in industrial products. No attempt would be made to negotiate for the farm sector, both because the complexities were too great in light of the EC's CAP and because agricultural trade between the non-applicant EFTA countries and the EC was not large. The Council of Ministers accepted this proposal, and talks were started in December with Switzerland, Sweden, Austria, Finland, Portugal, and Iceland.

Other external relations of the Community of Six during 1971

On July 1, 1971, the EC became the first of the major western trading powers to offer a system of generalized trade preferences to developing countries on a non-reciprocal basis. The initial beneficiaries were the 91 countries belonging to the so-called "Group of 77" within UNCTAD (United Nations Conference on Trade and Development).

For agricultural products, preferences were limited to processed items. However, the preference scheme offered to the developing countries duty free entry on all manufactured and semi-manufactured products in chapters 25 through 99 of the Common External Tariff, which is patterned closely on the Brussels Tariff Nomenclature (BTN). Safeguard features were provided to domestic EC producers through a system of quota ceilings related to trade in a base year (1968), and somewhat more limited treatment was accorded to textile and footwear imports.

Partly in response to evidence that the United States was successfully developing a comprehensive system of export promotion policies, including financing schemes and export credit insurance, pressures for harmonization and improvement of EC policies in this regard became stronger after 1970. A Council of Ministers directive of February 1971, effective in September, was designed to achieve harmonization of the Community members' terms for medium- and long-term export credit insurance to public and private buyers of such insurance.

During 1971, the Community continued to develop and expand its association and other relationships with third countries. Both the second Yaounde Convention, with 18 associated African States and Malagasy, and the Arusha Accord, with three East African Commonwealth countries, went into effect during the year. In the Mediterranean, a full association agreement with Malta became effective. The Community renewed its non-preferential trade agreement with Iran, and concluded a new one late in the year with Argentina; the latter represented the EC's first formal trade agreement with a Latin American nation.

Table on the following page lists the major agreements concluded or signed by the EC through 1971. Most of these involve either association or preferential trade accords.

Trade and other relations with the United States

U.S. trade with the Six in 1971 showed a surplus of $859 million, according to official U.S. trade data. This compared favorably with a global U.S. deficit of $1.4 billion and deficits of $2.3 billion and $3.2 billion, respectively, with Canada and Japan, the United States' chief trade partners along with the EC. However, the U.S. surplus in the EC trade was down considerably from $1.8 billion in 1970, with the level of U.S. exports showing virtually no change during the year while imports climbed 14 percent from the 1970 level. In 1971, the EC accounted for 19 percent of total U.S. exports and 17 percent of total imports. West Germany continued to be the main trading partner of the U.S. among the Six, taking 34 percent of U.S. exports to the Community and supplying 49 percent of U.S. imports from the area.

Numerous problems and differences of view characterized U.S.-EC relations during the year. Chief among these was the New Economic Policy announced in August, and the related U.S. import surcharge in particular, which drew representations from the EC to the effect that the EC feared deleterious effects on its trade with the United States. U.S. dissatisfaction with the protective effects of the CAP against exports of U.S. farm products continued. In this connection, a controversy over Community preference for imports of citrus from the Mediterranean

Major agreements concluded or signed by the European Community through 1971 1/

Country	Duration	Date of Signature	Date of Entry into Force	Date of Expiration
GREECE	-	July 9, 1961	November 1, 1962	-
TURKEY	-	September 12, 1963	December 1, 1964	-
Interim trade agreement	-	July 27, 1971	January 1, 1971	2/
AFRICAN ASSOCIATES & MADAGASCAR 3/				
Part IV of the Treaty of Rome	5 years	March 25, 1957	January 1, 1958	December 31, 1962
1st Yaounde Convention	5 years	July 20, 1963	June 1, 1964	May 31, 1969
2nd Yaounde Convention	5 years 4/	July 29, 1969	January 1, 1971	January 31, 1975
NIGERIA (Lagos Accord)		July 16, 1966	Never entered into force	
EAST AFRICAN COMMUNITY: Kenya, Uganda, Tanzania (Arusha Accord)				
1st Convention		July 26, 1968	Never entered into force	
2nd Convention	5 years	September 24, 1969	January 1, 1971	January 31, 1975
TUNISIA	5 years	March 28, 1969	September 1, 1969	September 1, 1974
MOROCCO	5 years	March 31, 1969	September 1, 1969	September 1, 1974
MALTA	1st stage 5 years	December 5, 1970	April 1, 1971	End of March 1976
LEBANON	1st stage 5 years	December 18, 1972	early 1978 5/	5 years from entry into force
ISRAEL	5 years	June 29, 1970	October 1, 1970	September 30, 1975
SPAIN	1st stage 6 years	June 29, 1970	October 1, 1970	1st stage October 1, 1976
IRAN	3 years	October 14, 1963	December 1, 1963	November 30, 1966
		by exchange of letters		
Renewal	1 year	December 2, 1966	December 1, 1966	November 30, 1967
Renewal	1 year	November 30, 1967	December 1, 1967	November 30, 1968
Renewal	1 year	November 26, 1968	December 1, 1968	November 30, 1969
Renewal	1 year	November 28, 1969	December 1, 1969	November 30, 1970
Renewal	1 year	December 3, 1970	December 1, 1970	November 30, 1971
Renewal	1 year	November 22, 1971	December 1, 1971	November 39, 1972
YUGOSLAVIA	3 years	March 17, 1970	May 1, 1970	April 30, 1973 6/
ARGENTINA	3 years	Novmeber 8, 1971	January 1, 1972	December 31, 1974

1/ Not including the system of generalized preferences with 91 developing countries under the auspices of UNCTAD. This arrangement is intended to last ten years but is not a binding commitment. It became effective July 1, 1971.

2/ Will be effective until the Additional Protocol (signed in 1970) to the Association Agreement comes into force.

3/ The members of this group are as follows: Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of the Congo, Republic of the Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Rwanda, Senegal, Somali Republic, Togo, and Upper Volta. Mauritius requested membership September 21, 1971.

4/ Article 61 of the Convention provides that "This Convention shall be concluded for a period of five years from its entry into force and shall expire by 31 January 1975 at the latest."

5/ The Community's agreement on Trade and Technological Corperation with Lebanon had been extended for one year retroactive to July 1, 1971.

6/ Extended. New agreement in process of negotiation.

Source: Compiled from data of the European Community Information Service, Washington, D.C.

countries, which led the United States to request GATT article XXIII talks on the matter, led to a temporary reduction of EC tariffs on oranges, from 15 percent to 8 percent; this limited action did not fully satisfy the United States.

Two sessions of the regular semi-annual U.S.-EC consultative talks were held during the year, in Brussels and Washington. Near the end of the year, in recognition of the numerous and serious economic issues that were affecting U.S.-EC relations, the Community established in Washington a permanent delegation led by a Community official of ambassadorial rank.

Developments internal to the Community

During 1971, there were two main developments in the internal economic policies of the Six. One concerned limited further movement toward economic and monetary union; the other involved the CAP.

The Community was well aware that progress in the direction of full economic and monetary union--such that policies for employment, growth, and inflation would be fully harmonized--meant some relinquishment of policy-making sovereignty by the member states in the name of unified EC policies. Blueprints were in hand, in the Barre Report of 1969 and the Werner Report of 1970 to the Commission and Council of Ministers. After years of debate, the Council, in a meeting of February 8-9, 1971, finally agreed to adopt plans for moving toward economic and monetary union by 1980. However, it rejected the most important element of the Barre and Werner documents, refusing to transfer significant power to make fiscal or monetary policy to a supranational Community institution. Instead, the Council adopted a five-part agreement that, although it represented a significant forward step, was considerably weaker. It involved (1) provisions for three Council meetings a year on economic policy in the Community; (2) adoption of the third Medium-term Economic Policy Program for 1971-75 as recommended by the Commission; (3) establishment of machinery for granting medium-term financial aid to members with balance-of-payments problems; (4) much-increased coordination of monetary and credit policy among the five central banks of the Community; and (5) a resolution to outline "goals and phases" of policy and to express a political commitment to move ahead. Ostensibly, this agreement moved a large chunk of economic policy decision-making up to the Community level, albeit mainly in the Council of Ministers which is responsive to member-government directives; but in reality it continued to leave ultimate authority to make fiscal and monetary policy in the hands of the member governments.

In October 1968, the Commission had submitted to the Council an important memorandum on agricultural reform within the EEC. On May 25, 1971, the Council finally adopted a resolution giving general guidelines on such reform. Cast as a reform of "socio-structural" policy in agriculture, this development made no important changes in the CAP as it relates to the outside world. Instead, it was directed toward the farm sector within the Community, adopting long-standing proposals to guarantee farm incomes while accelerating the migration of marginal farmers from the land, improving agricultural efficiency, and providing for the economic support of farmers wishing to cease activity but too old to seek alternative employment successfully.

Throughout the year, administrators of the CAP wrestled with difficulties engendered for the financing system by frequent fluctuations in currency values. The CAP had been set up to function in a context of fixed exchange rates, and the lack of fixity which developed increasingly during 1971 introduced much complexity into the systems of cross-country payments on which the CAP is partly based. As a result, the Council was not able during 1971 to take any firm decisions on pricing and other policies for the 1972-73 farm year.

The administration of the Common Agricultural Policy operates through the "common organization" of markets for particular agricultural products. By 1971, most of the important farm products markets in the Community were covered by regulations of this type. These included cereals, rice, sugar, oils and fats, oilseeds, fruits and vegetables, processed fruit and vegetable products, live plants and cut flowers, wine and vine products, pork, milk and milk products, eggs and poultry, and fisheries products. Regulations for hops and seeds were added to the group during the year.

Latin America and Caribbean Area

Introduction

During 1971, the Latin American Free Trade Association (LAFTA) continued to mark time, as it had been doing since 1969, awaiting the advent of 1974; by the close of 1974, the eleven members 1/ of the LAFTA are scheduled to establish new criteria for the Common List, 2/ as provided by the Protocol of Caracas. 3/ At the annual conference and other LAFTA meetings during the year, resolutions approved were designed mainly to extend the terms of previous agreements or to postpone basic decisions, in some cases to 1974.

The concensus of the LAFTA delegates from the member nations was that the generally poor results achieved by the regional integration program during 1971 were attributable primarily to the special economic situations of certain LAFTA members and to uncertain world economic conditions. Three LAFA countries--Argentina, Chile, and Uruguay--were confronted with serious balance-of-payments problems

1/ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico Paraguay, Peru, Uruguay, and Venezuela.

2/ The Common List of the LAFTA, as provided by the Treaty of Montevideo, was to contain permanent trade concessions available to all members; such concessions were not to be subject to withdrawal. The List was to be completed between 1961 and 1973 in four stages, but only the first stage was achieved in 1964; because of the nature of the products and industries involved, all attempts to negotiate the second stage proved futile. This led to the adoption by the LAFTA, at its Ninth Annual Conference in 1969, of the "Protocol of Caracas", which advanced the terminal date for the achievement of the free trade area from 1973 to 1980.

3/ For details on the Protocol of Caracas of 1969, see Operations of the Trade Agreements Program, 21st report, pp. 96-98.

which hampered trade expansion and economic development. In addition, trade of the LAFTA countries has been adversely affected by the difficulties of the U.S. economy which led to devaluation of the dollar, and by other international monetary problems.

Another troublesome development that beset the LAFTA arose from the fact that as it consolidated itself as a zone of trade preferences, it endangered the development of its trade liberalization program. A further factor affecting the progress of the LAFTA trade liberalization program has been the existence and influence of the Andean Group; 1/ Group programs tend to limit and condition the actions of its members within the LAFTA.

The LAFTA system of trade perferences does not encompass the whole tariff structure and thereby favor regional production in competition with similar production from outside the region. Rather, what had been formed by 1971 was a preferential trade zone of limited scope, which selectively benefits the intraregional trade of certain products, in accordance with the national lists and more or less unique advantages of each LAFTA nation. Despite the Protocol of Caracas, this situation was more firmly consolidated in 1971, to the detriment of the LAFTA economic integration program.

On the positive side, the LAFTA moved forward during 1971 on a major objective, e.g., the intensification and diversification of the reciprocal trade of member countries. This was achieved through

1/ Bolivia, Chile, Columbia, Ecuador, and Peru.

negotiations which have cleared the way for intraregional tariff reductions and the exemption of many products in intraregional commerce from various types of customs restrictions in individual countries.

By the end of 1971, trade concessions granted on the national lists had dwindled to a trickle, with only 38 new concessions added during the year. The emphasis had shifted decidedly to the complementation agreements, e.g., industry-by-industry negotiations within the LAFTA area. In 1971, a number of bilateral and multilateral complementation agreements were extended or amplified, and two new agreements were concluded and became operative. Trade concessions of all types granted within the LAFTA during the year were concerned increasingly with manufactured and semifinished products.

Although intraregional imports of the LAFTA rose slightly in value in 1971, as compared with the previous year, they accounted for only a minor share of the value of total LAFTA imports (11 percent) the same proportion as in the pre-LAFTA year of 1955. U.S. exports to the LAFTA in 1971 were about the same as in 1970 but accounted for a decreased proportionate share of this market because of the increase of LAFTA imports from other world markets.

The Andean Group, the subregional association within the LAFTA framework, composed of five LAFTA members of northern and western South America (Bolivia, Chile, Colombia, Ecuador, and Peru), made considerable progress during 1971, especially in the areas of trade liberalization and harmonization of economic policies within the subregion. On the other hand, the subregional industrial development program did not make any appreciable advances during the year. Also in 1971, legal and administrative difficulties surrounded the Andean Investment Code, involving the treatment of foreign capital and technology, and clouded the outlook in this vital sector. In contrast to the overall LAFTA, the five Andean countries in 1971 experienced an increase of about 20 percent in the value of intrasubregional exports, accompanied by a decline of about 20 percent in the value of exports to countries outside the Andean Group, as compared with 1970. Despite the rise of intraregional exports, however, the relative share of this trade in 1971 rose to only 5 percent of the value of worldwide Andean exports. During 1971, the financial base of the developmental financing agency of the Group, the Andean Development Bank, was expanded. During the year, considerable financial assistance was forthcoming from extraregional sources. Also in 1971, relations with other regional groups was extended and improved, and Venezuela moved nearer to membership in the Group.

During 1971, the members of the River Plate Basin Group (Argentina, Bolivia, Brazil, Paraguay, and Uruguay) held an important annual conference, at which measures were approved to advance the commercial, financial, and industrial development within the Basin. The most significant development was the approval of joint plans to improve and utilize the international rivers forming the River Plate System.

Latin American Free Trade Association

Trade Concessions on National Lists.--At the Eleventh Annual LAFTA conference, held in Montevideo, Uruguay, during October-December 1971, only 38 new tariff concessions were added to the national lists (concessions to all members of LAFTA) of the contracting parties to the Association. New concessions granted on special lists (those concessions granted on a bilateral basis to the LAFTA members of lesser economic development--Bolivia, Ecuador, Paraguay, and Uruguay)--numbered 75. 1/

By the end of 1971, the total number of these concessions granted and placed on the national lists of the member countries since the inception of the LAFTA amounted to 11,081. Approximately 6,600 of this total consisted of concessions granted by four of the eleven participating countries--Argentina, Brazil, Ecuador, and Mexico.

The Economic importance of the 38 new concessions granted on the national lists in 1971 lies in the fact that, unlike the concessions of 1970, nearly all of these concessions involved manufactures (24) or semifinished products (13). The concerned products included semiprocessed chemicals, processed minerals, and industrial capital goods.

At the Eleventh Conference, eighteen resolutions were adopted, but none of these provided a solution to any of the major problems confronting the LAFTA. The overall pace of the Conference was slow, with few negotiations concluded. No agreement was reached on

1/ Of this number, 61 were granted by Argentina to Uruguay.

helping overcome the obstacles that brought the LAFTA mechanism to a virtual standstill. Many of the resolutions approved were designed merely to extend the terms of previous agreements, or to defer (in some cases, to 1974), basic decisions that might well have been adopted during this Conference.

Attempts by conferees to withdraw concessions were generally unsuccessful; most of the requests for concession withdrawals submitted to the Conference by Argentina, Brazil, Colombia, Mexico, and Uruguay were not granted. Colombia was authorized to continue applying a prior licensing system for one year on intraregional imports of sodium hydrosulfite.

The need for a system of limited concessions within the LAFTA was discussed at length during the Eleventh Conference, but no decision was reached because of disagreements that could not be resolved. It was argued that a system of mixed or quota-based temporary or seasonal concessions made by member nations would stimulate intraregional trade and develop new commercial channels.

Complementation Agreements 1/.--During the Eleventh Annual Conference of the LAFTA in 1971, two new complementation agreements were concluded and placed in effect by LAFTA countries, bringing the total of such agreements in force to 16. One of the new agreements was concerned with the petroleum-based chemical industry, and was signed by Argentina, Brazil, Mexico, and Venezuela. The second agreement dealt with the chemical pharmaceutical industry, and was signed by Argentina, Brazil, and Mexico.

During 1971, a number of existing LAFTA complementation agreements were amplified or extended. These included agreements concerned with industries manufacturing such products as phongraphs, household refrigerators, air conditioners, and electrical and mechanical apparatus.

Also in 1971, negotiations on other complementation agreements were virtually completed and required only the final ratification of the participating LAFTA governments to become operative. Such agreements included a bilateral arrangement between Brazil and Mexico on the household refrigeration, airconditioning, and electrical and

---

1/ These agreements provide for two or more member countries to establish free trade within the LAFTA for specified products or groups of products. They were designed to facilitate the accelerated development and integration of the industries involved, enabling them to coordinate effectively their plans for diversification, specialization, and expansion. Such industry-by-industry negotiations are binding only for those LAFTA members in whose territory those industries are located.

For information on earlier complementation agreements, see Operation of the Trade Agreements Program, 18th, 19th, 20th, 21st, and 22nd reports.

mechanical apparatus industries; an agreement between Argentina, Brazil, Mexico, and Uruguay, covering the photographic industry; one between Brazil, Colombia, and Mexico, related to the chemical fiber industry; and another bilateral arrangement between Brazil and Mexico, concerned with the electronics and electrical communications industries.

At the close of 1971, other complementation agreements between LAFTA members were still in various stages of negotiation. These included an agreement between Argentina, Brazil, Mexico, and Uruguay, on the electronics and electrical communications industries; and one between Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay, involving the plastics industry.

A total of 160 new industrial products were added to the LAFTA trade-liberalization program, through the conclusion of these new complementation agreements and the expansion of existing agreements, at the Eleventh Annual Conference of the LAFTA in 1971. Through complementation agreements that had been concluded prior to that year, an additional 112 industrial products were included in the programs during 1971.

Industrial Sector Meetings.--A total of 22 industrial sector meetings were scheduled by the LAFTA during 1971, each for a different industrial group within the region. Between 1963 and the close of 1971, 155 such meetings were held for 64 different industrial groups within the LAFTA.

During the 1963-71 period, the conferees at these industrial sector meetings recommended to the various LAFTA governments a total of 10,797 tariff reductions, of which 27 percent were adopted by the governments. Of the total recommendations, 4,228 were for inclusion in the national lists (34 percent adopted by the LAFTA governments), 87 were for inclusion on the special lists for less-developed member nations (41 percent adopted), and 6,482 were for industrial complementation agreements (23 percent adopted).

The greatest number of recommended concessions placed in force by the LAFTA governments were concerned with the products of the chemical, pharmaceutical, refrigeration, electrical apparatus, and electronic communications industries.

Beginning in 1969, there was marked shift of interest of the conferees at the LAFTA sector meetings away from the national and special lists to the the complementation agreements. In 1971, of the 757 recommendations made at those meetings for tariff reductions, 757 were for inclusion in industrial complementation agreements.

Growth of Intraregional Trade.--In 1971, on the basis of preliminary calculations by the LAFTA Secretariat, the value (in U.S. dollar equivalents) of the intraregional imports of the eleven LAFTA countries rose to more than $1.44 billion. This value was about 7 percent above the 1970 level and more than twice the value of such imports in 1961.

It should be noted, however, that intraregional trade still accounts for only a minor share of total LAFTA trade. In 1971, as in 1970, intra-LAFTA imports accounted for only about 11 percent of the global total of

LAFTA imports, in terms of value. In 1969 and 1968, intraregional imports accounted for about 13 percent of total worldwide imports. In 1955, before the advent of LAFTA, the value of imports from one another of the eleven countries that later became members of LAFTA accounted for 11 percent of their total imports, the same share as in 1971.

In addition, extraregional imports of the LAFTA countries have been increasing at a faster rate since 1969 than have intraregional imports. In 1971, these imports from outside the LAFTA were about 12 percent higher in value than in 1970; in 1970, the value of extraregional imports rose by about 15 percent over the 1969 level as against only 4 percent for intraregional imports.

The annual growth rate for intraregional imports of 7 percent in 1971, and of only 4 percent in 1970, did not compare favorably with the rates of earlier years of the LAFTA's existence. The annual growth rates of such imports during 1962-65, in terms of value, ranged from 16 to 25 percent.

An important factor in the decline of the annual growth rate of intra-regional LAFTA trade appears to have been the failure of individual member nations to take advantage of the zonal tariff reductions granted. According to the Secretariat of the LAFTA, without specification of particular countries or products involved, the leading causes were said to be the following:

1.) Inadequacy of export supplies because of the tendency of regional producers to restrict themselves to the internal market;

2.) Insufficient information available to regional producers, exporters, and importers on the opportunities offered by customs concessions negotiated within the LAFTA;

3.) Excessive administrative requirements and delays in import-export operations;

4.) Difficulties encountered in overland and maritime transportation; and

5.) Uncertainties resulting from modifications and errors in the intraregional tariff reductions granted and from vagaries in the import policies of some of the individual member countries.

Extraregional Trade Trends.--In 1971, the value of the extra-regional imports of the eleven LAFTA countries continued to increase, rising to $12 billion. This represented an increase of 12 percent over the 1970 level and of 30 percent above that of 1969.

U.S. exports to the eleven LAFTA countries in 1971 were valued about the same as those of 1970, slightly in excess of $4.8 billion. The value of U.S. shipments to this market in 1969 and 1968 amounted to a little more than $4 billion in each year. In 1961, the first year in which the LAFTA was operational, U.S. exports to the same eleven countries were valued at $3.1 billion.

Although maintained at about the same level as in 1970, U.S. exports in 1971 accounted for only 36 percent of the total LAFTA market, compared with 40 percent in 1970. This decline in the U.S. share resulted from a 12 percent rise in the value of global exports to the LAFTA and a 7 percent rise in LAFTA intraregional imports during 1971 as compared with 1970. Another factor in the declining U.S. share was the continuing desire of most of the LAFTA countries to diversify their imports as regards origin, with increasing emphasis on larger purchases from Europe and Japan.

The Andean Group 1/

During 1971, the Andean Group of countries made important headway in implementing the Cartagena Agreement 2/ or "Andean Pact", especially in the vital areas of intrasubregional trade liberalization and harmonization of economic policies. On the other hand, progress was relatively uncertain in other important areas, such as the subregional industrial development program, the Common Minimum External Tariff, and the treatment of foreign capital and technology.

A considerable increase in trade took place in 1971 among the Andean countries, which was attributable in large part to the trade liberalization program of the subregion. Despite this increase, however, intrasubregional trade still accounts for only a very small share of the total world trade of the five Andean countries. Regional preferences, although helpful, were not significant factors in the Andean trade expansion of 1971, as the liberalization program was still in its initial stage, and a large proportion of the products involved in intrasubregional trade were still reserved for the "Sectoral Programs of

1/ On May 26, 1969, five countries (Bolivia, Chile, Colombia, Ecuador, and Peru) signed the Andean Group Subregional Agreement in Bogota, Colombia; it entered into force on October 16, 1969, after ratification by the five governments.

2/ This agreement is generally referred to as the Cartagena Agreement (Acuerdo de Cartagenal) after the port city of Colombia in which most of the work of drafting the agreement was performed and in which the final negotiations took place.

Industrial Development" (approximately 2,000 items) and the "Lists of Exception" and not yet subjected to trade liberalization.

In 1971, industrial development planning did not make progress in overcoming initial obstacles; methods for increasing the growth rate of industrial production remained largely undiscovered, and the prospects for the establishment of new subregional industries were clouded by the national ambitions of the individual members of the Andean Group. Although a Common Minimum External Tariff was approved in 1971, a firm policy on duties on imports from extraregional countries had not yet been adopted. Also during 1971, uncertainties surrounded foreign investment decisions, owing largely to a decision of the Colombian Supreme Court that the Andean Foreign Investment Code had been implemented by unconstitutional means; this decison had the effect of holding up all joint policy measures of the Andean Group requiring Congrssional approval in Colombia. A more hopeful event during 1971 was the initiation of financial operations by the Andean Development Corporation.

Late in 1971, the Cartagena Agreement Commission 1/ took an unprecedented step in defining and providing for the treatment of multinational companies within the subregion. The avowed purpose of this action was to encourage the large-scale entry of capital, both foreign

1/ The Commission is the highest organ of the Cartagena Agreement, composed of representatives of the governments of the member countries. It meets three times annually in ordinary session, and convenes in extraordinary sessions upon petition by the Junta or by a member government. The formal actions or official decrees of the Commission are termed "Decisions."

and domestic, and to create new and diversified industries in the Andean countries. Foreign firms, however, generally interpreted its intent as restrictive rather than encouraging. At best, it created a climate of uncertainty that severely curtailed new foreign direct investment in the region.

During 1971, the Andean Junta 1/ reported substantial assistance from extraregional sources, which included international organizations as well as individual countries. Relations were extended and improved during the year with extraregional economic groups, especially with international and other regional organizations.

Venezuela still remained outside the Cartagena Agreement during 1971. Before the year was over, however, negotiations for the eventual membership of that nation in the Andean Group had passed from purely technical conversations to official governmental representations.

Trade liberalization.--In 1971 the trade liberalization program of the Cartagena Agreement was on schedule. On January 1, 1971, the first step took place in the program's gradual elimination of all intra-Andean import duties over a ten-year period. This step consisted of the elimination of all non-tariff trade restrictions within the subregion and the establishment of a uniform initial-duty level on intraregional imports.

This uniform starting level was set for each individual item imported from within the subregion, based on the lowest pre-integration rate

1/ The Junta is the permanent secretariat of the Cartagena Agreement, with headquarters located in Lima, Peru. It has three members, assisted by an international staff of approximately thirty.

of duty in either Colombia, Peru or Chile, or 100 percent ad valorem, whichever was lower. Annual reductions of the initial duty are to be made from this common starting point unitl the duty is reduced to zero by December 31, 1980; the first 10-percent reduction was made January 1, 1972.

Most favorable treatment is extended to Ecuador and Boliva, Andean countries of relatively less economic development. Exports from these two countries to Chile, Colombia or Peru are to be freed of all duties in three years instead of the ten years required for the more developed countries to achieve complete liberalization; their annual reductions are to be 40, 30, and 30 percent of the initial duties.

This general trade liberalization applies to about 58 percent of all products listed on the national tariff schedules of the Andean countries (about 3,400 tariff items out of a total of about 5,900 items). The remaining 2,500 items (42 percent), are divided into two groups, those freed immediately of all duties and those scheduled for speical liberalization through the "Sectoral Programs for Industrial Development".

In early 1971, the Andean Group removed all duties and non-tariff trade restrictions for their members on the 170 tariff items in the LAFTA Common List, 1/ and on approximately 350 items not currently produced in any of the five member nations.

The regular tariff reduction measurees do not apply to about 2,000 items reserved for the Sectoral Programs. Some of these products are

1/ The Common List includes coffee, bananas, cacao, fish oil, long-staple cotton, and other staples.

currently produced within the region while others are not. Intraregional duties on all such items included in the Sectoral Programs are schedule for elimination before the end of the regular ten-year liberalization period. Those products in this category that are not programmed for elimination by the close of 1975 will revert to the general trade liberalization program at the scheduled level of reduced duties.

The Sectoral Programs of Industrial Development are expected to constitute an important part of the subregional integration process. They will be concerned primarily with projects that require the enlarged subregional market for adequate economies of scale. The practicality of these projects must be examined in the light of the availability of resources, as well as the willingness of the Andean member nations to make their respective national economies increasingly interdependent. The long-term development plan provided by the Cartagena Agreement is expected to strengthen and add continuity to the development plans of individual Andean countries.

The trade liberalization program and other economic integration measures have resulted in a considerable increase in the intraregional trade of the Andean countries. By the end of 1971, practically all agricultural and mineral products, as well as most of the industrial products of the subregion, had benefited from the reductions in import duties and from the removal of non-tariff barriers to trade.

The total value of intraregional exports of the five Andean countries rose steadily between 1961 and 1966, from $38 million to $64 million; there was a decline to $53 million in 1967, followed by a slight increase to $61 million in 1968. Under the impetus of the Andean trade liberalization and economic integration programs, the value of these subregional exports mounted to $86 million in 1969, to $124 million in 1970, and to more than $150 million 1/ in 1971.

It should be noted, however, that despite these increases in recent years, intrasubregional exports account for only a small share of the total value of worldwide exports of the five Andean countries, which amounted to the equivalent of approximately $3 billion annually during 1969-71. Prior to 1971, the share of intraregional exports accounted for only 3 percent of total exports. In 1971, largely because of a decline from 1970 of the value of exports of all five Andean nations, this share rose to 5 percent.

There have been numerous obstacles to the expansion of subregional trade. These difficulties within member countries have included delays in the issuance of import permits, arbitrary requirements for the issuance of sanitation certificates, allocation of foreign exchange by country on the basis of the import volume of the previous year rather than on the basis of current requirements, differential exchange rates, payments clearances, pricing policies, and violations of rules for determining the country of origin of merchandise in subregional commerce.

By the end of 1971, an Andean Group policy covering duties on imports from outside countries was still largely undetermined. Although a "Common Minimum External Tariff (CMXT) 2/ had already

1/ On the basis of preliminary figures for Ecuador.

2/ The Common Minimum External Tariff, authorized by Article 63 of the Cartagena Agreement, is contained in Decision No. 30 of the Commission, adopted at the Commission's third period of extraordinary sessions in December 1970.

been defined and is scheduled to become effective in 1980, there was little indication in 1971 of the actual extent of future protection levels on imports from third countries.

The CMXT was approved for all products, except those reserved for the Sectoral Programs of Industrial Development. Import duty rates of individual member countries that are below the rates of the CMXT must be raised to that level in five annual steps. The first of these steps went into force on December 31, 1971.

The purpose of the CMXT is to establish a minimum margin of preference for subregional production and to facilitate the adoption of the definitive Common External Tariff (CXT). The Junta (of the Cartagena Agreement) is to prepare the proposal for the definitive CXT by the end of 1973; the Cartagena Commission is expected to approve it by the close of 1975. Between 1976 and the end of 1980, the Andean member nations are scheduled gradually to adjust their prevailing import duty rates to those of the CXT, which should be in force throughout the subregion at the end of this transition period.

The CMXT was constructed through the division of all tariff items into eleven groups, by employing a weighted average of four criteria: degree of labor intensity, degree of technological complexity, type of imputs, and grade of elaboration. As for duty levels, those of the CMXT are appreciably lower than those of the preintegration duties in individual member countries, and in addition, have lower standard deviation.

Industrial development planning through harmonization of legislation and tariff policy.--A set of guidelines to harmonize legislation and tariff policy of member nations of the Andean Group was embodied in Decision No. 49 of the Cartagena Agreement Commission, adopted at the sixth extraordinary Commission meeting in December 1971. These guidelines provide for coordination of economic policy in the industrial sector, in accordance with the mandate of the Cartagena Agreement and with earlier decisions of the Commission. If the obligations so assumed by individual members are fulfilled satisfactorily, the economic development of each country should be accelerated and definite progress should be realized in the constitution of a truly subregional common market. The coordination of economic policy involves such important matters as import duty exemptions, reductions, and rebates, as well as joint action on protection of subregional technological development, and on industrial research, information, and promotion.

Decision No. 49 contains regulations designed to prevent margins of preference created by the trade liberalization program from being undermined by duty exemptions on imports from extraregional countries. It also provides that import prohibitions established by any Andean country for the protection of its industry are not applicable to imports from other Andean countries.

Contracts between a member country and companies engaged in production in such a country, which extend these companies' export reductions, exemptions, and rebates contrary to the Cartagena Agreement, are prohibited in Decision No. 49. The decision also charged the Commission with devising a system for the promotion of exports within the subregion; the tentative date set for this accomplishment was December 31, 1972. A basic provision of this industrial harmonization program was that products originating in a member country shall enjoy no less favorable treatment in the territory of the other member than that received by similar domestic products, as regards taxes, duties, and other external charges.

The Commission is empowered to establish a common system of industrial information and research and of engineering services. A program was approved to develop technology in the subregion, including the maximum utilization and control of foreign technology within the area; in this latter connection, an associated program was called for in Decision No. 49 to set up a system of information and price control on intermediate products sold in the subregion by foreign suppliers of technology.

In providing for tariff exemptions, rebates, and rate reductions, Decision No. 49 stipulates that import duties shall be subject to automatic, linear reductions annually, until the levels specified in the Common Minimum External Tariff are achieved. In the case of the more developed member countries of Colombia, Chile, and Peru, these reductions were scheduled to be made during the period of December 31, 1972 through December 31, 1975; in the case of the less developed members, Bolivia and Ecuador, the reductions were scheduled to be made during the period beginning on December 31, 1976, and ending on

December 31, 1985. After the latter date in both cases, no country may make rate reductions at levels below those of the Common Minimum External Tariff.

The proposed common external tariff rates are not excessive. In fact they are actually lower, as a whole, than those now in effect in Chile and Peru, the two largest trading nations in the group. They do not exceed 50 percent ad valorem in any instance. The general intention was to prevent the establishment of industries unable to survive without substantial government protection; dispersal of industry throughout the subregion, however, would seem to reduce the chances of such industries for achieving a level of efficiency high enough to make such protection unnecessary.

A further provision specifies that duty exemptions, reductions, and rebates favorable to the importation of products on the lists of exceptions of individual member nations shall not be applied after December 31, 1985, by Colombia, Chile, Peru, and after December 31, 1990, by Bolivia and Ecuador. Such exemptions, reductions and rebates are tolerated only on a provisional basis, when they are granted to aid depressed or remote areas requiring special customs treatment.

Perhaps the most important, and certainly the most frustrating, of the Sectoral Programs for Development is that for the petrochemical industry. Although this program had originated as a LAFTA complementation agreement, in October 1970 the Andean Commission decided to make it the first subregional program of industrial development. In July 1971, the Junta presented a proposal that was basically vague, reflecting the formidable obstacles encountered in implementing such a program.

The fundamental difficulty (not uncommon among regional development plans) lay in the desire of each country to have its own integrated petrochemical production facilities. Maximum efficiency, however, seems to require a concentration of this industry in one, or at most two, locations within the subregion, based on considerations of access to markets, raw materials, and skilled and semiskilled labor. Dispersal of the petrochemical industry throughout the subregion would undoubtedly be costly, both from the standpoint of initial establishment and of continuing operations; economies of scale generally would not be available, nor would common markets be adequate. In addition, widely dispersed subregional petrochemical plants would probably require excessive tariff protection to survive, a situation that would be in conflict with the overall trade liberalization program of the Andean Group.

Andean multinational enterprises.--In December 1971, the Andean Group made an unprecedented experiment in economic integration, in defining and providing for the treatment of multinational companies that are formed within the subregion. This step was of great importance to the Group, in that it put its cohesion and firmness of purpose to a severe test, in order to encourage and regulate entry of capital into more complex and variegated industries in the Andean countries.

At the sixth extraordinary meeting of the Cartagena Agreement Commission, held in Lima, Peru, during December 1971, three important decrees, or "decisions", were adopted. These decisions (No. 46, 47 and 48) provided a common system for subregional multinational companies and regulation of the treatment of subregional capital, provided for the establishment of minimum participation of state or state-affiliated enterprises in mixed companies, and set up standards applicable to investments made by the Andean Development Corporation in any of the member countries.

These decisions constituted the implementation of Decision No. 24, adopted in December 1970, which called for a uniform system for the treatment of foreign capital, and also outlined a future decision on treatment of capital owned by local investors of any Andean country other than the recipient country. They were also based on the specific provision of Artical 38 of the Cartagena Agreement that the Commission could recommend the establishment of multinational companies for the installation, expansion, or complementation of industries.

Decision No. 46, providing a uniform system for multinational corporations and regulations applicable to subregional capital, constitutes an important attempt to harmonize economic policies and coordinate development plans for the subregion. It affords special treatment to multinational companies that are organized by members of the Andean Group. It defines multinational companies as those formed with capital provided by investments from two or more countries of the Andean Group, amounting to no less than 60 percent of the company's total capitalization. The majority share of subregional capital should be reflected in the technical, administrative, and financial management of the companies. Its main office and headquarters of its board of directors and general management should be located in the member nation where it carries on its principal operations. The share of foreign capital in such a multinational company should be limited to a maximum of 40 percent.

The special treatment of these multinational companies includes the following provisions:

(1) Goods produced by such companies shall enjoy the advantages of the liberation program of the Cartagena Agreement.

(2) Such companies shall receive no less favorable treatment than that afforded local companies as regards preferences in state purchases of goods and services.

(3) Such companies shall not require authorization to reinvest profits.

(4) Such companies shall have access to internal credit on the same terms extended to local companies.

Decision No. 47, setting minimum percentage of participation by states, state-affiliated agencies, or state-owned enterprises in mixed companies, defines such mixed companies as those in which state participation consists of ownership of 30 percent or more of the capital stock and determining voice in company decisions. State-affiliated agencies or state-owned companies in the recipient member country shall be considered those in which the state owns over 80 percent of the capital stock.

Decision No. 48, regarding the participation of the Andean Development Corporation in multinational companies, provides that direct investments of the Development Corporation shall be considered national in each member nation of the group. The Corporation's contributions shall be computed like those of any individual member country for the purpose of completing the minimum percentage of local investment.

Andean Development Corporation (Corporacion Andina de Fomento) 1/.--The Andean Development Corporation, which initiated financial operations in 1971, held its first Executive Committee meeting in Caracas. Venezuela, from June 28 through July 3, 1971. The most significant action taken at the meeting was the Committee's approval of a number of investments and studies, and the authorization of disbursements of the equivalent of more than three million dollars for these purposes.

By the time of this first meeting of the Executive Committee, the six countries had paid in $10,000,000 of the total subscribed capital of $25,000,000 for the Corporation. Although its capital resources were limited, the Corporation hoped to mobilize domestic and foreign resources to the equivalent of $30,000,000 in 1971, and to reach an investment volume of $75,000,000 by 1975.

The development plans of the Corporation emphasize the need to bring together public and private capital, technology and professional

1/ The Andean Development Corporation is a developmental financial agency owned by the five member countries of the Andean Group, plus Venezuela. Its headquarters is located in Caracas, Venzuela. It was chartered on February 7, 1968, opened on January 30, 1970, and began financial activities in 1971.

management. The Corporation coordinates the policies of the Andean countries toward large international enterprises, in the promotion of mergers among companies located within the Andean subregion, and in the establishment of subregional multinational corporations. Existing industries are to be offered assistance by the Corporation to modernize their plants, and to change and/or expand their product lines. The Corporation will participate in the equity of new enterprises and will underwrite stock issues. It may create an "Andean Investment Fund" as an incentive for savings and investment by the people of the member countries.

Andean Foreign Investment Code 1/.--On June 30, 1971, the amended Andean Foreign Investment Code became effective for the five signatory countries--Bolivia, Chile, Colombia, Ecuador, and Peru --through ratification by executive decree of their respective governments. This action was in accordance with the terms of Article 27 of the Cartagena Agreement which obligated member countries of the Andean Group to approve a common policy on foreign investments, trademarks, patents, licenses, and royalties within six months after the signing of the Code by the five nations on December 31, 1970.

Formal actions of the Commission of the Cartagena Agreement are referred to as "Decisions". Decision No. 24 of December 31, 1970,

1/ The full title of this code is "El Regimen Comun de Tratamiento a los Capitales Extranjeros y sobre Marcas, Patentes, Licencias y Regalias" (Common regulations for the treatment of foreign capital, and of patents, trademarks, licenses, and royalties).
For further details on the Andean Foreign Investment Code see Operation of the Trade Agreements Program, 21st report, pp. 107-108, and 22nd report, pp. 101-103.

consists of the official text to the Andean Foreign Investment Code. There were amendments to the Code about the time of its ratification; changes were made by Decision No. 37 of June 24, 1971, and by Decision No. 37-a of July 17, 1971.

The following changes in the treatment of foreign capital were effected by these two Decisions:

1). The time limit is to be extended from 10 to 15 years (for Chile, Colombia, and Peru--20 years for Bolivia and Ecuador) for a foreign investor to adjust the ownership of the capital stock of his corporation to the percentage necessary for it to be considered legally as a domestic enterprise, 1/ through the sale of stock shares to national investors. 2/

2). Foreign enterprises are to be assured of access to short-term internal credits.

3). Control over stock sales by foreign enterprises is to be exercised by the official agencies of the countries of the subregion in which such sales are made.

4). Existing foreign enterprises are those which were established within the subregion before June 30, 1971.

1/ Decision No. 24 of the Cartagena Commission formally defined three types of enterprises in the Andean subregion: a) domestic, in which more than 80 percent of the capital stock is domestically owned; b) mixed, in which from 51 to 80 percent of the capital is domestic; and c) foreign, in which domestic capital accounts for less than 51 percent of the total capitalization.

2/ Companies established in Andean Group countries after June 30, 1971, are required by the Code to offer or purchase by domestic investors such proportions of their stock shares, participations, or rights as is necessary to transform these companies into mixed enterprises within the specified time periods. The participation of domestic investors in the capital of such a company must not be less than 15 percent from the moment the enterprise initiates production, not less than 30 percent after five years, and not less than 45 percent after 10 years, in Chile, Colombia, and Peru. In Bolivia and Ecuador, these percentages for participation must be at least 5 percent within three years after the start of production, at least 10 percent within one-third of the total allotted time of 20 years (about 7 years), and at least 35 percent within two-thirds of the allotted time (about 13 years).

5). New Foreign enterprises are those which are established within the subregion after July 1, 1971.

6). A new investment is any investment made within the subregion after July 1, 1971, by either new or existing enterprises.

In 1971, legal problems in Colombia caused considerable uncertainty in the area of foreign investment in the subregion. The Supreme Court of Colombia held that the Andean Foreign Investment Code had been implemented in that country by unconstitutional means, having failed to obtain the approval of the Colombian Congress. By the end of the year, this matter had not been resolved, and the implementation of joint Andean policy measures requiring Congressional approval in Colombia were held in suspense, including the statute for Andean multinational enterprises.

Extraregional assistance to the Andean Junta. --The Junta of the Andean Group reported in mid-1971 that it had received financial assistance in excess of the equivalent of $1.6 million from extraregional assistance. These funds were provided by international organizations such as the united Nations (UN), the International Development Bank (IDB), the Food and Agriculture Organization (FAO) and the Organization of American States (OAS) as well as by foreign governments, notably the United States (through the Agency for International Development - AID), Canada, and Italy. By the end of 1971, other governments such as those of Spain, Belgium, the United Kingdom, and the U.S.S.R., had either sent or promised to send experts and technicians to assist in the Andean program of economic integration.

Reports from the Andean countries indicate special praise for the efforts of the Canadians and some of the Europeans. Despite the proportionately large contributions of the United States to the UN, the IDB, and the OAS, aid extended to the Andean nations by these international organizations does not appear to be acknowledged as at least partially originating in the United States by the governments and people of the subregion.

Relations with other regional groups.--In December 1971, the Cartagena Agreement Commission extended and improved its relations with other regional groups, to enlist their cooperation and assistance in furthering Andean economic development and integration. The European Economic Community (EEC) reiterated its willingness to improve economic relations with the Andean countries. Meetings were scheduled with the Central American Common Market (CACM) and the Caribbean Free Trade Association (CARIFTA).

Projected accession of Venezeula.--By the end of 1971, Venezuela still had not become a member of the Andean Group. However, during the year Venezuela moved closer to eventual adherence to the Cartagena Agreement and status as the sixth member of the Group.

Decision No. 42 of the Cartagena Agreement Commission, adopted at its Twelfth Ordinary Session in Lima, Peru, during November 1971, referred directly to the anticipated incorporation of Venezeula into the Cartagena Agreement. After recalling the interest shown by existing members of the Group for the accession of Venezeula and the expressed desire of the Venezuelan Government to participate in subregional integration, the Decision expressed to the Venezuelan Government the Commission's desire to initiate negotiations to provide for Venezuelan incorporation into the Andean Group.

On December 14, 1971, the Cartagena Agreement Commission received its reply to the formal invitation to Venezuela contained in Decision No. 42. The Venezuelan Government, through its representative on the Commission, officially notified the Commission that it would immediately initiate the procedures established by the LAFTA relative to membership in subregional agreements, in order to bring about Venezuelan incorporation into the Andean Group. The Cartagena Agreement Board then announced that formal negotiations to this end between the Venezuelan Government and the Commission would begin in February 1972. 1/

1/ Previous discussions on Venezuelan adherence to the Cartagena Agreement were considered as informal technical discussions and not as official negotiations, by the principals concerned.

River Plate Basin (Cuena del Plata) Group 1/

In July 1971, the Ministers of Foreign Affairs of the five member nations of the River Plate Basin Group 2/ met for their Fourth Conference, in Asuncion, Paraguay. At this meeting, agreement was reached for the joint prosecution of measures designed to further commercial, financial, and industrial development within the Group. The conferees concentrated on specific development projects of individual member countries, and joint participation in and benefit from such projects by the Group as a whole.

Perhaps the most important result of this Conference was the approval of several resolutions concerning the improvement and utilization of international rivers forming the River Plate system. All improvements made on a river flowing through the territories of several or all of the member countries were made subject to approval by the Group as a whole, so that no member might be adversely affected; improvements on rivers forming the boundary between two contracting parties were to be subject to bilateral agreement. All hydrographic, cartographic, and meterological data on rivers within the Basin were to be freely divulged and exchanged between member nations. All members agreed to maintain the rivers within their

---

1/ The "Cuenca del Plata" Group consists of the five South American countries drained by the Rio de la Plata (River Plate) and its tributaries, e. g., Argentina, Bolivia, Brazil, Paraguay, and Uruguay. This Group was established by the Treaty of Cuenca del Plata (generally referred to as the Treaty of Brasilia), signed in Brasilia, Brazil, on April 23, 1969, which became operative with the signature of the five contracting parties, on August 14, 1970.

2/ For additional information, see Operation of the Trade Agreements Program, 21st report.

jurisdiction in the best condition for navigability, and in a manner that would not prejudice the intrests of other concerned members. In the course of construction of public works on or near rivers within the Basin, members of the Group were pledged to refrain from measures that would adversely affect navagability of the rivers and to conserve the wild life therein.

The conferees also continued their work relative to the establishment of a subregional financial agency, a group development bank, designed to provide and to channel efficiently available resources for the joint development projects of the Group. It was expected that recommendations to this end would be implemented at the next meeting of the Ministers of Foreign Affairs of the five countries.

Complementation and integration on a subregional scale of the industries of the individual members of the Group have already been advanced within the Basin. At the meeting of July 1971, further studies to this end by a group of experts were authorized by the conferees. Studies also were authorized on uniform legislation and regulations on navigation, on legislation to provide a regional electric power network, on the projected creation of a regional center for hydrobiological research, on regional integration of transportation facilities, on improvement of telecommunications within the area, on encouragement of tourism within the Basin, on resolving health problems of the populace of the region, on establishment of a regional port authority, on measures designed to prevent contamination of the rivers by hydrocarbons, and on the information of a multinational fleet of river boats on the River Plate and its tributaries.

Central American common market

By the end of 1971, there were serious doubts regarding the survival of the Central American Common Market (CACM). 1/ Until the severe disruption of intraregional trade channels resulting from the war between El Salvador and Honduras in 1969, this Central American experiment appeared to be the most successful example of economic integration and development among the several regional organizations throughout the world. 2/

During 1971, the value of the intraregional trade of the CACM declined somewhat, about 8 percent below the 1970 level. Extraregional CACM trade for the same year increased by about 6 percent in value over 1970; the import balance for extraregional trade in 1971, however, soared to more than the equivalent of $200 million, an all-time high following years of sizeable extraregional trade deficits. In 1971, U.S. trade with the CACM continued at high levels; U.S. exports to the region were down slightly, by about 5 percent under the value of 1970, while U.S. imports from CACM countries rose in value by about 8 percent over 1970.

In December 1970, Honduras withdrew from the CACM, for all practical purposes; it seemed very probable that Costa Rica would

1/ The Central American Common Market (CACM) is composed of five countries: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. It became operative in 1961.

2/ For a complete listing of the network of trade and economic integration treaties of Central America, see Operation of the Trade Agreements Program, 20th report (processed), pp. 115-117.

do likewise in 1972; in each case the reasons were both political and economic. The deterioration of trade and general economic relations of these two countries with the other CACM members (Guatemala, El Salvador, and Nicaragua), has been apparent since 1967. By the close of 1971 however, all five of the CACM members were involved in an economic and political crisis.

Honduras suspended its free trade with other CACM countries, when by official decree it imposed duties on all imports entering from other CACM countries, beginning on December 31, 1970. Although rising trade deficits constituted the immediate cause of the Honduran action, the difficulties of this country had been building up for some years prior to 1971, even before the disastrous 1969 war with El Salvador. Honduran dissatisfaction with its role in the CACM dates back to the mid-1960's; as the least developed of the CACM nations, it has incurred annual trade deficits, reflecting its slow export growth in the face of rapidly rising intraregional imports. Honduran authorities felt that other CACM countries were reaping most of the benefits of the Common Market, largely at the expense of Honduras.

Costa Rica's participation in the trade liberalization and economic integration programs of the CACM was also clouded by the close of 1971. As in the case of Honduras, the trade posture of Costa Rica in the CACM has been deteriorating for several years. Between 1967 and 1971, the cumulative annual import balances of Costa Rica mounted to the equivalent of nearly $87 million; in 1971 alone, the trade deficit amounted to almost $31 million. The reasons for the inability of Costa Rica to reduce this chronic and growing trade deficit appeared to be the higher production costs in that country compared with those in the other CACM countries, and the absence of a common Central American agricultural policy.

As the global trade deficit of Costa Rica soared to nearly $117 million in 1971, the country was obliged to suspend payment on its imports from the four other CACM members. In June 1971, Costa Rica introduced monetary exchange restrictions applicable to non-CACM countries as a direct result of the sharp reduction in its international reserves. The Costa Rican Government limited the use of its foreign exchange reserves at the official exchange rate exclusively to the payment for goods and services classified as essential. This sutuation continued into 1972, when it became apparent that, owing to the continued rise of imports from within the CACM, these Costa Rican restrictions would also be extended to imports of CACM origin; such a seemingly inevitable step would take Costa Rica, like Honduras, outside the CACM, for all practical purposes.

During 1971, continuing disagreement arose from the "de facto" creation of two four-country Central American markets; the three "neutral" (in the 1969 war) countries--Guatemala, Nicaragua, and Costa Rica--joined with El Salvador in one market and with Honduras in the other. Also in 1971, four CACM countries--Guatemala, El Salvador, Costa Rica, and Nicaragua--created a "Normalization Commission" designed to promote orderly trade relations and to initiate reform measures to bring about the eventual reconstitution of a five-nation CACM; this four-country market functioned strictly in accordance with all CACM regulations and institutions.

Throughout 1971, trade between Honduras and the "neutrals"--Guatemala, Nicargua, and Costa Rica--was severely reduced as a result of the withdrawal of Honduras from CACM. By the close of 1971, Honduras was actively attempting to negotiate more-or-less-equal bilateral trade agreements with each of the three neutral CACM countries; such agreements were designed to return trade to normal levels, but at the same time assuring that the Honduran trade deficit would remain within reasonable limits.

During 1971, recriminations were continually exchanged throughout Central America regarding responsibility for the "destruction" of the Common Market. An objective analysis of developments in recent years, however, seems to indicate that the CACM crisis has its roots in the Central American General Treaty of Economic Integration (GTEI) itself, through its failure to cope with such important problems as a common agricultural policy, the origin of Central Ameri can commodities, and subregional industrial coorperation.

The political difficulties in solving these economic problems brought about the division of the CACM into two groups: the relatively more developed members (especially Guatemala and El Salvador) which succeeded in fully exploiting their trade advantages, and the less developed members (Honduras and Costa Rica) for which economic integration has resulted in persistent trade deficits and retarded industrial development. Thus it appears evident that the salvation of the CACM in its continuing crisis that intensified during 1971, depends on a workable solution of its fundamental problem, e.g., the equitable sharing of all CACM members, including Honduras and Costa Rica, in the benefits of economic integration.

Intraregional Trade.--During 1971, the value of intraregional trade of the CACM totaled the equivalent of almost $276 million, 8 percent below the 1970 total of nearly $300 million. 1/ This decline was attributable to the suspension of free trade between Honduras and the three CACM countries with which it still maintains relations (Guatemala, Nicaragua, and Costa Rica), through decree of the Honduran Government in 1970.

1/ Intra-CACM trade was valued at only $33 million in 1960, the year before the General Treaty of Economic Integration entered into force.

This trade setback is indicative of the recession suffered by the CACM as a direct result of the armed conflict between Honduras and El Salvador in 1969. The peak level attained for intraregional trade in 1970, despite the suspension of relations between Honduras and El Salvador, was largely attributable to the momentum of the CACM which made possible the continuation of the upward trend, even without the once-substantial trade between El Salvador and Honduras.

The five countries who were members of CACM in 1970 experienced a decline in their intraregional trade in 1971, because of the complete cessation of trade between El Salvador and Honduras and the new position of Honduras as a non-CACM member in its trade with Guatemala, Nicaragua, and Costa Rica. Intraregional imports of these 5 countries accounted for 21 percent of the value of their total imports in 1971, compared with 24 percent in 1970 and with the 1968 high of nearly 25 percent.

In the absence of free trade with Honduras, the total intraregional trade of the remaining four CACM countries actually increased in 1971. The value of total trade among the "four-nation CACM" rose from $244 million in 1970 to $259 million in 1971, a gain of approximately 6 percent.

Trade within the CACM is unevenly distributed. In 1971, Guatemala was the leading CACM exporter and Costa Rica the leading CACM importer, in terms of value. Guatemala and El Salvador together accounted for 63 percent of the value of intraregional exports in 1971; the three other CACM members (Nicaragua, Honduras, and Costa Rica), while accounting for only 37 percent of the value of Intraregional exports, accounted for about 53 percent of the value of intraregional imports. Before the 1969 war, El Salvador had been the leader in value of both intraregional exports and imports, but because of its loss of the Honduran market was displaced by Guatemala (exports) and Costa Rica (imports) in 1971. Also in 1971, Costa Rica registered the largest CACM import balance, a trade deficit in excess of $30 million, posing another serious problem for the CACM, on a par with the Hondurann problem.

The growth in intraregional trade in industrial products since the inception of CACM has been remarkable. The increase of intraregional trade in agricultural commodities, while substantial, has been slower than that of industrial goods because CACM does not have a common agricultural policy. The overall growth of intraregional trade has been attributable mainly to the substantial reduction of trade barriers within the CACM, along with the CACM policy of substitution of products of regional origin for a wide variety of products formerly imported from extraregional sources of supply.

During the 1961-71 period, the Central American countries experienced extensive economic growth, largely because of the trade liberalization and economic integration measures of the CACM. In 1971, the gross national product of the five CACM countries, combined, amounted to the equivalent of more than $5.5 billion, a real increase of approximately 70 percent over the corresponding figure for 1961. By 1971, the common external tariff of the CACM covered 99 percent of the 1,551 items on the CACM tariff schedule, notable exceptions being petroleum petroleum products and automobiles. The economic growth of the Central American countries especially their industrial sectors, would be considerably stimulated by completion of the economic integration of the CACM members.

Extraregional Trade.--In 1971, the CACM again registered a substantial deficit in extraregional trade. The import balance mounted to the equivalent of nearly $202 million, compared with $139 million in 1970. As in 1970, Costa Rica accounted for the largest part of this defict in 1971, followed by Guatemala. El Salvador recorded an import balance of $40 million in 1971, although this country's trade deficit was only $1.5 million in 1970. All five CACM countries experienced extraregional trade defcits in both 1970 and 1971.

The mounting annual import balances of recent years in the extraregional trade of the CACM have been attributable principally to a sharp rise of imports of capital goods and raw materials for the expanding industries and the new development projects within the region. At the same time, extraregional exports of the CACM have not increased at the same pace as imports. The principal export items have been agricultural commodities subject to international agreements; low world prices have reduced their value, and the political-economic crises (the Salvadorean-Honduran war, the Honduran withdrawal from the CACM, and the Costa Rican trade situation) and a number of natural disasters (hurricanes, crop blights, etc.) have reduced the quantities available for export and have increased difficulties of transportation to ports of embarkation.

Trade with the United States

During 1971, U.S. exports to the CACM declined slightly in value, to $404 million, about 5 percent below the 1970 value, although almost twice the level of 1961, the year when the CACM became operative. During the 1961-71 period, the relative share of the United States in the value of total annual imports of the CACM declined slowly but steadily, from 46 percent to about 31 percent, despite the increased value of these U.S. shipments in the later years. The principal factor responsible for this decline was the expansion of the intraregional trade of the CACM.

In 1971, U.S. imports from the CACM continued their annual increase, rising in value to about $448 million, 8 percent above the 1970 level; the total value of such imports in 1961 was slightly less than $200 million. The principal CACM commodities imported by the United States have been bananas, coffee, beef, sugar, and shrimps. Beef imports from the United States rose in value by close to 20 percent in 1971, as compared with 1970.

In recent years, U.S. exports of machinery have been well-maintained in the Central American area, largely as a result of the increasing volume of U.S. investments that have been made in new industries in the CACM countries. These U.S. funds are being channeled into such enterprises as mines, petroleum refineries, and chemical ical and fertilizer plants. The CACM development program has contributed significantly to the demand for U.S. products throughout the region, especially machinery and equipment for agriculture and infrastructure.

Japan

United States-Japan economic relations were severely strained during 1971. The deficit in trade which the United States had been experiencing with Japan grew considerably more serious. Whereas the deficit during the three preceding years, 1968-70, had been less than $2 billion annually, in 1971 it rose to $3.2 billion. During this period while the United States had been experiencing trade deficits with its three largest trading partners, Canada, Japan, and West Germany, the deficit with Japan became by far the most serious. The United States bilateral trade balance with its three largest trading partners during 1970-71 was as follows:

Bilateral trade between the United States and Canada, Japan, and West Germany, 1970-71

(In millions of dollars)

U.S. trade with-	1971 Exports	1971 Imports	1971 Balance	1971 Balance in percent	1970 Exports	1970 Imports	1970 Balance	1970 Balance in percent
Canada	10,365.7	12,761.7	2,396.0	10.4	9,079.3	11,092.0	2,012.7	10.0
Japan	4,054.7	7,260.9	3,206.2	28.3	4,651.9	5,875.4	1,223.5	11.7
West Germany	2,832.0	3,650.0	818.0	12.6	2,740.7	3,127.0	386.0	6.6

Source: U.S. Department of Commerce, U.S. Foreign Trade Highlights of Exports and Imports, December 1971.

Furthermore, the scale of Japan's trade surplus with the world during 1971 indicated that trade imbalance was not confined to trade with the United States. Whereas Japan's overall trade surplus with the world 1968-70 had been $2.5, $3.7 and $4.0 billion, respectively in 1971 it grew to $7.8 billion. 1/ During 1971 Japanese reserves showed an even more dramatic increase. During 1968-70 they had been $2.9, $3.5 and $4.4 billion; in 1971 they rose to $15.2 billion. 2/ Clearly Japan was moving into a new period--forecast by the OECD in its 1969 annual country report--and new policies were indicated.

The Japanese Government took a number of different measures in an effort to rectify the imbalance, but they were far from sufficient for the magnitude of the problem. During 1971 the Japanese Government adopted the following types of measures: liberalization of quantitative restrictions on imports which were being operated in violation of GATT rules; tariff reductions; liberalization of inward and outward capital movements; imposition of selected "voluntary" restraints; and, under duress, abandonment of the yen-dollar ratio of 365:1 which had prevailed since fixed rates were established in 1953.

In June 1971 when the handwriting on the wall could clearly be seen, the Government announced an 8-point program for meeting the trade surplus problem. The eight points were:

acceleration of import liberalization
early implementation of generalized tariff preferences
  for imports from Less Developed Countries (LDC)
reductions in nonpreferential import duties
liberalization of inward and outward capital movements
easing of nontaiff barriers to imports
promotion of econommic aid
more orderly marketing arrangements and removal of
  certain export incentives
more flexible monetary and fiscal polices to stimulate

1/ Bank of Japan, Economic Statistics, 1971.
2/ Ibid.

Japan adopted the following measures during 1971:

Liberalization of quantitative restrictions. --expressed in terms of 4-digit BTN items in whole or in part.

Date	Items liberalized	Items remaining	Division between: mining and manufacturing	marine and agriculture
Jan. 1	10	80	31	49
June 30	20	60	20	40
Oct. 1	20	40	12	28

Note: "Liberalization" did not mean that the goods necessarily became "automatic approval" items. They might well move to "automatic import quota", the intermediate category of Japan's three import categories. For an "automatic import quota" item, a quota had to be obtained from MITI before an authorized foreign exchange bank would provide the necessary foreign exchange. It being an "automatic" quota, however, meant that there would be no question that it could be obtained.

Tariff changes

April 1 Final Kennedy-Round reductions were made 9 months in advance.

April 1 Unilateral reductions were made on a few key selected tariff items (automobiles, trucks, buses, internal combustion piston engines, color film, radios, TVs, record players); a few tariff items were raised.

Aug. 1 Generalized tariff preferences on 892 tariff items were extended to 96 LDCs on a tariff-rate quota basis.

Capital liberalization

Inward--in new establishments

April 1 Foreign investors permitted to own up to 50 percent in new establishments producing motor vehicles of any type.

Aug. 4 Fourth round of capital liberalization. Only 7 industries to remain subject to case-by-case approval. Other industries divided into two categories: those where foreign participation could be up to 50 percent in new establishments; those where foreign participation could be up to 100 percent in new establishments. Industries designated as "100 percent" increased from 77 to 228.

Note: Applications for investment in "liberalized" industries would receive automatic approval; not case-by case examination.

Capital liberalization (con.)

Inward--in existing firms

Aug. 4 Maximum share in existing Japanese firms which a single nonresident investor could hold was increased from 7 to 10 percent of equity. Collectively, foreign investment in existing firms remained at the ceiling established September 1970, "under 25 percent"--with the exception of "restricted industries" where the proportion was 15 percent.

Outward

July 1 Investment in any yen amount in foreign industries in any area permitted; residents permitted to purchase foreign real estate.

Sept. 1 Foreign dealers in securities permitted to open branch offices in Japan.

Voluntary restraints

April 1 Steel producers extended the voluntary marketing arrangement for two years.

July 1 Textile producers in man-made fibers began a voluntary restraint program to the United States.

Foreign exchange

Aug. 28 Foreign exchange dealings were not necessarily to be bounded by previous margins.

Dec. 20 Central rate of Y308 to $1 established.
(During the period, September 12 to December 22, import duties calculated on weekly average of the exchange rates.)

Canada

For Canada, 1971 was another year of solid economic achievement. Although high rates of unemployment and price inflation continued, substantial gains were made in GNP, industrial production, and consumer spending, Canadian gains from trade declined in 1971, however, a year when appreciating Canadian dollar values were beginning to discourage some export sales and strong domestic demand was stimulating merchandise imports. The country's large trade surplus of 1970 had decreased somewhat by the end of 1971, and its billion-dollar positive balance on current account transactions had slipped drastically.

According to Canadian statistics made available early in 1972, the year 1971 brought the following annual changes in the country's external position (in percent):

Total exports	+ 5.5
Exports to United States	+10.4
Total imports	+11.8
Imports from United States	+10.4
Trade balance	-24.1
Current account balance	-79.6
International reserves	+19.0

Exports from the United States to Canade in 1971 were just over $10 billion, whereas imports from Canada were $12.7 billion. The resulting trade deficit of nearly $2.7 billion for the U.S. was 15 percent larger than the deficit for the previous year.

As a major trading nation and the chief trading partner of the United States, Canada expressed concern about the impact on its export sales of manufactures and on its economy of the import surtax and other features of the new U.S. economic policy announced in August 1971. Whereas the economic interrelationships of the two countries dictated general Canadian approval of measures needed to strengthen the U.S. economy, Canada feared the consequences of any further dampers on export sales that could result from retention of the import surtax, granting of tax credits for U.S. corporations investing in U.S. produced capital goods, and operation of the proposed "DISC" program for establishing special U.S. export organizations. The Government of Canada lost no time in making studies of the trade effects of higher U.S. tariffs; a preliminary survey concluded that in terms of 1970 trade values, some 24 percent of Canada's exports to the United States would be affected. Concern about a rise in joblessness led to introduction in the Parliament and adoption of a measure that provided for establishing a fund of $80 million on which Canadian companies could draw in order to maintain employment in the face of "disruption in the employment situation" because of foreign import surtaxes. In addition, the Government approved an increase in the funding of its general program for adjustment assistance.