OPERATION OF THE TRADE AGREEMENTS PROGRAM

31st Report

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Introduction

Section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that, at least once a year, the United States International Trade Commission submit to the Congress a factual report on the operation of the trade agreements program. This report is the 31st report to be submitted under section 163(b) and its predecessor legislation.

Executive Order 11846 of March 27, 1975, defines the trade agreements program as including:

> all activities consisting of, or related to, the negotiation or administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution, Section 350 of the Tariff Act of 1930, as amended, the Trade Expansion Act of 1962, as amended, or the Trade Act of 1974 .

The period covered in this report is calendar year 1979, although occasionally, to enable the reader to understand developments more fully, events in early 1980 are also reported.

Of principal importance to the trade agreements program in 1979 was the conclusion of the Tokyo Round of Multilateral Trade Negotiations (the MTN), ongoing since 1973. Many of the agreements which resulted from the MTN were implemented domestically by the enactment of the Trade Agreements Act of 1979. The trade negotiations were extremely comprehensive, extending beyond any of the previous six rounds of trade negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT) since its founding in 1948. Agreements reached included concessions on tariffs; codes of conduct in several areas affecting significant nontariff barriers to trade; reduction or elimination of specific nontariff barriers; sectoral agreements on meat, dairy products, and civil aircraft; and an improved legal framework for the GATT. Most of the codes on nontariff measures entered into force on January 1, 1980 for those countries which were signatories. Also, implementation of tariff concessions generally began on that date. The United States, the European Economic Community, Canada, and Japan were among the initial signers of the entire package; however, Japan had not completed its internal ratification procedures by year-end 1979.

During 1979, the United States participated in commodity agreement-related negotiations under the Integrated Program for Commodities of the United Nations Conference on Trade and Development. Two major developments included the adoption of a framework resolution on the fundamental elements of a "Common Fund," intended to support the financial activities of commodity agreements, and the negotiation of the first International Natural Rubber Agreement in October 1979, which was signed by the United States early in 1980.

The value of world trade increased to over \$1.6 trillion in 1979, or approximately 25 percent more than the value in the previous year. Although much of this increase is attributable to the continuing inflation rather than to growth in volume, the volume of trade did expand by nearly 7 percent, slightly more than that in 1978 and over twice the 1979 rate of growth in world production. On an f.a.s. basis, the U.S. trade deficit decreased compared with that in 1978, as U.S. exports increased by about 27 percent, to \$182 billion, while imports increased by 20 percent, to \$206.3 billion. Compared with that in 1978, U.S. trade surpluses with the European Economic Community and Mexico increased in 1979, while U.S. trade deficits with Japan and Canada decreased.

This report was prepared principally in the Commission's Office of Economics.

CHAPTER I

U.S. ACTIONS ON IMPORT RELIEF, UNFAIR TRADE PRACTICES, AND RELATED MATTERS

U.S. Actions Under Provisions for Import Relief

Title II of the Trade Act of 1974 sets the procedures under which domestic interests may seek relief from injurious import competition when there is no allegation of unfair practices. Import relief for domestic industries may take the form of import-limiting measures; in addition, adjustment assistance may be provided to workers, firms, and communities adversely affected by increased imports. U.S. trade law also provides for adjusting imports to safeguard national security and for the prevention or remedy of market disruption caused by imports from a Communist country.

Safeguard actions

Sections 201 through 203 of the Trade Act of 1974 authorize the President to provide import relief when an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. The U.S. International Trade Commission determines whether the statutory criteria for relief are met. If the Commission decides affirmatively, it then recommends to the President a measure necessary to prevent or remedy the injury. Import relief may be provided for not more than 5 years, with the possibility of one extension of not more than 3 years. Relief may be provided by the President in the form of new or increased duties, tariff-rate quotas, quantitative import restrictions, orderly marketing agreements or OMA's (negotiated limits on exports of foreign countries), or any combination of such measures, although section 201 does not specifically authorize the Commission to recommend OMA's as a form of relief. If the Commission determines that adjustment assistance can effectively remedy the injury, the Commission must recommend the provision of such assistance. While the Act requires that the Commission focus only on a remedy necessary to correct or prevent the injury, the President's decision, by law, must take into account various additional factors, including the effect of import relief on the national interests of the United States and on consumers.

In December 1978, after having made an affirmative finding in its investigation No. TA-201-36, (clothespins) the Commission recommended to the President that, for a period of five years, he impose an annual global quota of 3.2 million gross on imports of wood and plastic spring clothespins valued at no more than $2.10 per gross. In February 1979 the President proclaimed a global quota of 2.0 million gross annually for three years, on wood and plastic spring clothespins valued at no more than $1.70 per gross.

In 1979, the Commission completed two investigations under the provisions of section 201, and two investigations were pending at the end of the year. In investigation No. TA-201-38, on certain machine needles, the Commission made a negative determination, while in investigation No. TA-201-39, on nonelectric cooking ware, the determination was affirmative with respect to the domestic porcelain-on-steel cookware industry. With respect to the latter case, the Commission recommended that an increased rate of duty be imposed on porcelain-on-steel cooking ware valued not over $2.25 per pound, and that import relief be phased out over a 5-year period. The President decided to grant relief on this lower value bracket cooking ware, with the exception of teakettles. He did not increase the rate of duty by as much as that recommended by the Commission, and he stipulated that the import relief be phased out over a 4-year, rather than a 5-year, period. Additionally, the President directed the United States Trade Representative to request that the Commission advise him, through the Trade Representative, of the probable economic effect on the subject industry of limiting import relief to a period of two years. He also directed the Trade Representative to request advice, on behalf of the President, from the Departments of Commerce and Labor. The advice sought from the Commission and the two departments is to be provided three months prior to the expiration of the two-year period.

As previously indicated, two section 201 cases were pending at the close of 1979. They were investigation No. TA-201-40, Leather Wearing Apparel, and investigation No. TA-201-41, Certain Fish.

The President may extend import relief for one period not to exceed 3 years if he determines that such extension is in the national interest, after considering advice received from the Commission, the Secretary of Labor, and the Secretary of Commerce. The President also has the authority to deny any extension or to reduce extended relief in product coverage and/or amount of protection. Under section 203 of the Trade Act of 1974, the Commission advises the President of its judgment as to the probable economic effect on the relevant industry(ies) of extending, reducing, or terminating the current import relief. Again, the Commission's advice does not embrace national interest considerations.

In April 1979, the Commission completed investigation No. TA-203-5, on certain stainless steel and alloy tool steel for which import relief in the form of an orderly marketing agreement and unilaterally imposed quotas had been in effect since June 14, 1976. The Commission was evenly divided in its advice. Two Commissioners advised the President that termination of the import quotas then in effect would have a seriously adverse economic impact on the domestic industry producing like or directly competitive articles. The other two voting Commissioners advised that termination would have little, if any, adverse impact. On June 12, 1979, the President extended import relief until February 13, 1980. (See page 33). Based on Presidential proclamations of previous years, import relief continued throughout 1979 for nonrubber footwear, color television receivers, citizens' band radios, high-carbon chromium, and industrial fasteners.

Adjustment assistance

Title II of the 1974 Trade Act provides for adjustment assistance in the form of trade readjustment, training and relocation allowances for workers, technical and financial assistance for firms, and assistance and loan guarantees to communities adversely affected by increased imports. The U.S. Department of Labor administers the program for displaced workers, and the Department of Commerce, through its Economic Development Administration (EDA), administers the programs for firms and communities.

During 1979, the Department of Labor instituted 2,121 investigations on the basis of petitions for eligibility to apply for adjustment assistance. It completed 2,075 cases and made 778 complete certifications and 64 partial certifications. 1/ In the same year, approximately 200,000 workers received their first payments in the form of trade readjustment allowances. The total amount paid in such allowances during the year was about $301.5 million. Other benefits received by workers adversely affected by imports consisted of testing, counseling, job training, job-search allowances, referrals, and expense allowances for moving to new job locations.

During 1979, the Department of Commerce, through EDA, certified 329 firms as eligible to apply for trade adjustment assistance. It certified 144 wearing apparel firms, 19 handbag producers, 13 producers of footwear, and 12 manufacturers of textiles. The other 141 certified producers represented 51 industries or product groups, with each industry or group having from 1 to 10 certified firms.

For firms, the Trade Act of 1974 authorizes direct loans and guarantees of loans to finance adjustment efforts encompassing plant acquisition and/or construction, plant modernization, conversion or expansion, and the purchase of machinery and equipment. During the year, EDA approved the adjustment proposals of 90 firms and authorized financial assistance amounting to $104 million (of which 62 percent consisted of direct loans). In addition, EDA provided technical assistance to 463 firms. 2/

The operations of EDA's field offices are supplemented by 10 Trade Adjustment Assistance Centers (TAAC's), all operated by non-Federal, nonprofit organizations which receive EDA grants. Each TAAC has a package of services available to trade-impacted firms. Among these services are guidance in preparing petitions for certification and, for EDA-certified firms, comprehensive assistance in carrying out their recovery plans.

The Trade Act of 1974 also provides for adjustment assistance to communities adversely affected by import competition. A petition may be filed by a single community (a political subdivision of a State), by a group of communities, or by the Governor of the State on their behalf. Because many trade-impacted communities have additional economic problems not directly related to increased imports, EDA has encouraged such communities to petition under the programs covered by the Public Works and Economic Development Act of 1965, as amended, rather than under the more restrictive 1974 Trade Act for community adjustment assistance.

In 1979, EDA awarded grants totaling about $4.5 million to trade-impacted communities. Among other things, the grants aided development of new industrial sites, recycling of deteriorated industrial buildings, and the operation of business retention and expansion programs.

Another aspect of the Department of Commerce's adjustment assistance activities is assistance to trade-impacted industries. EDA, the International Trade Administration, and the Office of Productivity Technology and Innovation are participating components of the Commerce Department. Their activities are

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1/ "Partial" indicates that not all of the workers covered by the petition were certified.

2/ This latter figure is for 12 months ending Sept. 30, 1979. Of the 463 firms, 405 received technical assistance from the TAAC's, and 58 received it directly from EDA.

oriented not only toward enhancing industry members' ability to compete in their home markets, but also toward stimulating exports of trade-impacted products. Programs focus on technology, productivity, the nature and extent of lines of products, marketing, and management systems.

The legal authority relied on by the Department in assisting such industries is the Public Works and Economic Development Act of 1965, as amended, the same authority under which Commerce also aids trade-impacted communities. All of the industries enumerated in the following paragraph have firms that the Department of Commerce regards as import-impacted. (Moreover, many of these firms have participated in "escape-clause" investigations conducted by the U.S. International Trade Commission). Generally, programs of assistance on an industry-wide basis have stemmed from Departmental initiatives.

During 1979, the Department of Commerce, through its own personnel and those of consulting firms, gave technical and financial assistance to the footwear industry and the apparel and textile industries. In addition, it made trade adjustment technical assistance grants to 7 industry or trade associations whose members produce handbags, cutlery, jewelry, textile machinery, mushrooms, vitreous china, and earthenware, and to a State Government that assisted trade-impacted firms on a multifirm basis. Finally, Commerce helped finance technological innovations in the stainless steel flatware, industrial fasteners, consumer electronics, and steel industries.

Market disruption

Section 406 of the Trade Act of 1974 provides for investigations by the U.S. International Trade Commission to determine, "with respect to imports of an article which is the product of a Communist country, whether market disruption exists with respect to an article produced by a domestic industry." Market disruption is considered to exist within a domestic industry "whenever imports of an article, like or directly competitive with an article produced by such domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to such domestic industry." If the Commission determines that market disruption exists, it must "find the amount of the increase in, or imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such market disruption . . . ." An affirmative determination reported to the President gives him essentially the same options as those provided under sections 202 and 203 of the Trade Act. The President's action, however, may be directed at only the Communist country or countries from which the injurious imports come.

In July 1979, 12 U.S. producers and 1 U.S. distributor of anhydrous ammonia petitioned the Commission to conduct an investigation to determine whether, as they claimed, imports of anhydrous ammonia from the Soviet Union (U.S.S.R.) were causing market disruption with respect to an article produced by a domestic industry. The Commission ordered Investigation No. TA-406-5, and, by a 3-2 vote, it made an affirmative determination in October of that year. In order to remedy the market disruption, the Commission recommended that the President provide relief in the form of quotas on imports of anhydrous ammonia from the Soviet Union for 3 years, as follows: 1980, 1 million short tons; 1981, 1.1 million short tons; and 1982, 1.3 million short tons. In December 1979 the President rejected the Commission's recommendation by determining that import relief was not in the national economic interest. In a memorandum to the United States Trade Representative (then called the Special Representative for Trade Negotiations), the President (1) stated the reasons for his determination, (2) instructed the Special Trade Representative to request the Commission to issue a series of annual reports on overall market conditions for ammonia, and (3) stated that he planned "to have these reports discussed with appropriate Soviet officials through existing channels."

In January 1980, following the Soviet invasion of Afghanistan and the announcement of an embargo on certain U.S. grain exports to the U.S.S.R., the President issued Proclamation 4714, in which he declared "that there are reasonable grounds to believe . . . that market disruption exists . . . and that emergency action is necessary." 1/ He found that recent events had altered the international economic conditions under which he had made his earlier determination, and that "the factual basis upon which the USITC made its determination of market disruption still exists." The proclamation imposed a quota of 1 million short tons on U.S. imports of anhydrous ammonia from the U.S.S.R. for 1 year from January 24, 1980. When the President announced his determination, he requested that the Commission initiate another section 406 investigation of the subject imports, and the Commission promptly instituted investigation No. TA-406-6. Two months later, by a 3-to-2 vote, the Commission determined that the United States market for anhydrous ammonia was not being disrupted by imports of this product from the U.S.S.R. As a consequence, the import quota was removed.

U.S. Actions on Petroleum Imports in Connection With National Security

Section 232 of the Trade Expansion Act of 1962, as amended, provides for action to adjust imports to safeguard national security. If the Secretary of Commerce, following investigation, advises the President that a given article is being imported in such quantities or under such conditions as to threaten to impair the national security, the President may act to control the entry of such article and its derivatives. Within 60 days after he takes any action under section 232, the President is required to report to the Congress the action taken and the reasons therefor.

The Congress had given the President authority to regulate imports in the interest of national security even before the enactment of the Trade Expansion Act of 1962, 2/ and, during the period he has had that authority, the location of the responsibility for making investigations and advising the President has varied. During 1975-79, that responsibility was vested in the Secretary of the Treasury.

On March 14, 1979, following an investigation 3/ of imports of "crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar" (referred to as "oil"), the Secretary of the Treasury advised the President that increasing dependence on imported oil,

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1/ The President's emergency action was taken pursuant to section 406(c) of the Trade Act of 1974 (19 U.S.C. 2436(c)).

2/ For example, sec. 8 of the Trade Agreements Extension Act of 1958.

3/ In the course of the investigation, the Treasury Department had obtained information and advice from 11 Federal departments and agencies.

particularly that originating thousands of miles away, was a continuing threat to the national security. The Secretary noted that in 1959 and 1975, there had been previous findings that oil imports were threatening to impair the national security, and that these findings were followed by programs to control oil imports. The Secretary also noted that recent developments in Iran had dramatized the effects of excessive reliance on foreign sources and that rising oil imports were having an adverse impact on our balance of trade and efforts to strengthen the dollar.

At the time of the Secretary's advice to the President, an interagency task force was studying a variety of ideas or methods for dealing with U.S. energy problems. At the conclusion of its study, the task force recommended a variety of energy actions. In the summer of 1979, having considered the information and advice available to him, the President announced that the United States would import no more than 8.2 million barrels of oil per day. Imports have been less than that level and have declined.

In November, following the seizure of the U.S. Embassy compound in Tehran and Iran's taking of American hostages, the Secretaries of the Treasury and of Energy (after the latter had consulted with the Secretaries of State and of Defense) informed the President that recent events in Iran had aggravated the threat to national security caused by imports of petroleum and petroleum products. Therefore, under the authority of Section 232 of the Trade Act of 1962, as amended, the President issued Proclamation 4702, to embargo U.S. imports of Iranian oil. In so doing, the President amended Proclamation 3279, the basic proclamation on oil imports.

U.S. Actions on Unfair Trade Practices

Various U.S. trade laws provide remedies or countermeasures when foreign governments or foreign entities engage in certain practices that are detrimental to U.S. domestic or foreign commerce or when importers, foreign exporters, or sellers engage in unfair methods of competition in the importation or sale of foreign merchandise in U.S. markets. The Antidumping Act, 1921, dealt with sales of imports at less than fair value. Section 337 of the Tariff Act of 1930, as amended, directs the Commission to deal with unfair methods of competition and unfair acts in the importation of articles into the United States or in their sale. Section 303 of the Tariff Act of 1930, as amended, provides for countervailing duties on imports receiving any foreign bounty or grant (i.e., subsidies). Section 301 of the Trade Act of 1974 deals with the elimination of certain trade practices of foreign governments that constitute an unreasonable or discriminatory burden or restriction on the commerce of the United States.

Antidumping investigations

Although the Trade Agreements Act of 1979, among other things, replaced the Antidumping Act, 1921, by adding Title VII (with substantive changes) to the Tariff Act of 1930, the old act was still in effect throughout 1979. The Antidumping Act, 1921, provided for levying antidumping duties if: (1) a class or kind of foreign merchandise was being, or was likely to be, sold in the United States at less than fair value (LTFV), and (2) an industry in the United States was being or was likely to be injured, or was prevented from being established, by reason of the importation of LTFV merchandise into the United States. The responsibility for determining whether LTFV sales were occurring, or likely to occur, was vested in the Secretary of the Treasury. If he made an affirmative determination, the U.S. International Trade Commission then determined whether injury or its likelihood existed or whether an industry was prevented from being established. 1/

Under the Antidumping Act, 1921, as amended, if the Secretary of the Treasury decided there was substantial doubt that injury to a domestic industry would exist by reason of sales at LTFV, and if he had not yet determined whether there were such sales, he could refer the case to the U.S. International Trade Commission for a preliminary investigation as to injury. If the Commission determined that there was no reasonable indication of injury, likelihood of injury, or prevention of the establishment of a domestic industry, Treasury terminated its antidumping investigation. If the Commission determined that there was such a reasonable indication, Treasury continued its investigation. If the Secretary made a final affirmative determination, then the Commission instituted a full investigation on the issues of injury to and establishment of an industry in the United States. If and when an affirmative determination was made by both agencies, a finding of dumping was issued calling for the assessment of an antidumping duty (in addition to other duties, if any) equal to the margin of dumping (the amount by which the adjusted foreign-market value was higher than the LTFV price of the imported article).

During 1979, the Commission completed 6 preliminary inquiries under the aforementioned Antidumping Act. In 3 inquiries the Commission found that there was "no reasonable indication" that a domestic industry was being or was likely to be injured by reason of the importation of the merchandise under investigation by Treasury. In the remaining 3 preliminary inquiries, the Commission found that there was a "reasonable indication" of injury or likelihood of injury. Determinations of the Commission were as shown in table 1.

1/ Under the President's Reorganization Plan No. 3 of 1979, the antidumping investigatory responsibilities of the Secretary of the Treasury were transferred to the Secretary of Commerce, effective Jan. 2, 1980. Under the Trade Agreements Act of 1979, among the changes made in connection with affirmative determinations are the following: (1) "material injury" replaces "injury," and (2) ". . . establishment of an industry . . . is materially retarded" replaces ". . . an industry . . . prevented from being established." The U.S. International Trade Commission continues to be responsible for (material) injury determinations.

Table 1.--Preliminary inquiry investigations under the Antidumping Act, 1921, as amended, completed by the Commission in 1979

Investigation No.	Article	Commission determination
AA1921-Inq.-24	Certain 45 r.p.m. adaptors from the United Kingdom.	No indication
AA1921-Inq.-25	Steel wire coat and garment hangers from Canada.	No indication
AA1921-Inq.-26	Certain steel wire nails from Korea	Indication
AA1921-Inq.-27	Sugar from Canada	Indication
AA1921-Inq.-28	Countertop microwave ovens from Japan	Indication
AA1921-Inq.-29	Coke from West Germany	No indication

In addition, during the year the Commission completed 23 full antidumping investigations, 14 of which resulted in affirmative injury determinations and 9 in negative determinations. At yearend, two full antidumping investigations were pending before the Commission. Determinations and status are shown in table 2.

Table 2.--Investigations under the Antidumping Act, 1921, completed by or pending in the Commission in 1979

Investigation No.	Article	Commission determination
AA1921-189	Certain steel wire nails from Canada	No injury
AA1921-190	Rayon staple fiber from France	Injury
AA1921-191	Rayon staple fiber from Finland	Injury
AA1921-192	Silicon metal from Canada	No injury
AA1921-193	Bicycle tires and tubes from Korea	Injury
AA1921-194	Perchloroethylene from Belgium	Injury
AA1921-195	Perchloroethylene from France	Injury
AA1921-196	Perchloroethylene from Italy	Injury
AA1921-197	Carbon steel plate from Taiwan	Injury
AA1921-198	Sugar from Belgium	Injury
AA1921-199	Sugar from France	Injury
AA1921-200	Sugar from West Germany	Injury
AA1921-201	Rayon staple fiber from Italy	Injury
AA1921-202	Methyl alcohol from Canada	Injury
AA1921-203	Carbon steel plate from Poland	No injury
AA1921-204	Kraft condenser paper from Finland	Injury
AA1921-205	Kraft condenser paper from France	Injury
AA1921-206	Titanium dioxide from Belgium	No injury
AA1921-207	Titanium dioxide from France	No injury
AA1921-208	Titanium dioxide from the United Kingdom	No injury
AA1921-209	Titanium dioxide from West Germany	No injury
AA1921-210	Certain marine radar systems from the United Kingdom.	No injury
AA1921-211	Sodium acetate from Canada	No injury
AA1921-212	Spun acrylic yarn from Japan	Pending
AA1921-213	Sugar from Canada	Pending

At yearend, the following antidumping investigations were pending before the Treasury Department:

Sodium hydroxide from France
Sodium hydroxide from Italy
Sodium hydroxide from West Germany
Sodium hydroxide from the United Kingdom
Countertop microwave ovens from Japan
Certain industrial electric motors from Japan
Coke from West Germany
Rail passenger cars from Italy
Rail passenger cars from Japan
Melamine from Austria
Melamine from Italy
Portable electric typewriters from Japan
Certain steel wire nails from Korea
Melamine from the Netherlands
Certain fresh winter vegetables from Mexico

Trigger-price mechanism

The trigger-price mechanism (TPM), which has been used in monitoring the prices of imported steel mill products, was designed to enable the U.S. Customs Service to initiate antidumping investigations on a "fast-track" basis without waiting for the receipt of complaints. The purpose was to alert Customs to the possibility of sales at less than fair value. Customs was well aware that prices below trigger prices 1/ would not necessarily be LTFV prices, and prices above trigger prices would not necessarily be fair-value prices. It must be observed, however, that if some foreign exporters charged higher prices than they would have otherwise, in order to avoid "below-trigger" pricing and the burden and uncertainty of an antidumping investigation, then the TPM could have acted as a minimum-price mechanism for those exporters.

In 1978 and 1979, the prices of imports below trigger prices were scrutinized at Customs headquarters. In this connection, Customs sent questionnaires to the importers. If circumstances warranted, Customs initiated a full antidumping investigation. In 1978, Customs initiated two antidumping cases on the TPM "fast track"--carbon steel plate from Poland and from Taiwan. In 1979, it initiated a "fast track" investigation on steel wire nails from Korea. In addition, there were preliminary investigations in connection with the TPM, which were terminated without reaching the full investigation stage.

1/ Each trigger price had several elements, including a base price plus additional costs for ocean freight, handling at the U.S. port, and interest, all elements expressed in U.S. dollars per metric ton. These additional costs were differentiated on the basis of four U.S. regions having maritime ports--west coast, gulf coast, Atlantic coast, and Great Lakes. There were also extras for special characteristics regarding dimensions, chemical composition, and surface preparation. Each trigger price also included a charge for insurance, equivalent to 1 percent of the sum of the base price, extras, and ocean freight. Trigger prices were based on the full costs of producing steel mill products in the most efficient foreign steel industry, which was deemed to be Japan's.

From time to time, Treasury added various steel mill products to the list covered by the TPM. It also made revisions of trigger prices on a quarterly basis. On January 2, 1980, as previously noted, the President transferred Treasury's antidumping investigatory responsibilities to the Commerce Department.

The Steel Committee

The problems in steel trade which led to the establishment of the trigger-price mechanism were not confined to the United States. The crisis caused by world over-capacity in steel also prompted the European Economic Community (EEC) to establish a base-price system for steel mill products at about the same time that the TPM was established, and Canada also followed suit. The United States sought a multilateral solution to steel problems, proposing at one time a steel sector negotiation in the MTN, before deciding to pursue the steel issue in the Organization for Economic Cooperation and Development (OECD) In October 1978, in response to a U.S. proposal, the OECD established a Steel Committee in order to further international cooperation in seeking solutions to cyclical and structural problems of steel industries. 1/

The Steel Committee is basically a consultative body where participants can exchange data on steel trade, market conditions, and government actions. Among the initial commitments for participants were two that covered the subject of price guidelines such as are embodied in the TPM and in the EEC's Davignon Plan. First, members of the committee agreed that price guidelines should be in harmony with the International Antidumping Code, and are appropriate only during "crisis periods." Additionally, such guidelines should be expeditiously removed or liberalized as conditions improved. Secondly, price guidelines should "neither exceed the lowest normal prices in the supplying country, or countries where normal conditions of competition are prevailing," nor exceed the full cost of production (including overhead costs) plus profit in the supplying countries. Such guidelines may include delivery costs and import duties if the importing country establishes guidelines on a delivered basis. Participants also agreed that domestic actions to sustain steel firms during crisis periods should not shift the burden of adjustment to other countries.

During 1979, the OECD Steel Committee met several times, and it launched two studies. The first, on the international stainless steel industries, involves raw material inputs, utilization of capacity, consumption, and world trade. The second will study trade flows in steel and the effects of government actions on trade flows on an ongoing basis. In April 1979, the Steel Committee discussed a U.S. proposal for a symposium for an exchange of views between government representatives and the private sectors of OECD

1/ Membership in the OECD Steel Committee is held by all members of the OECD: the United States, Canada, Japan, the EEC, West Germany, Belgium, Denmark, France, Ireland, Italy, Luxembourg, Netherlands, United Kingdom, Austria, Spain, Finland, Greece, Norway, Portugal, Sweden, Switzerland, Turkey, Australia, and New Zealand. One nonmember, Yugoslavia, has special status in the OECD, but it does not attend meetings of the Steel Committee. Overtures have been made for some developing, steel-interest countries to become participants on the committee, but, as of early 1980, none had yet accepted.

members. Early in 1980, the steel symposium was held in Paris. In addition to high-level government officials, representatives of academia, industry, and labor were among the participants.

To facilitate U.S. private-sector inputs, the Office of the United States Trade Representative is organizing an International Steel Trade Policy Committee, to include representatives of steel producers, steel users, and industries that supply products to the steel producers.

Countervailing duty investigations 1/

During 1979, U.S. law relating to countervailing duties (CVD's) was to be found in section 303 of the Tariff Act of 1930, as amended by section 331 of the Trade Act of 1974. Subject to the exception noted in the following paragraph, this provision of law required the Secretary of the Treasury to levy a CVD if, following an investigation, he found that a bounty or grant had been paid, directly or indirectly, by a foreign government or other entity on imported merchandise. Such a duty was to be levied in addition to any other duty that might be assessed against the article, regardless of whether it had been changed in condition after exportation from the country granting the bounty. The purpose of the CVD, equal to the net amount of the subsidy, was to offset the benefit bestowed on foreign producers and/or exporters by the subsidy.

Section 303(b) of the Tariff Act of 1930, as amended, provided that if the Secretary made a final affirmative determination (as to the aforementioned bounty or grant) with respect to a duty-free article, and if international obligations of the United States required a determination as to injury to a domestic industry, the Secretary would be obligated to forward his determination to the U.S. International Trade Commission. 2/ The Commission, within 3 months, had to determine "whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such article . . . into the United States . . . ." If the Commission's determination was in the affirmative, the Secretary was obliged to order the assessment and collection of the aforementioned CVD's.

1/ The Trade Agreements Act of 1979 made a number of changes in the procedures for the conduct of countervailing duty investigations. (See p. 167). In addition, under the President's Reorganization Plan No. 3 of 1979, the responsibility for determining whether a bounty or grant has been paid on imported merchandise was transferred to the Secretary of Commerce. The U.S. International Trade Commission continues to have responsibilities in connection with injury determinations.

2/ GATT Part II, Article VI has required an injury determination since 1947. Under U.S. legislation in effect in 1947, duty-free articles were not countervailable, and on dutiable articles, domestic legislation did not require an injury test. The United States accepted Part II to the extent that it was not inconsistent with then existing legislation. In bringing duty-free items under the CVD statute in the 1974 act, the United States also added an injury determination with respect to duty-free articles. Under the 1979 act, a material injury determination is applicable to both duty-free and dutiable articles where international obligations require an injury finding.

Section 303 of the Tariff Act, as amended, also provided that, for 4 years beginning on January 3, 1975, the Secretary could waive the imposition of CVD's if he determined that (1) steps were being taken "to reduce substantially or eliminate . . . the adverse effect of . . ." the subject bounty or grant, (2) trade-agreement negotiations showed "reasonable prospect . . . for the reduction or elimination of barriers and other distortions of international trade," and (3) the imposition of a countervailing duty "would seriously jeopardize the satisfactory completion of such negotiations."

Early in 1979, the Congress extended the Secretary's waiver authority, but he granted no new waivers in that year. By the end of 1979, 13 previously granted waivers were still in effect. Under the Trade Agreements Act of 1979, which became effective for CVD investigations on January 1, 1980, no new waivers can be granted.

During 1979, the Secretary of the Treasury made final determinations as follows:

Affirmative determinations

Tomato products from the EEC
Pig iron from Brazil
Industrial fasteners from Japan
Optic sensing systems from Canada
Bicycle tires and tubes from Korea
Oleoresins from Spain
Footwear from Spain
Oleoresins from India
Ampicillin from Spain
Rayon staple fiber from Sweden
Textiles from Pakistan
Amoxicillin from Spain
Nonrubber footwear from Argentina
Potato starch from the EEC

Negative determinations

Bicycle tires and tubes from Taiwan
Papermaking machinery from Finland
Textiles from Malaysia
Textiles from Mexico
Textiles from Singapore
Textiles from Thailand
Leather apparel from Argentina
Textiles from Colombia

At yearend, the following CVD cases were pending at the Treasury Department:

Sugar and syrups from the Philippine Republic
Iron and steel chains from Japan
Frozen potato products from Canada
Rayon staple fiber from Austria
Malleable pipe fittings from Japan
Corn starch from the EEC

Wool tops from Australia
Certain firearms from Brazil
Ferroalloys from Spain
Valves from Japan
Ferroalloys from Brazil
Valves from Italy
Textiles from Pakistan
Weighing machinery from Japan

During 1979, the Commission completed seven injury investigations after the Secretary of the Treasury had determined that bounties or grants were being paid with respect to duty-free imports. With the exception of Certain Fish and Certain Shellfish from Canada, the duty-free treatment was attributable to the products' and countries' eligibility under the U.S. Generalized System of Preferences (GSP). In all of these investigations the Commission made negative determinations. At yearend, two CVD cases were pending before the Commission.

A list of these nine CVD cases is shown in table 3.

Table 3.--Countervailing duty (Section 303) investigations completed by the Commission in 1979 or pending at yearend

Investigation No.	Article	Commission determination
303-TA-4	Certain wool yarns from Uruguay	No injury
303-TA-5	Certain wool yarns from Brazil	No injury
303-TA-6	Certain leather wearing apparel from Colombia	No injury
303-TA-7	Certain leather wearing apparel from Brazil	No injury
303-TA-8	Gloves and glove linings of fur on the skin from Canada	No injury
303-TA-9	Certain fish and certain shell fish from Canada	No injury
303-TA-10	Oleoresins from India	No injury
303-TA-11	Nonrubber footwear components from India	Pending
303-TA-12	Pig iron from Brazil	Pending

Unfair practices in import trade

Section 337 of the Tariff Act of 1930, as amended by section 341 of the Trade Act of 1974, provides for the Commission to conduct investigations to determine whether unfair methods of competition exist in the importation of articles into the United States, or in their sale. To be unlawful, the effect or tendency of such practices must be to (1) destroy or substantially injure an efficiently and economically operated domestic industry, (2) prevent such an industry's establishment, or (3) restrain or monopolize commerce in the United States. If the Commission determines that a violation exists, and finds that remedial action would not have an adverse effect on certain public interest considerations, the Commission must then order a remedy for the violation. The remedy may be an order excluding the offending article from entry into the United States or the issuance of a cease-and-desist order to halt the unfair methods or acts involved. In 1979, virtually all complaints of unfair acts brought before the Commission alleged infringement of a U.S. patent by imported merchandise.

The Trade Act allows the President 60 days in which to approve an affirmative Commission determination or, for policy reasons, to disapprove it. If the President disapproves, the Commission's determination has no force or effect. If the President does not disapprove the Commission's affirmative determination within the 60-day period, or if he approves the determination, it becomes a final determination. Persons adversely affected by either a negative or an affirmative final determination have the right to judicial review.

In 1979, the Commission completed 21 investigations under section 337. In 10 cases, the Commission found a violation of the statute. In 11 cases, the Commission did not find a violation, because (1) the evidence before the Commission did not support the allegations in the complaint, or (2) the complainant granted a license to respondent(s) (settlement agreement), or (3) the complainant and respondent(s) signed a consent order agreement under which respondent(s) agreed to refrain from some course of action. 1/ In one case on certain automatic crankpin grinders, although the Commission found a violation it also found that it would not be in the public interest to exclude the offending imports because automatic crankpin grinders were in short supply. Since the enactment of the Trade Act of 1974, this was the first time that the effect of exclusion on consumers (albeit industrial ones) was determined to be an overriding consideration.

1/ In settlement agreements and consent order agreements, the Commission did not make a determination as to whether or not there was a violation.

The investigations completed by the Commission are listed in table 4.

Table 4.--Section 337 investigations completed by the Commission in 1979

Investigation No.	Article	Commission determination or other action
337-TA-3	Doxycycline	Violation 1/
337-TA-40	Certain monumental wood windows	2/
337-TA-42	Certain electric slow cookers	Violation 1/
337-TA-43	Certain centrifugal trash pumps	No violation
337-TA-44	Certain roller units	Violation 1/
337-TA-45	Certain combination locks	No violation
337-TA-47	Certain flexible foam sandals	Violation 1/
337-TA-48	Certain alternating pressure pads	Settlement agreement
337-TA-49	Certain attache cases	No violation
337-TA-50	Certain synthetic gemstones	Settlement agreement
337-TA-51	Certain cigarette holders	No violation
337-TA-52	Certain apparatus for the continuous production of copper rod	Violation 3/
337-TA-53	Certain swivel hooks and mounting brackets	Settlement agreement
337-TA-54	Certain multicellular plastic film	Violation 1/
337-TA-55	Certain novelty glasses	Violation 1/
337-TA-56	Certain thermometer sheath packages	Violation 1/
337-TA-57	Certain cattle whips	Consent order agreement
337-TA-58	Certain fabricated steel plate from Japan	No violation
337-TA-59	Pump top insulated containers	Violation 1/
337-TA-60	Certain automatic crankpin grinders	Violation 4/
337-TA-61	Certain compact cyclotrons with a preseptum	Consent order agreement

1/ Exclusion order issued.
2/ Terminated with prejudice to the complainant.
3/ Cease and desist order issued.
4/ No order issued.

At yearend, the 337 investigations pending were as shown in the following tabulation:

Investigation No.	Article
337-TA-36	Certain plastic fasteners assemblies 1/
337-TA-62	Certain rotary scraping tools
337-TA-63/65	Certain precision resistor chips
337-TA-64	Certain high voltage circuit interrupters and components thereof 2/
337-TA-66	Certain plastic-molding apparatus and components thereof
337-TA-67	Certain inclined field acceleration tubes and components thereof
337-TA-68	Certain surveying instruments
337-TA-69	Certain cast iron stoves
337-TA-70	Certain coat hangers rings
337-TA-71	Certain anaerobic impregnating compositions and components thereof
337-TA-72	Certain turning machines and components thereof
337-TA-73	Certain compressed air powered tire changers and components thereof 3/
337-TA-74	Certain rotatable photograph and card display units, and components thereof
337-TA-75	Certain large video matrix display systems and components thereof
337-TA-76	Certain food slicers and components thereof

1/ Suspended, Sept. 26, 1978.
2/ Suspended, Oct. 4, 1979.
3/ Suspended, Nov. 6, 1979.

Certain practices of foreign governments and instrumentalities

Section 301 of the Trade Act of 1974 directs the President to take all appropriate and feasible steps to obtain the elimination of certain trade practices of foreign governments and instrumentalities whenever he determines that such practices constitute an unjustifiable, unreasonable, or discriminatory burden or restriction on the commerce of the United States. Within this context, "commerce" includes services related to international trade. If his attempts to eliminate such practices are unsuccessful, the President is empowered to (1) deny the offending country or instrumentality the benefits of trade-agreement concessions and (2) impose duties, fees, or other import restrictions on the products or services of the foreign entity.

An interdepartmental Section 301 Committee conducts investigations (including hearings if requested) on the basis of petitions alleging section 301 violations. If the committee finds that a complaint has merit, it may recommend consultations with the foreign country or instrumentality involved. If appropriate, the GATT may be used as a forum for attempts to settle a dispute.

In 1979, the following cases were terminated or were pending at yearend:

301-3, Egg albumen (EEC)

Date of receipt of petition: Aug. 7, 1975
The issue: EEC's various levies on imports.
Status: There have been bilateral discussions; also, discussions in the MTN. At year end, the case was under review by the Section 301 Committee.

301-5, Malt (EEC)

Date of receipt of petition: Nov. 13, 1975
The issue: EEC's subsidization of exports, to the detriment of U.S. exports to Japan and other countries.
Status: After requesting consultations with the EEC under GATT Article XXII (1), the United States decided to pursue the subsidy issue in the MTN. The Section 301 Committee has been reviewing the case in relation to the Subsidies/Countervailing Duty Code that was negotiated in the MTN.

301-6, Wheat flour (EEC)

Date of receipt of petition: Dec. 1, 1975
The issue: EEC's payments of export subsidies to wheat millers.
Status: In 1977 Australia and Canada joined the United States in consultation with the EEC under GATT Article XXII: 1. These talks continued during the MTN. As the complained-of activity is covered by the Subsidies/Countervailing Duty Code, the Section 301 Committee, at yearend, was reviewing the case in connection with the code's provisions. (See 301-16).

301-7, Sugar added in canned fruits and juices (EEC)

Date of receipt of petition: Mar. 30, 1976
The issue: Variable levy on added sugar in canned fruits and juices imported into the EEC, with impairment of value of concession consisting of GATT bindings of duty rates.
Status: The case was discussed during the MTN. Although the United States and the EEC reached an agreement, counsel for the petitioner asked that the case not be closed; he alleged that the method of determining the levy was unfair. At yearend, the case was under review by the Section 301 Committee.

301-11, Citrus products (EEC)

Date of receipt of two petitions: Nov. 12, 1976
The issue: EEC's preferential rates of duty on imports of orange and grapefruit juices and other citrus products, from certain Mediterranean countries, to the detriment of U.S. citrus juice producers.
Status: The United States and the EEC have held consultations both outside of and in the MTN, but without settling the issue. As of the end of 1979, both sides were in agreement to continue consultations.

301-13, Leather (Japan)

Date of receipt of petition: Aug. 4, 1977
The issue: Japan's quantitative restrictions and tariff levels on imports of leather.
Status: Agreement liberalizing Japanese import restrictions was reached in February 1979. Interdepartmental Committee on Implementation of the Japan-U.S. Leather Agreement is monitoring Japanese adherence to the agreement.

301-14, Marine insurance (U.S.S.R.)

Date of receipt of petition: Nov. 10, 1977
The issue: Union of Soviet Socialist Republics' requirement that insurance on U.S.S.R. exports and imports be placed with a Soviet insurance monopoly.
Status: Following bilateral negotiations, both countries signed a memorandum of understanding on Apr. 5, 1979. They agreed to assure fair access to each country's marine insurance market. USTR is monitoring adherence.

301-15, Income tax practices (Canada)

Date of receipt of petition: Aug. 29, 1978
The issue: Denial of deduction, for Canadian income tax purposes, for any tax-paying entity incurring expenses for advertising, directed principally to Canadian markets, through broadcasts on non-Canadian stations.
Status: After holding a hearing and receiving rebuttal briefs, the Section 301 Committee reviewed the information received. Representatives of the United States and Canada have held informal consultations. By yearend, the issue had not been resolved.

301-16, Wheat (EEC)

Date of receipt of petition: Nov. 2, 1978
The issue: Alleged unfair trade practice by the EEC through export subsidies for wheat sold to third-country markets, to the detriment of competitive U.S. wheat exports to those markets.
Status: Section 301 Committee held hearings early in 1979. As the complained-of practices are covered by the Subsidies/Countervailing Duty Code of the MTN, the committee initiated its review of the issues in relation to the code. Although consultations were held with the EEC, the case was still under review at yearend.

301-17, Cigars (Japan)

Date of receipt of petition: Mar. 14, 1979
The issue: Allegation that the Japanese Government's tobacco monopoly maintains unreasonable import restrictions, sets prices for U.S. cigars that are unreasonably high, and limits advertising and distribution of U.S. cigars. Complainants suggested that the United States take retaliatory action against lag screws. Such action was not taken.
Status: Consultations have been initiated with the Japanese Government. (See 301-19).

301-18, Marine insurance (Argentina)

Date of receipt of petition: May 25, 1979
The issue: Allegation that the Government of Argentina requires that insurance on imports and exports be placed with Argentinian firms when the risk of loss must be borne by an Argentine national. A hearing was held on August 28, 1979. At yearend the Section 301 Committee was awaiting additional information from the petitioner.

301-19, Pipe tobacco (Japan)

Date of receipt of complaint: Oct. 22, 1979
The issue: Allegation that the Japanese Government's tobacco monopoly maintains unreasonable pricing procedures and advertising and distribution restrictions on U.S. pipe tobacco. Consultations under the GATT were unsuccessful.
Status: This case and the one on cigars have been combined for the purpose of dispute settlement procedures under Article XXIII: 2 of the GATT.

Doc. No. 301-20, Fire and marine insurance (Korea)

Date of receipt of petition: Nov. 15, 1979
The issue: Alleged failure of the Government of Korea to issue licenses to petitioner to do business in the fields of fire and marine insurance. Investigation was instituted in December 1979.

301-21, Eyeglass frames (Switzerland)

Date of receipt of petition: Dec. 12, 1979
The issue: Damage to sample eyeglass frames by Customs Service of Switzerland.
Status: Swiss officials contend that marking as to gold content did not comply with the Swiss law, and that damage was caused by attempt to remove the marking. Investigation was instituted in January 1980.

Section 22 of the Agricultural Adjustment Act, as amended

Section 22 of the Agricultural Adjustment Act, as Amended, is designed to prevent or remedy impairment of U.S. Department of Agriculture programs by imports. The act directs the Secretary of Agriculture, if he believes such impairment exists or is imminent, to advise the President. If the President agrees that there is reason for such belief, he directs the Commission to conduct an investigation and to report to him its findings and recommendations. The Commission can recommend, and the President can proclaim, quantitative restrictions, embargoes, or import fees, in addition to regular tariff duties, if any. Moreover, he can take emergency action pending the completion of the Commission's investigation. Section 22 also authorizes the President to direct the Commission to make an investigation to determine whether a restriction previously imposed under that section can be suspended, terminated, or modified without inducing the conditions that led to the remedial action.

The Commission did not conduct any section 22 investigations in 1979. However, in response to the Commission's sugar report 1/ of April 1978, the President issued Proclamation No. 4631 on December 28, 1978, which was implemented in 1979. This proclamation established a system of variable import fees to be managed by the Secretary of Agriculture. The system provides for quarterly adjustments of import fees to offset changes in the world price of sugar, to insure that the United States domestic sugar price (the world price plus U.S. import duties, fees, and c.i.f. costs) does not fall below the U.S. price objective of 15 cents per pound. The initial sugar import fee on January 1, 1979, was 3.35 cents per pound, with quarterly adjustments decreasing the fee twice and raising it once during the remainder of the year. In addition, automatic import fee adjustments within calendar quarters were triggered when the domestic price varied by more than 1 cent from 15 cents per pound. With rising sugar prices, an automatic adjustment reduced the import fee to zero on October 24, 1979, where it remained for the rest of the year.

Under the authority contained in headnotes to Subpart A, Part 10, of Schedule 1 of the Tariff Schedules of the United States, the President, by Proclamation 4610 of November 30, 1978, established an aggregate quota of 6.9 million short tons raw value, for sugars, syrups, and molasses described in TSUS items 155.20 and 155.30, imported in any calendar year. This proclamation also established, for the 2-year period January 1, 1978-December 31, 1979, allocations of 210,987 short tons raw value for Taiwan and 150,544

1/ Sugar: Report to the President on Investigation No. 22-41 Under Section 22 of the Agricultural Adjustment Act, as Amended, USITC Publication 881, April 1978.

short tons raw value for all other non-members of the International Sugar Agreement (ISA), as a group. In Proclamation 4663 of May 24, 1979, the President authorized the Secretary of State to allocate the sugar quota in conformity with the provisions of the ISA, 1977. On November 15, 1979, the following allocations were made for calendar year 1980: Taiwan, 105,522 short tons, raw value; all other nonmembers of the ISA, as a group, 93,816 short tons, raw value. The aggregate annual quota of 6.9 million short tons, raw value, remains in effect.

Other action in 1979 under section 22 concerned cheese. In the MTN, the United States agreed to enlarge some section 22 quotas on cheese and to make additional varieties of cheese subject to quotas. Title VII of the Trade Agreements Act of 1979 granted the President authority to carry out these agreements. This title requires the President to issue a proclamation, limiting U.S. imports of quota cheese to not more than 111,000 metric tons in any calendar year after 1979, said proclamation to meet the requirements of section 22 of the Agricultural Adjustment Act. The President may not proclaim an aggregate quota larger than 111,000 metric tons before January 1, 1983, unless the Secretary of Agriculture reports to him that extraordinary circumstances justify such action.

Title VII also requires the President to proclaim an increase in the amount of chocolate crumb which may enter U.S. customs territory in any calendar year after 1979, the said proclamation to be considered issued pursuant to and meeting the requirements of section 22 of the Agricultural Adjustment Act. The purpose of the increase is to establish a quota of 2,000 metric tons (about 4.4 million pounds) for Australia and a quota of 2 kilograms (4.4 pounds) for New Zealand. The establishment of quotas for these countries has increased the aggregate quota from about 9,843 metric tons to about 11,834 metric tons.

During 1979, import quotas which had been imposed under the authority of section 22 were in effect on the following products:

- Condensed or evaporated milk
- Most cheeses made from cow's milk
- Butter and butter oil
- Powdered milk
- Frozen cream
- Ice cream
- Chocolate
- Certain articles containing malted milk and articles, n.s.p.f., of milk or cream
- Certain edible preparations containing butter fat
- Animal feeds containing milk and milk derivatives
- Peanuts, whether or not prepared or preserved, but not peanut butter
- Cotton, not carded, not combed, and not otherwise processed, except harsh or rough cotton under 3/4 inch
- All spinnable cotton wastes
- All fibers of cotton, processed but not spun.

Meat Import Act of 1964

Public Law 88-482, the so-called "Meat Import Act of 1964", provides among other things that the aggregate imports of fresh, chilled, or frozen beef and veal, and mutton and goat meat, entered in any calendar year after 1964, should not exceed a base quantity which is adjusted annually. Prior to its amendment by the Meat Import Act of 1979 (affective on January 1, 1980), the annual adjustment was designed to assure that imports maintained about the same ratio to domestic commercial production of these meats as they did, on the average, in the years 1959-63. This ratio was about 7 percent.

As originally enacted, the 1964 Act further provided that the Secretary of Agriculture estimate and publish, before the beginning of each calendar year and before each calendar quarter, the aggregate quantity of the meats cited above that would be imported were it not for the provisions of this Act. If the Secretary estimated that such imports would be equal to or more than 110 percent of the adjusted base quota (the "trigger level"), the President must proclaim a quota, but he might suspend or enlarge it if he determined any one of the following: (1) that after considering the economic well-being of the domestic livestock industry, suspension or enlargement of the quota was required by overriding economic or national security interests; or (2) that supplies of the subject meats would be inadequate to meet domestic demand at reasonable prices; or (3) that trade agreements, entered into after the effective date of the 1964 Act, guaranteed the implementation of the policy expressed in the act.

Under the authority of section 204 of the Agricultural Act of 1956, as amended, but after passage of the 1964 Act, the United States negotiated many bilateral agreements limiting meat exports to the United States. The annual restraints, in the aggregate, have usually been below the corresponding calendar-year trigger levels. On various occasions, when some countries have been unable to fill their quotas, the unfilled portions have been allocated to other countries.

In connection with bilateral restraint agreements for 1979, the Secretary of Agriculture informed the President that, without such agreements, meat imports (of the kinds covered by the Meat Import Act) 1/ would amount to an estimated 1,640 million pounds, compared with the "trigger level" of 1,244.8 million pounds for that year. After taking into account the various considerations embodied in the Meat Act, the President directed the Departments of Agriculture and State to negotiate export-restraint agreements with countries supplying meat to the United States, limiting the total to 1,570 million pounds. Data prepared by the U.S. Customs Service indicate that U.S. imports of fresh, chilled, and frozen beef, veal, mutton and goat meat amounted to 1,553.8 million pounds in 1979.

1/ Prior to its amendment by the Meat Import Act of 1979, effective Jan. 1, 1980, the Meat Act of 1964 did not cover canned meat and other prepared or preserved meat, nor did it include lamb meat that was fresh, chilled or frozen. The amended statute expands the coverage to include certain prepared or preserved meat.

In 1979, the restraint levels were as follows (in millions of pounds):

Australia	806.1
Belize	.6
Canada	92.6
Costa Rica	68.6
Dominican Republic	18.5
El Salvador	14.7
Guatemala	44.0
Haiti	2.4
Honduras	45.9
Mexico	76.6
New Zealand	331.2
Nicaragua	62.6
Panama	6.2
Total	1,570.0

As previously indicated, the Meat Act of 1979 (Public Law 96-177) amends the 1964 Act, and went into effect on January 1, 1980. Among other things, the 1979 Act provides a new formula for calculating the annual adjusted base quotas on imports, it establishes a floor of 1.25 billion pounds in connection with the President's authority to proclaim annual quotas 1/, and it adds high-quality beef, specially processed into fancy cuts, to the meat articles subject to quota.

The new law establishes a base quota of 1,204.6 million pounds, equivalent to the average annual imports of meat subject to quota during 1968-77. For any calendar year after 1979, the annual import quota shall be the base quota multiplied by the product of two fractions. The numerator of the first fraction is a three-year moving average of domestic production of specified meat articles. The denominator is the average annual production of such meat in 1968-77. The numerator of the second fraction is a five-year moving average of per capita domestic production of cow beef. The denominator is a two-year moving average of per capita domestic production of cow beef. The second of the two fractions is countercyclical, because it increases the import quota when domestic production declines, and it reduces the quota when production increases.

The President continues to have authority to suspend quotas, but, if the countercyclical fraction has a quotient of less than 1.0, he can suspend them only if (1) there is a declared national emergency and suspension is required in the interest of national security, or (2) the supply of the subject meat articles is inadequate to meet U.S. demand at reasonable prices because of natural disaster, disease, or major national market disruption. The Meat Act of 1979 retains a trigger level equivalent to 110 percent of the adjusted base quota.

1/ The minimum quota provided by the Meat Act of 1979 is 50 million pounds larger than that provided by the Trade Agreements Act of 1979, approved 5 months earlier.

Orderly Marketing Agreements; Negotiated Export Restraints

From time to time, the United States has negotiated restrictions with foreign governments over the kind or amount of certain exports destined for the United States. Such negotiations and agreements, in the form of orderly marketing agreements (OMA's), were recognized as a form of import relief under section 203 of the Trade Act of 1974, and have been used more frequently to provide import relief for U.S. industries. OMA's usually are deemed preferable to safeguards in the form of unilaterally imposed tariff increases or quotas, because the exporting country most directly affected formally agrees with the measure, without seeking compensation or retaliating against U.S. exports.

During 1979, OMA's or negotiated export restraints were in effect with respect to specialty steels, color television receivers, nonrubber footwear, certain meats (already discussed), and textiles. All of these bilateral agreements were negotiated in accordance with U.S. domestic legislation and the international rights and obligations of the United States.

Specialty steel

The first OMA under the Trade Act of 1974 was negotiated between the United States and Japan and provided for quantitative import limitations on certain stainless steel and alloy tool steel. Knowing that the United States intended to provide import relief in the form of quotas, Japan agreed to accept an OMA, expecting to receive a larger quota under an OMA than otherwise. The agreement was in effect from June 14, 1976, to June 13, 1979, inclusive, and the limitations applied to three 12-month periods. In addition, quotas were imposed unilaterally on imports of specialty steel from other countries during the same 3-year period. Total restraint levels (OMA and other quotas) for the three restraint periods were 147,000; 151,000; and 155,000 short tons, respectively, of which Japan was allowed 66,400; 68,400; and 70,400 short tons.

On April 24, 1979, the U.S. International Trade Commission reported to the President the results of its investigation No. TA-203-5, on certain stainless steel and alloy tool steel (page 3). The Commission was evenly divided in its advice as to whether termination of the import restraints would have an adverse impact on the domestic industry concerned. The President determined that an 8-month extension of quota treatment was in the national interest. By Proclamation 4665, June 12, 1979, he extended quantitative restrictions on imports until the close of February 13, 1980. Quota levels, by periods and by countries or instrumentality were as follows:

Table 5.--Stainless steel and alloy tool steel: Quota quantities 1/ in effect during specified time periods, June 14, 1979-Feb. 13, 1980

(In short tons)

Country or instrumentality	June 14-August 13	August 14-October 13	October 14-December 13	December 14-February 13
Japan	12,053	13,189	14,161	14,620
European Economic Community	5,048	5,430	5,813	6,009
Canada	2,408	2,569	2,682	2,777
Sweden	4,237	4,551	4,836	5,010
Austria	349	375	401	417
Other	33,664	29,719	31,732	32,787

1/ These quotas were further allocated under TSUS items 923.20-923.26, part 2 of appendix to Tariff Schedules of the United States Annotated (1980).

Source: Compiled from data shown in the above-noted tariff schedules.

Color television receivers

The OMA on color television receivers between the United States and Japan has continued in effect without change. For each 12-month period from July 1, 1977, to June 30, 1980, Japanese exports of television receivers to the United States were and are limited to 1.56 million complete color receivers (assembled or unassembled) and 190,000 incomplete receivers. Among other things, this import relief measure provides that the Government of Japan may initiate consultations with the Government of the United States if third-country exports to the United States are disadvantageous to Japan as a result of Japan's adherence to the OMA.

In connection with his responsibilities for monitoring the OMA with Japan, the Special Representative for Trade Negotiations (now, the United States Trade Representative), with advice from the interagency Trade Policy Staff Committee, determined that imports of color television receivers and certain subassemblies from Taiwan and the Republic of Korea had increased to such an extent as to disrupt the effectiveness of the OMA with Japan. Accordingly, OMA negotiations were concluded in December 1978 with Taiwan and

Korea, with the following results: 1/

Country and article	Restraint level (units)
Taiwan:	
Color television receivers, having a picture tube, exported during--	
Feb. 1, 1979-June 30, 1979	127,000
July 1, 1979-June 30, 1980	373,000
Certain subassemblies thereof, exported during--	
Feb. 1, 1979-June 30, 1979	270,000
July 1, 1979-June 30, 1980	648,000
Republic of Korea:	
Color television receivers, having a picture tube, and certain subassemblies thereof, exported during--	
Feb. 1, 1979-Oct. 31, 1979	153,000
Nov. 1, 1979-June 30, 1980	136,000

1/ See Presidential Proclamations 4511, June 24, 1977, and 4634, Jan. 26, 1979.

On December 31, 1979, under section 203(i) of the Trade Act of 1974, the Commission instituted investigation No. TA-203-6, on color television receivers and subassemblies thereof, in order to advise the President as to the probable economic effect, on the domestic industry concerned, of extending, reducing, or terminating the import relief previously provided pursuant to section 203. The Commission scheduled May 16, 1980 as the date for advising the President.

Nonrubber footwear

Following an affirmative determination by the Commission in an investigation under section 201 of the Trade Act of 1974, the United States negotiated OMA's covering nonrubber footwear with Taiwan and the Republic of Korea. Restraint periods run from June 28, 1977, to June 30, 1981, as shown in the following tabulation (in millions of pairs):

Restraint period	Restraint level: Taiwan	Restraint level: Korea
June 28, 1977-June 30, 1978	122	33.0
July 1, 1978-June 30, 1979	125	36.5
July 1, 1979-June 30, 1980	128	37.5
July 1, 1980-June 30, 1981	131	38.0

The only kinds of nonrubber footwear not covered by these OMA's were wool felt footwear, provided for in tariff item 700.75, and disposable footwear, designed for one-time use, provided for in tariff item 700.90.

Effective November 1, 1978, Hong Kong agreed to supply certificates of origin for its shipments in order to help the U.S. Customs Service monitor imports and prevent trans-shipments from Taiwan and Korea intended to evade the limitations. In 1979, Hong Kong continued to supply the certificates of origin.

Imports of nonrubber footwear from Italy and China increased appreciably during 1979, but not by enough to trigger negotiations for additional OMA's with those countries. Also in 1979, the United States held consultations with Brazil, Singapore, and the Philippine Republic.

Textiles

Under the authority of section 204 of the Agricultural Act of 1956, as amended, the President has directed that bilateral agreements be negotiated with foreign governments to limit their exports of textiles and textile products to the United States. 1/ In negotiating these agreements, the provisions of the Arrangement Regarding International Trade in Textiles, (also known as the Multifiber Arrangement (MFA))--flexibility of administration, growth rates for restraints, and so forth--are taken into account. 2/

During 1979, the United States had 19 bilateral textile agreements with textile-supplying countries which specified quantitative limits on those countries' exports to the United States, and understandings with 10 other countries to consult on textile trade problems. Agreements that provide quantititative limits generally contain "specific" restraint levels, applied to specific textile products, categories of textile products, or groups of categories. Some agreements also include aggregate restraint levels which place overall limits on textile exports covered by quantitive restrictions; aggregate restraints are set lower than the sums of specific or group restraint levels. Agreements include a variety of consultation measures. Some provide for consultations only when market disruption occurs; others include negotiated "consultation levels", applied to specific categories, which trigger consultation when limits are approached or reached.

Generally, quota-imposing agreements have "carryover" and "carry-forward" provisions. Thus, an unused restraint portion of 1 year may, under outlined conditions, be added to the restraint level of a following period. Similarly, a portion of the restraint level of the following period may be transferred (to a given extent) to the limit of the current period. Quota agreements may also have a "swing" provision whereby exports within a group or category may exceed the restraint level(s), up to a stipulated percentage, provided there is an offsetting charge against other groups or categories. In addition to the foregoing flexibility factors, quota-imposing agreements alsc provide for annual growth rates. In its agreements, the United States generally takes into account the historical position of the exporting country as a supplier of textiles, and permits that country to diversify its textile exports to the United States.

A substantial share of U.S. agreements cover articles of cotton, wool, and/or manmade fiber. Articles wholly or in chief value and in chief weight of silk or a vegetable fiber other than cotton are not subject to the

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1/ When agreements with supplying countries cover a significant part of world trade in the subject articles, sec. 204 also authorizes the President to control the imports from countries that have not signed agreements with the United States. Bilateral negotiations with the People's Republic of China were unsuccessful in 1979. Consequently, the United States unilaterally imposed import quotas on certain categories of cotton and man-made fiber textiles and wearing apparel of Chinese origin.

2/ The text of the MFA, is reproduced in appendix pp. A-21 to A-37 of The History and Current Status of the Multifiber Arrangement USITC Publication 850, January 1978.

provisions of any of the textile agreements or the MFA. Neither are certain hand-loomed or traditional folklore handicraft products, provided they are properly certified.

The United States began discussions with Japan in 1978 to place limits on certain cotton, wool, and manmade fiber textile products. In 1979, Japan agreed to limit exports to the United States for 11 categories of textile products. 1/

All 19 bilateral agreements with limits on exports were extended or amended in 1979. Effective June 1, 1979, a new bilateral agreement containing limits on exports entered into force with the Dominican Republic. The restraint levels provided for in bilateral agreements for the calendar year 1979 (except where otherwise noted) are shown in table 6.

During 1979, the United States had bilateral agreements, providing for consultations and possible limitations, with Czechoslovakia, Egypt, Greece, Hungary, Jamaica, Malta, Nicaragua, Peru, Portugal, and Spain.

Table 6.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1979

Source	Fibers included in category and/or group limits	Aggregate limits
		Million equivalent square yards
Brazil	Cotton	1/ 139.7
Colombia	Cotton, wool, and manmade fiber	2/
Dominican Republic	do	2/
Haiti	do	2/
Hong Kong	do	1,015.2
India	do	199.2
Japan	do	2/
Korea	do	620.0
Macau	do	43.1
Malaysia	do	2/
Mexico	do	2/
Pakistan	Cotton	160.5
Philippines	Cotton, wool, and man-made fiber	262.7
Poland	do	47.4
Romania	do	2/
Singapore	do	246.5
Taiwan	do	804.5
Thailand	do	2/
Yugoslavia	Wool and man-made fiber	2/

1/ Limit applicable to period Apr. 1, 1979-Mar. 30, 1980.
2/ Limits on categories and/or groups only.

Source: Compiled from the bilateral agreements and materials supplied by the U.S. Department of Commerce.

1/ Limited items included women's, girls', and infants' cotton and wool trousers, knit cotton shirts and blouses, cotton and wool coats, and wool skirts; cotton gloves; wool and worsted fabric; and certain manmade fiber fabric and yarn.

CHAPTER II
THE MULTILATERAL TRADE NEGOTIATIONS
Overview

The Trade Act of 1974 authorized the President of the United States to enter into multilateral trade negotiations during a 5-year period beginning January 3, 1975, the date of the Act's enactment. The Act identified the overall U.S. negotiating objective as the attainment of a "more open and equitable market access and the harmonization, reduction, or elimination of devices which distort trade or commerce." These negotiations officially ended during 1979. The results of the trade negotiations were comprehensive in scope, far exceeding those of earlier rounds. They included concessions in tariffs, reduction of nontariff barriers (largely through agreements establishing rules governing activities which may affect trade, such as subsidies or the establishment of product standards), increased market access in agriculture with sectoral agreements in bovine meats and dairy products, modernization of the legal framework of the GATT, and a sectoral agreement on aircraft. In the United States, many of these agreements were implemented through the Trade Agreements Act of 1979, and most agreements went into effect on January 1, 1980. However, the extent to which these nontariff agreements and tariff concessions ultimately will benefit U.S. economic interests will depend on events over the next several years, on the extent to which signatories adhere to the agreements, and on the way the agreements are applied and administered by each signatory.

The Multilateral Trade Negotiations (MTN) were opened under the auspices of the General Agreement on Tariffs and Trade (GATT) in September 1973 at a meeting of Ministers in Tokyo, giving rise to the popular name of the "Tokyo Round" for this seventh round of multilateral trade negotiations under the GATT. At that time, the Ministers adopted the Tokyo Declaration, which formally launched the Multilateral Trade Negotiations. The Tokyo Declaration stated that the negotiations would aim to "achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world, objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade." Among other things, the Tokyo Declaration specified that the MTN would seek to "conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible"; and "reduce or eliminate nontariff measures, . . . to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline." The negotiations would also include an examination of the adequacy of the multilateral safeguard system, particularly with regard to GATT article XIX, take special note of characteristics and problems in the agricultural sector, and treat tropical products as a special and priority sector.

The Tokyo Declaration took special note of developing, or less developed, countries and specified various objectives of the MTN with regard to these countries. The main objective was to bring developing countries into the trading system as full participants, sharing the benefits, but also sharing the obligations in accordance with their levels of economic development. This objective would be attained by increasing the export earnings of developing countries, diversifying their exports, accelerating the rate of growth of their trade, improving the possibilities for these countries to participate in the expansion of world trade, and securing a better balance between developed and developing countries in sharing the benefits resulting from expanded trade. In addition, the Tokyo Declaration stated that the developed countries would not expect full reciprocity from developing countries for commitments which the developed countries made in the negotiations to reduce or remove tariff and other barriers, nor would developing countries be expected to make contributions inconsistent with their individual development, financial, and trade needs.

Ninety-nine countries participated in the Tokyo Round, compared with 40 in the Kennedy Round and 20 in the Dillon Round. Twenty-nine of the countries participating in the Tokyo Round were nonmembers or only provisional members of the GATT. Among these were Mexico, most of the Central American countries, Colombia, Venezuela, Bolivia, Bulgaria, Iran, the Philippines, Thailand, Tunisia, and Algeria. 1/

The Tokyo Round was the GATT's seventh round of multilateral trade negotiations. Previous rounds of multilateral trade negotiations succeeded mainly in reducing industrial tariffs, but did little to restrict the use of nontariff barriers to trade, which therefore have grown in relative importance. The sixth round of multilateral trade negotiations, the Kennedy Round, was the first to address the issue of nontariff barriers on a broad scale, but the achievements in this area were limited. The major accomplishment was an agreement on an international antidumping code which brought national policies into closer harmony and eliminated some of the trade-inhibiting features of national antidumping regulations. 2/

Compared with the Kennedy Round, the striking feature of the Tokyo Round was the emphasis on nontariff measures: six agreements were negotiated in order to remove nontariff obstacles in areas amenable to international codes. These codes were designed to clarify, standardize, and harmonize the nontariff policies of the signatory nations in areas covered by the codes. In addition, the Tokyo Round achieved significant reductions in tariff rates, increased market access and new rules in agricultural trade, reform of the GATT framework, and a sectoral agreement in civil aircraft. In a few areas, negotiations were not complete when the Proces-Verbal was opened for signature in Geneva on April 12, 1979, ending the formal negotiation phase of the Tokyo Round. Unfinished business included work on the safeguards code, on barriers to trade in services, on a commercial counterfeiting code, and on a Multilateral Agricultural Framework.

In certain respects, the Tokyo Round was similar to the Kennedy Round. Notably, the Kennedy Round and the Tokyo Round differed from previous trade negotiations in that the latest two made a serious effort to reduce barriers to world trade in agricultural products. Negotiators during the Kennedy Round achieved only limited success in their quest, however. Although they planned to conclude commodity agreements in grains, dairy products, and meat, their achievements consisted only of the International Grains Arrangement and limited (though meaningful) tariff cuts in a number of agricultural products

1/ The Philippines became a full member of GATT on Jan. 1, 1980. Colombia will become a member 30 days after the Colombian Congress ratifies the protocol for the Accession of Colombia.

2/ A second major nontariff measure agreement dealt principally with U.S. customs valuation practices, but the agreement was never implemented.

of lesser importance. Tokyo Round negotiators successfully concluded arrangements in dairy products and bovine meat, and also reduced tariffs on a number of agricultural items of interest to U.S. exporters.

On April 12, 1979, a Proces-Verbal containing the final substantive results of the Tokyo Round of trade talks was opened for signature. The text noted that comprehensive records of commitments offered on agricultural and industrial tariffs up to that date were being deposited with the GATT Secretariat by 14 delegations (Australia, Austria, Bulgaria, Canada, Czechoslovakia, the European Economic Community (EEC), Finland, Japan, Hungary, New Zealand, Norway, Sweden, Switzerland, and the United States) and that these were to be used to establish the schedules of concessions to be subsequently attached to an appropriate protocol. The Proces-Verbal also contained the texts of the nontariff codes that had been agreed upon and a pledge to continue work on the safeguards code. Twenty-three countries, including only one less developed country, initialed the Proces-Verbal: Argentina, Australia, Austria, Bulgaria, Canada, Czechoslovakia, Finland, Hungary, Japan, New Zealand, Norway, Sweden, Switzerland, the United States, and the nine EEC members.

Most of the schedules of tariff concessions were incorporated into the legal structure of the GATT by the Geneva (1979) Protocol to the GATT which was opened for signature on July 11, 1979. The Geneva Protocol contained the schedules of concessions on tariffs of Argentina, Austria, Canada, Czechoslovakia, the EEC, Finland, Hungary, Iceland, Jamaica, Japan, New Zealand, Norway, Romania, South Africa, Spain, Sweden, Switzerland, the United States, and Yugoslavia. The Protocol was signed immediately by Argentina, Canada, Finland, Norway, Sweden, and the United States. By the end of the year, it had been signed by all of the remaining countries except Czechoslovakia, Romania, Spain, and Yugoslavia. It remained open for acceptance until June 30, 1980. On January 1, 1980, the Protocol entered into force for those countries which had accepted it by that date, and it will enter into force for other countries upon their acceptance.

In November 1979, a second legal instrument, The Protocol Supplementary to the Geneva (1979) Protocol to the GATT, was opened for signature. The Supplementary Protocol contained additional tariff concessions from some of the countries covered in the original protocol, plus concessions from a number of other countries, including Australia, Brazil, Chile, the Dominican Republic, Egypt, Haiti, India, Indonesia, Israel, Ivory Coast, Korea, Malaysia, Pakistan, Peru, Singapore, Uruguay, and Zaire. Many of the offers of tariff concessions from less developed countries resulted from bilateral negotiations with the United States, but they will be granted to all GATT signatories on a most-favored-nation basis.

The Geneva (1979) Protocol and the Supplementary Protocol marked the formal conclusion of the Tokyo Round tariff negotiations. Tariff commitments made by Bulgaria in the negotiations could not be incorporated in a GATT protocol because Bulgaria is not a member of GATT but were annexed to a separate legal instrument done at the same time as the Geneva (1979) Protocol. Also, tariff concessions made by the three countries--Colombia, Mexico, and the Philippines--which conducted tariff negotiations in connection with their accession to the GATT in the context of the Tokyo Round were annexed to their Protocols of Accession. 1/

1/ Mexico subsequently announced it would not accede to the GATT at this time. Consequently, the Mexican Protocol of Accession and the concessions annex thereto will never become effective.

The MTN agreements on tariff reductions and the nontariff agreements were opened for formal signature on December 17, 1979. Initial signators of the entire package were Argentina, Austria, Canada, the EEC, Finland, Hungary, New Zealand, Norway, Sweden, and Switzerland. Chile had submitted a letter on October 25 indicating its intention to sign. Signing only the tariff agreement were the Dominican Republic, Egypt, Iceland, Israel, Ivory Coast, Jamaica, Singapore, and Zaire. Table 7 gives the status of the Tokyo Round MTN agreements as of January 1, 1980, the date many of the agreements entered into effect.

In the United States, the agreements negotiated in Geneva were implemented through the Trade Agreements Act of 1979 (Public Law 96-39). This bill was signed by President Carter on July 26, 1979, but most MTN provisions did not take effect until January 1, 1980. In order for an MTN agreement to become part of U.S. trade law, it was necessary for President Carter to determine that each major foreign industrial country was also accepting the agreement. However, the Act also specified that under certain conditions, the President could accept an agreement if all but one major industrial country accepted the agreement.

Summary of Results of Tariff Negotiations

Previous trade negotiations have focused mainly on tariff reductions. During the Kennedy Round, tariffs were reduced by an average of 35 percent for dutiable industrial products and by 20 percent for agricultural products. Although average tariffs in industrial countries had been reduced to historically low levels by the time of the Tokyo Round, nonetheless, these negotiations achieved a further substantial reduction in tariffs. Specifically the industrial countries pledged to reduce tariffs on dutiable industrial products by an average of about one-third. 1/ It is estimated that some 127 billion dollars' worth of trade (at 1976 values) in industrial goods will be affected by the tariff reductions. This accounts for about 60 percent of advanced country imports of industrial goods. Another 32 percent were already duty free, leaving only 8 percent of imports of industrial products on which no reduction would be granted. In agriculture, nearly 15 billion dollars' worth of trade (at 1976 values), comprising 30 percent of advanced country imports of agricultural products, will benefit from tariff concessions.

Most of these tariff reductions will be implemented in eight annual steps beginning January 1, 1980 and ending January 1, 1987, but there are numerous deviations from this pattern. For example, in certain sensitive sectors (such as textiles, apparel, and steel), the tariff reductions are to begin on January 1, 1982, and proceed in six annual stages. Nothing prevents signatories from implementing the reductions in fewer stages or at earlier dates, and, in fact, some of the important agricultural concessions that were made to each other by the United States and the European Economic Community were implemented in full on January 1, 1980. For the most part, the less

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1/ All averages in this section, unless otherwise noted, are trade-weighted averages computed on the basis of merchandise imports for 1976, the latest year for which complete trade data were available during the negotiations.

Table 7.--Status of Tokyo Round MTN Agreement Signatures and Acceptances, as of Jan. 1, 1980

Item	Accepted 1/	Accepted with reservation 2/	Signed subject to ratification/condition 3/
A. Geneva (1979) Protocol to the GATT.	Argentina, Austria, European Economic Community (Denmark, France, Ireland, Italy, Luxembourg, Netherlands), Hungary, Jamaica, New Zealand, Norway, South Africa, Sweden, Switzerland, United States.	Canada	Canada, European Economic Community (Belgium, Germany, United Kingdom), Finland, Iceland, Israel, Japan, Singapore.
B. The Protocol Supplementary to the Geneva (1979) Protocol to the GATT.	Dominican Republic, European Economic Community, Indonesia.		Canada, Chile, Egypt, India, Israel, Ivory Coast, Singapore, Zaire.
C. Agreement on Technical Barriers to Trade.	Brazil, Canada, European Economic Community (Denmark, France, Germany, Ireland, Italy, Luxembourg), New Zealand, Norway, Sweden, Switzerland, United States.		Argentina, Austria, Chile, European Economic Community (Belgium, Netherlands, United Kingdom), Finland, Japan.
D. Agreement on Government Procurement.	Switzerland.		Austria, European Economic Community, Finland, Japan, Norway, Sweden, United States.
E. Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT.	Brazil, Canada, European Economic Community, Norway, Sweden, Switzerland, United States, Uruguay.		Austria, Chile, Finland, Japan.
F. Arrangement Regarding Bovine Meat.	Brazil, Bulgaria, Canada, European Economic Community, Hungary, Japan, New Zealand, Norway, South Africa, Sweden, Switzerland, United States.		Argentina, Austria, Finland.

See footnotes at end of table.

Table 7.--Status of Tokyo Round MTN Agreement Signatures and Acceptances, as of Jan. 1, 1980 --Continued

Item	Accepted 1/	Accepted with reservation 2/	Signed subject to ratification/condition 3/
G. International Dairy Agreement.	Bulgaria, European Economic Community, Hungary, Japan, New Zealand, Norway, South Africa, Sweden, Switzerland, United States.		Argentina, Austria, Finland.
H. Agreement on Implementation of Article VII of the GATT.	European Economic Community, Switzerland.	Canada	Austria, Finland, Japan, Norway, Sweden, United States.
I. Protocol to the Agreement on Implementation of Article VII of the GATT.			Finland, Norway, Sweden, Switzerland.
J. Agreement on Import Licensing Procedures.	Canada, European Economic Community, New Zealand, Norway, South Africa, Sweden, Switzerland, United States.		Argentina, Austria, Chile, Finland, Japan.
K. Agreement on Trade in Civil Aircraft.	European Economic Community (Denmark, France, Germany, Ireland, Luxembourg), Norway, Sweden, United States.	Canada	European Economic Community (Belgium, Italy, Netherlands, United Kingdom), Japan, Switzerland.
L. Agreement on Implementation of Article VI of the GATT.	Canada, European Economic Community, Norway, Sweden, Switzerland, United States.		Austria, Brazil, Finland, Japan.

1/ "Accepted" means that the country has formally agreed to be bound by the agreement.

2/ "Accepted with Reservation" means that a country has formally agreed to be bound by the agreement, except with respect to certain obligations under the agreement.

3/ "Signed subject to ratification/condition" means that a country has signed the agreement, but that its acceptance will not be effective immediately. In the case of a country which signs subject to ratification, the country must complete its domestic ratification procedures and deposit an instrument of ratification with the GATT. Acceptance by a country which signs subject to a condition is effective once the condition has been met.

Source: Office of the United States Trade Representative.

developed countries will not reduce tariffs according to the formula used by advanced countries, but LDC's did make tariff concessions through various bilateral agreements (see section beginning on page 57).

Some economists have argued that the negotiated tariff reductions are fairly insignificant. If a country's average tariff rate for manufactured imports were 10 percent, for example, a 30-percent cut in the tariff rate spread out over 8 years would reduce the import price of manufactured goods, on average, by less than 0.4 of 1 percent each year

Distribution of tariff reductions

At the outset of the Tokyo Round, various alternative techniques for tariff reduction were proposed. Two approaches were most favored. Both the EEC and Japan favored a technique of harmonization, whereby the higher tariffs would be subject to greater percentage reductions. The purpose of this proposed approach was to reduce disparities among tariff rates. The United States proposed a linear reduction (on all tariffs) of 60 percent, the maximum reduction allowed for U.S. tariffs under the Trade Act of 1974. The linear approach--with its uniform, across-the-board, percentage reduction--was used during the Kennedy Round. The alleged advantage of this approach is that it can be used to achieve different objectives, primarily through the use of exceptions to the uniform reduction. The alleged disadvantage of the linear approach is that it does not harmonize the tariffs; i.e., some products will continue to have much higher tariffs than others. 1/

In September 1977, the United States Special Trade Representative (Ambassador Robert Strauss) and the European Communities' Commissioner for External Relations (Mr. Wilhelm Haferkamp) agreed to accept a tariff-cutting formula proposed by Switzerland. Most other advanced countries accepted the Swiss proposal as a working hypothesis shortly thereafter. The Swiss formula is expressed algebraically as:

$$Z = \frac{AX}{A + X}$$

where X represents the initital rate of import duty applied, A is a coefficient to be agreed upon, and Z is the resulting reduced rate of duty. This formula reduced higher tariffs by a greater proportion and lower tariffs by a lesser one, thereby harmonizing the individual tariff rates throughout a country's tariff schedule. If the same coefficient were used by all countries, it also would effect deeper average cuts for countries with relatively high average tariff levels and smaller average cuts for countries with lower average tariff levels, the end result being the harmonization of average tariff levels among countries. The EEC, the Nordic countries, and Australia used a coefficient of 16, while the United States, Japan, and Switzerland used a coefficient of 14 (the smaller the coefficient the more a given tariff is reduced). Canada employed its own formula, and certain other countries such as New Zealand resorted to an item-by-item technique. If applied without exception, the Swiss formula would have reduced U.S. tariffs by 42 percent, EEC tariffs by 43 percent, Japanese tariffs by 68 percent (from applied rates), and Canadian tariffs by 39 percent (from applied rates). 2/

1/ The Tokyo Round of Multilateral Trade Negotiations, Report by the Director-General of GATT, April 1979.

2/ Estimates of the Congressional Budget Office in "The Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: An Updated View," July 1979, p. 11.

The Swiss formula was not applied uniformly, however. The tariff rates for certain items were not cut at all, while the reductions in other tariff rates were larger or smaller than they would have been according to the formula. In addition, starting rates were sometimes the actual tariff rates in use, while other times they were the bound GATT rates. 1/ As a result, the actual reductions in overall tariff rates for advanced countries are generally somewhat lower than they would have been had the Swiss formula been applied uniformly.

The MTN tariff agreements will result in overall industrial tariff cuts averaging around 33 percent for advanced countries. U.S. tariffs will be reduced by an average of 32 percent, EEC tariffs by an average of 27 percent, Canadian tariffs by an average of 38 percent, and Japanese tariffs by an average of 50 percent. For Canada and Japan, this represents the reduction from the bound rates; the reductions from the rates actually applied are 32 percent for Canada and 28 percent for Japan. In the United States, Japan, and Canada, the average depth of cut on dutiable manufactured imports will be greater than on dutiable agricultural items, while in the EEC, the average depth of cut on dutiable agricultural imports will slightly exceed the average depth of cut on manufactured items.

Because patterns of trade differ among countries, the average tariff reduction which any country enjoys for the specific products it exports to another will, in general, differ from the overall averages just cited. However, the United States and the EEC will make nearly equal cuts of approximately 35 percent on tariffs affecting each other's products. By contrast, the United States will reduce its tariffs on Canadian products by about 44 percent, while Canada will cut tariffs on U.S. products by less than 29 percent. The United States is to reduce duties on imports of Japanese products by 32 percent, compared with a 14 percent cut by Japan on U.S. products. However, if only nonagricultural imports are considered, Japan will reduce its duties on U.S. exports by 47 percent and Canada will reduce its tariffs on U.S. products by 35 percent from applied rates.

1/ Bound rates mark the upward limit on tariffs that each country may apply under the terms of the GATT. However, Canada and Japan have made nonbinding unilateral reductions in the tariffs they apply on certain products. As a result, these two countries now apply tariffs that are lower than the bound rates.

The following table compares some of the average tariff rates prevailing before the MTN with those that will apply after all of the reductions have been implemented.

Table 8.--Average tariff rates on dutiable imports before and after tariff reductions

Country or entity	All dutiable imports	Dutiable agricultural imports	Dutiable manufactured imports 1/	Other dutiable imports 2/
United States:				
Before	8.1	8.7	8.1	4.1
After	5.6	7.2	5.6	2.0
EC:				
Before	9.9	7.0	10.0	10.2
After	7.0	4.9	7.1	7.0
Japan: 3/				
Before	14.0	14.0	15.3	1.7
After	12.5	13.5	13.4	1.6
Canada: 3/				
Before	12.5	6.5	12.8	4.3
After	9.0	5.2	9.1	2.2

1/ This classification, including SIC groups 21-28 and 30-99, is not identical with that referred to elsewhere as "industrial products," a somewhat differently defined category employed by the United States Trade Representative.

2/ This category includes basic minerals and ores, coal and petroleum, and coal and petroleum products.

3/ For Canada and Japan, the figures shown refer to reductions in applied tariff rates. Reductions in bound rates are higher.

Source: Office of the United States Trade Representative in a paper prepared by the Congressional Budget Office entitled: "The Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: An Updated View," July 1979.

The table shows that the United States, which had the lowest overall duties before the MTN, will continue to apply the lowest duty rates after the tariff concessions are fully implemented, even though the percentage point reductions in EEC and Canadian tariffs will be larger than such reductions in U.S. rates. However, the effect of these tariff reductions on total import prices is somewhat less than might appear from the table since only 43 percent of total U.S. imports are currently dutiable. By comparison, 41 percent of total EEC imports, 37 percent of Japanese imports, and 54 percent of Canadian imports are dutiable.

On an industry basis, the deepest tariff cuts have been in the following sectors: nonelectrical machinery, wood products, chemicals, and transport equipment. The deeper-than-average cut on transport equipment reflects the dismantling of most obstacles to trade in products falling under the civil aircraft agreement negotiated during the Tokyo Round. A complete discussion of the aircraft agreement begins on page 70. Less than average cuts were made in import-sensitive sectors such as textiles, leather, and rubber. The United States also afforded special treatment to some stone, clay, and glass products. The Office of the United States Trade Representative has prepared a table which shows the differences between tariff rates actually agreed on and the rates called for by the Swiss formula on a 2-digit SIC level (table 9). A negative entry indicates that the tariff cut was smaller than required by the formula. Generally, the larger negative entries are in industries considered particularly sensitive to increased import competition. It should be noted, however, that at the level of aggregation represented in the table, very few tariff cuts are as large as the formula calls for.

Employment effects

Studies of the effects of the MTN tariff cuts on employment generally have concluded that these reductions will have only very small effects on employment in the United States. The multilateral tariff reductions are expected to increase annual U.S. exports by an estimated $3.3 billion and U.S. imports by $2.6 billion over an 8-year period. 1/ This would lead to a $700 million improvement in the annual U.S. trade balance and have a small, but positive, effect on employment in the United States. Taking into account both the direct and indirect effects on employment of the MTN tariff reductions, the U.S. Department of Labor has estimated that more than 167,000 jobs will be created by the growth of U.S. exports, while fewer than 137,000 job opportunities will be lost owing to increased imports. Thus, the tariff reductions are expected to create a net 30,000 new job opportunities for U.S. workers. 2/ Most of the losses in job opportunities will not result in layoffs of U.S. workers. Instead, the declines in job opportunities experienced in certain industries will most likely be offset by normal growth in other industries, voluntary job transfers, and retirements.

The resulting change-in-employment effect varies considerably from industry to industry. Increased job opportunities are anticipated in over two-thirds of the individual agricultural, mining, and manufacturing sectors, and in nearly all of the service sectors. The most significant increases are expected in the following industries: computers and office machines, semiconductors and electronic components, aircraft and aircraft equipment, electrical machinery, construction and mining equipment, paper products, machine shop tools, metal working machinery, chemicals, and scientific instruments. These industries employ relatively sophisticated, modern technologies, and highly skilled workers. A net decline in job opportunities is probable in the following sectors: stone and clay products; textiles; apparel; jewelry; watches and clocks; games and toys; and radio and TV sets. In general, these are industries that are relatively labor intensive, or that make use of simple well known technologies. The adverse impact on employment

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1/ U.S. Department of Labor estimate.

2/ The impact of nontariff barriers on employment is not taken into account in the Labor Department study "Trade and Employment Effects of Tariff Reductions Agreed to in the MTN," June 15, 1979.

Table 9.--Differences between Swiss formula tariff reductions and final Tokyo round reductions

(In percent)

SIC category	United States	EC	Japan 1/	Canada 1/
01 Agricultural products (crops)	-4.8	-.5	-14.3	-1.0
02 Agricultural products (livestock)	1.3	-.4	-5.3	-.3
08 Forest products	1.2	-1.3	-3.1	.1
09 Fishing, hunting, and trapping	.1	.8	-1.8	-.7
10 Basic metals (unprocessed)	.2	-.1	-.1	-.1
12 Bituminous coal and lignite	-	-.2	-1.9	-
14 Nonmetallic minerals, except fuels	1.4	-.9	-2.4	-.5
20 Food and kindred products	-.7	-.9	-13.6	-.9
21 Tobacco products	-6.1	-	-340.8	-8.2
22 Textile mill products	-3.6	-2.5	-3.7	-3.6
23 Apparel and other textile textile products	-10.3	-4.7	-6.4	-8.9
24 Lumber and wood products	.2	-1.4	-2.3	-1.5
25 Furniture and fixtures	.8	-.4	-.4	-3.1
26 Paper and allied products	1.6	-1.8	-1.7	.4
27 Printing and publishing	.6	-.7	.3	3.7
28 Chemicals and allied products	-.9	-1.4	-1.4	-2.6
29 Petroleum and coal products	1.4	-1.3	-1.6	-1.6
30 Rubber and miscellaneous plastic products	-.6	-2.3	-2.0	-3.3
31 Leather and leather products	-4.3	-.9	-4.3	-4.3
32 Stone, clay, and glass products	-2.1	-1.7	-1.0	-.6
33 Primary metals	-.2	-.6	-.5	-3.0
34 Fabricated metal products	-.1	-.7	-.2	-.5
35 Machinery, except electric	.2	-.4	.4	-.3
36 Electric machinery and electronic equipment	.1	-2.4	.3	1.7
37 Transportation equipment	.3	-1.5	2.1	-.5
38 Instruments and related products	0	-.5	0	.3
39 Miscellaneous manufactured products	.7	-.4	-2.7	-.7
99 Miscellaneous commodities	2.0	-.7	-1.8	.4
Not otherwise classified	-1.9	-.9	-1.6	-.5

1/ For Canada and Japan, these figures represent formula reductions and actual reductions in applied rates.

Source: Office of the United States Trade Representative.

Note.--Negative entries denote less-than-formula reduction.

in the textile and apparel industries is sometimes overstated because bilateral agreements, renegotiated and extended from time to time, obligate supplying countries to limit their exports to the United States and/or to consult in order to avoid market disruption. Certain provisions of some agreements were made more restrictive in 1979. 1/

The MTN tariff reductions will also cause some shifts in employment on a geographic basis; however, the overall effect on total employment is expected to be very small. Employment is expected to increase in the Western, Midwestern, and certain Southern States, such as Texas, Arkansas, and Louisiana. This reflects the general gains that tariff reductions will bring to agriculture and to high-technology industries. Employment is expected to decrease in the Northeastern, Middle Atlantic, and most Southeastern States, because these areas are characterized by older, traditional manufacturing industries.

Agriculture agreements

Most agricultural trade barriers consist of quotas, variable levies, special commodity agreements, and similar nontariff barriers which, for the most part, reflect domestic policy objectives. Tariffs represent only a small part of agricultural protectionism. During the Kennedy Round and previous trade negotiations, most of the concessions in agriculture consisted of tariff cuts. Although attempts were made during the Kennedy Round to negotiate international arrangements to liberalize trade in meats and dairy products, these efforts were unsuccessful.

The agreements reached in the Tokyo Round provide for the reduction of tariff and nontariff barriers and for key duty bindings in major U.S. agricultural export markets. On January 1, 1980 the United States and the European Economic Community fully implemented many of the important agricultural concessions made to each other, rather than staging reductions over the 8-year period being used for other products. The benefits of these agreements are important to the United States for a number of reasons. Agriculture is the largest industry in the United States and generates about one-fifth of all jobs. On the average, almost one-third of each harvested acre produces for export, but this ratio is higher for many commodities such as soybeans, wheat, rice, cotton, tobacco, cattle hides, tallow, and almonds. In fiscal year 1979, U.S. agricultural exports totaled about $32 billion, twice the level of agricultural imports. The U.S. Department of Agriculture has estimated that, when fully implemented, the agricultural agreements will result in at least $500 million in increased annual exports, in the short run.

The United States requested concessions from other countries on products representing 4.7 billion dollars' worth of U.S. exports in 1976. In response, tariff and quota concessions were made to the United States on 480 products, valued at $3.8 billion in 1976. These exports represented 16 percent of U.S.

1/ For details on the nature of these agreements and statistics on restraint levels, see pp. 27-28.

agricultural exports and almost one-fourth of U.S. farm exports subject to foreign import barriers. Products covered include high-quality beef, pork, turkey, soybeans, fresh and canned fruit, fruit juices, almonds, cotton, and tobacco. For some of these items, the United States already has major markets that concessions will help to preserve or expand. Other items have not been major export items in the past, but have a high growth potential.

Concessions from advanced countries accounted for over 75 percent of the trade value on which the United States received concessions. Japan accounted for about one-third of the trade value, the EEC for 28 percent, and Canada for 13 percent. Of the concessions which the United States received from developing countries, Taiwan accounted for about 16 percent of the trade value, and Mexico, 1/ the Philippines, Korea, and India for almost all of the remaining 7 percent.

The United States made tariff concessions on agricultural products, for which imports amounted to about $2.6 billion in 1976. Approximately one-quarter of these were imports from advanced countries and included such items as fresh or frozen beef, lamb meat and wool, live cattle, and certain baked grain products. For most of these products, imports are expected to increase only marginally. However, the United States reduced the duties on wool by 60 percent, so that annual imports of wool are expected to increase by $6 million. Most of the rest of the concessions were to developing countries, on oils, inedible molasses, fruits and vegetables, and preserved beef.

The United States made a number of reductions in duties on dairy products, including butter, butter products, Swiss, Cheddar, and Italian style cheeses. The duty reductions are expected to have no significant impact on the quantity of U.S. imports, because all of these items are subject to quotas. The United States also reduced the duty on casein mixtures from 1.3 cents per pound to 0.2 cent per pound, or by about 2 percentage points, and this reduction is expected to increase imports by about $200,000.

The United States increased some quotas on cheese, applied under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624). However, at the same time, the United States brought additional types of cheese under quota control. This action put about 85 percent of U.S. cheese imports under quota beginning in 1980, compared with 50 percent previously subject to quotas. The cheeses brought under quota for the first time are the so-called "price-break" cheeses. Prior to January 1, 1980, these cheeses entered the United States free of quota restrictions if priced (f.o.b. country of origin) at or above the Commodity Credit Corporation's purchase price for Grade A Cheddar cheese plus 7 cents. Imports of price-break cheeses have grown more rapidly than have other U.S cheese imports. In the mid-1960's, price-break cheeses free of quota accounted for about 10 percent of total U.S. cheese imports. Currently, they account for 40-45 percent of total U.S. cheese imports, and account for virtually all of the cheese import growth since the mid-1960's.

Assuming that the quotas will be filled, the new quota level of about 111,000 metric tons will mean an increase in the value of 1980 cheese imports of about $121 million over the 1976 level and $56 million over the 1978 level.

1/ Subsequent to the period covered by this report, Mexico announced that it would not join the GATT, and consequently the Mexican concessions will not be implemented.

However, some of this increase would have occurred even in the absence of the new quotas, through the normal operation of the price-break system.

The United States has also agreed not to take countervailing duty action--under title I of the Trade Agreements Act of 1979 or section 303 of the Tariff Act of 1930--against subsidized cheese within the quota limits as long as the subsidies do not result in sales of foreign cheese into the United States at a price below U.S. wholesale cheese prices. Section 702 of the Trade Agreements Act of 1979 details the means by which the enforcement of quotas and the remedy for subsidized-price undercutting are to be handled. Beginning on January 1, 1980, and not later than January 1 of each year beginning with 1981, the Secretary of the Treasury, in consultation with the Secretary of Agriculture, shall determine the type and value of cheese subsidies. Any person may make a written complaint to the Secretary of Agriculture, alleging that the price at which any article of quota cheese is offered for sale in the United States on a duty-paid wholesale basis is less than the domestic wholesale market price of similar articles produced in the United States, and that a foreign government is providing a subsidy with respect to such articles of quota cheese. The Secretary of Agriculture then has 30 days to investigate the validity of these allegations. If price undercutting is found, the foreign government will be notified and have 15 days in which to remedy the situtation. If, within 15 days after receiving this notification, the foreign government does not eliminate the subsidy or take action to ensure that the duty-paid wholesale price of the article of quota cheese will not be less than the domestic wholesale market price of similar articles produced in the United States, the Secretary of Agriculture shall recommend that the President impose a fee or quantitative limitation in the cheese imports. The President then has 7 days to impose such fees or quotas. However, in the event that the President finds the Secretary's report to be unsubstantiated by fact, he can direct the Secretary of Agriculture to reconsider the case for another 7 days.

International arrangements were reached concerning bovine meat and dairy products. Both arrangements went into effect on January 1, 1980, for 3-year periods, with provisions for further 3-year extensions. Under the Arrangement Regarding Bovine Meat (which covers beef, veal, and live cattle), an International Meat Council has been set up within the GATT framework to monitor and evaluate the world supply and demand situation, to serve as a forum for consultation among signatory governments, and to identify possible solutions to any imbalances in international meat trade. Signatories to the arrangement have agreed to provide data on meat production, consumption, and prices. Council decisions are reached on a consensus basis and are nonbinding. The arrangement may promote stability and expansion of world meat markets by providing a multilateral forum to discuss reductions in trade barriers. This should benefit U.S. meat exporters who have periodically been closed out of foreign markets. The economic cost of the arrangement to the United States will be very small, since there are no economic provisions in the arrangement requiring U.S. action.

The International Dairy Arrangement is similar to the Meat Arrangement in most respects. It covers all dairy products and establishes an International Dairy Products Council within the GATT to review the situation in world trade in dairy products and to facilitate consultation among signatories. The arrangement also has established three protocols, which set minimum prices for international trade in milk powders, milk fats (including butter), and certain types of cheese. The U.S. industry should not be affected by these minimum prices, because they are well below U.S. current market and support prices. Hence, the economic cost to the United States of the arrangement will be minimal. In addition, the arrangement may have a positive effect on markets for products used as inputs to the dairy sector, such as feed grains, of which the United States is a substantial exporter.

Unfinished agricultural business

When the MTN agreements were initialed in April 1979, negotiators agreed on the principle of establishing a cooperative framework for agriculture, but were unable to conclude the text. Work on this Multilateral Agricultural Framework continued throughout 1979. The proposed framework would establish a group--with membership open to all Contracting Parties and governments having participated in the Multilateral Trade Negotiations--which would follow developments in trade policies and other matters relating to international trade in agricultural products. It was expected that this advisory body would consult in advance on emerging problems in agricultural trade to facilitate the resolution of such problems before they led to political or commercial confrontation. As it became apparent that agreement on such a framework could not be reached before the MTN was formally concluded, the contracting parties requested the Director General to consult with interested parties on this matter and report to the Contracting Parties in 1980.

Negotiations have not been completed on increased access for U.S. almonds and citrus exports into the European Economic Community. Without a lowering of duties on these products, U.S. producers are concerned that they may be closed out of EEC markets when Spain joins the Community.

The United States has also asked Spain to remove its quantitative limits on soybean oil before it joins the EEC. The U.S. negotiators charged that the quotas are illegal under the GATT.

The MTN Agreements on Nontariff Measures

In contrast to earlier rounds of trade negotiations, the results of the Tokyo Round are extremely comprehensive in scope. In addition to the Arrangements on Meat and Dairy Products discussed above, there were included among the results: six major agreements establishing rules of conduct in nontariff areas which can affect trade, an agreement on reform of the GATT framework, and a sectoral agreements on trade in civil aircraft.

The six nontariff measure agreements are often viewed as the most important results of the Tokyo Round. Each of the agreements possesses the following characteristics: (a) detailed regulations establishing mechanisms for consultations between signatories and for settling disputes; (b) different treatment of advanced and developing countries so that developing countries are not put under the same obligations as advanced countries, although they are expected to do as much as their stages of development warrant; and (c) establishment of a special committee of signatories to the Agreement to consider contested issues.

The six codes agreed to in the Tokyo Round are: The Agreement on Government Procurement, the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies/Countervailing Duties Code), the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade (the Antidumping Code), the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade (the Customs Valuation Code), the Agreement on Technical Barriers to Trade (the Standards Code), and the Agreement of Import Licensing Procedures.

Agreement on Government Procurement

This agreement calls upon all signatory governments, in making procurement decisions in the areas covered by the Agreement, to grant products originating in any other signatory country treatment "no less favorable" than that afforded to domestic products or to the products of any other country. The purpose of the code is to ensure that covered contracts are awarded on a nondiscriminatory basis. The code specifically pertains to article III of the GATT regulations, which permitted discrimination against foreign firms bidding for contracts of government agencies. 1/ Rules are established regarding government qualifications of suppliers, publication of bid opportunities and all information necessary to submit a bid; procedures to be followed in opening and awarding bids; provision of information on bid awards to those who have participated and request it; and rights to file complaints. In addition, the Government Procurement Agreement calls for the establishment of a committee composed of representatives of each of the signatory parties to monitor compliance with the Agreement. If a dispute cannot be settled by consultation among the parties involved, the committee can appoint a panel to examine the dispute and issue whatever rulings it deems appropriate. Beyond the issuing of a ruling, no enforcement power is available to the committee.

The Agreement applies to purchases valued in excess of 150,000 Special Drawing Rights (equivalent to about $195,000 in mid-1979). Services "incidental to the supply" of products are included as long as they represent less than 50 percent of the contract value. Entities to which the procurement code applies are listed in the agreement and include almost all the central government entities of the major advanced countries. The agreement does not apply to service contracts (except those incidental to the purchase of goods), construction contracts, national security items, purchases by State and local governments (with or without Federal funds), or purchases by any entity which

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1/ Art. III:4 of the GATT states that "the products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use." However, Art. III:8(a) states that "the provisions of this Article shall not apply to laws, regulations or requirements governing the procurement by governmental agencies of products purchased for governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale." Art. III:8(b) continues: "The provisions of this Article shall not prevent the payment of subsidies exclusively to domestic producers, including payments to domestic producers derived from the proceeds of internal taxes or charges applied consistently with the provisions of this Article and subsidies effected through governmental purchases of domestic products."

has not been specified as being covered. Furthermore, not all central government entities are covered. Many signatories, including the United States, have excluded their principal agencies in the fields of power generation, transportation, and telecommunications. In addition, in its domestic implementation of this agreement, the United States provided that purchases under its small and minority business set-aside programs and of products produced in labor-surplus areas be excluded from the code's provisions.

The procedures are patterned after U.S. procurement regulations and will require little change in U.S. practices. The U.S. implementing legislation simply gives the President the authority to waive preferences for domestic producers under the Buy American Act of 1933.

The procurement code is not scheduled to enter into force until January 1981. Each signatory has attached to the agreement a list of entities (e.g. governmental ministries and departments) to which the provisions of the code will apply. The United States has taken the position that Japan still needs to broaden its offer of entities to be covered by the code in order to provide reciprocally equivalent coverage. The U.S. implementing legislation stipulates that producers from major industrial countries that do not sign the agreement, or do not provide appropriate reciprocal opportunities to U.S. products and suppliers of such products, will be completely barred from U.S. procurement for covered contracts.

This agreement is considered particularly advantageous for the United States, mainly because governments traditionally purchase large quantities of the kinds of highly sophisticated electronic, communications, and transportation equipment in which U.S. producers often enjoy a competitive advantage. It has been estimated that the Agreement will open procurement markets, amounting to upwards of $20 billion, which have been largely closed to U.S. suppliers. Estimates on the net gain in U.S. employment resulting from implementation of this Agreement range from 1,600 to 100,000 jobs. 1/

Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT (Code on Subsidies and Countervailing Duties)

This agreement, which enters into force Jan. 1, 1980, clarifies and strengthens the provisions on these measures already found in GATT articles VI, XVI, and XXIII. It aims to ensure that the use of subsidies by any signatory does not harm the trading interests of another signatory and that countervailing measures do not unjustifiably impede international trade. The Agreement recognizes that governments use subsidies to realize certain economic and social objectives. At the same time, the Agreement makes clear that subsidies can also have harmful effects on trade and production in other countries. In the past, the GATT has prohibited the payment of government subsidies designed to promote exports at the expense of other signatories to the agreement, but has specifically allowed the payment of these subsidies "exclusively to domestic producers." Signatories to the new Agreement undertake to avoid subsidies that would cause injury to industries of other signatories or displace their products in the markets of the subsidizing country, nullify the benefits granted by tariff concessions, or prejudice the

1/ The lower estimate comes from a study by Alan V. Deardorff and Robert M. Stern entitled An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and the Other Major Industrialized Countries, p. 84. The estimate assumes flexible exchange rates. The higher estimate comes from the Office of the United States Trade Representative.

interests of other suppliers to third-country markets. The Agreement also contains an illustrative list of export subsidies that should not be granted. Under the code, signatories commit themselves not to subsidize exports of manufactured products and minerals, and to limit the export subsidies which they grant on agricultural, fishery, and forest products. In the past, minerals have been regarded as basic materials, but are now classed with the manufactured products and are thus subject to the stricter provision applying to these.

The code also reaffirms the GATT principle that countervailing duties be imposed in accordance with the provisions of article VI of the GATT, which requires demonstration that the subsidized imports in question are in fact responsible for causing injury to the domestic industry which has lodged the complaint. The most important element is the criterion of "material injury," which creates a common internationally recognized basis and prerequisite for the imposition of countervailing duties. U.S. implementing legislation defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." 1/ The code also outlines the considerations that should enter into a finding of injury and provides guidelines for the size and duration of countervailing duties.

The code specifically exempts less developed countries from the prohibition against export subsidies, providing for their "commitments" to eliminate these subsidies as their economic development allows.

Agreement on Implementation of Article VI of the GATT (Code on Antidumping)

Tokyo Round negotiators agreed on a revision of the GATT Antidumping Agreement, which was negotiated by a group of major industrialized countries during the Kennedy Round. The revised agreement, which clarifies existing GATT provisions on dumping outlined in article VI, details more finely the definition of dumping, the nature of the injury to the domestic industry that must be shown before antidumping duties can be imposed, the types of action that governments may take to prevent dumping, the procedures that should be followed before any action is taken, and brings these provisions into line with the relevant provisions of the agreement on Subsidies and Countervailing Duties. The agreement entered into force on January 1, 1980. The implementation of this agreement should have little immediate effect on the United States for two reasons. First, current U.S. practice is generally in conformance with the provisions of the code. Second, few U.S. products are likely to be subject to antidumping duties in other countries.

1/ Material injury is not specifically defined in Art. VI of the GATT. The new agreement provides that material injury tests be based on an objective examination of both the volume of subsidized imports and their effect on prices in the domestic market for like products, and the consequent impact of these imports on domestic producers of such products.

Agreement on Implementation of Article VII of the GATT (Code on Customs Valuation)

This Agreement is designed to establish a uniform, fair, neutral, and predictable international system for valuing imports for the purpose of assessing ad valorem duties. Uncertainty about the valuation of goods for import duty purposes may be a worse impediment than the duty itself, since by changing the basis for determining the value of imported goods, customs officials can raise or lower duties collected, independent of tariff rates. Under this agreement, the price which forms the criterion for customs valuation should basically be the transaction value of the imported goods--"the price actually paid or payable for the goods when sold for export" plus certain other costs and expenses associated with the transaction. If no such value can be found, customs officials are to rely on the transaction value of identical goods (or similar goods, if identical goods are not available) for export to the same country of importation. If neither of these are available, the resale price of the imported goods less the necessary expenses after importation is used, or alternatively, the value is based on cost of production. Finally, if the customs value cannot be determined by any of these five methods, it is to be determined by any reasonable means consistent with the general provisions of the Agreement and Article VII of the GATT.

Certain methods of determining the value for customs purposes which have been used by various countries were clearly contrary to GATT article VII. In many cases, these procedures were in effect before 1947, when the General Agreement was drawn up. The original contracting parties to the GATT in 1947 acceded only provisionally under the Protocol of Provisional Accession. Among other things, the Protocol of Provisional Accession contained a clause that provided that Part II of the General Agreement, (which contains article VII) was to be applied "to the fullest extent not inconsistent with existing legislation." Included in this category of existing legislation was one U.S. basis for valuation: the American Selling Price (ASP). Under the ASP, some products--benzenoid chemicals, rubber-soled footwear, canned clams, and certain knit gloves--were valued for customs purposes not on the basis of their export value, but on the basis of the price of similar goods produced in the United States. The use of ASP valuation has been criticized by foreign exporters and U.S. importers because it generally increased duties on these products well above those that would have been levied if normal valuation bases had been used. In adhering to this agreement, the United States agreed to abandon its use of the ASP method of customs valuation, but will raise duty rates on nearly all ASP items to compensate for reducing the dutiable values.

The agreement will go into effect on January 1, 1981, but the United States and the EEC decided to implement the provisions of the agreement on July 1, 1980 in order to expedite implementation of U.S. tariff concessions tied to the change in valuation standards. Canada signed the agreement on the understanding that it will be allowed several extra years to make the necessary internal adjustments, including tariff rate adjustments, needed for full implementation of the agreement. The agreement also makes special provision for developing countries by allowing them a 5-year delay in implementing the Agreement.

Agreement on Technical Barriers to Trade (Standards Code)

This Agreement, which entered into force January 1, 1980, attempts to promote nondiscrimination between domestic and imported products, by providing for open and fair procedures in the development and use of product standards, test methods, and certification systems. The key aspect of the Standards Code is the stipulation that national standards should not be allowed to disrupt trade needlessly or to create unnecessary obstacles to trade. The requirements of the code are entirely procedural. They do not require adoption of any particular standards, technical regulations, or testing and certification schemes. The agreement does encourage signatories to use international standards if possible, to publicize details of standards that are different from international norms, and to accept standards certification performed in other signatories.

The agreement provides legally binding rules enabling governments to complain about and obtain redress for code violations by other signatories. It also establishes a Committee on Technical Barriers to Trade, concerned in particular with settlement of disputes and formulation of the necessary procedures for settling these disputes. This agreement is not expected to produce an immediate short-run change in trade flows, but should allow trade to expand as technical obstacles are gradually reduced.

Agreement on Import Licensing Procedures

This agreement aims at ensuring that import licensing procedures _per se_ do not act as a restriction on imports. Import licensing requirements in some countries often involve time-consuming, needlessly complicated, and often expensive procedures. The procedures can become nontariff barriers in themselves, used by governments to limit imports. The agreement stipulates that rules and information concerning national licensing systems must be published and furnished to the GATT. In addition, the Agreement limits the number of forms and approvals that can be required, and provides that licenses cannot be denied on the basis of minor errors in documentation, or minor variations in quantity or weight from amounts designated in the license. A committee of signatories was established to facilitate consultation and dispute settlement. The agreement entered into force on January 1, 1980.

Enforcement of the Agreements

Each of the foregoing six agreements establishes mechanisms for monitoring performance under the agreement and for settling disputes which arise concerning that performance. In general, in the event of a dispute, a special committee composed of signatories to the agreement is established, and the committee designates a panel of 3-5 experts to review the circumstances and to make findings that will assist the committee in arriving at recommendations or rulings. The panel or committee may also attempt to reconcile the parties to the dispute. If the recommendation or ruling of the committee is not followed, the committee is empowered to authorize appropriate countermeasures; in practice, however, the GATT membership has not relied upon the authorization of retaliation to obtain compliance, but upon the weight of international opinion and the cooperativeness of its members.

Agreement on Trade in Civil Aircraft

The Agreement on Trade in Civil Aircraft focuses specifically on tariff and nontariff measures relating to the aerospace industry. The agreement commits signatory governments to eliminate all customs duties and similar charges of any kind levied on the importation of civil aircraft and engines, and on ground flight simulators for civil aircraft. Parts, components, or subassemblies of civil aircraft also are to be duty free, provided they are classified for customs purposes under one of the specific tariff headings listed in the annex to the agreement. Also, duties on foreign repair of civil aircraft will be eliminated. These zero duties will be legally "bound" under the GATT.

Importantly, signatories also agree to abide by nontariff discipline in regard to government-directed procurement, offset purchases, subsidies, standards, quantitative reductions, and inducements (government incentives linked to aircraft transactions). The agreement provides this sector, for the first time, with an international forum to settle disputes and to monitor developments in the industry to head off future problems.

Standards

The aircraft agreement extends the coverage of the Agreement on Technical Barriers to Trade by providing that civil specifications on operations and maintenance procedures shall also be governed by its provisions.

Quantitative restrictions

The aircraft agreement commits signatories not to apply import quotas or import licensing requirements to restrict imports of civil aircraft in a manner inconsistent with GATT provisions. Import monitoring or licensing systems, consistent with the GATT, are not precluded. In addition, export restrictions may not be applied for commercial reasons to other signatories to the agreement. This does not affect export licensing procedures for reasons of national security or foreign policy.

Subsidies

The agreement notes that the provisions of the Code on Subsidies and Countervailing Duties apply to trade in civil aircraft. It further provides that signatories "shall seek to avoid adverse effects on trade in civil aircraft" in their efforts to expand their own civil aircraft industries. Signatories also agree that pricing of civil aircraft should be based on a reasonable expectation of recoupment of all costs, including nonrecurring program costs, identifiable and pro-rated costs of military research and development on aircraft, components, and systems that are subsequently applied to the production of such civil aircraft, average production costs, and financial costs.

Inducements linked to aircraft sales

The agreement commits signatories to "avoid attaching inducements of any kind to the sale or purchase of civil aircraft from any particular source which would create discrimination against suppliers from any signatory."

Government-directed procurement and offsets

The agreement specifies that "purchasers of civil aircraft (and of civil aircraft engines, parts and subassemblies) should be free to select suppliers on the basis of commercial and technological factors." It further stipulates that "signatories shall not require airlines, aircraft manufacturers, or other entities engaged in the purchase of civil aircraft, nor exert unreasonable pressure on them, to procure civil aircraft from any particular source, which would create discrimination against suppliers from any signatory." In addition, governments can no longer require that a set proportion of production for a contract be manufactured in the home country.

The aircraft agreement became effective on January 1, 1980. As of mid-January 1980, Denmark, France, West Germany, Ireland, Luxembourg, Norway, Sweden, the United States, and the European Economic Community (with respect to matters under its jurisdiction) had accepted the agreement unconditionally. Canada accepted the agreement with reservations. Belgium, Italy, the Netherlands, the United Kingdom, Japan, and Switzerland had signed the agreement subject to ratification by their governments.

The aircraft agreement should help to increase the competitiveness of U.S. civil aircraft exports by reducing to zero, tariffs that were previously bound in the GATT at rates as high as 15 percent, as well as by reducing nontariff barriers. A significant producer of aircraft, the United States exported about 6 billion dollars' worth of aircraft in 1978, which accounted for about 80 percent of the world market for commercial transports and 90 percent of general aviation aircraft. This represented about 60 percent of U.S. production of commercial transport and 25 percent of general aviation production. The U.S. Department of Labor has estimated that as a result of the aircraft agreement, employment will increase by 6,159 jobs, or 1.1 percent of the aircraft industry labor force.

In contrast, the effect on U.S. imports, which were valued at less than $1 billion in 1978, is expected to be small. U.S. tariffs on aircraft were already relatively low and had not presented a great barrier to imports.

Framework for Conduct of International Trade

The Tokyo Round negotiations were not limited to the lowering of tariff and nontariff barriers to trade in industrial and agricultural products, and to the linked question of safeguards. A range of other issues also needed to be settled to obtain a more efficient and more equitable operation of the GATT system. Negotiations on these issues were called for by the Tokyo Declaration, which provided that consideration be given to "improvements in the international framework for the conduct of world trade." To carry out these negotiations a "Framework Group" was set up in November 1976 after a proposal by Brazil. This group, which was widely supported by developing countries (LDC's) as well as by several of the advanced countries, concluded negotiations on five agreements. The framework agreements were the first MTN agreements to become effective, taking effect on November 29, 1979, following their approval by the 35th Session of the GATT Contracting Parties in Geneva.

The Framework agreements will integrate the developing countries more fully into the international trading system. The role of these countries in world trade has increased enormously since the GATT was founded, but since the implementation of Part IV in 1964 there had been no official changes in the GATT framework to reflect this growth. The GATT had never accepted, in a juridical sense, that special and differential treatment was part of the international trading system; however, its members tended to ignore arrangements made by many advanced countries which granted special treatment to developing countries. The GATT also did not have any special provisions concerning the graduation of developing countries into a more advanced status in which they could assume more of the obligations of full participation in the world trading system. The Framework agreements negotiated at the Tokyo Round provide a legal basis for recognizing differential and more favorable treatment for developing countries as an integral part of the GATT system. However, the agreements also specify the limitations which these countries must accept on the sort of differential and more favorable treatment which may be extended, and provide for graduation to further obligations under the GATT as the economies of LDC's become more developed.

Legal framework and reciprocity and fuller participation by developing countries

One of the major LDC goals in the Tokyo Round was the establishment of a firmer legal basis for the Generalized System of Preferences (GSP) and other types of "special and differential" treatment. In the past, GSP treatment for developing countries was authorized by a waiver from the general rules of nondiscrimination and most-favored-nation treatment prescribed in article I of the GATT. The MTN agreement, which has been popularly described as the "Enabling Clause," legalizes differential treatment in favor of LDC's with respect to (1) tariff preferences accorded under GSP; (2) nontariff measures governed by codes negotiated under GATT auspices; (3) tariff and, under certain conditions, nontariff preferences granted to one LDC by another, in the framework of regional or global arrangements; and (4) other special treatment of countries on the United Nations list of least developed countries. The provisions of the clause reaffirm and strengthen the commitment by advanced countries not to expect reciprocity from developing countries inconsistent with their individual development, financial, and trade needs. However, the clause notes that developing countries are expected to accept more of the obligations of the GATT as their economies develop more fully.

Safeguard action for balance-of-payments purposes

This agreement states that, in general, restrictive trade measures are an inefficient means of solving balance-of-payments problems. Since restricting imports can have a trade-distorting effect, developed countries should avoid the imposition of such measures to the maximum extent possible. The agreement notes that price measures such as surcharges have been used for balance-of-payments purposes, but reaffirms that such measures should not be used in order to protect a particular industry or sector. However, the agreement takes into account the needs of developing countries regarding both the use of such measures and the selection of the type of measure to be applied. The agreement also provides review procedures which apply to all trade actions taken for balance-of-payments purposes and includes provisions to make the review process more effective.

Safeguard action for development purposes

This agreement, which provides a legal basis for derogations from the provisions of sections A and C of article XVIII of the GATT, should make it easier for developing countries to adapt their import policies to the perceived needs of their economic development. Article XVIII provides that these countries may restrict their imports in order to promote economic development, particularly to establish an infant industry. Section A deals with the modification or withdrawal of tariff concessions by developing countries, and section C with the use of nontariff restrictions, such as quantitative restrictions, not otherwise consistent with the GATT. Under this new agreement, developing countries are entitled to introduce such measures in order to promote the development of new, or the modification or extension of existing production facilities as necessary to achieve their economic development goals. In addition, under certain circumstances, developing countries are allowed to introduce such measures rapidly and to avoid procedural time limits.

Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance

The Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance clarifies existing GATT procedures for consultation and the resolution of disputes to help ensure a more predictable, effective, and objective process for resolving all GATT-related disputes. It contains an "agreed description" of customary GATT practice in the field of dispute settlement, as well as improvements in the existing mechanisms concerning notification of trade measures, consultations, resolution of disputes, and surveillance of developments in the international trading system. Although the customary practice of the GATT will be continued, procedures have been refined regarding notification of trade measures and consultations, and rules have been developed concerning conciliation and resolution of trade disputes. Detailed provisions are made concerning the establishment, composition, prerogatives, and function of panels set up to examine complaints. Special procedures available for the settlement of disputes between developing and advanced countries have been reaffirmed.

Export restrictions

Negotiations on this issue were prompted by concern in industrialized countries regarding adequate access to supplies of raw materials and finished goods. Since import and export controls can have similar trade-distorting effects, industrialized countries stressed that the Tokyo Round should strive to establish a balance between access to markets and access to supplies. This issue had not been taken up in previous GATT trade negotiations, and the negotiators were unable to reach a full agreement. They did reach an understanding which requests the GATT Contracting Parties to reassess, as one of their priority tasks after the conclusion of the Tokyo Round, the GATT provisions relating to export restrictions in two contexts: (1) the international trade system as a whole, and (2) the development, financial, and trade needs of the developing countries.

Services

Section 102(g)(3) of the Trade Act of 1974 gave the President the authority to negotiate reductions in barriers to trade in services by extending the definition of "international trade" to include trade in both goods and services. Despite this mandate, little progress was achieved during the MTN on service trade issues.

Past multilateral trade negotiations have not addressed the issue of services at all despite the growing importance of this sector in most advanced countries. In the United States, for example, service industries account for 60 percent of the U.S. gross national product and 65 percent of private sector employment. 1/ The United States currently has the world's largest service sector, but it faces growing competition in international trade in services.

The United States, because of its large service sector and mandate under the Trade Act, sought to include services in the nontariff agreements being negotiated, and also made some bilateral requests to other countries for the reduction or elimination of particular barriers to trade in services. The negotiators achieved some limited success in the codes, but made little progress on specific barriers. The United States approached 17 countries with bilateral requests and found almost no interest in negotiating. However, the United States was able to negotiate a duty reduction by Canada on blueprints and technical drawings for buildings and major structures. This duty had been cited as a barrier to U.S. exports of engineering and architectural services. Some liberalization was also achieved in Romania's restrictions on the hiring of Romanian citizens by foreign firms for services related to the conduct of their business in Romania.

Several factors were responsible for the inconclusiveness of the negotiations in services. Because past multilateral trade negotiations have not dealt with trade barriers faced by service industries, no mechanisms for negotiations were in place, and few preliminary discussions had occurred, as was the case for other items on the MTN agenda. By itself, the absence of a trade negotiating framework for the service sector virtually precluded and certainly impeded substantive negotiations. Moreover, the lack of preliminary discussions meant that little consensus had been reached prior to the start of the talks, either within or among governments, on the objectives of the negotiations on services. In addition, since the subject was new in multilateral trade talks, most negotiators had little expertise or experience in dealing with service-related issues, a fact that further hindered progress in the discussions.

Much of the work on reducing barriers to trade in services has occurred not in the MTN, but within the Organization for Economic Development and Cooperation (OECD). In 1976, the U.S. Commerce Department released a comprehensive report on services, including an examination of the possibility and desirability of negotiating on services in the MTN, prepared by a White House Interagency Task Force and entitled "U.S. Service Industries in World Markets: Current Problems and Future Policy Developments." 2/ The report

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1/ Service Industries--International Trade Report to Coordinating Committee Business Round Table Task Force on International Trade and Investment, Nov. 7, 1979.

2/ This report is being updated.

made 27 recommendations to improve U.S. Government policy-oriented action toward the service sector, and advised that the U.S. Government introduce the subject of service trade barriers to the OECD Trade Committee. 1/ In October 1978, the OECD Trade Committee agreed to take up the issue of trade in services and invited the OECD Secretariat to prepare an initial discussion paper.

Preliminary discussion of this paper took place on April 5, 1979. At the same meeting, the U.S. Government obtained the agreement of the Trade Committee to initiate a study of trade in services. This study does not constitute a beginning of formal negotiations on services, but should provide a foundation on which countries can begin to build a broad consensus on possible opportunities for future negotiations. As part of its contribution to the study, the Office of the United States Trade Representative prepared a draft inventory of selected impediments to trade in services. For various industries, the inventory notes the U.S. service export industry involved, a description of the action or practice impeding trade, and a list of countries where the impediment exists. Similar lists are being compiled by other OECD member governments.

No definitive outline for work on services will be drawn up until all the lists are completed. However, the U.S. Government has already compiled an initial list of possible negotiating approaches on the basis of a preliminary review of its own draft inventory. These approaches include the following: extension of MTN nontariff measures agreements; an agreement on services; the liberalization of restrictions impeding trade in services directly related to trade in goods; expansion of the OECD invisibles code; and inputs to the OECD Trade Committee from other OECD committees, including the Committee on Investment and Multinational Enterprises, the Insurance Committee, the Tourism Committee, and the Maritime Transport Committee. Some issues may not fit under any of these previous categories and will need to be dealt with through traditional bilateral channels or by ad hoc international committees established for a particular purpose.

Safeguards

The Tokyo Declaration of September 1973 called for "an examination of the adequacy of the multilateral safeguard system, considering particularly the modalities of application of Article XIX, with a view to further trade liberalization and preserving its results." Safeguards are temporary emergency actions, such as import quotas or higher tariffs, designed to protect industries that are threatened by a large volume of increased imports. GATT article XIX, Emergency Action on Imports of Particular Products, gives GATT member countries the right to impose controls on imports causing or threatening to cause serious injury to domestic producers. These provisions apply to fair but injurious import competition, and not to unfair trade practices such as dumping or subsidizing. Actions taken under Article XIX are applied to all GATT members on a nondiscriminatory basis, and not only against the country whose exports are causing or threatening injury.

1/ In order to address policy issues more effectively, the U.S. Government is doing preliminary work to obtain industry-specific data on exports and imports of services.

The provisions of article XIX have not been widely used. Of the 13 countries which have brought article XIX actions, only three, the United States, Canada, and Australia, have used article XIX provisions extensively. Most countries use a broad range of other methods to restrict imports, such as orderly market agreements and other so-called voluntary export restrictions, export restraints, and interindustry agreements. Many countries have preferred these types of import restraints outside the purview of the GATT because they permit the flexibility to apply controls on a selective basis against the country or group of countries whose exports are perceived as the most injurious.

Because many countries had been taking safeguard action outside of GATT article XIX, a review of safeguard procedures was in order. The most important points to be discussed concerned the issues of allowing selective safeguard action and the extent to which safeguard actions should be brought under GATT regulations. Other objectives included: the need for more precise criteria for invocation of the safeguard clause, including the terms "cause serious injury," "threaten serious injury," and "critical circumstances," which are the basic justification for introducing safeguard measures; the need to fix a time limit for implementing safeguard measures and for phasing them out; the need to make the application of such measures contingent upon the introduction of a domestic adjustment program; the possibly broader relevance of the safeguard machinery set up under the existing Arrangement Regarding International Trade in Textiles (Multifiber Arrangement); and the desirability of introducing provisions for multilateral surveillance into the GATT safeguard arrangements.

The United States had several specific objectives of its own. First, through an agreement on safeguards it hoped to gain a single multilateral safeguard procedure that all countries would use when they took safeguard action. All methods of restricting imports would be covered by the agreement. The United States also hoped to achieve greater openness and due process in domestic procedures of other countries for taking safeguard actions, comparable to those in the United States. This would include the identification of entities examining applications for escape clause action, the opportunity for all interested parties to be heard during the examination of the case, and the issuance of a report providing the rationale for decisions so that disagreements could be discussed.

Negotiations on the safeguards code stalled because of disputes between the United States, the EEC, Japan, and the developing countries. The Proces-Verbal, which opened for signature on April 11-12, 1979, called for a continuation of work on safeguards within the framework and in terms of the Tokyo Declaration as a matter of urgency, with the objective of reaching agreement before July 15, 1979. However, the stalemate on issues was not resolved by that date. At the meeting of GATT Contracting Parties in November 1979, a committee was established to continue work on the safeguards code. This committee is to submit a progress report to the Contracting Parties before June 30, 1980, if negotiations have not been concluded by that date.

Several major issues remain unresolved, including the questions of selectivity and coverage and the definitions of injury and cause. The EEC has argued in favor of selective safeguards to limit imports from just one or a few countries. The EEC argues that governments would be more willing to accept wide-ranging trade liberalization if safeguard measures could be taken selectively. Developing countries are adamantly opposed to unilateral selective safeguards, arguing that they are illegal under current GATT rules on most-favored-nation treatment. This position is based on the LDC fear that allowing selective safeguards would result in a greater use of safeguard actions targeted mainly at LDC products. In this dispute, the United States leans toward the LDC position, but is willing to negotiate a compromise.

Another unresolved issue concerns coverage, and here the United States and Japan are the principal disputants. As noted previously, the United States favors a safeguard code covering all methods of restricting imports. Most countries have used a number of methods to restrict imports outside of GATT article XIX. Japan is opposed to placing all methods of import restriction under GATT rules since it is involved in a number of voluntary restraint agreements. Japan maintains that these agreements allow more flexibility, at least in theory, than would occur under GATT rules.

Differences have also arisen over the definitions of "serious injury" and "substantial cause." On the question of serious injury, the differences are primarily between advanced and developing countries and concern the criteria to be applied in the determination of serious injury. LDC's voice concern that action would be taken against them more frequently than in the past solely on the basis of price, with little account taken of the injury that might be caused to their export industries. 1/ On the question of cause, the EEC favors changing the requirement for injury to "principal cause." The United States position is that imports should be shown to be a "substantial cause" of injury before import restraints are invoked. This is the injury test already in place in U.S. trade legislation.

Commercial Counterfeiting

At a relatively late date in the MTN, the United States initiated an effort to negoiate an international agreement which would require signatories to take strong actions to deter trade in counterfeit merchandise (i.e., goods bearing false trademarks). Although the United States and the European Economic Community reached agreement on a text in mid-1980, the commercial counter-feiting agreement is under negotiation, and indications are that these negotiations will continue for some time in the future. One major problem is that negotiators have been unable to agree on a definition of counterfeiting.

If the negotiations are completed successfully, the agreement will probably call for the forfeiture of imported counterfeit merchandise. This is in conformance with existing U.S. legislation under the Tariff Act of 1930, as amended, and would require no concession on the part of the United States.

It is expected that the agreement would favor countries such as the United States which have known trademarks. In the past, U.S. firms competing with counterfeit merchandise produced in third countries have suffered economic damage, but the commercial counterfeiting agreement would probably operate to deprive these third countries of the economic benefits of counterfeit trade.

1/ Pressures in advanced countries in recent years for protection from low-cost imports of textile, leather, footwear, cutlery, and other miscellaneous manufactured items have increased the fears of LDC's that a reinforced safeguard clause would be principally used against them.

Bilateral Agreements

The United States concluded bilateral agreements with 28 developing countries in 1979, including all major LDC trading partners. These bilateral agreements were attained during the Tokyo Round and constitute an important part of its results. Throughout the Tokyo Round, the United States continually urged the full participation of developing countries in the trade negotiations. The U.S. position was that LDC's should sign the final nontariff agreements and would benefit through MFN status from tariff concessions made by the major trading countries to each other. In return for these benefits LDC's should be willing to offer concessions which are not necessarily fully reciprocal but which are commensurate with their level of development.

The United States had two objectives in negotiating bilateral agreements with developing countries. The first was to get LDC's to conduct their trade within the GATT framework and subject to GATT discipline. The second was to achieve some concessions from LDC's in areas of interest to U.S. exporters. The bilateral agreements which the United States negotiated with the LDC's reflect these goals. Mostly, they consist of tariff concessions both by the United States and by individual LDC's, but in many cases they also include commitments by individual developing countries to liberalize licensing requirements and to otherwise adhere to provisions of the nontariff agreements so as not to impair the value of the tariff concessions. Although the United States negotiated the tariff concessions bilaterally or multilaterally with groups of developing countries, most of the concessions were incorporated in the GATT schedules of individual countries and will be extended to all GATT member countries under the most-favored-nation rule.

The agreements with developing countries are estimated to cover some 6 to 7-billion dollars' worth in two-way trade, based on 1976 figures. 1/ Concessions by developing countries to the United States cover approximately $3 billion in U.S. exports and include bindings of tariffs at current rates, bound tariff reductions, removal or liberalization of licensing requirements, and liberalization of other nontariff measures in a wide variety of product sectors. 2/ U.S. tariff concessions consist of bound tariff cuts and bindings at current rates. They are estimated to cover approximately $3-4 billion in LDC exports to the United States. U.S. tariffs on manufactured imports from developing countries will decline by 2 percentage points to an average of 5.7 percent.

The 28 developing countries which concluded bilateral agreements with the United States were Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Egypt, Haiti, India, Indonesia, Israel, Ivory Coast, Jamaica, Republic of Korea, Malaysia, Mexico 3/, Pakistan, Peru, Philippines, Romania, Singapore, Sri Lanka, Taiwan, Thailand, Trinidad and Tobago, Venezuela, and Yugoslavia. The agreements with Ecudor and Venezuela were in the context of an agreement with the Andean Pact Commission. Haiti was the only "least-developed" country with which the United States concluded a bilateral agreement.

1/ Estimate of the Chamber of Commerce of the United States, Jan. 1980.

2/ Estimate of the U.S. Trade Representative.

3/ In March 1980, the President of Mexico announced that Mexico will not join the GATT in the foreseeable future. Concessions in the bilateral agreement with Mexico, which are annexed to the Protocol for the accession of Mexico to the GATT, will not be implemented. See page 150.

The United States also concluded several bilateral agreements with advanced countries. For the most part, these consisted of an "agreed record of understanding" between the United States and individual negotiating partners setting forth certain conditions or details on particular trade concessions agreed to by each delegation. In some cases, these memoranda were superseded when the U.S. Schedule XX and the schedules of other countries were annexed to either the Geneva (1979) Protocol of July or the late Supplementary Protocol. Entities with which the United States exchanged these memoranda included Canada, the EEC, Finland, Hungary, Iceland, Japan, New Zealand, Norway, Portugal, Sweden, and Switzerland.

The most important of these agreements are detailed in the following sections.

Trade agreement with Andean Group

On December 14, 1979, the countries forming the Cartagena Agreement (Bolivia, Colombia, Ecuador, Peru, and Venezuela) on one side and the United States on the other, signed a product-specific bilateral agreement, taking into account the level of development of the member countries of the Andean Group. This trade agreement is the first step in what will be a progressive effort to increase and improve trade between both parties. The United States agreed to reduce its tariffs on the following products: dried bananas; banana flour; other animal feeds; tonka beans; crepe paper; "other" industrial machinery; elevators, hoists, and winches; insulated electrical conductors without fittings; and certain types of headwear. In return, the Andean Group agreed to bind its tariffs on vegetable protein isolates, laboratory glassware, changeover switches greater than 1,000 volts, electrical insulated cables with connections for automobiles, and voltage and other regulators greater than 260 volts and over 30 amperes.

Trade agreement with Hungary

The United States and the Hungarian People's Républic signed a bilateral agreement on June 13, 1979. The agreement was negotiated within the framework of the MTN, but for legal purposes was not a part of the MTN. 1/ This agreement contains tariff concessions by both countries and entered into force on January 1, 1980. The new tariff rates will be achieved by the staging formula agreed to in the MTN. The United States offered tariff concessions on the following products of interest to Hungary: certain foods; certain textile and apparel items; certain chemicals; certain perfumes and toilet items; certain chinaware and glassware; certain locks; certain tools; certain heating and cooling equipment; filament lamps; motor buses and motor vehicle parts; furniture of wood and other; bicycles; brooms and whiskbrooms under quota; and pneumatic tires, mattresses, and other inflatable articles.

1/ The United States did not enter into tariff negotiations with Hungary within the MTN because it does not apply the GATT multilaterally to Hungary. To do so, the United States would have to extend MFN unconditionally to Hungary; however, Title IV of the Trade Act of 1974 requires the United States to review periodically the President's authority to waive the provisions of Title IV with respect to the granting of MFN to communist countries.

In return, Hungary offered tariff concessions on the following products of interest to the United States: certain chemicals; certain wood and paper products; certain metal products; 6-cylinder diesel engines; aircraft engines; gas turbines; pumps; certain heating and cooling equipment; certain machinery; farm tractors; on- and off-highway trucks; and commercial aircraft and parts. In addition to the concessions offered bilaterally to the United States, Hungary also offered tariff concessions on a number of other products of trade interest to the United States conditional on either the elimination by the EEC (Hungary's largest supplier) of its discriminatory quantitative export restrictions or on the EEC's share of the Hungarian import market falling below 50 percent for the products specified.

Trade agreement with Indonesia

The United States and Indonesia exchanged mutual trade concessions at Jakarta on November 29, 1979. Included were tariff concessions by both parties and certain nontariff concessions by Indonesia. The United States did not make specific nontariff concessions to Indonesia, but Indonesia will benefit from the agreements which the United States signed on customs valuation, import licensing, product standards, subsidies and countervailing duty measures, and antidumping measures. Indonesia agreed to eliminate the differential aspect of the registration fee for all processed food and drink items as of January 1, 1981. In response to specific requests from the United States, Indonesia noted that it had modified its cumbersome customs procedures and also that the sales tax assessed on imports is not greater than the sales tax assessed on domestically produced items.

Indonesia has implemented tariff reductions on the following items requested by the United States: cereal flour of wheat, calcium chloride, caprolactum, ethylene glycol, veterinary medicament, protein isolates, preparations for fire extinguishers, tires and tubes for airplanes, friction material of asbestos, interchangeable tools, and nonagricultural tractors. In addition, at the time the agreement was signed, Indonesia noted that it was prepared also to reduce or bind the tariffs on the following items requested by the United States: certain food items, other articles of plastic material (sheer slit film), filtering machinery, internal combustion engines for aircraft and tractors, and parts of aircraft.

The United States reduced and bound the tariff rates on the following items of interest to Indonesia: certain foods and oils, certain wood and paper products, certain items of cotton, various integrated circuits and parts of semiconductors, palm leaf or pandan headwear, handpainted batik, and clove cigarettes. In addition, the United States was prepared to maintain and possibly improve offers on the following items, depending on the results of negotiations with other delegations: capsicum pepper; other headwear; gums and spirits of turpentine; and resin.

Trade agreement with Mexico

On December 28, 1979, the United States and Mexico signed a bilateral agreement concluding their negotiations in the context of the MTN in anticipation of Mexico's accession to the GATT. The schedules of U.S. and Mexican concessions contained in their bilateral agreement were subsequently annexed to the Mexican Protocol of Accession to the GATT, instead of to the MTN tariff protocol. However, some of the U.S. concessions which also were of substantial interest to third countries were also in the U.S. Schedule XX annexed to the July Protocol. The U.S. concessions annexed only to the Mexican accession protocol and the Mexican concessions would not become effective until Mexico had signed the Protocol of Accession and completed its accession to the GATT. 1/

The Mexican manufactured-goods concessions were valued at approximately $130 million and included bindings of current rates as well as the staged reduction of ceiling bindings. The Mexican offer also included elimination of the import license requirement for many products and provided for elimination of the requirement for other products at the end of 10 or 12 years. (For some of the latter products, the license requirement might have been removed in less than 10 or 12 years as Mexico pursues its program of gradual substitution of tariffs for import licenses and many quantitative restrictions).

Mexico offered tariff concessions on the following products of interest to the United States: bourbon; gelatin; nonferrous metal products, tin-coated steel sheet; outboard motors; parts for use in the aircraft industry; refrigerators; machinery for paper, rubber, and plastics industries; and scientific and controlling instruments.

U.S. manufactured-goods concessions in response to specific Mexican requests exceeded $200 million in value; however, Mexico also would receive benefits on trade of over $1 billion from the global U.S. offer. Among others, lead and lead products, fluorspar, and springs for automobiles were items on which the United States offered concessions. The United States agreed to eliminate the wine gallon method of assessment on tequila and to reduce the duty, grant Mexico initial negotiating rights on certain petrochemical products, and accelerate staging for certain products of which Mexico is the principal supplier.

In October 1979, the United States and Mexico exchanged letters granting Mexico tariff concessions on certain lead products. 2/ Granted on the assumption that Mexico would join the GATT, these concessions were implemented by the United States on January 1, 1980. However, the lead concessions have been the subject of further negotiation during 1980 as the United States and Mexico reviewed their trade relationship in light of Mexico's decision not to join the GATT.

1/ On Mar. 18, 1980, Mexican President Lopez Portillo announced that Mexico was indefinitely postponing GATT membership.

2/ Litharge in TSUS 473.52, red lead in TSUS 473.56, and unwrought lead in TSUS 624.02 and 624.03.

Trade agreement with Taiwan

Taiwan is not a GATT member and did not participate in the MTN, but by virtue of MFN treatment which the United States accords to imports from Taiwan, that country would receive a large benefit from U.S. trade reductions negotiated in the MTN. For this reason, the United States sought a bilateral agreement with Taiwan. On December 29, 1978, immediately prior to the change in recognition, the United States and Taiwan, then recognized as the Republic of China, exchanged letters confirming the completion of a bilateral trade agreement. This agreement consisted of a statement of U.S. intention to implement certain MTN tariff concessions on a most-favored-nation basis and to extend on a bilateral basis the benefits of certain nontariff agreements then being negotiated in the MTN. The agreement also committed Taiwan to reduce tariffs on industrial and agricultural products of interest to the United States and to observe obligations substantially the same as those applicable to developing countries set forth in nontariff measures agreements concluded in the Tokyo Round, including those on subsidies and countervailing duties, customs valuation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade. The United States expects to extend the benefits of these nontariff measures agreements to Taiwan. The agreement also noted that amicable adjustments would be made if necessary to ensure that the bilateral undertakings described in the letters remained appropriately balanced.

This bilateral agreement of December 29, 1978, was followed by an exchange of letters between the United States and Taiwan on October 24, 1979. These letters outlined various tariff and nontariff concessions that each country would implement. Specifically, they noted that as a result of the Tokyo Round negotiations, reductions in U.S. tariffs were expected that would benefit exports from Taiwan. In consideration of these concessions, measures are to be implemented in Taiwan that will benefit exports from the United States.

The U.S. letter states that Tokyo Round concessions made by the United States will be implemented domestically on a nondiscriminatory basis. These concessions are enumerated in the U.S. schedule of concessions deposited with the GATT. The Agreement, however, also included some additional tariff concessions on items of particular interest to Taiwan. With respect to Taiwan, the implementation in the United States of the tariff concessions began on January 1, 1980. Also with regard to tariffs, both Taiwan and the United States are to have the same rights a GATT Contracting Party would have with respect to articles bound in the GATT for which either country is a principal or substantial supplier to the other.

The agreement further states that Taiwan will observe obligations substantially the same as those applicable to developing countries set forth in certain nontariff agreements concluded in the Tokyo Round, i.e., the agreements on subsidies and countervailing measures, customs valuation, licensing, government procurement, and technical barriers to trade, as well as the provisions likely to be set forth in the agreement on commercial counterfeiting still under negotiation. In return, the United States expects to extend the benefits of these nontariff codes to exports from Taiwan.

The agreement covers nearly $3 billion in trade and should provide expanded export opportunities for U.S. agricultural and industrial producers.

Trade agreement with Trinidad and Tobago

The United States and Trinidad and Tobago signed a trade agreement on December 19, 1979. Under the agreement, which entered into force on January 1, 1980, the Government of Trinidad and Tobago bound tariff rates on the following items; stationary industrial internal combustion engines, hydraulic engines and motors, furnace burners for liquid fuel, industrial and laboratory furnaces, and agricultural and horticultural machinery. In return, the United States agreed to reduce the duties on bitters to a new bound rate of 38 cents per proof gallon. The United States also reduced the tariff on rum by 20 percent and replaced the wine gallon method of assessing excise taxes on bottled rum. These reductions will be fully implemented by January 1983.

CHAPTER III

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Although concluding the Multilateral Trade Negotiations was the highest priority activity on the General Agreement on Tariffs and Trade (GATT) agenda during 1979, the Contracting Parties were also concerned with a number of issues relating to existing obligations under the General Agreement. These activities--settling disputes, monitoring the rights and obligations of GATT members, assisting developing countries, and so on--were carried out by the Contracting Parties acting in unison, by the Council of Representatives, by the GATT Director-General and the Secretariat, and by numerous special and standing committees, consultative groups, panels, and working parties.

As of yearend 1979, 85 countries were full members of the GATT, two were provisional members, and 30 former territories of Contracting Parties were applying the GATT de facto, pending final decisions as to their future commercial policy. A list of these countries follows.

The GATT Council of Representatives is the central organ of the GATT and oversees the operation of the General Agreement between sessions of the Contracting Parties. It supervises the agendas of the sessions and the work of working parties and other bodies established by the Contracting Parties, handles most technical matters, and reviews the reports of working parties and other subsidiary bodies not requiring action. It then recommends that the Contracting Parties adopt these reports. Established in 1960, the Council is composed of representatives of all Contracting Parties willing to accept the responsibility of membership therein. The Council met seven times during 1979 and considered nearly 60 topics. In November 1979, the Council reported on its work at the 35th session of the Contracting Parties.

A discussion follows of some of the key issues before the GATT Council in 1979.

Accessions to the GATT

Colombia

In November 1978, the Contracting Parties appointed a Working Party to examine the application of the Government of Colombia to accede to the General Agreement under article XXXIII and to submit to the Council recommendations including a draft Protocol of Accession. The Working Party presented its report to the GATT Council on November 16, 1979, which included an examination of the Colombian foreign trade regime, with particular emphasis on import and export restrictions applied in certain circumstances, Colombia's import licensing system, domestic taxes on imports, consular matters, internal taxes, and customs valuation practices. On the basis of its examination, the Working Party concluded that, subject to the satisfactory completion of the relevant tariff negotiations, Colombia should be invited to accede to the General

GATT MEMBERSHIP AS AT YEAREND 1979

Contracting Parties to the GATT (85)

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

Acceded provisionally (2)

Colombia
Tunisia

Countries to whose territories the GATT has been applied and which now, as independent States, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (30)

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

Agreement. For this purpose, the Working Party had drawn up a Protocol of Accession which the Council adopted, but it had not been signed by yearend 1979. 1/

Mexico

On January 29, 1979, the Council appointed a Working Party to examine the application of the Government of Mexico to accede to the General Agreement under article XXXIII and to submit to the Council recommendations including a draft Protocol of Accession. The Working Party presented its report at the GATT Council meeting of November 6, 1979. The report included an examination of Mexico's foreign trade regime, with particular consideration given to Mexico's industrial development plan, tariffs and additional duties, the customs valuation system, licensing and import restrictions and regulations, consular matters, State trading, and export restrictions, among others. On the basis of its examination, the Working Party concluded that subject to the satisfactory conclusion of the relevant tariff negotiations, Mexico should be invited to accede to the General Agreement. The Working Party also included a draft Protocol which recognized Mexico's status as a developing country and referred to Mexico's program of gradual substitution of increased tariff protection for import permits, its system of valuation, and the National Plan for Industrial Development. The Council approved the text of the draft protocol. The tariff negotiations had been completed, but on March 18, 1980, as previously indicated, Mexican President Lopez Portillo announced that Mexico was postponing GATT membership indefinitely. The Mexican president said that GATT membership at the present time would not give Mexico the flexibility it needs for its economic development.

Philippines

In November 1978, the GATT Council established a Working Party to examine the application for accession to the GATT by the Government of the Philippines. The Working Party presented its report at the GATT Council meeting of March 27, 1979. The report examined the Philippines' foreign trade regime, with particular consideration given to the Philippines' antidumping law, the application of countervailing duties, flexible tariff rates, differential internal tax rates, foreign-exchange regulatory measures, consular formalities, customs valuation, and State trading. Also included in the report was a draft Protocol of Accession which was approved by the Council.

On November 26, 1979, the Contracting Parties adopted a decision which provided that the Philippines had fulfilled the requirements for accession to the GATT. The Protocol was signed by the Philippines on November 27, 1979, and entered into effect on December 27, 1979. In accordance with the terms of the Protocol, the Philippines became a Contracting Party to the General Agreement on that day.

1/ Colombia has subsequently signed the Protocol subject to ratification by the Colombian Congress. Colombia will become a member of GATT 30 days after ratification is notified.

Accession of Greece to the European Communities

On May 28, 1979, Greece and the European Communities (EC) signed an agreement providing for the accession of Greece to the EC. Upon ratification by the present nine members, Greece will become the 10th member of the EC. Accession is scheduled for January 1, 1981. On November 6, 1979, the GATT Council was notified of the agreement and established a Working Party to review the terms. The Working Party will assess the effect of enlarging the Communities on both member and nonmember States to insure that Greece's accession will have trade-creating, and not trade-diverting, effects on world trade.

In view of its imminent accession to the EC, Greece notified the GATT Council on January 7, 1980, that it had decided to withdraw from the Protocol Relating to Trade Negotiations Among Developing Countries, signed at Geneva on December 8, 1971. Greece's withdrawal from this Protocol will take effect on June 28, 1980.

Adjustment of Specific Rates of Duties Under Floating Exchange Rates

GATT article II:6 permits a member (which is both a Contracting Party and a member of the International Monetary Fund) to increase its bound specific duties if the par value of its currency is reduced by more than 20 percent, provided the Contracting Parties concur that such action does not impair the value of concessions. This article was drafted on the assumption that the members of the International Monetary Fund maintain par values for their currency. However, under the present Articles of Agreement to the International Monetary Fund, as amended on April 1, 1978, Fund members are no longer obligated to maintain par values but have the right to adopt the exchange-rate arrangement of their choice. Consequently, some Fund members now have floating exchange rates, and others maintain the exchange rate against one other currency, a basket of currencies, or an international unit of account. This new monetary situation has rendered key portions of article II:6 obsolete. Therefore, at its meeting of May 17, 1978, the GATT Council established the Working Party on Specific Duties "to examine the modalities for the application of Article II:6(a) in the current monetary situation; to consult with the International Monetary Fund on this matter under the provisions of article XV:2; and to report to the Council." The Working Party met five times during 1978 and 1979 and presented its report and a set of proposed guidelines to the GATT Council at the meeting of November 16, 1979.

In examining article II:6(a), some members of the Working Party expressed doubts as to whether the link made in this provision between currency depreciations and specific duty adjustments should be maintained. Article II:6(2) was conceived to permit adjustments required to offset the inflationary erosion of the currency in which the specific duties were defined. However, currency depreciation can be caused by factors other than inflation. The Working Party considered these views, but agreed that its mandate was not to propose changes in the basic requirements of the article, but rather to examine the ways in which the existing requirements could be adapted to the changes in the monetary situation. Thus, the link between currency depreciation and specific duty adjustments was maintained.

The Working Party next considered how the depreciation of a currency should be measured. The representative of the International Monetary Fund, whose role was to provide technical information, stated that no solution existed which (1) would accurately reflect the effect of the exchange movement on the protective incidence of specific duties, (2) would be based on readily available data, and (3) would be uniform for all countries. Using information provided by the Fund, the Working Party considered three methods of calculating depreciation for the purposes of article II:6(a). First, the depreciation could be measured in terms of a common "numeraire" consisting either of one major currency, such as the U.S. dollar, or a basket of currencies, or an international unit of account. Second, the measurement of the depreciation could be tailored to the exchange arrangement chosen by the contracting party wishing to adjust its specific duties. Third, the depreciation could be measured in terms of the currencies of the trading partners of the contracting party wishing to adjust its specific duties; i.e., the adjustment would be in terms of the weighted-average effective depreciation of the currency. This third option was chosen.

Next, the Working Party discussed the weights to be assigned to the currencies of the various trading partners in calculating the average effective depreciation. It was agreed that the weighting should capture the impact of the currency movements on import prices and that the currencies should therefore be weighted by their shares in the total imports of goods.

The Working Party also discussed the period of exchange-rate movement which should be chosen for the purpose of measurement. Another point of discussion was whether there should be a time limit on the interval which might elapse between the depreciation and the duty adjustment. Along this line, the Working Party agreed that their proposed guideline for decisions under article II:6(a) should not be applied to currency depreciation that took place before the advent of the "present" monetary situation (the guidelines use the vague language because the members of the working party could not agree on whether the present monetary situation began in 1973, 1976, or 1978).

The Working Party also examined whether article II:6(a) should be applied symmetrically--that is, whether Contracting Parties whose currency appreciated should be required to reduce their specific duties. This discussion was eventually dropped, since Contracting Parties can resort to articles XXII and XXIII of the General Agreement if they consider that an appreciation impairs the value of specific duty concessions in particular cases.

Export Inflation Insurance Schemes

In 1975, the United Kingdom introduced an insurance program designed to protect exporters against cost increases as a consequence of inflation. The United States complained to the GATT in 1976 that such schemes were, in fact, subsidies and trade distorting. The GATT Council established a Working Party to examine these schemes, but the party was divided as to whether such schemes were compatible with the General Agreement. As a result, Canada, with the support of the United States and Japan, asked the GATT Council to establish a panel to examine whether and under what conditions export inflation insurance schemes were export subsidies within the meaning of article XVI:4. 1/ Established in June 1978, the panel met 10 times and presented its report to the GATT Council at its meeting of July 25, 1979. To determine whether an export inflation insurance scheme fell within the meaning of article XVI:4, the panel noted it must first be determined whether the scheme resulted in a subsidy on the export of any product other than a primary product, and if so, whether that subsidy resulted in the sale of such product for export at a price lower than the comparable price charged for the like product in the domestic market (dual pricing). However, the panel recognized that, in practice, it is virtually impossible to establish dual pricing for export inflation insurance schemes covering export sales of large capital goods (such as turn-key products or installations) and orders for large specialized products (such as advanced-technology ocean vessels) since these products are seldom sold to foreign and domestic buyers at or even about the same time.

On the basis of its examination, the panel concluded that an export inflation insurance scheme charging premiums at rates which were "manifestly inadequate to cover its long-term operating costs and losses" would be a subsidy within the terms of article XVI:4. The panel was unable to agree on a definition of "long-term," but provided certain guidelines which should be taken into account. These included the duration of contracts covered by schemes, the impact of particular contracts on the financing of schemes, and the delay involved in gathering and analyzing statistical information related to their operation. The panel further concluded that a scheme would not be self-financing, and accordingly could be considered as having resulted in an export subsidy, when the total expenditures (operating costs and losses) manifestly exceeded the total income (premiums) over such a period of time and to such an extent that the shortfall could not be covered except by significant and recurrent net capital transfers from the national budget, unless there were a sufficient basis to expect that within the foreseeable future the scheme would regain financial equilibrium.

Article XIX--Emergency Action on Imports of Particular Products

Article XIX permits the suspension of tariff concessions or other obligations with respect to imports that, as a result of unforeseen circumstances and of obligations incurred under the GATT, are being imported in such increased quantities as to cause or threatening "serious injury to domestic producers . . . of like or competitive products." It can be invoked for only a single concession at a time or, at most, for several related concessions concerning a single industry. 2/ Since article XIX provides that a concession may be suspended, withdrawn, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury resulting from the concession, the suspensions are legally of a temporary nature.

1/ Art. XVI:4 states: "Further, as from 1 January 1958 or the earliest practicable date thereafter, Contracting Parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market."

2/ Kenneth W. Dam, The GATT: Law and International Economic Organization, (Chicago: The University of Chicago Press, 1970) p. 100.

Although many of the emergency actions taken under article XIX have never been rescinded, Contracting Parties which believe that the emergency has passed may demand that the concession be reinstated and may invoke the dispute-settlement procedures of the GATT if no action is taken.

During 1979, five emergency actions were notified under article XIX, as shown in the following tabulation:

Date	Notifying country	Product	Type of measure
Jan. 1, 1979	Norway	Various textile items	Quantitative restrictions.
Jan. 6, 1979	United States	Lag screws or bolts	Tariff increase.
Jan. 8, 1979	Iceland	Furniture, cupboards, and cabinets, windows and doors	Blocked import deposits
Feb. 6, 1979	Spain	Other heterocyclic compounds; nucleic acids	Temporary suspension of duty binding
Feb. 23, 1979	United States	Clothespins	Quantitative restrictions.

Selective safeguards

A key issue with which the GATT has been increasingly concerned involves the question of whether Contracting Parties may invoke article XIX emergency action procedures on a selective basis against only one or a few suppliers as opposed to taking action on a nondiscriminatory (most-favored-nation) basis. 1/ With the exception of the EEC, most Contracting Parties agree that a nondiscriminatory application of safeguard actions is what the drafters of the General Agreement intended. Nonetheless, the Council dealt with three selective article XIX actions during 1979.

United Kingdom-Korea dispute on imports of televisions sets.--During 1977, the United Kingdom anticipated a substantial increase in imports of portable monochrome TV sets from Korea. When bilateral consultations reached no agreement, the United Kingdom imposed unilateral quotas on imports of TV sets from Korea. In March 1978, the Council urged that Korea and the United Kingdom carry out further bilateral consultations to settle the matter. At the GATT Council meeting of July 25, 1979, the representative from Korea reported that these consultations had resulted in an export restraint arrangement, effective June 22, 1979, and that the United Kingdom had repealed its article XIX action.

Norway-Hong Kong dispute on imports of textiles.--On January 1, 1978, Norway introduced restrictions on imports on a range of textile products from Hong Kong. Believing that these restrictions were unjustified and contrary to the GATT, the United Kingdom, on behalf of Hong Kong, requested the Contracting Parties to initiate the investigative procedures provided under article XXIII:2. After examining the request of the United Kingdom, the Council requested Norway and the United Kingdom, on behalf of Hong Kong, to further pursue their bilateral consultations under article XXIII:1. In the event that these consultations proved to be mutually unsatisfactory as of June 30, 1978, the GATT Council authorized the establishment of a panel. The two

1/ This problem is discussed more fully in the section on safeguards in Ch. 2, pp. 54-56.

sides failed to reach agreement by the specified date. However, on July 20, 1978, Norway formally notified the Contracting Parties that it had decided to invoke GATT article XIX and was preparing to introduce global import quotas on various textile items. Introduced on January 1, 1979, these global import quotas applied to nine groups of products from all suppliers except the EEC, European Free Trade Association countries, and six less developed countries (LDC's) which have bilateral agreements with Norway. The sizes of the quotas were based on average imports during 1974-76 from the countries included in the quotas.

The United Kingdom, on behalf of Hong Kong, protested Norway's article XIX action, arguing that it was inconsistent with the GATT because (a) by excluding certain countries, it was not truly global in nature; (b) the bilateral quotas concluded with the six LDC's should be regarded as part of the article XIX action, and as such, constitute "country" shares within the meaning of article XIII; and (c) since Hong Kong is also a substantial supplier (in fact it is the major supplier in many of the items concerned), it, also, should be allocated an appropriate "country" share in accordance with article XIII.

From May 29-31, 1979, Hong Kong and Norway held consultations on Norway's article XIX action. The Hong Kong delegation argued that the unilateral and discriminatory quantitative restriction which Norway had imposed on Hong Kong in 1978 had resulted in considerable economic damage to Hong Kong, and that therefore Hong Kong was entitled to compensation. The Norwegian delegation rejected this request. The Hong Kong delegation further requested Norway to make its article XIX action consistent with article XIII by allocating to Hong Kong an appropriate share of the global quotas for 1979 for each of the items covered by Norway's article XIX action. Although the Hong Kong delegation argued that it was only seeking equitable treatment in the form of an appropriate country share, the Norwegian delegation rejected this request also.

Subsequently, at the GATT Council meeting in July 1979, on behalf of Hong Kong the United Kingdom requested the Contracting Parties to investigate (under article XXIII:2) whether Hong Kong's rights under the GATT had been nullified or impaired. The Council agreed to establish a panel.

<u>EEC restrictions on imports of apples from Chile</u>.--In March 1979, the EEC asked Chile voluntarily to limit its apple exports to the EEC to 42,000 tons during the market year then in progress. Since Chile had already contracted for the sale of 60,000 tons of apples to the EEC, a third of which had already been shipped, the Government of Chile proposed that the EEC restrictions be applied only to later shipments. The EEC rejected this proposal and, on May 5, 1979, suspended its imports of apples from Chile. The prohibition was lifted on August 15, 1979.

The Government of Chile contended that this safeguard measure by the EEC contravened the provisions of the General Agreement because (a) it was applied retroactively; (b) it was discriminatory, applying only to apples of Chilean origin; and (c) the EEC had bound its customs tariff within GATT on the apples concerned.

The Government of Chile and the EEC pursued intensive bilateral consultations on this matter during 1979, but were unable to reach a mutually satisfactory solution by the GATT Council meeting of November 6, 1979. Consequently, in conformity with article XXIII:2, the GATT Council established a panel to examine the matter.

Conciliation and Dispute Settlement

The General Agreement is organized as a system of reciprocal rights and obligations to be maintained in balance. When a country fails to respect a tariff concession or other obligation, the General Agreement provides a means to achieve a "satisfactory adjustment of the matter" through the dispute settlement articles XXII and XXIII. These articles allow the affected parties to suspend reciprocal "concessions or other obligations . . . as they determine to be appropriate in the circumstances."

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

EEC sugar export subsidies

In September 1978, the Government of Australia complained that the EEC's refunds on exports of sugar were inconsistent with its obligations under the GATT and requested that the Contracting Parties set up a panel to examine the problem. The Australian complaint claimed that the system of sugar export subsidies granted or maintained by the EEC (a) was not consistent with the obligations of member States of the EEC under the GATT, (b) had resulted in EEC exporters having more than an equitable share of the world export trade in sugar in the terms of GATT article XVI, 1/ (c) had caused or threatened serious prejudice to Australian interests, (d) had nullified or impaired benefits accruing either directly or indirectly to Australia under the GATT, and (e) had impeded the attainment of the objectives of the General Agreement.

At the GATT Council meeting of November 6, 1979, the panel presented a 48-page report which vindicated Australia's complaint concerning EEC subsidy practices on sugar. The report concluded (a) that the export refunds of the EEC were a subsidy; (b) that the EEC had significantly increased its exports of heavily subsidized sugar; (c) that the EEC system of sugar exports had depressed prices, had a destabilizing influence on world markets and thereby caused serious prejudice to all sugar exporters, including Australia; and (d) that the EEC sugar export system contained no element to prevent it from obtaining more than an equitable share of world export trade in sugar. However, the panel was unable to reach a conclusion on the question of whether the subsidies had resulted in the EEC "having more than an equitable share of world export trade" in sugar.

The EEC representative noted that the panel's report did not condemn the EEC's subsidy policy, but rather the effects of the policy. He did not agree that the EEC was responsible for the depressed prices in the world sugar market, nor that serious prejudice had been caused to Australia.

The Council agreed to discuss the matter again at a meeting in 1980. Meanwhile, the Council set up a panel to discuss a separate complaint by Brazil regarding EEC refunds on exports of sugar.

Japanese restraints on leather imports

In July 1978, the United States complained that Japan's quantitative restrictions on imports of leather made it virtually impossible for the United States to export leather to Japan. The two countries pursued bilateral consultations under article XXIII:1, but were unable to settle the matter. 2/ However, on January 29, 1979, the panel reported that, following further consultations, the United States and Japan had reached an agreement, and as a result, the United States was withdrawing its complaint. Although the panel considered that this terminated the proceedings under article XXIII:2, some third-country representatives to the Council argued that a settlement between Japan and the United States did not relieve Japan of its GATT obligations toward other interested Contracting Parties. Certain of these delegations reserved their rights under the GATT and expressed their intention to enter into bilateral consultations with Japan.

1/ Art. XVI recognizes that the granting by a Contracting Party of a subsidy on the export of any product may have harmful effects for other Contracting Parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of the General Agreement. Accordingly, Contracting Parties should seek to avoid the use of subsidies on the export of primary products. If, however, a Contracting Party grants such subsidies, the subsidies shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product.

2/ The background to this complaint is described in Operation of the Trade Agreements Program, 30th Report, p. 59.

On September 20, 1979, Canada began consultations with Japan, under article XXIII:1, regarding Japanese restrictions on imports of leather. Although these consultations continued into November, no concrete progress was made. Therefore, at the GATT Council meeting of November 16, 1979, the Chairman, at Canada's request, established a panel to investigate the matter.

Spanish measures concerning domestic sale of soybean oil

Following unsuccessful bilateral consultations under article XXIII:1 during October 1979, the United States presented a complaint against Spain's domestic consumption quota on soybean oil at the GATT Council meeting of November 16, 1979. The Spanish Government maintains internal quantitative restrictions and price controls on the sale of soybean oil processed from imported soybeans. The United States has charged that these restrictions act as nontariff barriers to the importation of soybeans, are inconsistent with Spain's obligations under the GATT, and denied to the United States certain benefits that should accrue from the Spanish tariff concession on soybeans. The United States would favor the complete elimination of the Spanish domestic marketing restrictions on soybean oil by January 1, 1983, or on the entry into force of Spain's accession agreement to the European Communities (EC), whichever occurs first.

Specific charges by the United States include the contention that the soybean oil quota (a) discriminates against sales within Spain of soybean oil processed from imported soybeans so as to afford protection to Spain's production of other edible oils, (b) discriminates against the consumption of soybean oil crushed from imported soybeans since no quantitative restrictions are imposed on the purchase or resale of domestic soybean oil, (c) diverts soybean oil from the Spanish domestic market to the world market, (d) eliminates, or substantially impairs, the benefits to be derived from the processing of imported soybeans in Spain. According to the United States, these restrictions violate the provisions of article III of the GATT. 1/ The internal quantitative restrictions on the domestic sale of soybean oil are administered by the General Supply Commission, an instrumentality of the Spanish Government which maintains monopoly control under Spanish law over the marketing of soybean oil. In its complaint, the United States charged that this Government commission does not operate on a nondiscriminatory basis and thus violates article XVII of the GATT, which requires state-trading enterprises to act in a manner consistent with the general principles of nondiscriminatory treatment prescribed in the General Agreement for governmental measures affecting imports or exports by private traders. Furthermore, the United States complained that the quota and price controls have the effect on denying some of the benefits for which the United States negotiated in 1963, when the Spanish Government agreed to bind the duty on soybeans at 5 percent.

On the basis of these complaints, the United States requested that the GATT Council establish a panel to investigate the matter under article XXIII:2. However, the Council urged the two parties to continue their bilateral consultations under article XXIII:1. The matter will be taken up again at the first Council meeting of 1980.

1/ Art. III:1 states that "the Contracting Parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing, or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production."

Japanese restraints on imports of manufactured tobacco

At the GATT Council meeting of November 16, 1979, the United States presented a complaint against Japanese import restrictions on manufactured tobacco products, specifically cigars and pipe tobacco. The United States charged that Japan maintains a variety of governmental measures which affect the pricing, distribution, marketing, and advertising of imported tobacco products. Authorized under Japanese internal law and regulation, these measures are administered by the Japan Tobacco & Salt Public Corp. (JTS) which maintains a monopoly on the importation, domestic production, and distribution of tobacco products in order to provide protection to domestic production. Because of these measures, the United States charged that its exports of tobacco products have been limited to less than 1 percent of the Japanese market, a percentage substantially below the share U.S. exports would have had if the Japanese Government had carried out its obligations under the GATT. Furthermore, the United States representative contended, the Japanese Government through the JTS imposes a monopoly payment equal to 40 percent of the retail price on imported tobacco products, far in excess of the 20 percent payment on domestically produced products. The U.S. representative then stated that the difference in monopoly payment results in a wholesale mark-up on imported products which is about 2.5 times as great as that levied on domestically produced products. Moreover, since the monopoly payment is in effect an internal tax or internal charge applied to imports on a discriminatory basis, the United States representative charged that Japan was in violation of article III of the GATT which prohibits internal taxes and other internal charges which are applied to imported or domestic products so as to afford protection to domestic production.

The Japanese representative stated that Japan had been seriously engaged in consultations with the United States on cigars at both governmental and industry levels since February 1978. He mentioned also that the Japanese Government had submitted a bill to the National Diet to revise laws on the pricing system of tobacco products. Noting that the United States had not yet consulted with Japan on pipe tobacco, he stated his belief that the matter would be settled through bilateral consultations.

The GATT Council requested the two countries to pursue their bilateral consultations under article XXIII:1. However, if these consultations did not lead to a satisfactory settlement by December 31, 1979, the Council authorized the Chairman to take the necessary steps to establish a panel. As the two countries did not reach a solution by the stated time, a panel was established.

EC complaint on synthetic fibers

The EC is seriously concerned by the increase in U.S. exports of synthetic fibers into the EC. Accordingly, in November 1979, the Commission of the EC formally requested that the United States enter into consultations with the EC under article XXIII:1.

This request is based on an EEC report on the increase of U.S. exports of synthetic fibers into the EC which concluded that "the increase in the rate of import penetration of U.S. synthetic fibers in certain EEC markets is due to the fact that the U.S. products are sold on these markets at prices below those charged by Community producers." The EEC charges that this increase has caused its producers to lower selling prices to uneconomic levels in an attempt to keep their customers. As a result, the report continues, the financial position of many EEC producers has been severely eroded, portending factory closures and major losses of employment. According to the EEC report, the United States is able to undersell its European counterparts because U.S. Government price controls on oil and natural gas, which keep these prices below world prices, give U.S. producers of petrochemical products and synthetic fibers an advantage at each stage of production with regard to both primary products and energy. In addition, U.S. restrictions on the export of these feedstocks prevent access by EEC producers to feedstocks at the same prices as their U.S. competitors.

The EC and the United States held consultations under article XXIII:1 on December 14, 1979, and again on January 14, 1980. At the latter meeting, the two sides discussed possible remedial action, but no solution was reached.

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

On August 31, 1979, the U.S. Government imposed an embargo on imports of tuna and tuna products from Canada. This action was taken pursuant to section 205 of the Fishery Conservation and Management Act. Under this law, imposition of a prohibition is mandated if the Secretary of State determines that a U.S. fishing vessel has been seized in a jurisdiction claimed by another country, but which claim the United States does not recognize. This particular U.S. prohibition was taken in response to Canada's seizure in August and September 1979 of 19 U.S. flag vessels which were fishing for albacore tuna, a highly migratory species of tuna, off the coast of British Columbia. It is the position of the United States that fishing rights for highly migratory species of tuna should be under international management.

U.S. and Canadian officials held consultations outside of the GATT on a broad range of fisheries issues, including the tuna problem, in September 1979. Although it was agreed at that time to resume discussions of outstanding fisheries issues early in 1980, the Government of Canada delivered a diplomatic note to the United States on October 16, 1979, expressing serious concern about the U.S. embargo and requesting that the United States terminate the prohibition immediately pursuant to the provisions of article XXIII:1. The Canadian Government charged that the U.S. action was discriminatory against Canada and contrary to U.S. obligations under the GATT. The United States replied that consultations had already been held in September 1979 and would resume in 1980. On November 29, 1979, Canada informed the United States that it planned to refer the tuna embargo question to the Contracting Parties and request the establishment of a panel under article XXIII:2. This request was delivered to the Contracting Parties in a communication from Canada dated January 21, 1980.

Article XXVIII--Modification of Schedules

Article XXVIII establishes the procedures under which a country may modify or withdraw concessions included in its GATT schedule. Such negotiations may include provision for compensatory adjustment with respect to other products so as to maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than that provided prior to the negotiations. If compensatory adjustments are not made, a contracting party considered to have a principal supplying interest is free to withdraw substantially equivalent concessions already negotiated with the contracting party making the article XXVIII modifications.

The United States converted duty rates on some 500 items from specific to ad valorem equivalent (AVE) rates under article XXVIII negotiations concluded as part of the Multilateral Trade Negotiations (MTN). Among others, these items included: certain sardines; certain oysters; certain types of paper and paper products; boric acid; phosphoric acid; tungstic acid; ammonium compounds; antimony compounds; barium compounds; calcium compounds; cobalt compounds; potassium compounds; sodium compounds; polypropylene resins; certain iron and steel products including plates and sheets, wire, rails, pipes, tubes, and bars; certain wrought and unwrought copper products, waste and scrap; certain wrought and unwrought aluminum products, waste and scrap; certain wrought and unwrought lead products, waste and scrap; certain wrought and unwrought zinc products, waste and scrap; certain types of wire; certain base metal foil of aluminum, copper, gold, etc.; certain brads, nails, padlocks, and cabinet locks; certain aluminum housewares and cookware; certain ballbearings; and certain rifles and shotguns.

In most cases, the United States based its concessions from specific and compound rates to AVE rates on 1976 imports from MFN sources. The few exceptions arose principally because not all items were traded in 1976. From this base rate conversion, the United States then generally offered further concessions, arriving at a final rate. In general, the first stage of these reductions went into effect on January 1, 1980. In some cases, the United States also offered accelerated staging of the tariff concessions. Ad valorem equivalents of specific rates depend upon the value of the imported product involved, and consequently, the AVE frequently varies considerably among supplying countries in any single tariff category. Conversion of the specific rate to a single average AVE for all suppliers therefore usually results in an increase in duty on imports from low-priced suppliers and a decrease for high-priced suppliers. Because of this, many of the conversions initially proposed raised such difficult negotiating problems for the United States, especially with the European Communities, Japan, and Canada, that the proposed conversion was dropped.

For example, the U.S. proposed converted rate for beer was strenuously opposed by the European Communities. In the end, the United States agreed not to convert the specific rate of duty on beer so long as the EC agrees to permit 12-ounce equivalent beer containers (0.35 liter) to enter the commerce of EC member states and circulate in intra-EC trade. The EC has agreed to permit these 12-ounce beer containers into the EC until December 31, 1988. In the meantime, the EC will give further consideration to whether an EC council directive can be modified to permit permanent acceptance of the 0.35 liter beer can.

The United States also concluded article XXVIII negotiations with the EC concerning a long-standing dispute over action which the United States had taken on prato wools. Prato is a geographic area of Italy which produces woolen fabrics, many of which are actually blends of wool with other fibers and which, prior to 1968, were imported into the United States at substantially lower rates of duty than fabrics of pure wool. In 1968, the United States enacted legislation (Public Law 90-638) modifying the rules governing the tariff classification of such fabrics by classifying as "wool fabrics" those fabrics of chief-value wool and fabrics of chief-weight wool. Since this increased the duty rates on these fabrics, the EC demanded compensation under article XXVIII. The United States took the position that the blending practice had been developed for the specific purpose of evading the intended U.S. duties, and that this avoidance had merely been corrected by the legislation, and that, furthermore, it was questionable that the legislation would have any significant impact on the volume of Italian exports to the United States. Nevertheless, as part of its MTN negotiations, the United States offered concessions on imports of silk fabrics, to be implemented on a 2-step accelerated staging basis, in order to settle this long-standing dispute. An agreement was finally signed on this basis late in 1979.

The United States also completed article XXVIII negotiations on the revision of the tariff nomenclature and certain rates of duty for the ceramic dinnerware portion of the U.S. GATT schedule. Following an escape clause investigation in 1972, the United States temporarily increased duties on certain ceramic dinnerware. When the President decided in April 1976 to terminate this import relief he directed the Special Trade Representative to review the U.S. tariff classifications and rates of duty on ceramic dinnerware and related articles and determine if changes were necessary to close tariff loopholes and change obsolete descriptions brought about by currency changes and inflation, and to enter into negotiations to modify trade agreement concessions on these articles in order to make such changes as would be determined necessary. The negotiations for these changes were subsequently conducted with Japan and the EEC under article XXVIII during the MTN. The final solution, reached in 1979, consisted of increased tariffs on some ceramic dinnerware items, deep tariff cuts on other items, and no changes on others.

The United States also completed article XXVIII negotiations on carrots and rapeseed oil. In order to establish U.S. rates of duty on carrots and rapeseed oil at levels more comparable to those of Canada, the duties on these products were changed from ad valorem to specific rates.

GATT Committees

The GATT maintains a number of standing committees which report through the Council of Representatives. Another standing committee, the Committee on Trade and Development, which reviews issues of concern to developing countries, reports directly to the Contracting Parties. The United States is represented on each committee. Activities of these bodies are hereafter discussed.

Consultative Group of Eighteen

The Consultative Group of Eighteen was established by the GATT Council in July 1975 for 1 year, and its mandate was renewed in November 1976 for an additional year. In November 1977, the GATT Council extended the Group's mandate until the end of the Tokyo Round, at which time the Council would determine the future of the Group. At the annual meeting of the GATT Council in November 1979, the Group presented a report recommending that it be established as a permanent GATT body. The Council agreed to the establishment of the Group as a permanent body, with a mandate identical to the original mandate except for the elimination of various references to the provisional character of the Group and a reference to the Trade Negotiations Committee.

The mandate of the Group states that its task is to aid the Contracting Parties in carrying out their responsibilities, particularly with respect to:

(a) following international trade developments with a view to the pursuit and maintenance of trade policies consistent with the objectives and principles of the General Agreement;

(b) the forestalling, whenever possible, of sudden disturbances that could represent a threat to the multilateral trading system and to international trade relations generally; and action to deal with such disturbances if they in fact occur;

(c) the international adjustment process and the coordination, in this context, between the GATT and the International Monetary Fund.

In carrying out these tasks, the Group is not to impinge upon the competence or authority of the Contracting Parties or of the GATT Council and should not assume, or detract from, any of the decision-making responsibilities of these two bodies or of the permanent GATT committees.

The Group's membership includes 18 countries representing both developed and developing countries. The membership rotates as appropriate. In 1979, member countries included Argentina, Australia, Brazil, Canada, Egypt, the European Communities and their member states, Finland, India, Japan, Malaysia, Nigeria, Pakistan, Peru, Poland, Spain, Switzerland, the United States, and Zaire.

The Group had two meetings in 1979--one in April and the other in October. In addition, the Group held an informal, preparatory meeting at the working level in July. The items on the agenda of these meetings were (1) the GATT Work Program, (2) the future of the Consultative Group of Eighteen, and (3) recent developments in trade policies and international trade. Deliberations on the GATT Work Program consumed the major portion of each meeting. Most parties agreed that the priority areas of GATT activities in the 1980's should include a vigorous and thorough implementation of the results of the Tokyo Round, the need to pursue the process of further trade liberalization, especially in relation to areas of interest for the trade of developing countries, and increased attention to the problems of structural adjustment and trade policy. The Group compiled a list of suggested elements for the GATT Work Program which included the following: implementation of MTN results, regular and systematic review of developments in the trading system, cooperation and consultation in agriculture through the multilateral agricultural framework, action on export restrictions and charges (part of the "Framework" package), continuation of the process of trade liberalization, attention to structural adjustment and trade policy, promotion of trade policy measures by both developed countries and LDC's with a view to assisting LDC's in their development efforts, acknowledgement of the importance of a new round of trade negotiations among LDC's, continuation of the technical assistance activities of the GATT initiated at the outset of the Tokyo Round, and readaptation of these activities to meet the requirements of the LDC's. The Group also proposed that it continue its examination of trade in services, the increasing role of governments in production and trade, minimum international labor standards, and rules of origin.

Committee on Trade and Development

The Committee on Trade and Development is a standing body of the GATT which each year reviews issues of trade interest to LDC's. In particular, the Committee examines how member countries are adhering to the provisions of Part IV of the General Agreement, which relates to the trade and development of LDC's.

The Committee met three times during 1979--in April, September, and November. The agendas for these meetings included a review of the implementation of part IV, developments in international trade which have a bearing on the trade and payments position of developing countries, points of interest to developing countries with respect to the MTN, expansion of trade among LDC's, and the work of the Committee in the post-MTN period.

During the review of the implementation of part IV, representatives of some LDC's noted that a number of developed countries had made certain improvements in increasing access to their markets for LDC exports. However, these representatives also referred to the recent introduction in some developed countries of certain restrictive actions affecting the trade interests of LDC's. The representatives pointed to recent restrictive actions taken on timber, certain textile items, and certain rubber products. Representatives of some developed countries countered by drawing attention to actions taken by their governments in liberalizing trade in products of interest to LDC's through their respective Generalized System of Preferences (GSP) programs or by other tariff actions.

In the review of developments in international trade, representatives of a number of LDC's commented on the trading experience of their countries in the 1970's. They stated that while the value of the exports of some LDC's had increased substantially, their share of world trade, excluding trade in fuels, had been barely maintained. Although a number of LDC's have succeeded in diversifying their export structures, they have been hindered by protectionist measures (often nontariff) taken by various developed countries, many of which appeared reluctant to accept the changes in relative competitiveness that had occurred. Many LDC's are also facing balance-of-payments difficulties, in many cases resulting from increased import costs arising from inflation in many of the countries exporting to them. A number of delegations from LDC's also advocated structural adjustment which they believed would result in the strengthening of the economies of developed countries, which in turn would lessen protectionist sentiments in those countries and open them up to increased imports from LDC's. A representative of a developed country pointed out that structural adjustment was much more than a question of developed country adjustments to LDC imports; it also involves global adjustment to changing trade and technological patterns.

Regarding the MTN, representatives of LDC's and developed countries expressed concern that an agreement on safeguards had not been reached, and advocated the continuation of work in this area. On the MTN agreements themselves, delegations from a number of LDC's proposed that nonsignatory Contracting Parties should be able to attend meetings of each of the Committees of Signatories, at least on an observer basis, with a view to ensuring transparency in the operation of the agreements and ensuring that the rights of all Contracting Parties under the General Agreement were protected. Some delegations from LDC's also expressed the hope that developed countries would advance the implementation of tariff reductions negotiated in the Tokyo Round on products of interest to LDC's.

On the subject of the future of the Committee, there was general support from both developed countries and LDC's for the strengthening of the role of the Committee in the post-MTN period. Developing countries noted four areas of priority concern to them: (1) review of the implementation of part IV of the GATT in light of current GATT provisions as well as in light of MTN results; (2) examination of developed country measures against LDC exports (this refers to United Nations Conference on Trade and Development (UNCTAD) resolution 131(V)); (3) further liberalization of trade barriers faced by LDC's and (4) adjustment policies and measures. Developed countries concurred on the need to review the implementation of part IV. On the questions of trade liberalization and adjustment, however, most developed country delegations argued that to avoid threatening the unity of the GATT, decisions on these matters could be taken only after the future work program of the GATT as a whole was established.

Committee on Antidumping Practices

Article VI of the General Agreement condemns dumping if it causes or threatens material injury to an established industry in the territory of a Contracting Party or materially retards the establishment of a domestic industry. As a defense against dumping, article VI permits a contracting party to levy antidumping duties on dumped imports that cause material injury to domestic producers. The Antidumping Committee annually reviews the implementation of article VI.

The Committee held two special meetings in January and February 1979 in addition to its regular meeting in October. The Committee discussed proposed revisions to the Antidumping Code, suggesting changes to make the antidumping code conform to comparable provisions in the subsidies/countervailing duties agreement negotiated in the MTN. Considerable time was spent discussing an LDC proposal for an alternate version of the antidumping code that would give special consideration to developing countries. LDC's voiced particular concern over the method which developed countries would use to compute the "normal value" of LDC exports in the event a developed country brought a charge of dumping against an LDC. In addition, LDC's wanted provisions for special treatment for small suppliers which would make it more difficult for developed countries to initiate antidumping investigations.

The United States, along with other developed countries, argued against a separate antidumping code for LDC's.

In an effort to reach a compromise and to allow LDC's to withdraw their alternate version of the Antidumping Agreement, the Chairman of the Antidumping Committee, with the support of the United States, circulated a text on the interpretation of certain provisions in the Antidumping Agreement. This text noted that since governments in LDC's play a large role in promoting economic growth and development in accordance with national policies, the price of LDC exports may be lower than the comparable price for the like product destined for domestic consumption. If these government policies are in conformance with GATT provisions, then developed countries should give "due consideration" to the fact that home-market prices may not provide a commercially realistic basis for dumping calculations. In ascertaining the normal value of goods under investigation for dumping, developed countries will compare the LDC export price with the comparable price of the like product when exported to any third country, or when appropriate, with the cost of production of the exported goods in the country of origin plus a reasonable amount for administrative, selling, other costs, and profits. On the basis of these understandings, the developing countries withdrew their alternate text force agreeement.

Textiles Committee and Textiles Surveillance Body

The Textiles Committee held its second meeting under the extended Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement, or simply MFA) on December 11, 1979. As of the date of the meeting, 40 countries signatory to the MFA had accepted the Protocol of Extension: Austria, Bangladesh, Bolivia, 1/ Brazil, Canada, Colombia, Dominican Republic, the European Economic Community, Egypt, 1/ El Salvador, Finland, Ghana, Guatemala, Haiti, Hungary, India, Indonesia, Israel, Jamaica, Japan, Korea, Malaysia, Mexico, Pakistan, Peru, the Philippines, Poland, Portugal on behalf of Macao, Romania, Singapore, Sri Lanka, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom on behalf of Hong Kong, United States, Uruguay, and Yugoslavia. Four former participants in the MFA (Australia, Nicaragua, Norway, and Spain) had not accepted the Protocol of Extension by the date of the meeting. In addition, Argentina and Paraguay had neither confirmed their original acceptance of the MFA nor accepted the Protocol of Extension.

The Textiles Committee considered the following topics: (a) annual review of the operation of the MFA (b) report of the Technical Subgroup on textile documentation; (c) analysis of the current state of world production and trade in textile products, (d) adjustment assistance measures, (e) membership in the Textiles Surveillance Body for the year 1980; and (f) preparation for the major review of the MFA in 1980.

The MFA provides for a Textiles Surveillance Body (TSB) charged with supervising the implementation of the MFA. In its annual report reviewing the operation of the MFA, the TSB noted restrictions on textile trade notified to the GATT, bilateral textile agreements, and reports from LDC's. The report, which listed 130 notifications of restraints generally imposed through bilateral agreements, generated much discussion at the annual Textiles Committee meeting. LDC's had numerous complaints on the MFA, most particularly that developed countries were using the MFA to discriminate against imports from LDC's while liberalizing textile trade with other developed countries. LDC's noted that the MTN had barely touched on nontariff measures in the textile sector, on the theory that this sector was adequately covered by the MFA. Moreover, on the subject of tariffs, the MTN results were similarly disappointing. LDC's charged that, because the textile sector was basically removed from the MTN negotiations which had to take the needs of LDC's into account, developed countries were able to continue to impose protectionist restraints on LDC exports. LDC's further complained of late notifications, coverage of non-MFA fibers, reductions in growth rates or absolute cutbacks in quota allotments, and reductions in swing provisions. These elements introduced rigidity into the quotas, making it difficult for countries to utilize them fully. Several LDC's also voiced concern over allegedly fraudulent practices, claiming that some countries (not named) exported textiles marketed as having originated in another country, thereby illegally filling up quotas of the alleged country of origin.

1/ Accepted subject to completion of internal procedures.

The spokesman for the EEC responded that the Community had no reason to believe that the MFA had been implemented without due regard to the interests of LDC's, whose exports to the EEC had continued to grow appreciably under bilateral agreements. In addition, he said that progress had been made to speed up notification procedures. The U.S. representative said that the United States had offered, and would continue to offer, the opportunity to share any growth in the domestic market with its trading partners.

CHAPTER IV

OTHER U.S. ACTIVITIES UNDER TRADE AGREEMENTS

U.S. Participation in International Commodity Agreements

In 1979 the United States continued to play an increasingly active role in the negotiation of, and participation in, international commodity agreements. Such agreements, negotiated between producing and consuming countries, are generally aimed at reducing fluctuations in the prices of commodities covered by the agreements, long-run improvement in producer earnings, and delivery of a steady, adequate, and reasonably priced supply of the commodity to customers. The United States may enter into international commodity agreements through executive agreements, treaties requiring ratification by a two-thirds majority of the Senate, or by enacting specific legislation; a treaty is the customary route.

International commodity agreements have not always been fully successful in meeting their objectives, which typically are somewhat conflicting. Nonetheless, many countries continue to favor such agreements, perhaps because some agreements are perceived to have had a measure of success in protecting minimum prices, and hence export earnings, in producer (generally developing) countries. During 1979 the United States was a member of international commodity agreements for coffee, tin, and wheat and was a provisional member of the International Sugar Agreement (ISA). The United States became a full member of the ISA in early 1980, when both the House and Senate passed implementing legislation. A natural rubber agreement was negotiated in October 1979 and was signed by the United States in January 1980. The United States participated in negotiations toward agreements on a number of other commodities.

The Integrated Program for Commodities and the Common Fund

The principal focus for negotiating commodity agreements has been the Integrated Program for Commodities (IPC), arising from Resolution 93 of the fourth session (1976) of the United Nations Conference on Trade and Development (UNCTAD). Of the 18 commodities in this program, 4 were covered by existing commodity agreements at the beginning of 1979. Discussions under the IPC have concentrated on the remaining 14 commodities, and for one of them, natural rubber, a new commodity agreement was negotiated and adopted in 1979.

The IPC has involved negotiations on a "Common Fund" to support the financial activities of commodity agreements. In March 1979, after 2 years of negotiations, a framework resolution was adopted on the fundamental elements of a Common Fund. An Interim Committee was organized to study details, draft the Articles of Agreement, and make recommendations concerning necessary measures to bring the Fund into operation.

According to the framework, operation of the Fund would be divided between first and second "windows." The first window would assist participating commodity organizations in the financing of their buffer stocks. To operate this window, combined resources from direct member government contributions and individual commodity agreement deposits would provide:

(a) a pool of funds to be drawn on when buffer stock purchases are necessary, and

(b) collateral, to allow the Fund to borrow on the commercial market, thereby increasing buffer stock finances available to Common Fund members.

Direct government contributions totaling $400 million would consist of $100 million in cash, $150 million of short-term liquid assets held by the governments, and another $150 million in the form of government guarantees. Of this amount, industrial countries (Group B) would contribute 68 percent, socialist countries (Group D) 17 percent, developing countries (LDC's) (Group of 77) 10 percent, and China 5 percent. International commodity organizations joining the Fund would be obligated to deposit, in cash, one-third of the value of their planned buffer stocks. Up to two-thirds would be financed by the Common Fund through borrowing on the commercial market.

The purpose of the second window is to finance research and development, diversification, and productivity improvement programs. A target goal of $350 million was set, with contributions being voluntary. In 1979, a number of countries made pledges to contribute to the second window when the Common Fund became operational. Although the United States agreed in principal with the operation of the second window, it did not promise a contribution, primarily because of being in arrears in its financial obligations under existing commodity agreements.

Voting shares among members of the Fund would be distributed with the Group of 77 allocated 47 percent; Group B, 42 percent; Group D, 8 percent; and China, 3 percent. Major decisions would require a three-quarters majority vote while other decisions would require a two-thirds or simple majority vote, depending on the importance of the issue.

A number of Interim Committee meetings were held in late 1979 and early 1980. In June 1980 the meetings will move to the negotiating stage, where the final arrangements necessary to put the Common Fund into effect will be discussed.

Specific commodity negotiations

Coffee.--The International Coffee Agreement of 1976 entered into force for the United States on August 1, 1977; it is scheduled to expire in 1982. In 1979 there were 67 member countries (including the United States), of which 43 were producer members (net exporters) and 24 were consumer members (net importers). The agreement is administered by the International Coffee Organization (ICO), under rules and regulations established by the International Coffee Council. All members of the ICO are represented on the Council. The ICO also has an executive board consisting of 8 exporting members and 8 importing members, which works under the direction of the Council, and may have certain powers delegated to it by a two-thirds majority vote of the Council.

Among the stated objectives of the agreement are (1) the achievement of long-term equilibrium between production and consumption at prices remunerative to producers and fair to consumers, (2) the stabilization of supplies and prices, (3) economic growth and development of member countries, (4) increased purchasing power of coffee-exporting countries, (5) the promotion of coffee consumption, and (6) the facilitation of international cooperation in connection with world coffee problems.

The International Coffee Agreement does not provide for a buffer stock as a tool to stabilize prices, but it does contain an incentive for the holding of stocks by exporting members. Also, the agreement provides for export quotas, activation of which is based on a complex system of formulas under article 33 of the agreement. For example, members are obligated to impose quotas on their exports 1/ and use certificates of origin on their imports of coffee, if the average of the composite indicator price, 2/ for 20 consecutive market days falls to one of two prescribed levels. However, a provision specifies that quotas cannot be used as long as the composite indicator price is above 77.5 cents per pound. If quotas are in effect, they shall be suspended when the composite indicator price for 20 consecutive market days remains above a level based on coffee prices in the preceding calendar year. In 1979 this level was 186.7 cents per pound, which was inapplicable, since quotas could not be applied above 77.5 cents per pound. During 1979, the composite indicator prices remained too high to be compatible with export quotas. Data consisting of monthly averages are shown in table 10.

Table 10.--Green coffee: ICO monthly composite indicator prices, on the basis of the 1976 agreement, January-December 1979

(In U.S. dollars per pound)

Month	Price
January	1.3093
February	1.2776
March	1.3276
April	1.4022
May	1.4874
June	1.9099
July	1.9978
August	1.8970
September	1.9836
October	1.9697
November	1.9219
December	1.8563

Source: International Coffee Organization.

Because of the failure to negotiate revised formulas which would automatically trigger export quotas, a special resolution requiring the monitoring of world coffee prices was passed in 1978. If, during the coffee-marketing year, the composite indicator price for 20 consecutive market days remains on the average 15 percent above or below a base-price reference point, the executive board must review the market situation and consider appropriate action. In mid-February 1979, when the composite indicator price of $1.2864 per pound brought the 20-day average to slightly more than 15 percent below the base-price reference point ($1.5151) then in effect, a meeting of the Board was called for.

1/ Among other things, the agreement provides for export quota allocations.
2/ The composite indicator price is based on the prices of "Other Mild Arabia" and "Robusta-type" coffee.

In early April, when the executive board met, the representatives of the producing and of the consuming countries could not agree whether to recommend to the Council that the export-quota trigger price be raised. In September 1979, the International Coffee Council considered an increase in the trigger price, but producer and consumer members could not agree on a new trigger price or its duration. However, the Council did raise the base-price reference point from $1.5151 to $1.9797 per pound.

If producer members of the ICO were to impose export quotas pursuant to the International Coffee Agreement, the U.S. Administration would be unable, because of the absense of implementing legislation, to help enforce the provisions of the agreement through the regulation of U.S. imports, exports, or reexports of coffee. In April 1979, by request, a bill which would enable the administration to carry out such obligations under the agreement was introduced in the House of Representatives. By the end of 1979 no hearing on the bill had been held and approval seemed unlikely, owing in large part to U.S. objections to price-influencing activities by ICO countries who are also members of the Bogota Group. 1/ These activities have included the accumulation of a price defense fund of approximately $350 million and suspensions of exports for various periods of time during 1979 by some Group members. The United States considers these activities to be in conflict with provisions of the agreement.

Natural rubber.--The first International Natural Rubber Agreement was formally adopted on October 6, 1979, after the successful conclusion of negotiations held under the sponsorship of UNCTAD's Integrated Program for Commodities (IPC). The September 25-October 5 negotiating conference was the third to take place in 1979. The success of the negotiations is particularly significant because the International Natural Rubber Agreement is the first new commodity agreement to be concluded under the IPC.

The agreement will enter into force for 5 years on October 1, 1980--provisionally, if countries which join account for at least 65 percent of net imports and exports of countries which participated in the negotiations; and definitively, if countries joining account for at least 80 percent. Definitive entry into force for the United States, which signed the agreement on January 8, 1980, will depend on Senate advice and consent for ratification of the agreement and on Congressional approval of necessary implementing legislation.

Decisions under the agreement will be made by a vote of the International Rubber Council, which consists of representatives from all member countries. Votes are divided equally between exporting and importing members, and within each group they are distributed according to a country's share of net imports or net exports of all member countries in previous years. The U.S. share of the importer, or consumer, votes will be about 25 percent, if all net importing countries who participated in the negotiations join the agreement. Decisions on important issues will require a special vote of two-thirds majority, while issues considered routine will require a simple majority vote. The Council can delegate certain responsibilities to committees and, except for special sessions, it will meet twice a year.

The primary objectives of the agreement are to stabilize prices according to long-run market trends and to encourage the expansion of natural rubber supplies for importing members at reasonable prices. Relating to the second

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1/ The Bogota Group (Brazil, Colombia, Venezuela, El Salvador, Guatemala, Mexico, Costa Rica and Honduras) was formed in 1978 with the stated intent of stabilizing prices.

objective, the agreement directs that exporting members "pursue policies . . . which ensure continuous availability to consumers of natural rubber supplies." Other supply measures include research and development to improve the quality, processing, marketing, and distribution of natural rubber.

Sales or purchases of a buffer stock, to consist of 550,000 metric tons, are intended to keep the world market price between lower and upper limits of 150 Malaysian/Singapore cents per kilo (32.4 U.S. cents per pound) and 270 Malaysian/Singapore cents per kilo (58.3 cents per pound). 1/ The buffer stock is divided between 400,000 metric tons called the "normal stock" and 150,000 metric tons called the "contingency stock."

Financing of the total cost of the buffer stock will be shared equally between net importing and net exporting members. Each member's contribution within the importing or exporting group will be based on its number of votes in the Council. Financing of the normal stock will be in cash, and contingency stock financing will consist of cash or government guarantees to support borrowing from commercial banks. Buffer stocks will be located in both importing and exporting member countries. The Common Fund of the IPC, if and when it becomes operational, is expected to help finance the buffer stock.

Various adjustments in the buffer stock can occur when, for 5 consecutive market days, the average of the daily indicator price 2/ reaches key prices which are 15 and 20 percent above and below the "reference price" of 210 Malaysian/Singapore cents per kilo (45.4 U.S. cents per pound). The prices which are 15 percent below and above the reference price are referred to as "intervention prices," the prices which are 20 percent below and above the reference price are "trigger action prices," and the lower and upper price limits of the price range are "indicative prices." The price-support action to be taken when these prices are reached is described in table 11.

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

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

2/ The daily indicator price is a weighted average of the prices of several grades of natural rubber on the Kuala Lumpur, London, New York, and Singapore markets.

Table 11.--International Natural Rubber Agreement: Operation of the Buffer Stock

Price support action 1/	Price: U.S. cents per pound 2/	Price: Malaysian/Singapore cents per kilo	Agreement's term for each price
Must sell all of the buffer stock to keep the indicator price below the upper indicative price.	Above 58.3	Above 270.0	-
Must sell a portion of the buffer stock to bring the indicator price back down to the upper trigger action price. 3/	58.3	270.0	Upper indicative price
	56.4	261.0	Upper midway price.
	54.5	252.0	Upper trigger action price.
Option to sell a portion of the buffer stock to keep the indicator price from rising to the upper trigger price.	52.3-54.4	241.6-251.9	-
No Action	52.2	241.5	Upper intervention price.
	45.4	210.0	Reference price.
	38.6	178.5	Lower intervention price
Option to buy additional stocks to keep the indicator price from falling to the lower trigger price.	36.4-38.5	168.1-178.4	-
Must buy additional stocks to keep the indicator price from falling below the lower trigger price.	36.3	168.0	Lower trigger action price.
	34.4	159.0	Lower midway price.
	32.4	150.0	Lower indicative price.
Must buy the maximum amount as provided for in the agreement (550,000 metric tons).	Below 32.4	Below 150.0	-

1/ An average, over 5 consecutive market days, of the daily indicator price is the price used to activate price support measures.

2/ Based on an exchange rate of 210 Malaysian/Singapore cents for $1.00.

3/ In addition to sales of the normal stock, portions of the contingency stock may be sold (in the upper range) or bought (in the lower range) by special vote of the Council. If the Council does not decide on action, portions of the contingency stock may be sold by the buffer stock manager when the indicator price reaches the upper midway price; or bought when the indicator price falls to the lower midway price.

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

The first session of the Council is to be convened as soon as possible after the agreement enters into force. At this session the Council shall decide by special vote whether the headquarters of the organization will be at Kuala Lumpur, Malaysia, or London, England.

Sugar.--International Sugar Agreement (ISA) negotiations, concluded on October 7, 1977, became provisionally effective for the United States on January 1, 1978. The Senate gave its advice and consent to the President for ratification on November 30, 1979, and in April 1980 congressional implementing legislation was passed to allow full U.S. participation in the agreement. Although the United States was a signatory to the sugar agreements of 1953 and 1958, it did not sign the 1968 and 1973 agreements. Because negotiators failed to agree on prices, the 1973 agreement was an abbreviated one, providing for little more than the gathering of statistics. The 1977 agreement, which is both comprehensive and complex, runs for 5 years (unless terminated sooner) and may be extended for 2 years.

The ISA has several objectives, including: (1) increased international trade in sugar to enhance the export income of developing sugar-producing countries; (2) the avoidance of excessive price fluctuations, with prices at levels deemed fair to producers and consumers, taking into account world economic conditions and fluctuations in exchange rates; (3) adequate supplies of sugar; (4) growing market acceptance in the developed countries of sugar from the less developed countries (LDC's); and (5) close scrutiny of developments in the use of sugar substitutes, including artificial sweeteners.

The International Sugar Organization (ISO) is the administering body for the ISA. Under the ISO, overall responsibility for carrying out the provisions of the agreement is delegated to the International Sugar Council (composed of all members of the ISO). Votes on the Council are divided equally between net exporting and net importing members and, within each group, distributed according to a country's share of total net exports or imports (the exporting group also considers assigned basic export tonnages and total production). Votes are redistributed at the beginning of each calendar year. An executive committee, as well as other bodies such as the Stock Financing Fund, are responsible for day-to-day implementation of the agreement.

The ISA provides for buffer stock and export quota adjustments to maintain the free-market price of sugar within a range of 11 to 21 cents per pound. 1/ This price range may be adjusted by vote of the Council "to maintain the objectives of the Agreement, provided that the differences between the minimum and maximum prices shall remain 10 cents per pound." The agreement defines the free market as the total of net imports of the world market except those covered by exports to the EEC under the Lome Convention, those relating to Cuba's exports to Communist countries, and provisions made for certain exports by the Soviet Union and the German Democratic Republic. 2/

The export quotas of major exporting countries are percentages of basic export tonnages (BET's), which were calculated for the 1977 agreement according to the export potential of each country and estimated world net

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1/ Art. 61 of the agreement provides a method for calculating the free-market price of sugar.

2/ Insulating such special arrangements, wholly or partly, from the ISA's export quotas limits the effectiveness of the agreement in influencing supplies and prices.

import requirements. The BET's contained in the 1977 agreement were applicable for 2 years. Exporters shipping less than 70,000 metric tons of sugar per year are assigned export entitlements rather than BET's. In the lower portion of the price range (11-15 cents per pound), export quotas support the minimum price. In this range, export quotas are gradually decreased when prices are falling and gradually increased when prices are rising. Export quotas are suspended when the prevailing price 1/ reaches 15 cents per pound. Rising sugar prices at the end of 1979 and in early 1980, while within the lower price range, triggered increases in the ISA sugar export quotas. On January 11, 1980 export quotas were suspended, freeing the export of sugar by member countries except for buffer stocks.

The agreement provides that members assigned BET's are required to hold buffer stocks, eventually totaling 2.5 million metric tons, with buffer stock holdings proportional to the BET's. As of December 31, 1979, buffer stock obligations were 2.0 million metric tons. An additional 0.5 million metric tons are to be accumulated by the end of 1981. The agreement contains sanctions for nonfulfillment of stocking obligations.

Buffer stock sales are intended to restrain upward movements in the free-market price when they reach a prescribed level. When the prevailing price reaches 19 cents per pound, a portion of the buffer stock is to be sold, and if prices continue to rise, additional stocks are to be released in two subsequent installments. Early in 1980 sugar prices reached the 19-cent level, and countries holding buffer stocks were obligated to sell portions to relieve the upward price pressure. When prices are below 14 cents per pound exporting members are to replenish their stocks with the excess of their production over their export quotas.

The ISA contains provisions for a stock-financing fund that would provide financial assistance to help exporting countries maintain their buffer stocks. The fund would be financed by levies imposed on free-market sugar being imported into or exported from member countries. With passage of U.S. implementing legislation in early April 1980, the stock-financing fund is expected to become effective on or about July 1, 1980.

Because the United States was not yet a full member of the ISA, and to show the administration's support for the agreement, the President issued a proclamation in November 1978 limiting imports from countries not members of the ISA. Other countries joined the agreement after that date and, in order

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

Table 12.--Raw Sugar: Monthly world market prices, as per 1977 agreement, 1/ 1976-1979

(In U.S. cents per pound)

Month	1976	1977	1978	1979
January	14.02	8.34	8.77	7.57
February	13.50	8.59	8.48	8.23
March	14.79	8.98	7.74	8.46
April	14.05	10.04	7.59	7.82
May	14.54	8.95	7.33	7.85
June	12.99	7.87	7.23	8.14
July	13.21	7.39	6.43	8.52
August	10.02	7.61	7.08	8.85
September	8.13	7.31	8.17	9.50
October	8.03	7.09	8.96	11.94
November	7.88	7.07	8.01	13.68
December	7.55	8.09	8.00	14.93

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

Source: United Nations Conference on Trade and Development, Monthly Commodity Price Bulletin, February 1980.

not to penalize them, on May 24, 1979 the President issued Proclamation No. 4663, which gave the Secretary of State authority to lift import restrictions on sugar from countries that joined the ISA after November 1978.

A consumer protection provision in the U.S. legislation implementing the ISA directs the President to report to the Congress and to ask the ISO to take corrective action "if the President determines that there has been an unwarranted increase in the price of sugar due in whole or in part to the Agreement, or to market manipulation by two or more members of the International Sugar Organization." If the ISO does not act, the President must recommend to the Congress the appropriate action to be taken. U.S. participation in the agreement shall be suspended if ISO members "involved in market manipulation . . . have failed to remedy the situation within a reasonable time after a request for remedy."

U.S. participation in the agreement will require restricting imports from nonmember countries and require that imports from members be accompanied by a certificate of contribution to the buffer-stock-financing fund.

Tin.--The Fifth International Tin Agreement (ITA) entered into force provisionally in July 1976 with a term of five years, but it can be terminated sooner or extended. It entered into force definitively in 1977 and is the first ITA of which the United States is a member. Like the previous agreements, the fifth agreement provides for a Council on which all participating countries are represented, an Executive Chairman, a Manager of the Buffer Stock, and a staff. In 1979, tin remained the only metal subject to an international commodity agreement between producing and consuming countries.

The tin agreement entered into force during a period of tin shortage and sharply rising prices. These conditions have prevented the buffer stock manager from acquiring tin metal (aside from a small stock remaining at the end of 1976) and have left the agreement without an effective tool for intervening against above-ceiling market prices. 1/ In 1979 the market price was above the ceiling price except for periods during July, August, and September.

The ITA provides that producing countries make contributions to the buffer stock in cash, tin metal, or both, amounting (for these countries as a group) to the equivalent of 20,000 metric tons of tin metal. The Council decides each producing country's contribution. 2/ Upon conditions agreed to by the Council, consuming countries may also make contributions to the buffer stock in cash, tin metal, or both up to an additional amount (for these countries as a group) equivalent to 20,000 metric tons.

The purpose of the buffer stock is to enable its manager to take action when necessary in order to reduce short-term price fluctuations and to obtain balance between production and consumption. The Council establishes the buffer stock price ranges, with a ceiling price, upper, middle, and lower sectors, and a floor price, all subject to change by the Council.

If necessary, the floor price can be supported in two ways--purchases of tin for the buffer stock and the application of export controls to producing members. Past tin agreements have been more successful in defending the floor price than they have been in defending the ceiling price. On July 20, 1979 the International Tin Council raised the floor price of tin from an equivalent 472.85 U.S. cents per pound 3/ to 525.39 U.S. cents per pound, and the ceiling price from 606.92 cents per pound to 683.00 cents per pound.

The agreement envisages maintaining the ceiling price through sales of tin from the buffer stock. In periods of strong demand, however, the Council has had great difficulty in defending the ceiling price and stimulating additional supplies in response to rising prices. Although the fifth ITA provided for doubling the buffer stock to 40,000 metric tons, 4/ its inventory of tin metal became exhausted in January 1977, and remained exhausted through 1979. In fact, the buffer stock has not received tin metal since the fifth ITA went into effect.

1/ For the agreement, the market price of tin is the Penang market price, given in ringgits (the Malaysian currency) per pikul (1 pikul = 133.33 lbs).

2/ Contributions are allocated in proportion to each country's production of tin metal. The tin-metal equivalent of a cash contribution is based on the floor price (established by the Council) in effect at the time of the contribution.

3/ In the agreement, price ranges are given in terms of the Malaysian currency per picul.

4/ A key problem with past agreements has been that authorized buffer stocks were too small to absorb the quantities necessary to defend the floor price and export controls were used instead. Consequently, not enough tin metal has been available to defend the ceiling price.

In 1979 no tin was sold from the U.S. National Defense Stockpile. Two bills, 1/ which were passed in 1979, gave the President authority to sell 35,000 metric tons of Grade A tin to the domestic market from the U.S. stockpile. The General Services Administration will begin sales on July 1, 1980, under a competitive bidding system, where up to 500 metric tons will be offered for sale every 2 weeks, with a target sales rate of 10,000 metric tons per year. Of the 35,000 metric tons, up to 5,000 may be contributed to the International Tin Council's buffer stock. Upon receipt of a U.S. contribution, the Council's buffer stock manager would be obligated to sell the tin in order to close or narrow the gap between the market price and the ceiling price. Proceeds generated by such a sale are to be remitted to the U.S. National Defense Stockpile Transaction Fund on termination of the Fifth International Tin Agreement in 1981.

Under the terms of the agreement, a participating member is obligated to consult with the Council concerning any government disposals of tin. At a meeting of the Council in January 1980, the U.S. officially presented its disposal plan.

During 1979 the Council revised the voting shares of countries on the basis of changes in the net imports and net exports of member countries. The U.S. was allocated 14.2 percent of total votes on the Council, compared with its previous share of 14.8 percent.

Wheat.--In 1979, the United States participated in negotiations to replace the International Wheat Agreement of 1971 (IWA), which originally expired on June 30, 1974, but has been extended five times. The IWA, consisting of a Wheat Trade Convention and a Food Aid Convention, contains no provisions for target prices, buffer stocks, or export quotas. Without such economic provisions, the IWA has served principally for collecting and exchanging trade data used in providing food aid to developing countries and for consultations among members.

As a replacement for the 1971 IWA, negotiations have sought to form a Wheat Trade Convention that would contain economic provisions to: stabilize world market prices of wheat through a buffer stock mechanism; revise minimal annual obligations of wheat donations under the Food Aid Convention; and most recently, to establish a Coarse Grains Convention that would establish a consultation and information exchange for coarse grains. 2/ One problem with the negotiations has been that, under the umbrella of the IWA, agreement on revisions in all conventions has been necessary before a revision in one could be implemented. In the February 1979 negotiations, conflicts over details related to the price stablization mechanism in the Wheat Trade Convention precluded revision of the Food Aid Convention, on which there was wider consensus among member countries.

During the February 1979 negotiations, agreement was reached on the concept of nationally held reserves that would be accumulated when prices were low and released when prices were high. An indicator price mechanism would be

1/ The Strategic and Critical Materials Stock-Piling Revision Act of 1979 (Public Law 96-41) authorized sales or purchases of National Defense Stockpile commodities, if so ordered by Congress. The Strategic and Critical Materials Transaction Authorization Act of 1979 (Public Law 96-175) gave specific authorization for the sale of tin and industrial diamonds.

2/ Coarse grains include corn, barley, rye, oats, sorghum, and millet.

used to trigger stock action. However, negotiators could not agree on the details of the specific size of the buffer stock, price levels at which obligations would be triggered, and separate economic provisions for LDC's.

The U.S. position regarding the size of the buffer stock called for a reserve of 30 million metric tons as necessary for price stablization purposes, while other countries maintained that a smaller buffer stock size would be sufficient. Disagreements over the price range centered mainly on the price at which stocks would be released, with the LDC's favoring a lower trigger price than that favored by the developed countries. Rising wheat prices in 1979 made it less likely that these issues could be resolved because developed countries would push for an even higher price range, and there would be little incentive for the accumulation of stocks in a period of rising prices.

A special provision for LDC's would have created a stock-financing fund through direct contributions from developed countries. The fund would have provided interest-free loans to LDC's to enable them to hold stocks. While developed countries were willing to negotiate special measures for LDC's, they considered that existing aid institutions should be relied on instead of creating a separate fund.

Because a new agreement could not be negotiated, protocols to extend the IWA for the fifth time were adopted in March 1979. The agreement was extended for 2 years from July 1, 1979, but it can be superseded by a new agreement for a Wheat Trade or Food Aid Convention.

At the end of 1979 a major breakthrough was the consensus to negotiate a revision of the Food Aid Convention, separate and apart from negotiating a new Wheat Trade Convention. Through the Food Aid Convention, members carry out a program of aid to LDC's based on contributions of wheat, coarse grains, derived products, and/or cash equivalents. The United States makes concessional sales and donations of commodities under Public Law 480 1/ in carrying out its committments.

Cocoa.--The first International Cocoa Agreement (ICCA) became effective on October 1, 1973, for a period of 3 years. The most recent agreement was ratified in 1975 and became effective on October 1, 1976. This agreement was scheduled to expire on September 30, 1979, but was extendcd to March 31, 1980. Its principal objective was to maintain the world market price 2/ between minimum and maximum prices specified in the agreement, by means of export quotas and buffer stock adjustments. Twenty-six consuming countries and 18 producing countries were members of the agreement. The United States, while actively participating in negotiations, was not a member of the International Cocoa Organization (ICCO), 3/ owing to its dissatisfaction with the intervention price limits and with the agreement's emphasis on the use of export quotas to stabilize price.

1/ The Agricultural Trade Development and Assistance Act of 1954, as amended.

2/ The world market price, as provided for in Art. 28 of the agreement, was computed daily as the average of quotations for cocoa beans of the three most recent active future trading months on the New York Cocoa Exchange at noon, and the London Terminal Market at closing time.

3/ The two C's in the abbreviations for the International Cocoa Agreement (ICCA) and the International Cocoa Council (ICCO) are used to distinguish this agreement from the International Coffee Organization (ICO).

The International Cocoa Council was responsible for administering the operation of the agreement. All members of the agreement were represented on the Council, and major decisions were made by the Council, where votes were equally distributed between producer and consumer members. Responsibility was delegated to an executive committee, consisting of representatives from eight consuming and eight producing members, for decisions on routine matters relating to the agreement.

The 1975 agreement originally specified a minimum price of 39 cents per pound and a maximum price of 55 cents per pound. The agreement provided for revisions in the price range, by special vote of the Council, and a new price range of 65 cents to 81 cents per pound was agreed upon and came into effect on October 1, 1977.

In 1979, in order to support the minimum price, export quotas were to be triggered when the indicator price 1/ was at or below the lower intervention price 2/ of 73 cents per pound; buffer stock purchases, in addition to the quotas, were to be used at or below 68 cents per pound. When the indicator price rose above 79 cents per pound, portions of the buffer stock were to be sold to keep the world market price below the maximum price. When the indicator price was above the maximum price (81 cents per pound), buffer stock sales were to be made until the indicator price fell to the maximum price or until buffer stock supplies were exhausted, whichever occurred first. During 1979, although the indicator price never fell below the maximum price, some producer countries, as a price support measure, withheld their buffer stocks; they felt that the maximum price agreed upon in 1977 was too low.

Countries exporting 10,000 metric tons or more annually were assigned quotas at the beginning of each quota year (Oct. 1-Sept. 30) according to their share of the export market and estimated world net import demand for the year. The buffer stock was limited to a total supply of 250,000 metric tons and was financed by a levy of 1 cent per pound charged to the exporting country, if a member of the agreement, or by the importing member country if the exporting country was not a member.

In 1979 there were three unsuccessful ICCO conferences to negotiate a new agreement. A lack of agreement over the appropriate price range, and especially over the lower intervention price, was the major issue which prevented the ratification of a new cocoa agreement. At the close of the third negotiating session in November 1979, the difference between the consumer countries' lower intervention offer of $1.00 per pound and the producer countries' offer of $1.20 per pound prevented an agreement. The consumer countries based their proposal for a lower intervention price on recent plentiful harvests and the expansion of production in many producer countries. The producer countries pointed to high investment costs (research and development and infrastructure costs), the deterioration of the dollar, and the need to import fertilizers and insecticides from developed countries, as reasons for supporting a higher price range.

1/ The indicator price is the average of the daily world market prices over a period of 15 consecutive market days.

2/ Intervention prices trigger price stabilization action and were set at 73 cents per pound for the lower intervention price and at 79 cents for the upper intervention price under the ICCA.

At the close of the November conference it was agreed that another meeting would take place in March 1980, before the March 31 expiration of the then-current agreement. However, if a new agreement was not reached, the 1975 agreement could be extended up to 2 years from September 30, 1979, or the agreement could be terminated; the decision was to be made by a special vote of the Council.

Other commodity conferences

During 1979 the United States participated in preparatory and working-group meetings for a number of commodities under UNCTAD's Integrated Program for Commodities. The purpose of these meetings was to form the general framework for the agreement, before moving on to the negotiating conference stage. Issues considered included the appropriate price support mechanism (buffer stock, export quotas, or a combination of the two) and basic administrative procedures. Technical studies were presented at these meetings to support various positions.

During the sixth preparatory meeting on copper, and during the first installment of the seventh, discussions centered on price support mechanisms to be used in a copper agreement. The United States favored a buffer stock arrangement, while some other countries felt that the size of the stock proposed by the United States was too large and that supply-control mechanisms should supplement the buffer stock. Countries were divided concerning the format of future conferences; most producer countries felt that the conferences should move on to the negotiating stage while other countries (including the United States) favored more preparatory meetings.

The United States participated in preparatory or working group meetings for other possible commodity agreements on tea, tropical timber, cotton and tungsten. In general, the United States took the position that, for United States participation, commodity agreements would have to be grounded on sound economic principles; i.e., they would have to (1) provide for price stabilization around long-term market trends; (2) avoid resource transfer mechanisms or artificial measures to decrease supply; (3) include a balance of rights and obligations between producer and consumer countries, as well as a balance of costs and benefits; and (4) leave sufficient room within the price spread for free-market forces to operate.

United States-Canadian Automotive Agreement

The Agreement Concerning Automotive Products between the Government of the United States of America and the Government of Canada, signed in 1965 and implemented by the United States through the Automotive Products Trade Act of 1965 (APTA), created the basis for an integrated United States-Canadian automotive industry and market. The agreement provided that each country accord duty-free treatment to imports of specified automotive products, for use as original equipment, made in the other country. 1/ Because the United States did not extend this customs treatment to automotive products of other countries with which it has trade agreement obligations, it obtained a waiver of its most-favored-nation obligations under GATT insofar as they pertain to automotive products. The APTA requires that the President submit an annual report to Congress on the implementation of the Act.

1/ For a more detailed treatment of the history, terms, and impact of the agreement, see Canadian Automobile Agreement, Committee on Finance, U.S. Senate, 94th Cong., 1st. sess., January 1976.

The United States-Canadian agreement has been a great stimulus to trade in automotive products between the two countries. In 1965, U.S. imports of automotive products from Canada were valued at $231 million. They had a value of $10.5 billion (the highest on record) in 1978, and $9.8 billion in 1979. Canadian imports of automotive products from the United States amounted to $889 million in 1965, $11.0 billion in 1978, and $12.3 billion in 1979 when they were the highest on record. In 1979, Canadian imports of automotive products from the United States exceeded U.S imports of such products from Canada by $2.5 billion (also a record).

Previous research has identified several problems in accounting for all of the trade in automotive products between the United States and Canada. U.S. export statistics, for example, sometimes fail to capture as automotive items those products having a variety of end uses (e.g., engine parts, nuts, bolts, screws, etc.). Apparently a substantial amount of automotive exports have also gone unreported. Consequently, a joint-U.S.-Canadian committee studying overall trade statistics agreed that each country should use its own import statistics to report its imports, and use the other's import statistics to report its exports. 1/ The result is the "import/import" method of reporting automotive trade used in table 13.

Table 13.--United States-Canadian automotive trade, 1964-79
(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports	Canadian imports less U.S. imports
1964	76	640	563
1965	231	889	658
1966	819	1,375	556
1967	1,406	1,889	485
1968	2,274	2,634	360
1969	3,061	3,144	85
1970	3,132	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,063
1978	10,493	10,964	471
1979	9,755	12,274	2,519

Source: U.S. Department of Commerce.

Note.--Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

1/ The committee's study, entitled The Reconciliation of U.S.-Canada Trade Statistics 1970, a Report by the U.S.-Canada Trade Statistics Committee, was published jointly by the U.S. Department of Commerce, Bureau of the Census, and Statistics Canada.

The Generalized System of Preferences

The United States is among the major developed countries that have instituted a system of preferential tariff treatment for products imported from LDC's. The purpose is to stimulate the economic growth and export diversification of the LDC's by providing them with preferential access to markets.

The enabling clause, agreed upon in the Tokyo round, now allows Contracting Parties to the GATT to extend tariff preferences to imports from developing countries under the Generalized System of Preferences (GSP), and differential treatment with respect to nontariff measures negotiated under GATT auspices. Formerly, tariff preferences for these countries under the GSP were acceptable under the GATT by virtue of a specific "waiver" decision dated June 25, 1971. Within this framework, the authority for the U.S. Generalized System of Preferences is provided by title V of the Trade Act of 1974, as amended by section 1111 of the Trade Agreements Act of 1979. The President is authorized to grant duty-free treatment to eligible articles imported from designated beneficiary countries for a period not to exceed 10 years from January 3, 1975. Since the inauguration of the U.S. GSP in January 1976, almost 140 LDC's and dependent territories have been designated as beneficiaries. In 1979, GSP imports of $6.3 billion accounted for 3.1 percent of total U.S. merchandise imports. In 1979, the five major suppliers (by value) of GSP duty-free imports were Taiwan (28 percent), Korea (13 percent), Mexico (9 percent), Brazil (9 percent), and Hong Kong (9 percent).

The original list of products under the GSP numbered more than 2,700. Changes in the list are preceded by review, including public hearings, by the Interagency Trade Policy Staff Committee (TPSC). To put an item on the list for the first time, the President must first seek the advice of the U.S. International Trade Commission as to the probable economic effect of such duty-free treatment on domestic industries and on consumers. Sometimes the advice of the Commission has also been requested with respect to products being considered for removal from the list of eligible articles. From the establishment of the program until the end of 1979, the President had approved 82 requests for the designation of products for addition to the original list and 19 requests for deletion of products. In 1979 there were 21 items added to the list and 6 items deleted. At the end of 1979 approximately 120 items were under review for additions to or deletions from the GSP list.

The Trade Act of 1974 contains criteria for designating countries and products eligible for GSP treatment, as well as suspending such treatment. From the beginning of the program through the end of 1979, two countries had been deleted from, and one country added to, the list of beneficiaries. On March 1, 1979, following annexation by Indonesia, Portuguese Timor was excluded from GSP beneficiary status, but regained it on March 30, 1980, when Indonesia was designated as a beneficiary country for GSP purposes.

Under the Trade Act of 1974, the extension of GSP treatment to members of the Organization of Petroleum Exporting Countries (OPEC) was prohibited. However, the Trade Agreements Act of 1979 authorized the President to exempt an OPEC member from this prohibition if it had entered into a bilateral product-specific trade agreement with the United States before January 3, 1980. Indonesia, Venezuela, and Ecuador were granted GSP eligibility, effective March 30, 1980, under this exemption. The President is also directed to terminate an exemption granted to any country if that country interrupts or blocks delivery of petroleum or petroleum products to the United States.

The Trade Agreements Act of 1979 amends the GSP provisions of the Trade Act of 1974 in ways intended to encourage regional economic integration among LDC's. These amendments liberalize the criteria under which "associations" of LDC's are eligible for GSP treatment.

An association of countries that constitutes a free-trade area or customs union can be treated as an individual country for GSP eligibility under the Trade Act of 1974. The Trade Agreements Act of 1979 expands this definition of "country" to include associations of countries that are contributing to comprehensive regional economic integration through such measures as reduced tariffs among member countries. However, individual countries within the association not complying with the eligibility requirements are to be excluded from GSP status.

Moreover, for a specific product from an individual country or association of countries to be eligible for GSP treatment, it must be imported directly from a beneficiary country into the customs territory of the United States, and a "value-added" criterion specifies a minimum percentage of the total cost of production that must be performed in the beneficiary country or customs territory. Under the Trade Act of 1974, this value-added restriction was more stringent as applied to associations of countries, thus tending to discourage countries from exporting to the United States as members of economic associations. The Trade Agreements Act of 1979 applies the same value-added criterion to associations of countries as to individual countries.

Finally, a "competitive-need" criterion provides that the President must (with certain exceptions) suspend GSP treatment on a product-country basis if a beneficiary country's exports of a designated article to the United States during a calendar year have an appraised value--

(1) whose ratio to $25 million exceeds the ratio of the U.S. gross national product (GNP) of that calendar year to the GNP of calendar year 1974, or

(2) whose ratio to the appraised value of total U.S. imports of that article equals or exceeds 50 percent.

This competitive-need criterion is intended to prevent any one country from using GSP treatment to dominate United States imports of a particular product. However, under the Trade Act of 1974, imported products from associations of countries were more likely to be excluded from GSP status, simply because imports of a product from an association of countries will be greater than from any one country within the association. The Trade Agreements Act of 1979 amends the Trade Act of 1974 by applying the criterion to imports of a product from individual countries within the association instead of to total imports of that product from the association.

Regarding the 50-percent limit, the Trade Act of 1974 was amended to allow suspension of the limit if, for the preceding calendar year, the ratio of the import value of a particular eligible article to $1 million does not exceed the ratio of the U.S. GNP of that year compared with the U.S. GNP of 1979. Prior to this amendment a country lost its GSP eligibility for an item if its proportion of the total value of imports of that item was 50 percent or more; this elimination would apply even though total imports of the item were negligible and of no real competitive significance. Implementation of this amendment should reduce administrative burdens in dealing with GSP coverage changes for particular eligible articles of low total import value.

As of March 1, 1979, there were 337 GSP eligible items, including a total of 41 beneficiary developing countries, which could not receive GSP duty-free treatment as a result of the application of the competitive need criteria. A dollar ceiling of $37.3 million for trade in 1978 was used in determining the competitive need eliminations which became effective on March 1, 1979; this dollar ceiling varies from year-to-year through a ratio link with GNP.

CHAPTER V

THE TRADE AGREEMENTS ACT OF 1979

The Trade Agreements Act of 1979 approved and incorporated into U.S. law the agreements which had been negotiated principally in the context of the Tokyo Round of Multilateral Trade Negotiations (MTN) under the provisions of section 102 of the Trade Act of 1974. It also incorporated certain tariff agreements which were outside the tariff reduction authority that had been delegated to the President in Section 101 of that Act, all of which required new legislation in order to be implemented. Before agreements negotiated under section 102 could be implemented, the President was required by that section to submit to Congress copies of the agreements along with a draft bill to enact the agreements effectively into law, a statement of proposed administrative action to carry out the agreements, and a statement of the reasons that the agreement serves the best interests of the United States. On June 19, 1979, the President submitted to the Congress a draft bill and the other required documentation. The bill (H.R. 4537) contained 11 separate title provisions which were necessary and appropriate to incorporate the MTN agreements into U.S. law.

H.R. 4537 was enacted as the Trade Agreements Act of 1979 on July 26, 1979. As stated in section 1, the purposes of the act are:

(1) to approve and implement the trade agreements negotiated under the Trade Act of 1974;

(2) to foster the growth and maintenance of an open world trading system;

(3) to expand opportunities for the commerce of the United States in international trade; and

(4) to improve the rules of international trade and to provide for the enforcement of such rules, and for other purposes.

In section 2, the act establishes the conditions under which the agreements apply between the United States and other countries. The President may not apply any agreement to a country unless he determines that such country (1) has accepted the obligations of the agreement and (2) should not otherwise be denied the benefits of the agreement because such country has not accorded the United States adequate benefits under trade agreements entered into under the Trade Act of 1974. In the case of major industrial countries (Canada, Japan, the European Economic Community and its member States), and such other countries as the President may designate, adequate benefits include competitive opportunities on an overall basis for U.S. commerce substantially equivalent to those afforded the commerce of such country by the United States. Section 2 also set limitations on acceptance of the major agreements on nontariff measures. The President may not accept these agreements unless he determines that each major industrial country (as defined in the Trade Act of 1974) is also accepting the agreement. Notwithstanding this general rule, however, the President may accept an agreement if he determines that only one major industrial country is not accepting the agreement and acceptance by that country is not essential to the effective operation of the agreement, and if: (a) that country is not a major factor in trade in the products covered by that agreement, (b) the President has authority to deny the benefits of the agreement to that country and has taken steps to do so, or (c) a significant portion of U.S. trade would benefit from the agreement, notwithstanding such nonacceptance, and the President determines and reports to the Congress that it is in the national interest of the United States to accept the agreement.

Section 3 establishes the relationship between the agreements approved under section 2 and U.S. law; it provides for consideration, under the procedures of section 151 in the Trade Act of 1974, of any new legislation necessary or appropriate as a result of future amendments to, or requirements or recommendations arising under these agreements; and it provides that the United States Trade Representative must keep Congressional advisers to the Trade Agreements Program continually informed on the operation of the trade agreements, including any requirements, amendments, or recommendations contemplated. Section 3 specifies that no provision of any trade agreement approved by the Congress under section 2 which is in conflict with any statute of the United States shall be given effect under the laws of the United States.

Provisions Implementing Major Agreements on Nontariff Measures

Title I, subtitle A--impositions of countervailing duties

Subtitle A of title VII of the Tariff Act of 1930, as added by section 101 of the Trade Agreements Act of 1979, applies a new countervailing duty law to imports from countries which have assumed the obligations (or substantially equivalent obligations) of the MTN agreement relating to subsidies and countervailing measures. The law also applies to seven LDC's with which the United States had bilateral agreements in effect on June 19, 1979, requiring unconditional most-favored-nation (MFN) treatment with respect to articles imported into the United States. These seven countries are Honduras, Venezuela, Nepal, North Yemen, El Salvador, Paraguay, and Liberia. The pre-existing countervailing duty provisions of section 303 of the Tariff Act of 1930, as amended by the Trade Act of 1974 and the Trade Agreements Act of 1979, apply to imports from all other countries.

Prior to the ratification of the Trade Agreements Act of 1979, the countervailing duty provisions contained in section 303 of the Tariff Act of 1930 (19 U.S.C. 1303), section 303, as amended by the Trade Act of 1974, applied to imports from all countries. Under this law, a countervailing duty was imposed on any imported article or merchandise dutiable under the provisions of the Tariff Act of 1930, if (1) any country, colony, province or other subdivision of government where the product was manufactured or produced, or (2) any person, partnership, association, cartel, or corporation pays or bestows, directly or indirectly, any bounty or grant upon the manufacture, production, or export of that product. The duty would be imposed (1) whether the product had been imported directly from the country or through third countries, and (2) whether the product was in the same condition as when it was exported from the country of production or not. This law required an injury determination by the U.S. International Trade Commission only with respect to duty-free imports and then only to the extent required by the international obligations of the United States under article VI of the GATT. Countervailing duties were imposed on dutiable imports benefiting from a bounty or grant without any determination that a domestic industry was being injured.

Subtitle A of title I of the Trade Agreements Act of 1979 brings U.S. law and practice, with respect to imports from "parties under the Agreement" as defined by that Act, into conformity with the Agreement on Interpretation and

Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Agreement on Subsidies and Countervailing Measures). Under the Trade Agreements Act of 1979, countervailing duties are imposed on imports from parties under the Agreement when the administering authority (currently the Secretary of the Commerce) determines that a country or person is providing a subsidy with respect to a class or kind of merchandise imported into the United States, and the Commission determines that an industry in the United States is materially injured, threatened with material injury, or that the establishment of an industry is materially retarded, by reason of imports of such subsidized merchandise. "Material injury" is defined in the statute as harm which is not inconsequential, immaterial, or unimportant. Since the statute refers to "a class or kind of merchandise," it will be unnecessary for a complaining party to prove that a subsidy has been provided on each individual entry into the United States. The imposition of the countervailing duty is in addition to any other duties to which the imported merchandise is subject, and is equal to the amount of the net subsidy determined or estimated to exist.

The new law also improves and expedites the domestic procedures pursuant to which investigations are initiated and conducted and countervailing duties are administered. The time limit for investigations has been reduced from 12 to 15 months under the Tariff Act of 1930 to normally no more than 205 calendar days. 1/ In addition to shorter periods for preliminary and final determinations by the administering authority and the Commission, the Trade Agreements Act of 1979 establishes a statutory, expanded authority to suspend investigations when early action by the foreign government or exporter will eliminate the unfair trade practice or, in extraordinary circumstances, its injurious effect. Another feature of the Trade Agreements Act of 1979 is the establishment of a time limit on the assessment of countervailing duties.

The Trade Agreements Act of 1974 further amends the Tariff Act of 1930 by enumerating "interested parties" as follows: (1) a foreign manufacturer, producer, or exporter, or the U.S. importer of merchandise which is the subject of an investigation or a trade or business association of which a majority of the members are importers of such merchandise; (2) the government of a country in which such merchandise is produced or manufactured; (3) a domestic manufacturer, producer, or wholesaler of a like product; (4) a labor union or group of workers which is representative of an industry engaged in the domestic manufacture, production, or wholesale of a like product; or (5) a trade or business association of which a majority of the members manufacture, produce, or wholesale a like product in the United States.

Prior to its amendment by the Trade Agreements Act of 1979, the Tariff Act of 1930 specified that the Secretary of the Treasury was to make a preliminary determination as to the existence of a subsidy within 6 months of the filing of a petition, but not that the Commission was to make a preliminary determination as to injury. Moreover, liquidation of entries of merchandise subject to a countervailing duty investigation was not suspended until there was a final affirmative determination that a bounty or grant existed. In contrast, under section 101 of the Trade Agreements Act of 1979, the Commission is required to make a preliminary determination within 45 days,

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1/ The sum of the time periods for investigations by the administering authority and the U.S. International Trade Commission. Under certain circumstances the investigative procedures can take 300 days.

on the basis of the best information available to it at the time, whether there is a reasonable indication that an industry in the United States is being materially injured or threatened with material injury or whether the establishment of an industry in the United States is being materially retarded by reason of imports of the merchandise which is the subject of an investigation commenced or initiated by the authority. If the Commission determination is affirmative, the investigation continues. Within 85 days of the date on which the petition was filed, the authority must make a preliminary determination of whether there is a reasonable basis to believe or suspect that a subsidy is being provided. If the authority's (Commerce's) preliminary determination is affirmative, the Commission begins its investigation of material injury, and liquidation of entries of merchandise subject to the determination is suspended.

In general, within 75 days of its preliminary determination, the Commerce Department makes a final determination as to the existence of a subsidy. If the Department's preliminary determination is affirmative, the Commission makes a final determination on material injury before the later of: (a) the 120th day after an affirmative preliminary determination by the authority, or (b) the 45th day after an affirmative final decision by the authority. If the authority's preliminary determination is negative, and its final determination is affirmative, the Commission makes its final determination within 75 days of the affirmative final determination.

Commerce's final determination is whether or not a subsidy is being provided, directly or indirectly, with regard to the manufacture, production, or exportation of the class or kind of imported merchandise under investigation. The Commission's final determination is whether an industry in the United States is materially injured or is threatened with material injury or whether the establishment of an industry in the United States is materially retarded because of imports of the merchandise under the authority's investigation. As in the Tariff Act, the Commission must determine whether an industry is materially injured "by reason of" the subsidized imports.

In the event that the administering authority makes an affirmative final determination and critical circumstances have been alleged, the final determination of the Commission must include a finding of whether (1) there is material injury which will be difficult to repair, and (2) the material injury was by reason of massive imports of the subsidized merchandise over a relatively short period. If the Commission finds threat of material injury, rather than actual material injury, its determination will also include a finding as to whether material injury would have been found had there not been the suspension of liquidation of the entries of the merchandise in question.

If both Commerce and the Commission issue affirmative final determinations, Commerce issues a countervailing duty order. However, the effect of a negative final determination, by either Commerce or the Commission, is to terminate the investigation upon publication of the negative determination. In this event, the authority also terminates the suspension of liquidation of the merchandise, releases any bond or other security, and refunds any cash deposit.

In sum, the major differences between the final determination sections of section 303 of the Tariff Act and the new title VII inserted by the Trade Agreements Act of 1979 are (1) the requirement that under title VII no countervailing duty may be imposed without a determination that material injury or threat thereof exists, (2) the requirement that the administering authority and the Commission carry on simultaneous investigations, (3) the time periods for those investigations, and (4) the additional findings relating to critical circumstances and threat of injury.

Title I, subtitle B--imposition of antidumping duties

The provisions of title I of the Trade Agreements Act of 1979 relating to the imposition of antidumping duties are intended not only to make U.S. law and practice consistent with the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade (Antidumping Agreement), but also to improve and expedite the domestic procedures pursuant to which investigations are initiated and conducted and antidumping orders are administered. Along with the new provisions for countervailing duties, the new sections on antidumping duties are appended to the Tariff Act of 1930 in a new title VII. Although title VII repeals the Antidumping Act, 1921, as amended, the substance of many of its provisions is reenacted in section 101 of the Trade Agreements Act of 1979. In general, subtitle B of title I of the Trade Agreements Act of 1959 revises the terminology of the Antidumping Act as it relates to substantive rules solely to modernize and to clarify those rules. The revision includes two major changes to the Antidumping Act, 1921, as amended: (a) modification of the injury test to require that there be material injury or threat thereof; (b) a shortening of the length of antidumping investigations, from 13 to 16 months to no more than 280 calendar days.

Under section 202(a) of the now-repealed Antidumping Act, 1921, as amended (19 U.S.C. 161), a special dumping duty was imposed on all imported merchandise of a class or kind subject to a dumping finding if the purchase price or the exporter's sales price of that merchandise was less than the foreign market value or, in the absence of foreign-market value, the constructed value of that merchandise. A dumping finding was issued if a class or kind of foreign merchandise was being, or was likely to be, sold in the United States or elsewhere at less than its fair value, and an industry in the United States was being injured, was likely to be injured, or was prevented from being established because of the importation of that merchandise into the United States. The amount of the special dumping duty imposed on imported merchandise was equal to the difference between the foreign-market value, or, in the absence of foreign-market value the constructed value, of that merchandise and its purchase price or exporter's sales price. The antidumping duty was imposed in addition to any other duties to which an item is subject.

Section 101 of the Trade Agreements Act of 1979 (new sec. 731 of the Tariff Act) provides for the imposition of an antidumping duty on a class or kind of foreign merchandise which is being, or is likely to be, sold in the United States at less than its fair value. An antidumping duty may be imposed if the Commission determines that an industry in the United States is materially injured or threatened with material injury or that the establishment of an industry in the United States is materially retarded, by reason of imports of that merchandise. As in the 1921 act, the antidumping duty is equal to the amount by which the foreign-market value of the merchandise exceeds the U.S. price for that merchandise and is imposed in addition to any other duties to which the merchandise is subject. Although not explicitly defined, the concept of "fair value" is retained for purposes of the investigative phase of an antidumping proceeding. The provisions of subtitle B apply to imports of merchandise from all sources whether or not the government of the country in which that merchandise is produced is a party to the agreement.

Under the Trade Agreements Act of 1979, an antidumping investigation is initiated upon receipt of a petition filed by an interested party on behalf of a domestic industry. "Interested party" is defined for purposes of this section exactly as it is in the countervailing duty section. The petition must allege that imports are being, or are likely to be, sold in the United States at less than fair value and that a domestic industry is being, or is likely to be, materially injured or that the establishment of such an industry is being retarded by reason of such imports. The petition must be accompanied by information reasonably available to the petitioner supporting these allegations. The major differences between the treatment given a petition under the Antidumping Act, 1921, as amended, and under the Trade Agreements Act of 1979 are (1) the time after the petition is filed within which the administering authority must determine whether to initiate an investigation is shortened from 30 to 20 days; and (2) the authority is no longer allowed to refuse to accept a petition for filing on the basis of insufficient information, but a person filing a petition is required to include certain information.

The Trade Agreements Act of 1979 further changed the provisions of the Antidumping Act by requiring the Commission to make, in every proceeding, a determination within 45 days of either the date on which the petition was filed or the date on which the authority decided to self-initiate an investigation of whether there is a reasonable indication of injury. This provision differs from the Antidumping Act, 1921, as amended, which required, under the amendments made by the Trade Act of 1974, a preliminary referral to the Commission only if the Secretary of the Treasury concluded that there was substantial doubt as to the question of injury. The purpose of the new provision is to make U.S. law conform more closely to the MTN antidumping agreement, which permits the imposition of provisional measures--suspension of liquidation and the posting of a cash deposit, bond, or other security on each entry subject to the suspension--only after an affirmative preliminary determination has been made that there are sales at less than fair value and that sufficient evidence of material injury has been presented. The new law lengthens the time for the Commission's preliminary material injury determination from 30 to 45 days; but it shortens, from 6 months to 160 days, the time the authority has in which to make a preliminary determination of whether there is a reasonable basis to believe or suspect that imports are being sold at less than fair value.

The Trade Agreements Act shortens the maximum period within which the authority must generally make a final determination of less-than-fair-value sales from 90 to 75 days after the date of its preliminary determination. In order to prevent proceedings from becoming so abbreviated as to result in arbitrary decisions, the law provides that the period for the final determination may be extended, at the discretion of the administering authority, for up to 135 days upon the request of (1) exporters accounting for a significant proportion of the imported merchandise if the preliminary determination of the authority was affirmative or (2) the petitioner if the preliminary determination of the authority was negative.

Under the Antidumping Act, 1921, as amended, the Commission did not begin its final investigation until the Secretary of the Treasury had made an affirmative final determination. The Commission then had 3 months in which to issue an injury determination. Under the Trade Agreements Act of 1979, the Commission begins its investigation upon notice of an affirmative preliminary determination by the authority; and must then make its final determination before the later of (a) the 120th day after an affirmative preliminary determination by the authority, or (b) the 45th day after the day on which the authority makes its final affirmative determination. If the authority's preliminary determination is negative but its final determination is affirmative, the Commission must make its final injury determination within 75 days of the authority's final affirmative determination. If the authority's final determination is negative, the proceeding terminates, as under the Antidumping Act, 1921, as amended; including any injury investigation being conducted by the Commission.

If the petitioner alleges critical circumstances in a timely manner, the final determination of the authority must contain a finding of whether there is a history of dumping in the United States or elsewhere of the merchandise under investigation and whether there have been massive imports of the merchandise under investigation over a relatively short period.

If the Commission finds threat of material injury (rather than actual material injury) and if there was a suspension of liquidation of entries of merchandise during the investigation, then the Commission must also determine whether material injury would have been found were there no suspension.

Finally, the Trade Agreements Act of 1979 makes some changes in the assessment of antidumping duties. Under the Antidumping Act, 1921, as amended, there was an average delay of 3 to 3 1/2 years between entries charged with a dumping finding and the active assessment of dumping duties. The Trade Agreements Act of 1979 provides that assessment must occur within 6 months after the date on which the authority receives satisfactory information upon which to base assessment, but in no event must assessment occur later than 1 year after the end of the manufacturer's or exporter's annual accounting period during which the merchandise is entered. In addition, merchandise subject to an antidumping order may be entered only upon the deposit of estimated antidumping duties, rather than under bond as prescribed by the Antidumping Act.

Title II--customs valuation

Title II revises section 402 of the Tariff Act of 1930, which specifies the methods for determining the value of an import for purposes of applying ad valorem duties and which establishes a uniform, fair, and greatly simplified system for the valuation of imports in conformance with the provisions of the MTN Agreement on Implementation of Article VII of the GATT (the customs valuation agreement). The title specifies five methods for determining customs value; the primary one being the "transaction value." The transaction value is based on the price paid for imported goods plus certain other costs, charges, and expenses incurred which are not reflected in the price--but excluding costs for transportation, insurance, and related services associated with international shipment. In addition, title II repeals the American Selling Price (ASP) standards of customs valuation as well as the separate set of standards applicable to products on the Final List. In so doing, title II allows each old rate of duty applicable to each article in the TSUS that was subject to ASP valuation, to be converted to a new rate that provides duty receipts equal to those received under the ASP. The rates on two of the Final List products (pneumatic tires and ball and roller bearings) were similarly adjusted to avoid a significant change in the level of protection as a result of the change in valuation standards. It had earlier been determined that the changes would not be significant for the several hundred other products on the Final List.

Title III--government procurement

Title III carries into domestic law the Agreement on Government Procurement, which requires signatory countries to apply uniform and open procedures to purchases by covered national government agencies. The title permits the President to waive the "Buy American" restrictions in U.S. law, which discriminate against purchases of foreign goods by agencies of the Federal Government. The waiver would apply only to goods which are the products of designated countries. Least developed countries 1/ are designated without condition, but all other countries are required to provide reciprocal benefits for the United States in their government procurement, and major industrial countries are required to sign the agreement in order to be designated.

The provisions of title III do not pertain to contracts of less than $190,000, nor do they affect small and minority business set-aside programs.

Title III also imposes substantial monitoring and reporting requirements with respect to both U.S. and foreign government procurement practices, and encourages negotiations to expand the agreement to cover more foreign government procurement.

Title IV--Technical barriers to trade (standards)

Title IV provides the statutory framework for U.S. implementation of its obligations under the MTN Agreement on Technical Barriers to Trade. In so doing, it prohibits the Federal and State Governments, and private persons, from engaging in any standards-related activity that creates unnecessary obstacles to the foreign commerce of the United States. The law covers requirements for developing and applying Federal standards. Many of these practices were already widely followed in the United States. The law does not consider that standards-related activities used to achieve legitimate domestic objectives constitute unnecessary obstacles to trade. Such domestic objectives include national security requirements, the prevention of deceptive practices, protection of health, safety and environmental interests, fundamental climatic or other geographical factors, and fundamental technological problems.

Section 421 of the Trade Agreements Act of 1979 provides that, except as provided in other sections of title IV, the provisions of the subtitle do not create any right of action under the laws of the United States with respect to allegations that any standards-related activity engaged in within the United States violates the obligations of the United States under the MTN agreement on standards. Parties to the MTN agreement, and foreign countries which are not parties to the agreement but which extend rights and privileges substantially the same as those extended by countries which are parties, may make a representation to the United States Trade Representative alleging that a standards-related activity engaged in within the United States violates U.S.

1/ Sec. 308(b) of the Trade Agreements Act defines "least developed country" as "any country on the United Nations General Assembly list of least developed countries."

international obligations under the MTN agreement. If an international forum finds that the United States is violating its international obligations, the interagency trade organization, established under the Trade Expansion Act of 1962, will review the finding and related matters, and will recommend appropriate action.

Other Provisions

Title V--implementation of certain tariff negotiations

Title V provides for the implementation of certain tariff concessions negotiated in the MTN. Some of these concessions involve reductions or increases in the rates of duty in amounts which exceed the President's authority to proclaim a reduction or an increase in a rate of duty under sections 101 and 109 of the Trade Act of 1974. In other cases, implementation of tariff concessions involves technical changes in tariff headnotes, nomenclature, and classification. Title V also amends the Tariff Schedules of the United States (TSUS) by converting column II specific and compound duty rates to their ad valorem equivalents when a comparable change has been negotiated in the column I rate in the MTN. Such column II duties can only be changed by statute.

Title VI--civil aircraft agreement

Title VI carries into domestic law tariff changes on civil aircraft required under the MTN Agreement on Trade in Civil Aircraft, most of which exceeded the tariff reduction authority delegated to the President under sections 101 and 109 of the Trade Act of 1974. It gives the President the authority to eliminate duties on civil aircraft and parts certified for use in civil aircraft. The 50-percent duty on repairs on U.S. civil aircraft performed in foreign countries is also eliminated.

Title VII--certain agricultural measures

Title VII effectuates into domestic law a number of bilateral agreements relating to cheese, chocolate crumb (a mixture of chocolate and milk solids), and meat. The cheese import quotas are expanded to cover approximately 85 percent of imports compared with 50 percent of cheese imports under quota prior to the implementation of the Trade Agreements Act of 1979. The law allows the President to proclaim import quotas at an annual level up to 111,000 metric tons on certain cheeses under the authority of section 22 of the Agricultural Adjustment Act, without following the procedures of section 22. The quota may not be increased above 111,000 tons except in accordance with provisions of section 22, and then only after a full independent investigation and report by the Commission unless the Secretary of Agriculture determines that "extraordinary circumstances" prevail. These limitations on emergency action expire on January 1, 1983.

Title VII also establishes procedures, in lieu of the countervailing duty law, to prevent subsidized cheese imports under quota from undercutting wholesale domestic cheese prices. If the Secretary of Agriculture determines that imported cheese is undercutting the wholesale price of comparable domestic cheese through the use of subsidies, the President can levy additional import fees or quotas on cheese subject to quotas to the extent necessary to counteract the subsidy. These procedures have two major advantages for the U.S. dairy industry, compared with those in the revised countervailing duty law described in title I. Relief can be obtained quickly (in about 2 months compared with up to 8-1/2 months for a countervailing duty action under title I), and there is no need to demonstrate injury.

Title VII also provides for an increase of about 4,400,000 pounds over the previous 21,680,000-pound quota on chocolate crumb. This accommodates quota allotments to Australia of 2,000 metric tons and to New Zealand of 2 kilograms negotiated during the MTN.

Finally, title VII establishes a 1.2-billion-pound floor on meat import quotas under the meat import law. Prior to this amendment to the Meat Import Law, meat import quotas were determined by a statutory formula which preserved for these meats the ratio of imports to domestic production that existed in the period 1959-63. Under the new law, the President may not proclaim an annual quota of less than 1.2 billion pounds for any calendar year after 1979 under the meat import law, regardless of the level of the adjusted base quantity. Title VII also makes certain conforming changes in the Meat Import Law to reflect certain changes in tariff classification made in Title V of the Trade Agreements Act of 1979. These changes implement agreements negotiated with Australia, New Zealand, Canada, and Haiti.

Title VIII--treatment of distilled spirits

Title VIII implements a U.S. MTN concession to eliminate the "wine-gallon" method of taxing and levying duties on imported distilled spirits. Instead, the excise taxes and duties are assessed under Title VIII by proof-gallon, i.e., in proportion to alcoholic content (so that a gallon of 86-proof spirits would be taxed at a lower rate than a gallon of 100-proof spirits). Prior to the implementation of this concession, all imported spirits were dutiable as if they were at least 100-proof, which was seldom the case for spirits imported in containers of 1 gallon or less (the great bulk of imports). Title VIII repealed the provision of the tariff schedules that each wine gallon was to be counted as at least one proof gallon and at the same time adjusted the rates of duty upward for the various classes of distilled spirits not imported in bulk form in order to collect the same amount of duty as was collected under the former "wine gallon" method of assessment. Under other provisions of the title, however, whenever the President determined that adequate reciprocal concessions had been received in an agreement entered into under the Trade Act of 1974, he could proclaim the rate in effect prior to the upward adjustment and further reduce that rate by as much as 60 percent. Under these provisions, the lower unadjusted rate was proclaimed for aquavit, bitters, certain brandy, cordials, gin, rum, whiskey, vodka valued over $7.75 per gallon, and a miscellaneous category of "other" beverages, and this lower unadjusted rate was further reduced for vodka valued over $7.75 per gallon, rum, whiskey, and certain brandy, and bitters not fit for use as beverages.

Title VIII also establishes the "all-in-bond" system for controlling the production of distilled spirits and collecting the excise taxes. Under the all-in-bond system, both domestic and imported products will be taxed on the basis of the alcohol content of the finished product after it has been diluted and bottled, including the part of the alcohol content which is derived from wine or other alcoholic ingredients added to a distilled spirits product before it is bottled. Eliminating the distinction between bonded and nonbonded operations and premises simplifies the operations of a distilled spirits plant. The tax collection process is also simplified, thereby reducing the number of government employees needed to collect excise taxes.

Title IX--enforcement of United States rights

Title IX revises section 301 of the Trade Act of 1974 to permit enforcement of U.S. rights under the MTN agreements and to provide a procedure for private parties to request Government action to remedy foreign violations of the agreements. The title not only provides a means for the effective use of the dispute settlement processes that the United States agreed to in the MTN, but also reflects U.S. determination to make use of such processes to enforce its rights under all trade agreements. In addition, title IX provides the United States with a useful and effective means of response to unresolved disputes under trade agreements and to unjustifiable, unreasonable, or discriminatory activities not covered by the dispute settlement provisions of either the MTN agreements or GATT articles XXII and XXIII. Basically, title IX expands the President's authority under section 301 of the Trade Act of 1974 by giving him the authority to pursue U.S. rights under any trade agreement and to respond to any act, policy, or practice which unjustifiably or unreasonably burdens or restricts U.S. commerce, or which is inconsistent with or otherwise denies benefits to the United States under any trade agreement.

Title IX also includes procedures for public hearings, and establishes time limits on investigations, recommendations by the United States Trade Representative to the President, and Presidential actions.

Title X--judicial review

Title X revises the Tariff Act of 1930 to provide increased opportunities for appeal of certain interlocutory and all final rulings by the administering authority or by the Commission in antidumping and in countervailing duty cases. By expanding the availability and the scope of judicial review, title X eliminated several discernible deficiencies of title V of the Tariff Act which detracted from effective enforcement of the law, particularly with respect to antidumping and countervailing duty cases. The provisions of title X include greater access to the Customs Court for an expanded number of parties and expedited appeals from administrative determinations.

Structurally, title X adds a new section 516A to the Tariff Act of 1930. The new section provides for the review of determinations relating to countervailing and antidumping duties, it contains provisions defining the class of persons who are entitled to institute suit and to participate in the litigation, and it specifies the types of determinations that may be challenged in the Customs Court, it clarifies the scope and standard of review, and it defines the types of relief to be made available in the Customs Court. Specifically, section 516A provides that an interested party may file a complaint contesting any factual findings or legal conclusions upon which determinations were based in antidumping or countervailing duty investigations. This includes determinations not to institute a countervailing duty or antidumping investigation, determinations to extend the time for the completion of a countervailing duty or antidumping investigation in extraordinarily complex cases, determinations not to review agreements with foreign governments or exporters owing to changed circumstances, negative preliminary or final decisions by either the administering authority or the U.S. International Trade Commission, affirmative final decisions by either the administering authority or the Commission, periodic determinations of the amount of countervailing or antidumping duties to be imposed, determinations to suspend an antidumping or countervailing duty investigation, and determinations by the Commission resulting from the review of an agreement to eliminate the injurious effect of subsidized imports or sales at less than fair value.

Title XI--miscellaneous provisions

Title XI, inter alia introduces certain amendments, many of a technical nature, to the Tariff Act of 1930 and the Trade Act of 1974. Section 1101 extends until January 3, 1988, the President's authority under section 102 of the Trade Act of 1974 to enter into trade agreements to eliminate nontariff barriers and other distortions to trade adversely affecting U.S. commerce. Section 1102 permits the President to auction import licenses when quotas are imposed under certain laws.

Section 1103 extends the private sector advisory system on trade matters. Established under section 135 of the Trade Act of 1974, these advisory committees are continued for the purposes of (1) advising on trade negotiations and insuring effective implementation of the MTN agreements, (2) evaluating and refining those agreements, (3) managing problems in key trading sectors, and (4) advising on overall trade policy objectives and priorities.

Section 1104 requires the President to study and report to the Congress on the desirability of entering into trade agreements with countries in the northern portion of the western hemisphere to promote the economic growth of the United States and other such countries and the mutual expansion of market opportunities. The study is to include an examination of competitive opportunities and conditions of competition between other North American countries and the United States in the agricultural, energy, and other appropriate sectors.

Section 1105 amends section 337 of the Trade Act of 1974 dealing with unfair trade practices. It provides that any person who violates a cease and desist order issued by the Commission must pay a civil penalty for each day on which importation or sales occur in violation of the order. The penalty is not to exceed $10,000 or the domestic value of the articles entered or sold on the day in violation of the order.

Section 1106 details certain technical, clerical, and conforming amendments to the Trade Act of 1974. Section 1107 makes numerous technical, clarifying, and conforming amendments to the TSUS, principally for the purposes of reducing ambiguity and confusion. No substantive changes on the rates of duties or classification of an article are effected by these changes.

Section 1108 requires that imports and balance-of-trade statistics be reported monthly (instead of quarterly) on a CIF basis; i.e. port-of-entry value including cost, insurance, and freight. In addition, the section provides that on or before January 1, 1981, there is to be reported for each item of the Tariff Schedules of the United States Annotated, the ad valorem or ad valorem equivalent rate of duty which would have been required to be imposed on dutiable imports under that item if the U.S. customs values of such imports were based on the U.S. port-of-entry value, in order to collect the same amount of duties on imports under that item as are currently collected under existing customs-valuation methods. The effect of section 1108 is to make U.S. trade data more comparable with data reported by other countries.

Section 1109 required the President to submit to Congress, by July 10, 1979, a proposal to restructure the international trade functions of the executive branch of the U.S. Government. 1/ Section 1110 directs the President to review and report to the Congress all export promotion functions of the executive branch and potential programmatic and regulatory disincentives to exports. In addition, the President is to submit to Congress a study of the factors bearing on the competitive posture of U.S. producers and the policies and programs required to strengthen the relative competitive position of the United States in world markets. Both studies are to be submitted to Congress by July 15, 1980.

Section 1111 amends various provisions of title V of the Trade Act of 1974 relating to GSP. 2/ Section 1112 provides some protection to U.S. possessions against revenue losses as a result of concessions granted by the United States during the MTN. The section directs that, upon the request of the government of a U.S. possession, the Secretary of Commerce determine, before January 1, 1980, (a) whether a concession had been granted by the United States during the MTN on an article produced in that possession on which excise taxes are levied by the United States, and (b) whether the sum of the amounts transferred and paid over to that possession attributable to such taxes for calendar year 1978 were equal to, or greater than, an amount equal to 10 percent of the tax revenues (not including revenues associated with petroleum or petroleum products) of that possession for 1978. If an affirmative determination is made, the Secretary is then required to determine, within 3 months after the close of each fiscal year 1980-84, whether a concession, made by the United States with respect to such a product, contributed importantly to a reduction in the sum of the amounts transferred and paid over to that possession, with respect to that product, for the most recently closed fiscal year. The Secretary then advises the President of the amount of the reduction in the excise tax revenues he has determined. The President may include that amount in the budget for payment to the government of the possession to offset the amount of the reduction.

Section 1113 provides that nothing in the Trade Agreements Act of 1979 is to be construed as authorizing the enactment of new budget authority for any fiscal year beginning before October 1, 1980. Section 1114 provides that the effective date of provisions in title XI is the date of enactment of the Trade Agreements Act of 1979 except as otherwise provided in that title.

Reorganizing the Trade Policy Establishment

Section 1109 of the Trade Agreements Act of 1979 directed the President to submit to the Congress a proposal to reorganize and restructure the international trade functions of the Executive branch. Under the authority of that act and the Reorganization Act of 1977, the President on September 25, 1979, transmitted Reorganization Plan No. 3 of 1979, ". . . to improve the

1/ This reorganization is discussed below.

2/ These amendments are discussed in detail in ch. IV in the section on the Generalized System of Preferences.

capacity of the Government to strengthen the export performance of United States industry and to assure fair international trade practices . . . ." 1/ In submitting his reorganization plan, the President called attention to certain developments that had increased the need for revitalizing our international trade performance: our negative balance of trade, growing dependence on oil imports, and international pressure on the dollar. He noted that the Government's trade establishment would be tested by "new challenges, such as implementation of the Multilateral Trade Negotiation (MTN) agreements and trade with nonmarket economies." 2/

As the Congress did not disapprove the plan, the President implemented it by Executive Order 12188 of January 2, 1980. Under the reorganization, the principal changes focus on the United States Trade Representative and the Secretary of Commerce. The Office of the United States Trade Representative, formerly the Office of the Special Representative for Trade Negotiations, has received an expanded range of responsibilities in connection with the formulation of policy and in overseeing the implementation of policy. The Secretary of Commerce has been given responsibility for nonagricultural trade policy implementation, and certain trade functions have been transferred from the Treasury Department and the Department of State to the Commerce Department.

With the advice of the interagency Trade Policy Committee (TPC), the Trade Representative is responsible for developing and coordinating trade and investment policies in the following areas: import remedies, East-West trade, 3/ direct foreign investment in the United States and United States direct investment abroad, international commodity trade negotiations, energy trade, and export-expansion efforts. (In energy trade matters the Departments of Energy and State continue to share responsibility). The Trade Representative is designated as the leading U.S. representative in the forum provided by the General Agreement on Tariffs and Trade (GATT), and he will have a limited permanent staff in Geneva, the headquarters of GATT. In some instances, he may assign some personnel abroad to help monitor enforcement of agreements resulting from the MTN.

The Trade Representative is also made the principal U.S. negotiator on trade and commodity issues in the Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development. In so doing, he will cooperate closely with the Secretary of State and the Director of the International Development Co-operation Agency. The Trade Representative is authorized to delegate negotiating responsibilities to other agencies that have expertise on the issues at hand. A Trade Negotiating Committee, headed by the Trade Representative, is to include the Departments of Commerce, State, Treasury, Agriculture, and Labor. It will manage negotiations of particular issues.

Among other things, the Trade Representative is to advise the President on the effects of Government antitrust, taxation, and other policies on the international trade of the United States. He is to join the National Advisory Council on International Monetary and Financial Policies and the Boards of the Export-Import Bank and the Overseas Private Investment Corporation. The Trade

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1/ The President's message of transmittal to Congress.
2/ The President's message of transmittal to Congress.
3/ The reorganization transfers the responsibilities of the East-West Foreign Trade Board to the TPC, and it abolishes the board.

Representative is empowered to invite nonpermanent member agencies to join permanent members at TPC meetings at his discretion. Moreover, when conflicts arise within the TPC, he is expected to make a decision, subject to appeal to the President.

The reorganization transfers the following functions (among others) from the Treasury Department to the Commerce Department: 1/

1. Administration of section 232 (Safeguarding National Security), Trade Expansion Act of 1962;

2. Administration of certain antidumping and countervailing duty provisions of trade laws;

3. Authority to compromise Government claims in connection with antidumping and countervailing-duty matters.

Overseas trade promotion and commercial functions and related personnel are transferred from the Department of State to the Department of Commerce. The acquired Foreign Commercial Service helps United States businessmen market their products abroad. Thus, the reorganization consolidates domestic and overseas export promotion under the same department, directed by an Assistant Secretary for Export Development.

Within the Commerce Department, the reorganization establishes the International Trade Administration and the positions of Under Secretary and Deputy Undersecretary for International Trade. An Assistant Secretary of Commerce is provided for each of these areas: International Economic Policy, Trade Administration, and Trade Development. The Department of Commerce has the responsibility for implementing the nonagricultural aspects of the MTN agreements. Among these activities are:

1. Monitoring agreements and identifying problems for discussion and negotiation, bringing these matters to the attention of the Trade Representative and the Trade Policy Committee;

2. Operating a Trade Complaint Center, to advise the private sector on remedies, and to aid the settlement of disputes;
3. Giving the business community information on foreign laws, regulations, and procedures;

4. Consulting with private sector advisory committees.

Another important aspect of the reorganization of the trade policy establishment focuses on the Trade Policy Committee (TPC), established under the Trade Expansion Act of 1962. It is chaired by the Trade Representative and is the vehicle for coordinating U.S. positions on various trade matters, including multilateral trade negotiations. As the senior interagency trade group, it is composed of 15 members who are either Secretaries of departments or heads of agencies. Under the reorganization, the TPC's policy-making responsibilities are expanded to include these areas: antidumping and countervailing duties, energy trade, East-West trade, international investment, and international commodity negotiations.

1/ The reorganization does not remove any previous responsibilities and functions of the Commerce Department.

CHAPTER VI

DEVELOPMENTS IN MAJOR TRADING PARTNERS

The European Economic Community 1/

The European Community made progress on several fronts in 1979. Although economic conditions worsened after mid-1979 because of increased energy costs and other factors, the EC resisted protectionist pressures against its Tokyo Round package and signed the package on December 17, 1979. In spite of differences among the members in economic performance and monetary stability, the EEC successfully launched and operated the European Monetary System (EMS), a new monetary stabilization scheme. Greece signed an accession agreement to become the tenth EC member, and negotiations with prospective members Spain and Portugal progressed smoothly. A new Lome Convention was negotiated and signed, extending for 5 years the EEC's trade and development aid pact with nearly 60 African, Caribbean and Pacific nations.

However, the EEC continued to experience difficulties with its common agricultural policy, which absorbs about three-quarters of the EEC's operating budget. As mountainous structural surpluses grew, the newly elected European Parliament 2/ rejected the EC Council's proposed 1980 budget in protest against high expenditures for agricultural programs. No agreement was reached in the third year of negotiations seeking to establish an EEC fisheries policy, dealing with the advent of 200-mile fishing zones.

European Monetary System (EMS)

On March 13, 1979, the EEC instituted the European Monetary System, a new plan for improving monetary stability among EC currencies. All EC members but the United Kingdom are participants. 3/ The EMS replaced the European currency "snake," an earlier, largely unsuccessful currency stabilization plan. By 1979, only West Germany, Belgium, the Netherlands, Luxembourg and Denmark remained as EEC participants in the snake.

1/ The European Community consists of three entities: the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community.

2/ Members of the European Parliament were elected for the first time by citizens of EC member countries in 1979. In the past, members had been nominated by national parliaments.

3/ The United Kingdom stated it would participate in most institutions of the new system and might consider joining formally later.

The EMS is centered around creation of a new European monetary unit, the European Currency Unit (ECU). The ECU is a weighted "basket" 1/ of all nine EC member currencies (including the pound sterling). At the outset of the EMS, a central rate expressed in ECU was established for each participating currency. Around the central rates, bands of allowable divergence were set at 6 percent for Italy and 2.25 percent for other participants. Intervention on exchange markets by authorities responsible for a currency is mandatory and automatic when divergence limits are reached.

The system also uses an early warning device called a "divergence indicator." When a currency's divergence from its central rate reaches 75 percent of its permitted fluctuation, it is said to have "flashed" a divergence warning. Intervention on exchange markets by member central banks is expected when a currency reaches its divergence indicator.

Designers of the EMS considered intervention on exchange markets a short-term measure, useful only for temporary alleviation of strains which cause divergence from the central rate. Devaluation or revaluation against other currencies (requiring changes in central rates) was indicated in response to persistent or severe divergence which was not considered temporary or remediable. Diverging inflation rates, trade imbalances, and other factors 2/ were given as the underlying causes of exchange-rate divergence. Exercise of domestic economic (monetary and fiscal) policies to control diverging inflation rates was specified as a measure expected of participating governments to combat persistent pressure for exchange rate divergence.

The EMS also provides credit facilities to help members with balance of payments problems. Credit is available from the European Monetary Cooperation Fund, 3/ which can draw upon reserves lent by participating countries and the United Kingdom in exchange for ECU's. Unrestricted short-term credit and substantial medium-term credit are provided.

During 1979, substantial intervention (mostly in dollars) was required to operate the EMS mechanisms and maintain exchange rate stability. However, greater exchange rate stability among EC currencies was achieved. Appreciation of the Deutschemark relative to other participating currencies was the major strain faced by the system; according to EC sources, the Deutschemark's appreciation was caused mainly by outside influences. 4/ The central rate of the mark was revalued by 2 percent, and the Danish krone

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1/ The ECU basket was made identical with the European Unit of Account (EUA), an accounting unit used in EC financial operations. Following entry into force of the EMS, the ECU/EUA is now used in all areas of EC financial activity (except for operations of the Common Agricultural Policy, where it is used provisionally (see p. 122).

2/ Such as movements in major world currencies outside the system.

3/ The European Monetary Cooperation Fund was created by the EC Council of Ministers in 1973 as a clearing agency for snake operations.

4/ A rare German current account deficit in 1979 (expected to continue into 1980) and a relatively small French deficit combined to ease the pressures on the system resulting from disparate inflation rates among the two major EMS currencies (Germany's inflation rate is less than half as high as France's.) A sharper Deutschemark appreciation might have caused the EMS to fail, sources said.

devalued by 3 percent, against other EMS currencies in September 1979. In November, the Danish krone was devalued again, this time by 5 percent against currencies of other participants.

Stage II of the original EMS plans called for establishment of a European Monetary Fund by March 1981, transferring one-fifth of members' gold and currency reserves permanently to the fund in exchange for ECU's. 1/ Plans included developing the ECU into a reserve currency. Background work for EMS stage II was begun in November 1979.

Commercial policy developments

Industrial policies.--Steel, textile, and shipbuilding industries in the United States and the EC have experienced difficulties in recent years. Economic recession, rising energy costs, world overcapacity, outmoded manufacturing plants, and competition from recently industrialized low-wage countries have contributed to the industries' difficulties. The EC has taken steps to support its declining industries. Programs for steel and textiles have significant impact on EC commercial policy and are discussed below.

Steel.--"Anticrisis" measures to help the flagging EC steel industry were begun in 1976 and extended in 1977 and 1978. The measures began with voluntary undertakings by EC steel firms to comply with supply targets on the domestic market for some steel products. Guidance prices, and then mandatory minimum prices, were introduced by the EC Commission for a number of steel products in order to raise EC steel price levels. When increased imports, attracted by the higher prices, caused difficulties, measures for import surveillance were included; the Community took steps to limit steel imports, first through the institution of antidumping procedures and later through the negotiation of bilateral agreements with steel-exporting countries. 2/ The EC steel anticrisis plans also included measures to limit domestic capacity increases; aids that were provided for plant modernization required some offsetting shutdown of obsolete facilities. Assistance to displaced steelworkers was also provided.

In 1979, bilateral agreements limiting steel exports were entered into or extended with 17 countries that were supplying more than 80 percent of EC steel imports. Floor (or base) prices were in effect for the majority of steel products. Although performance of the Community steel industry during 1979 was described as "generally satisfactory" by the EC Commission, the Commission voted in December 1979 to extend steel crisis measures through yearend 1980.

These measures, sometimes referred to as the Davignon Plan, were modified for the year 1980; changes included a limitation on state steel subsidies (insisted upon by Germany, resisted strongly by Italy), removal of floor prices for some products, suspension of steel export limits negotiated with some countries, and introduction of extra measures to help redundant steelworkers.

Textiles.--Commercial policy measures to help the declining EEC textile industry have centered on negotiation of bilateral agreements with textile-exporting countries to restrain their textile shipments to the EEC.

1/ ECU's were to be used for settling debts among members' central banks.
2/ The United States is not a major steel exporter to the EC and did not join in these negotiations.

Twenty-four such agreements were negotiated with textile-supplying countries within the context of the Multifiber Arrangement (MFA) 1/ and have been applied de facto since the beginning of 1978. Of these, 11 were signed by yearend 1979. In addition, agreements outside the MFA were initialed with China, Poland, and Bulgaria. Preferential arrangements for cooperative control of textile trade were concluded with Greece, Portugal, and Spain while in the process of becoming Community members; such arrangements were also made with Morocco, Tunisia, Malta and Cyprus.

EC enlargement

During 1979, the European Community signed an accession agreement with Greece and continued negotiations for accession with Spain and Portugal. Furthering European economic integration through enlargement of the Community was an important aim of the framers of the Treaty of Rome. 2/ However, integration of poorer, less developed countries into the EC framework has presented special problems. Measures providing for economic assistance to prospective members to improve development levels, gradual dismantling of new entrants' trade barriers to ease the effect of increased competition on domestic industry, and temporary limits on international mobility of the new entrants' labor force within the EC are included in the agreement with Greece and are being discussed in negotiations with Spain and Portugal.

On May 28, 1979, a treaty was signed in Athens for the accession of Greece to the Community, and on June 28 the Greek Parliament ratified the agreement. Greece is scheduled to become the 10th member of the European Community on January 1, 1981 if all EC members have then ratified the Treaty of Accession.

A 5-year transition period from the date of accession was agreed upon for elimination of trade barriers between Greece and other EC members, 3/ alignment of the Greek tariff with the EC Common Customs Tariff, Greek participation in EEC trade agreements with other countries, 4/ inclusion of the Greek drachma in the EMS, and Greek participation in EEC agricultural programs. 5/ A transition period of 7 years was provided for elimination of duties on fresh and processed tomatoes and fresh and preserved peaches. A 7-year transition period was also provided for free movement of workers within the EEC. For dealing with the economic and industrial development of Greece, a protocol similar to the one granted to Ireland under the 1972 Acts of Accession was agreed upon.

1/ For a description of the Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement), see The History and Current Status of the Multifiber Arrangement, USITC publication 850, January 1978.

2/ The Treaty of Rome, signed in 1957, established the European Economic Community. Under art. 237, "any European state may apply to become a member."

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

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

5/ Of particular interest to Greek producers were Community programs for olive oil, processed fruit and vegetables, durum wheat, cotton, dried figs, and raisins.

Spain applied for admission to the EC in 1977. Preliminary negotiations opened in February 1979. During 1979, preparatory work to establish a negotiating basis was conducted in many areas. Substantive accession negotiations began in September. By December 31, 1979, initial examination of the following topics had occurred: customs union, the European Coal and Steel Community (ECSC), taxation, external relations, capital movements, transport, social affairs, and certain areas of the common agricultural policy. Leaders of the EC and Spain have pledged to complete a major portion of enlargement negotiations by the end of 1980.

The Spanish economy is much larger than that of Greece or Portugal, and accession is expected to have a significant economic impact on EC members and institutions. Some EC members have expressed concern about increased competition from Spanish steel, shoes, and textile products. 1/ EC farmers in the Mediterranean region fear competition from Spain's agricultural products in Community markets. In addition, Spain's membership is expected to increase spending on EEC agricultural programs; part of the increased cost is likely to result from Spain's contribution to EEC surpluses in wine, olive oil, and certain fresh fruits and vegetables.

Accession negotiations with Portugal began in October 1978. During five negotiating sessions, held in Brussels in 1979, the following topics were discussed: customs union and free movement of goods, external relations, capital movements, taxation, questions relating to regional policy and transport, and several areas of agricultural policy. A program of development aid for Portugal was proposed.

During 1979, Portugal requested changes in a 1972 EC-Portugal free-trade agreement which had dismantled many Portuguese tariffs on Community products. The request stemmed from Portugal's difficult economic situation and balance of trade problems. On December 19, 1979, a supplementary protocol was signed, amending certain provisions of the 1972 agreement, to allow Portugal to continue protection of some of its industries during a restructuring program.

The enlargement of the EC has generated a special concern among certain segments of U.S. agriculture. They fear that bringing Greek, Spanish, and Portuguese agriculture under the Common Agricultural Policy (CAP), with its various producer and processor subsidies, could trigger a strong production response, particularly for fruits and vegetables. U.S. farming interests are concerned that the EEC would be unwilling or unable to take actions curbing the increased production, which might displace U.S. exports to the Community.

1/ Annual Spanish textile exports to EC countries increased sixfold during 1970-77, after a preferential trade agreement with Spain came into effect in October 1970.

Common agricultural policy (CAP)

The EEC's CAP was designed to support farm incomes while creating a unified market for agricultural products within EC countries. The CAP uses price supports, variable levies on imports, and export subsidies to protect European agricultural markets from world competition. In 1979, EEC agricultural programs continued to absorb nearly three-quarters of the Community budget.

During 1979, the EEC's agricultural policy met with harsh internal criticism. To protest EC budget outlays for CAP subsidy programs, the newly elected European Parliament voted on December 13 to reject the proposed Community budget for 1980. 1/ High support prices under CAP programs have generated huge structural surpluses in milk, sugar, and other products. The surpluses contribute greatly to the enormous cost of financing the CAP, a frequent source of conflict among EC members. 2/

Support prices for agricultural products are set annually by the EC Commission. In early 1979, the Commission proposed no increase in agricultural support prices for 1979/80 in order to help discourage increased production and combat structural surpluses. However, the measure was unacceptable to certain members whose farmers' income would have been effectively reduced owing to inflation in other sectors. As a result, increases in agricultural support prices for 1979/80 were agreed to in July 1979; plans called for a 1.5-percent average increase in prices for all products except milk; milk prices were to remain unaltered from the previous year's level.

The EC's sugar surplus, one of the major problems, is increased by sugar imports required under preferential agreements. The substantial surpluses of 1977/78 and 1978/79 are expected to be followed by another large surplus in 1979/80.

The EEC's surplus in milk also has been a major problem for several years. Some sources estimate that the EC produces 17 percent more milk than it can use, and that spending on milk (price supports, surplus maintenance, and disposal programs) accounts for nearly 40 percent of total EC spending. Measures to discourage production, subsidize exports, and encourage consumption are used in CAP programs designed to limit the surplus in milk and milk products. However, measures to discourage production had little effect in 1979 as EC milk production rose by 2.4 percent. Subsidized sales of butter to the Soviet Union caused controversy among EC members during 1979. Measures for raising taxes (co-responsibility levies) on increases in output by milk producers and dairies were suggested in proposed CAP plans for 1979-80 but were eventually rejected.

1/ EC programs will be financed under emergency provisions until a new budget is approved.

2/ Another subject of conflict was the "lamb war" over French restrictions on imports of sheepmeat, restrictions to which the United Kingdom objected. The EC Court of Justice ruled in September 1978 that the French restrictions were in violation of the EC Treaty. The EC Commission issued a reasoned opinion in November 1979 supporting the Court of Justice's view.

In November 1979, however, the EC Commission proposed a plan, which they hoped to include in the 1980/81 farm package, to reduce expenditures under CAP programs not only for milk, but for sugar, beef, fruit, vegetables, and cereals. The plan focused on measures to insure better balance in markets subject to structural surpluses. The main proposal involved the dairy sector and called for increasing, from 1.5 to 4.5 percent, the "co-responsibility levy" which taxes milk producers and dairies for increasing production over specified levels. 1/

In the past, changes in rates of exchange among EC currencies have caused difficulties in operating CAP price-support programs. To prevent disruptive trade flows in response to these exchange-rate changes, a system of border taxes and rebates to compensate for such changes was introduced in 1971. The phasing out of these payments, known as monetary compensatory amounts (MCA's), in order to obtain uniform prices for agricultural products through market forces is a fundamental objective of CAP planners.

On April 9, 1979 the ECU, the new European currency unit under the EMS, was introduced provisionally into CAP programs. At the same time, member States agreed to specific measures for dismantling any new MCA's created within 2 years after entry into force of the EMS. Community sources have indicated that improved currency stability during 1979, under the EMS, has helped prevent creation of new MCA's and has allowed more rapid dismantling of existing MCA's. At a meeting in December, the EC Council decided to devalue the "green" 2/ British pound and Italian lira by 5 percent, an action which reduced existing MCA's for those countries.

In summary, the Commission's proposed 1980-81 farm package addresses many of the problems which disrupted the operations of the CAP during 1979. In addition to recommending moderate price increases, measures were included (reflecting plans proposed in November 1979) to combat the huge structural surplus in milk by increasing co-responsibility levies on milk producers and dairies. Measures for further dismantling of existing MCA's were also proposed. Negotiations on the 1980/81 farm package will continue until mid-summer 1980, when the Commission traditionally makes its decisions for the new agricultural package.

Common fisheries policy

For the third consecutive year, the EEC failed to complete negotiations for a common policy on sharing and conserving EEC fishery resources. Conflicts between the United Kingdom and other EEC countries over the use of British coastal waters, and the United Kingdom's unilateral imposition of certain conservation measures in July, prevented a consensus on an overall fishing policy.

International adoption of 200-mile fishing zones made it necessary for the Community to negotiate bilateral agreements with nonmember countries to define mutual fishing rights. For several years, the United Kingdom has blocked ratification of bilateral fishing agreements pending completion of a satisfactory common fishing policy, and the EEC's negotiated fishing arrangements have been applied provisionally without ratified agreements. Some countries, notably Canada, have objected strongly to the lack of ratified

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1/ The tax is applied to increased production over negotiated levels.
2/ The "green rate" is the average exchange rate used in various farm transactions for a given currency.

agreements. The EEC applied fishing arrangements provisionally with the following countries during 1979: Norway, Finland, Sweden, Canada, Spain, the Faroe Islands, and Senegal.

At yearend, some signs of progress toward adoption of a common fishing policy were evident. At a December meeting, the EEC fishery ministers agreed to interim fishing arrangements within the EEC for the coming year and set a goal of forming a mutually acceptable fishing policy by early 1980. At that meeting, the United Kingdom lifted its reservation on the EEC's fishing agreement with Canada.

Preferential trading arrangements

The European Community conducts much of its preferential trade (about 7 percent of total EC trade) through the Lome Convention, a comprehensive trade and development aid pact with 58 African, Caribbean, and Pacific (ACP) countries. The EC also participates in bilateral agreements with 8 Mediterranean countries, providing preferential customs treatment and development aid, and gives preferential treatment to imports of developing countries under a GATT-affiliated generalized preference system.

After a year of hard bargaining, the European Community and 58 ACP States signed a new Lome Convention (Lome II) on October 31, 1979; the convention must now be ratified by governments of the 9 EC members and by two-thirds of the ACP signatories. The second Lome Convention extends the agreement for 5 years, beginning March 1, 1980. Lome I was signed in 1976 and developed from previous EC-ACP trade agreements.

Lome I provided duty-free access for most ACP products entering the EC, retaining restrictions mainly on agricultural products under the common agricultural policy. Lome II includes new concessions on some agricultural products and gives greater access to ACP beef exports (by increasing the EC's import quotas and reducing its levies). Some sources point out, however, that preferential treatment for ACP products is of limited value, because about 75 percent of all ACP imports would be granted free entry into the Community anyhow under most-favored-nation treatment.

During negotiations, ACP countries protested that proposed increases in the amount of aid provided under the new convention, particularly funds for industrial development, were too low. They also complained that rules of origin under the new convention, which required specified levels of ACP and EC content in products given preferential treatment, discouraged investment by non-EC countries in ACP states. Escape-clause provisions allowing EC participants to withdraw concessions if home markets were disrupted also displeased ACP signatories.

Some benefits for ACP participants were increased, however. The Stabex program, which gives loans or grants to ACP countries to help stabilize income from agricultural exports, was expanded to cover 44 products, representing an increase of 10 products. Rules for receiving aid under the program (required levels of dependence thresholds, degree of income reduction, 1/ loan repayment terms) were made more lenient.

Reflecting EC interest in increasing ACP investment in mining, Lome II contains a Stabex-like system covering copper, cobalt, phosphates, manganese, bauxite, alumina, tin and iron ore, the main minerals exported by

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1/ Attributable to bad harvests or deteriorating world prices.

ACP countries. An objective of this scheme is to increase EC investment in ACP mining to insure future raw materials supplies for Community industry.

Provisions giving special treatment to least developed, land-locked, and island countries are included in both the Stabex and mineral stabilization programs and other development aid programs.

Relations with EFTA

During 1972-73, the European Community negotiated agreements aimed at establishing freer trade between the EC and countries of the European Free Trade Association (EFTA), resulting in progressive elimination of customs duties and nontariff measures between the Community and each of the EFTA countries. Duties on specified products were eliminated in five successive reductions of 20 percent from April 1, 1973 to July 1, 1977. After July 1, 1977, a free-trade zone for most industrial products and some agricultural products existed between the European Community and EFTA countries.

In 1978, the Community negotiated arrangements with EFTA countries for stabilization of trade in iron and steel products at "traditional levels" and at prices within Community price constraints. These arrangements were extended in 1979.

Implementation of agreements and arrangements resulting from the MTN

During the latter half of 1979, the European Community prepared to implement MTN agreements negotiated earlier in the year, wishing to complete preparations for the MTN package by January 1, 1980. On December 17 the Community signed the following MTN protocols, agreements, and arrangements:

- Protocols on tariff concessions 1/
- Codes on:
    - Customs valuation
    - Subsidies and countervailing duties
    - Antidumping
    - Government procurement
    - Technical barriers to trade
    - Import licensing
    - Civil aircraft
- International dairy arrangement
- Arrangement regarding bovine meat

Member States, as well as the Community as an entity, signed tariff concession protocols and the agreements on technical barriers to trade and civil aircraft.2/

As a result of MTN tariff concessions, the overall average EC tariff rate will be reduced by nearly one-third, with higher duties generally receiving larger percentage reductions than lower duties. There are small or no duty reductions in some sensitive sectors.

1/ On July 13, 1979, the Community signed the protocols on tariff concessions, subject to final acceptance of the MTN package.

2/ Certain member states made their signatures subject to ratification. The Member States signed the agreements on standards and aircraft because they cover matters outside the EC Commission's authority.

Industrial tariff reductions.--On January 1, 1980, the first installment of one-eighth of agreed tariff reductions was implemented on the majority of products. Duties on civil aircraft and parts were suspended and duties on some products, particularly those of interest to developing countries, were reduced by the entire negotiated amount. However, the first duty reductions on textiles and steel products were postponed until 1982 and on a number of chemicals and related products until July 1980.

Agricultural concessions.--Effective January 1, 1980, the EC Council acted to implement concessions on beef, poultry, and cheddar cheese, altering levies and quotas on beef and cheddar cheese and modifying the tariff classification for certain kinds of poultry meat. For some products, the first stage in a series of rate reductions went into effect. For certain other products, the complete reduction went into effect on the date indicated above.

Nontariff measures (NTM) agreements.-- The application of most NTM agreements began on January 1, 1980. In applying the agreements on import licensing and trade in civil aircraft, the EC eliminated its import duties on such aircraft and parts; it did not require import licenses even before these agreements went into effect. In October 1979 the Community changed laws (effective January 1, 1980) to comply with provisions of the antidumping and anti-subsidy agreements, adding detailed provisions for actions against subsidized, as distinct from dumped, imports. Under a bilateral arrangement, the Community and the United States agreed to apply the customs valuation agreement beginning July 1, 1980. Also in January, an EC procedural decision was being prepared laying down rules for coordination of member States' policies to insure full compliance with the agreement on technical barriers to trade (standards agreement). Preparatory work for the new agreement on government procurement, expected to go into effect in 1981, began in early 1980 with examination of proposed draft procedural amendments to EC regulations needed for implementation of the agreement.

Issues in bilateral disputes and consultations

During 1979, conflicts between the United States and the European Community focused on EC steel exports to the United States and U.S. synthetic fiber exports to the EC. A proposed Community tax on vegetable fats and oils also attracted concern.

The "steel and synthetic fiber" issue.--Throughout 1979, steel and synthetic fiber were often referred to as linked, and many sources indicated that a trade war might result if decisive action were taken by the United States to restrict imports of EC steel, and by the European Community to limit imports of U.S. synthetic fibers. Both U.S. steel producers and EC textile manufacturers claimed their foreign counterparts received subsidized treatment, resulting in unfair competition in their domestic markets, and demanded remedial action. European steel producers are highly dependent on U.S. markets as an outlet for their steel.

Steel.--U.S. steel interests have expressed concern that subsidized treatment given EC steel producers, self-imposed intra-EC trading limits, and agreements limiting third countries' steel exports to the EC might tend to divert steel into U.S. markets. During 1979, the United States consulted with the Commission on steel issues, but major disagreements remained unresolved.

A rumored scheme for voluntary limitation of steel exports to the United States by EC producers was denied by representatives of the European Community.

Table 14 shows the value of U.S. imports of certain iron and steel products for 1978 and 1979. Overall U.S. iron and steel imports from the European Community fell more than 10 percent in 1979. However, total U.S. 1979 iron and steel imports rose about 3 percent.

Table 14.--U.S. imports of certain iron and steel products from all sources, and the EC, by types, 1978 and 1979

(In millions of dollars)

Item	1978		1979	
	Total	EC	Total	EC
Iron and steel (and other ferrous metals)	7,259.3	2,301.4	7,466.3	2,061.5
Iron and steel mill products	6,686.7	2,228.4	6,764.2	1,967.3
Wire rods, bars (including reinforcing structurals and piling)	1,371.2	443.0	1,523.8	451.3
Iron or steel plates and sheets	3,329.3	1,356.0	3,070.9	1,129.6
Tubes, pipes and fittings	1,375.5	199.0	1,542.6	138.5
Other iron and steel mill products	610.7	230.4	626.9	247.9

Source: Compiled from official statistics of the U.S. Department of Commerce, publication FT990, table I-10.

Synthetic fiber.--EC sources claim that Community imports of low-priced synthetic fibers from the United States increased substantially during 1979. Textile industries in the United Kingdom and Italy have claimed serious injury. During 1979, U.S. and EC representatives held bilateral consultations (under GATT auspices) concerning the source of the United States' competitive advantage in the manufacture of synthetic fibers. EC representatives maintained that U.S. exports were subsidized by U.S. price controls on oil and natural gas, 1/ which are used in making petrochemicals, major inputs in the production of synthetic fibers. U.S. representatives held that better productivity of the U.S. textile industry and depreciation of the dollar against most European currencies were sources of a U.S. competitive advantage in synthetic fiber production. In November 1979, in response to injury complaints from Italy, the European Community imposed community wide antidumping duties on certain acrylic fibers originating in the United States.

Vegetable fats and oils.--Proposed EC taxes on vegetable fats and oils, both domestic and imported, were designed to increase EC consumption of olive oil (by raising the price of substitute oils) and to provide revenue for olive

1/ EC governments claim that the slow pace of U.S. decontrol of oil and gas prices gives an unfair price advantage to many other oil-based industries besides synthetic fibers, such as plastics. Some sources expect future action in these areas.

oil price-support programs. Proponents hoped the proposed taxes would restrain the increased cost burden on CAP 1/ programs (by increasing olive oil consumption and providing revenue) when Spain, a major olive oil producer, joins the Community. A huge EC olive oil surplus, requiring massive purchase of intervention stocks to support prices, was thought likely to result when, under price-support programs, higher prices encouraged increased Spanish production. 2/

The proposed taxes would affect U.S. soybean exports to the EC, which are of great importance to United States agricultural producers. The taxes would also be in violation of an EC-GATT tariff binding on soybeans. U.S. officials have expressed concern that imposition of taxes on vegetable fats and oils by the European Community would seriously affect U.S. soybean exports.

Trends in geographic distribution and commodity composition of trade

The United States' trade surplus with the European Community rose from about $3,042 million in 1978 to $9,287 million in 1979. As seen in table 15, in 1979 the United States achieved a positive trade balance with all EC countries except Germany and Italy, and trade deficits with those countries diminished considerably.

Table 15.--U.S. trade with the European Community

(Millions of dollars)

Country	U.S. exports		U.S. imports		U.S. Trade balance	
	1978	1979	1978	1979	1978	1979
United Kingdom	7,116.0	10,634.8	6,513.9	8,028.7	602.1	2,606.1
West Germany	6,956.8	8,482.3	9,961.5	10,955.3	-3,004.7	-2,473.0
Netherlands	5,682.9	6,906.9	1,601.7	1,851.6	4,081.2	5,055.3
France	4,166.2	5,586.7	4,051.0	4,770.8	115.2	815.9
Belgium/Luxembourg	3,652.7	5,186.4	1,762.2	1,740.5	1,890.5	3,445.9
Italy	3,360.6	4,358.5	4,102.1	4,918.1	-741.5	-559.6
Denmark	585.1	731.7	693.8	707.2	-108.7	24.5
Ireland	527.4	694.8	319.9	323.0	207.5	371.8
Total EC 1/	32,047.7	42,582.2	29,006.0	33,295.2	3,041.7	9,287.0

1/ Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce, publication FT990.

The value of U.S. exports to the EC grew by about 33 percent in 1979. Principal U.S. exports to the EC in 1979 were machinery, crude materials, 3/ chemicals and related products, and other manufactured goods.

The value of U.S. imports from the European Community increased by nearly 15 percent in 1979. Principal commodity categories were machinery, transport equipment, iron and steel products, and other manufactured goods.

1/ Common agricultural policy, (see p. 121).
2/ Similar measures have been proposed in the past to combat the EC's huge dairy surplus.
3/ Inedible, except fuels.

Canada

Economic conditions

The growth of Canada's real GNP decelerated to 2.9 percent in 1979, the third consecutive year of restrained growth in the economy. The decreased growth in real Canadian GNP is attributable to sluggish consumer demand and Government spending and to a decrease in the growth of exports. The marked slowdown of the U.S. economy noticeably weakened growth in Canadian exports and GNP, because exports in recent years have amounted to nearly 27 percent of Canada's GNP, and over two-thirds of these exports have gone to the United States. The main stimulus to growth in 1979 came from a sharp rise in business investment in plant and equipment. Despite the deceleration in the growth of GNP, total employment expanded by 4 percent, and the rate of unemployment declined from 8.4 percent in 1978 to 7.5 percent in 1979.

Canada's consumer price index rose throughout 1979, and in December was 9.8 percent above the level of December 1978. The industry selling price for manufacturing (essentially a producers' price index) increased by 15.4 percent over the same period, reflecting rapid inflation in the food, leather, wood, paper, primary metal, and petroleum and coal sectors.

After increasing during January-June 1979, Canada's current account deficit decreased in July-December; it was $4.4 billion for the full year. This represented a 5.4-percent decrease from the 1978 deficit. Canada's merchandise trade surplus expanded modestly to nearly $3.0 billion compared with $2.5 billion in 1978 (table 16). The volume of exports actually decreased, but prices of crude and fabricated materials exports went up 29 and 25 percent respectively. These goods, which made up over 55 percent of total Canadian exports in 1979, included oilseeds, iron, copper, nickel, other nonferrous metals and alloys, petroleum, wood and paper products, chemicals, and fertilizers.

The depreciation of the Canadian dollar relative to the U.S. dollar slowed in 1979. On average during 1979, the Canadian dollar was equal to 85.4 U.S. cents, compared with 94.3 U.S. cents in 1977 and 87.7 U.S. cents in 1978. The deceleration of depreciation is attributable partly tc increased foreign purchases of Canadian energy stocks, induced by reports of new oil discoveries off the coast of Newfoundland; a better-than-anticipated current account performance; and a large increase in inflows of short-term capital.

The United States and Canada are each other's largest single markets. Canadian merchandise exports to the United States accounted for 68 percent of total Canadian exports in 1979, while Canada accounted for 18 percent of total U.S. exports. On the import side, 73 percent of Canada's imports in 1979 came from the United States, while 18 percent of total U.S. imports came from Canada. Although Canada had enjoyed a surplus in this trade for several years, it experienced an $826 million trade deficit in 1979 as imports rose faster than exports. Export growth was slowed as demand in the U.S. economy slackened for two major Canadian export categories: motor vehicles (and parts) and raw materials.

In invisibles trade, Canada has been chronically and increasingly in deficit with the United States since 1971 (the last surplus was in 1970), while its invisibles trade with the rest of the world generally has been approximately balanced. In the past several years, about one-half of the deficit with the United States has consisted of interest and dividend payments. This is because of the large amount of U.S. direct investment in Canada; approximately 80 percent of all foreign investment in Canada comes from the United States. In 1979, the net book value of U.S. direct investment in Canada approximated $34 billion and represented about one-fourth of total U.S. direct investment abroad. In October 1979, the Canadian Government

Table 16 .--Canada's trade with the United States and with all countries, 1977-79

(Exports in millions of dollars; imports in millions of dollars; trade balance in millions of dollars)

Year	All countries	United States	Ratio (percent) of trade with United States to trade with all countries
		Exports	
1977	41,893	29,254	69.8
1978	46,324	32,590	70.4
1979	55,768	37,776	67.7
		Imports	
1977	39,805	28,035	70.4
1978	43,778	30,899	70.6
1979	52,796	38,602	73.1
		Trade Balance	
1977	2,089	1,219	xxx
1978	2,546	1,691	xxx
1979	2,972	- 826	xxx

Source: Canadian Statistical Review, February, 1980.

Note: Data have been adjusted from Canadian dollars to U.S. dollars using average yearly exchange rates published by the International Monetary Fund.

estimated total U.S. direct and portfolio investment in Canada to be over $44 billion, while Canada is estimated to have about $8 billion in direct and portfolio investment in the United States.

Multilateral Trade Negotiations

The Canadian Government expressed general satisfaction with the outcome of the Multilateral Trade Negotiations. On April 12, 1979, the day on which the Proces-Verbal was signed, the Canadian deputy prime minister announced:

> The results of these negotiations, from Canada's point of view, represent a significant step forward in dealing with nontariff as well as tariff barriers. New, expanded and more certain export oppcrtunities are being opened up which will bring benefits to every part of the country and all sectors of the economy. The Canadian tariff will be reduced for most products, but gradually and to an extent which takes into account

the competitive strengths and potential of various sectors. These reductions will also lower input costs for Canadian industry as well as lowering the cost of a broad range of consumer goods. The outcome of the MTN will provide the basis for the further development of an efficient and more competitive Canadian economy in the 1980's and 1990's.

Tariffs.--As a result of the MTN negotiations, Canada agreed to reduce its tariffs on about 2,000 dutiable industrial items from a trade-weighted average of 12.0 percent to 7.4 percent. The reduction of 4.6 percentage points is equivalent to an average depth of cut of 38 percent from the previous average rate. The average depth of cut made by the United States and the EEC, which started from lower levels, is between 27 and 32 percent. However, Canadian tariffs will still remain higher on average than those in the EEC or the United States. In addition, a significantly higher proportion of Canadian imports are dutiable, compared with the proportions in its leading trading partners, the United States, the EEC, and Japan. In 1976, 54 percent of total Canadian imports were dutiable, compared with 43 percent in the United States, 41 percent in the EEC, and 37 percent in Japan. 1/

Most industrial raw materials will continue to enter free of duty. Like the other MTN participants, Canada made no reductions, or comparatively small reductions, in the level of tariffs in such import-sensitive sectors as textiles, clothing, footwear, rail cars, and ships.

In February 1979, the United States and Canada reached an understanding, in the context of their MTN negotiations, which would permit an estimated 80 percent of U.S. imports from Canada to enter duty free and 65 percent of Canadian imports of U.S. goods to enter duty free. The accord provided that duties of 5 percent or less would be reduced to zero on a variety of manufactured items, such as elevators, parts for machinery, and materials-handling equipment. Approximately 70 percent of U.S. imports from Canada and 60 percent of Canadian imports from the United States were already duty free under a bilateral agreement reached during the Kennedy Round.

As part of the understanding, the United States agreed to substantial reductions in tariffs on other items, which would allow 90 percent of Canadian exports to the United States to enter at duty rates of 5 percent or less. U.S. tariff cuts on Canadian exports of manufactured products to the United States will average close to 40 percent. This means that the average U.S. tariff rate on manufactured items of interest to Canada will be approximately 4 percent; however, the tariff rates on certain sensitive items, such as petrochemicals, textiles, and footwear, on which the United States did not reduce rates, will continue to be much higher than 4 percent.

Canada was also a signatory to the aircraft agreement which provides that, effective January 1, 1980, tariffs will be removed on civil aircraft, engines, component parts, airborne avionics, and certain related equipment. Canada is applying the aircraft agreement de facto until the Parliament approves the elimination of duties. Moreover, Canada has not applied tariffs on imports of aerospace products for many years.

Nontariff agreements.--Canada was a party to each of the six major nontariff agreements described earlier in the MTN chapter of this report. Except for the agreement on customs valuation, implementation of the

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1/ Congressional Budget Office, The Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: an Updated View, (Washington: July 1979), p. 10.

agreements in Canadian law will require little change from previous practice. The Canadian Government expressed particular satisfaction that the United States had signed the subsidies/countervailing duty agreement, thereby accepting that material injury must be found before countervailing duties are applied.

Agreement on customs valuation.--The Canadian system of valuing imports for customs purposes has been based on the fair-market value of like goods as sold in the home market of the exporting country, with provisions to cover variations in time, quantity, and quality between domestic and export sales. This procedure has been criticized on several grounds. First, when the item is not traded internally in the country of export, the Canadian valuation procedure on export sales has been to add an estimate of normal profit to the cost of production. This has led to complaints by the exporting country that the resulting valuations are too high. Secondly, the Canadian valuation system is considered to have a protective effect apart from the rates charged, because it can include costs in the valuation base that might not be applicable to products produced for export. Thirdly, exporters have complained that they must divulge confidential information to Canadian customs officials--information exporters fear may be later used against them in antidumping or countervailing duty investigations. This concern has persisted despite the fact that Canadian customs officers are bound by oath to respect the confidentiality of information provided to them. Adherence to the agreement on customs valuation, which emphasizes the price at which goods move in international trade, will require Canada to make basic changes in its customs valuation legislation and administrative practices. Therefore, Canada accepted the customs valuation agreement only on the conditions that it would be permitted to delay implementation until 1985, to give it time to make the necessary legislative changes, and that it would be able to take measures to offset any significant loss of protection that might result.

Made-in-Canada/machinery program

Throughout the MTN, the United States identified as an important nontariff barrier the Canadian practice of imposing a 15-percent duty on imports of machinery of a class or kind available from production in Canada. Canadian tariff nomenclature uses broad tariff headings under which the products of "a class or kind not made in Canada" receive more favorable tariff treatment than those "made in Canada." Within the broad product groupings, items can move from duty-free status to a 15-percent made-in-Canada (MIC) rate with 30 days notice. This shift in classification has caused U.S. companies, which had spent considerable sums of money advertising, shipping, and warehousing, to find their conditions for doing business suddenly changed.

During the MTN, U.S. negotiators urged that Canada phase out the MIC practice on the grounds that it fostered uncertainty and unpredictability for both importers and exporters, and was therefore contrary to the whole GATT concept of introducing stability into trade practices. In addition, they pointed out that the MIC concept was not appropriate to a country of Canada's industrial development. Canadian negotiators defended the practice as a means of protecting Canadian industry while avoiding penalizing firms importing capital goods not available from domestic production. However, in the end, Canada recognized that its MIC program was open to criticism and agreed to try to phase it out, but did not commit itself to eliminate the program.

The U.S. request did not ask Canada to commit itself to lowering its MIC tariffs, many of which are bound in the GATT, but to make the tariff groupings more specific so as to separate the items which qualify for duty-free treatment from those which would be subject to duties. By specifying the tariff headings more narrowly, Canada would alleviate uncertainty for U.S. exporters, since the duty rates would no longer depend on MIC/non-MIC distinctions.

As part of its request, the United States submitted to the Canadian delegation two lists of Canadian tariff items then subject to MIC/non-MIC provisions. The first list contained items of priority interest to the United States. Canada has been asked to initiate implementing action to remove MIC/non-MIC designations from these items by January 1, 1984. Canada is to complete the review on the second list of items by January 1, 1986.

In order to make certain that U.S. expectations are substantially met, the U.S. offer to Canada on agricultural equipment has been placed conditionally in the United States GATT schedule, subject to a review in 1984, of Canadian actions on the MIC/non-MIC issue. If Canada has shown satisfactory progress in eliminating these distinctions at that time, the United States will make its binding on agricultural equipment permanent.

Buy America

As a signatory to the MTN Government Procurement Code, the United States eliminated the "Buy America" provisions on direct purchases by certain covered Federal agencies. Buy America provisions still in effect in certain U.S. laws have caused some protest among countries hoping to export to the United States. In particular, Canada has complained of Buy America provisions in the Surface Transportation Assistance Act of 1978 (Public Law 95-559, Nov. 6, 1978). 1/ The Buy America preference is still in effect in this law

1/ Title IV of the Surface Transportation Assistance Act states that: (a) Notwithstanding any other provision of law, the Secretary of Transportation shall not obligate any funds authorized to be appropriated by this Act or by any Act amended by this Act and administered by the Department of Transportation, whole total cost exceeds $500,000 unless only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, and supplies mined, produced, or manufactured, as the case may be in the United States, will be used in such project. (b) The provisions of subsection (a) of this section shall not apply where the Secretary determines--(1) their application would be inconsistent with the public interest; (2) in the case of acquisition of rolling stock their application would result in unreasonable cost (after granting appropriate price adjustments to domestic products based on that portion of project cost likely to be returned to the United States and to the States in the form of tax revenues; (3) supplies of the class or kind to be used in the manufacture of articles, materials, supplies that are not mined, produced, or manufactured in the United States in sufficient and reasonably available quanties and of a satisfactory quality; or (4) that inclusion of domestic material will increase the cost of the overall project contract by more than 10 per centum.

for two reasons: (1) the Department of Transportation is not a covered agency, and (2) the type of assistance given through the act is Federal grant-in-aid to State Governments, and this type of aid is not covered by the code.

Shortly after the enactment of Public Law 95-599, representatives of the U.S. General Accounting Office visited Canadian Government officials and representatives of the three Canadian manufacturers of railway transit and commuter cars. 1/ These visits were part of GAO's activities in preparing a report 2/ to the Subcommittee on Transportation and Related Agencies, Committee on Appropriations, U.S. Senate. The Canadian Government officials indicated that for 50 years prior to the late 1960's, United States-Canadian trade in transit vehicles 3/ and equipment had consisted solely of U.S. exports to Canada, and that during 1971-77, Canada had a deficit of over $450 million in trade in this sector with the United States. They also stated that, even at the time of the discussion, most Canadian transit vehicles contained an important portion of U.S.-designed and manufactured components.

Representatives of the Canadian manufacturers indicated that they believed they could meet the requirements of the Buy America provisions, and that these provisions would not influence their decisions to submit bids to contract-awarding authorities in the United States. However, they were concerned about how U.S. officials would interpret the provision in Public Law 95-599 stating that final assembly of rolling stock take place in the United States. They cited reasons other than the Buy America provisions for their not bidding for a Chicago contract in November 1978. In January 1979, GAO contacted two Canadian car builders again, because no foreign firms had bid for a joint Baltimore-Miami contract (joint in order to achieve economies of scale). One firm stated that the Buy America provision was not a factor in its failure to bid, but the other firm replied that this provision was a major factor in its decision not to bid.

As Public Law 95-599 applies to materials as well as vehicles, it affects contract awards in the construction of highways, bridges, and subways. Consequently, it benefits U.S. producers of steel, aluminum, and other materials. It should be noted that there is only one U.S. rail car builder that is willing to bid for prime contracts for urban railcars, the Budd Co., which is owned by a West German firm, Thyssen AG.

Horticultural measures

Article XXVIII negotiations.--In July 1973, the Canadian Tariff Board began an examination of Canada's fruit and vegetable customs tariff rates and nomenclature. In April 1977, the Board recommended to the Minister of Finance that tariff and nontariff protection be increased for some items, reduced on

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1/ Hawker Siddeley, Bombardier-MLW, and Canadian Vickers.

2/ Report by the Comptroller General of the United States: Problems Confronting U.S. Urban Railcar Manufacturers in the International Market, July 9, 1979.

3/ Railcars and buses.

others, and that the Commonwealth tariff preference for certain processed fruits and vegetable items be eliminated. These proposals were adopted by the Canadian Cabinet with few modifications. 1/

In March 1978, the U.S. Government complained to the Canadian Government that a full implementation of the Canadian Tariff Board recommendation on fruit and vegetable tariffs would affect nearly one-third of the approximately $1.5 billion in annual U.S. agricultural exports to Canada. The U.S. Government further noted that, should the Canadian Government follow through with the Tariff Board's recommendations, the United States would enforce its initial negotiating rights and expect full compensation for any impairment of its GATT rights. 2/ The United States also demanded that this compensation be in the agricultural sector.

The Canadian Government responded that it was compelled to update its tariff protection, since portions of it were obsolete. However, Canada was fully prepared to accept its obligations under article XXVIII of the GATT and would offer appropriate compensation on tariffs within the agricultural sector.

Between May 1978 and February 1979, the United States and Canada held several successful article XXVIII negotiating sessions on this issue with Canada agreeing to moderate some of its original proposals on items of priority interest to the United States and offering adequate compensation on other items where the tariffs were increased.

On March 12, 1979, the Canadian Government introduced a ways and means motion relating to horticultural products. The motion was in two parts. The first part, which took effect on March 13, 1979, consisted of reductions in duties and/or periods of application. The second part, which became effective on October 14, 1979, consisted of a revised tariff schedule numbering system, increases in duties and/or periods of application, and new minimum ad valorem duties in addition to specific duties for fresh produce.

Canada also concluded trade agreements with Australia, South Africa, and New Zealand which terminated special duty preferences on processed fruits and vegetables. With the reduction or elimination of certain MFN rates, the effect of the British Preferential rates has also been reduced or eliminated on a number of other products.

Import surtax.--In a separate action in October 1979, the Canadian Agriculture Minister announced new import surtax procedures for horticultural products to speed up the system for applying a surtax on low-priced injurious imports. Since many horticultural products are perishable in the fresh state and have short marketing seasons, Canadian producers have sometimes been injured by import competition before remedial action was taken. The products that have been singled out for special "fast-track" procedures are fresh sweet

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1/ For more details, see Operation of the Trade Agreements Program, 30th report, p. 98.

2/ GATT art. XXVIII requires member countries which propose to increase import restrictions on previously negotiated items to consult with the country which has initial negotiating rights (INR's) on each item and with all principal suppliers of these items. In the case of horticultural commodities, the United States had INR's or supplier rights on more than 90 percent of the items.

and sour cherries, fresh strawberries, fresh peaches, fresh lettuce, fresh potatoes, frozen sour cherries, frozen strawberries, sweet cherries, and strawberries in preservatives. Other products may be eligible for surtax protection if the Government receives a documented request for action.

Under the new system, a trigger price will be established for each commodity before the beginning of the Canadian marketing season. Import prices which fall below the "trigger prices" will constitute evidence of injury, and the Government can then impose the surtax.

Canadian wine standards

During 1979, the Canadian Government considered adopting certain changes in Federal wine standards. However, no changes have yet been adopted. None of the contemplated changes would conflict with U.S. wine standards. In fact, the Canadian Wine Institute, which had originally proposed changes in the standards, has strongly encouraged the upgrading of the quality of Canadian wines and believes that U.S. competition will aid this endeavor.

U.S. wines have been well accepted in Canada and are competitive with French and German wines in terms of both price and quality. In addition, U.S. wines enjoy transportation and reliability-of-supply advantages over European wines.

Takeover of Asbestos Corporation

The threatened Provincial government expropriation of a Quebec-based asbestos-mining company, of which 54.6 percent is owned by General Dynamics Corp. of the United States, has generated some uncertainty among U.S. businessmen contemplating investment in Quebec.

In an effort to create more jobs in Quebec, the Quebec government decided in 1978 to take over Quebec's second-largest asbestos-mining company, Asbestos Corporation. This company was selected for government acquisition because it is the only company engaged solely in asbestos mining and the only one that is not tied to processing operations outside Quebec.

The Quebec government is concerned that the five foreign-controlled companies operating in the asbestos field have done little except to mine the asbestos and to send it elsewhere for processing. By assuming a direct role in the industry, the government seeks to encourage greater processing in Quebec, with a target of 20 percent of asbestos mined in Quebec to be processed there by 1985, compared with 3 percent in 1978. The province estimates that attainment of the goal would create 3,000 jobs.

Originally, the Quebec government planned to buy out the U.S. share. General Dynamics was not interested in selling and argued that the sale would not create any jobs. This prompted the Quebec government to introduce a bill on December 15, 1978, empowering it to expropriate most of the assets of the Asbestos Corp. The bill, passed in June 1979, left General Dynamics with the option to sell, and the U.S. company conceded that it would rather sell at a negotiated fair price than one set unilaterally by the Province of Quebec.

For a time, the two sides negotiated on a fair price, but the talks broke down in late 1979 with the two parties far apart on terms. The Quebec government offered $42 (Canadian) per share on the basis of a formula incorporating a basic price and the expected increase in profits by Asbestos

Corp. during the next 20 years. General Dynamics rejected this offer, demanding $99.75 (Canadian) per share.

While the two sides negotiated on price, however, General Dynamics brought suit in a Quebec court challenging the constitutionality of Quebec's expropriation law. In late July 1979, the court ruled that the Quebec government could not expropriate the firm until the constitutionality of the expropriation law had been tested by the courts. Hearings on the constitutionality of the expropriation law were scheduled to begin in April 1980.

The asbestos controversy has been closely watched by U.S. companies, which control about 80 percent of Canada's foreign investment and are particularly strong in natural resources. However, in general, the Quebec action has been perceived by the U.S. business community as an isolated action on the part of the Quebec government, and there has been no great flight of U.S. capital out of the province.

Banking legislation

The Canadian Bank Act, the Federal legislation covering the industry, is revised approximately once every 10 years. In 1977, the Government submitted to Parliament its proposed decennial revisions, but when Parliament was dissolved in early 1979, no action had been taken on the revisions. Instead, Parliament passed legislation extending the existing bank act until April 1, 1980.

On October 23, 1979, Finance Minister John Crosbie introduced in the House of Commons a bill revising the 1977 legislative proposals. The new bill is an omnibus measure providing for a new Bank Act, amendments to the Bank of Canada Act, a new Canadian Payments Association Act, and consequential amendments to other legislation. The principal objective of the new bill is to increase competition in the financial system.

The broad principles of the current revision are the same as those expressed in the banking White Paper of August 1976 and include:

1. An increase in the competitiveness of the banking system, including easier entry to the banking system by new or existing Canadian-owned financial institutions;

2. Establishment of a Canadian Payments Association to provide a common clearing facility for banks and all other financial institutions offering checking facilities to depositors;

3. Provision for the first time under the Bank Act of rules governing activities of foreign banks, permitting them to set up bank subsidiaries in Canada; and

4. Restriction of banks' powers in certain areas such as securities, portfolio management, data processing, and investments in Canadian corporations, and restriction of the broadening of their scope of operation into new fields of leasing and factoring.

For the United States, the provisions covering foreign banks are of greatest interest. Basically, the new legislation would provide for foreign banks to become chartered banks, albeit with restrictions on total assets and lending volume. The bill would allow the Government to maintain tight control over the performance of foreign bank subsidiaries by providing for licensing of such subsidiaries, with initial and renewal licenses for periods of up to 3 years. It would strengthen the prohibition against foreign banks operating in Canada except as subsidiaries, and would encourage banks to bring their Canadian operations under the supervision of the Bank Act. At the same time, the bill would remove the ceiling limiting a foreign bank subsidiary to no more than 5 branches, but any branches in addition to the first would require ministerial approval to ensure the protection of small Canadian-owned banks and promote a wider regional distribution of such banks. The bill would also permit foreign bank subsidiaries to have associated nonfinancial companies in Canada in certain circumstances.

The new legislation would increase the amount of assets which a foreign bank subsidiary would be required to hold in Canada against its deposit liabilities to Canadian residents. In addition, the bill proposes that the total Canadian assets of all foreign subsidiaries combined not be permitted to exceed 8 percent of all domestic Canadian assets in the banking system.

Energy policy

Background.--In 1973, war resumed in the Middle East, the Organization of Petroleum Exporting Countries (OPEC) established significantly higher crude-oil prices, Arab oil producers imposed an oil embargo against certain countries, and world oil prices rose fourfold. Although Canada, as a major energy producer, was relatively sheltered from serious adjustment problems through a Government program of price control which allowed a more gradual transition to world price levels, these events served to focus Government and public attention on Canada's energy future. In 1976, the Canadian Government outlined its policy of "self-reliance," a policy designed to reduce Canada's vulnerability to arbitrary price changes and prolonged supply interruptions by foreign oil suppliers. Also, Canada pledged to the International Energy Agency of the OECD that its imports of crude oil would not exceed 800,000 barrels per day by 1985. This objective was to be achieved through a combination of reduced growth in energy consumption and high levels of exploration and development of oil and natural gas reserves.

Canada's energy outlook has been improving. In the first place, the growth in demand for energy has contracted from the average historic rate of 4.7 percent per year from 1965 to 1975, and has been forecast at 2.4 percent per year between 1976 and 2000. 1/ In addition, higher prices have increased supply, because hydrocarbon reserves, which were uneconomic at lower price levels, are now being put into production. The oil and natural gas industries are currently reinvesting a high proportion of their increased revenues in exploration and development of new energy resources. Also, the Canadian Government is encouraging increased attention to Canada's frontier areas and to the development of nonconventional energy sources such as the oil sands and renewable energy.

During 1979 Canada exported 2.1 billion dollars' worth of crude petroleum and 2.5 billion dollars' worth of natural gas, all to the United States. These exports represented about 4 percent of total U.S. imports of crude petroleum and 89 percent of total U.S. imports of natural gas in 1979.

1/ Estimate of Dr. Lawrence J. Murphy, Senior Economist, Gulf Canada Ltd.

1979 oil policy.--Canada's oil policy in 1979, set by the Conservative Government, was to pursue measures designed to lead to energy self-sufficiency by 1980. In general, these measures included continuing a number of steps followed since the mid-1970's: allowing domestic oil prices to rise toward OPEC levels, promoting conservation of the dwindling supply of conventional light crude oils, attracting investment in the production of heavier and nonconventional oil sources, and increasing the price of imported oil by reducing the subsidy on oil imported from abroad into Eastern Canada. To achieve this, the Government had been increasing the price of domestic oil by about 84 cents every 6 months. However, with the rapid escalation in OPEC prices, the gap between Canadian and OPEC prices actually widened.

During 1979, Canadian policymakers debated whether domestic oil prices should be brought up to world levels or whether they should be allowed to lag behind. Provincial government policymakers in Alberta, the source of 85 percent of Canada's oil and gas, argued that Canadian prices should be elevated to world levels as soon as possible. 1/ Partially underlying this position was the fact that under an agreement with the Conservative Government, Alberta would have received around 40 percent of the incremental revenues accruing from a price increase, with the remainder going to the Federal Government and the industry. 2/ In addition, Alberta's policymakers see a price increase as a remedy for declining oil supplies, since it would then be economically feasible to use more costly production techniques to enhance oil recovery. In direct contrast to the position taken by Alberta's policymakers, policymakers in Canada's Eastern provinces have been adamantly opposed to any price increase. Most of Canada's manufacturing, greatly dependent on energy, is located in Eastern Canada. Since 1975, Canada has experienced severe balance-of-payments deficits in manufactured goods, and policymakers in Eastern Canada fear that a large increase in energy prices would cause Canadian manufacturing industries to become even less competitive.

The Conservative Government in late 1979 proposed a series of rapid price increases which would raise the price of oil from $13.75 (Canadian) per barrel to at least $25 (Canadian) per barrel by increasing the rate of increase of oil prices and imposing a Federal excise tax. However, to allay Eastern Canadian fears about losing competitiveness, the Canadian Prime Minister suggested that Canadian prices should not increase so fast that the price in Canada would be higher than the price paid for crude oil by U.S. refiners in Chicago.

1979 gas policy.--In contrast to Canadian estimated crude oil reserves, which declined by 50 million barrels in 1979 to 6.8 billion barrels, Canadian estimated reserves of natural gas increased by 6.2 trillion cubic feet to 88.6

1/ Increases in the price of oil are negotiated between the Federal and provincial governments.

2/ With the fall of the Conservative Government in February 1980, however, this agreement is no longer in effect. Alberta is currently discussing with the Liberal Government a new agreement for distributing the incremental revenues of any price increase.

trillion cubic feet. 1/ Including gas reserves in frontier areas, it has been estimated that Canada will have a natural gas exportable surplus extending beyond the year 2000. 2/

The export of natural gas is subject to license by the National Energy Board (NEB) and approval by the Governor in Council. The NEB must be satisfied (1) that the quantity to be exported is surplus to reasonably-foreseeable requirements for use in Canada and (2) that the export price is just, reasonable, and in the public interest. The NEB uses three tests to calculate the surplus. The most restrictive is the current deliverability test, which compares estimated annual deliverability from established reserves with estimated annual Canadian requirements plus previously authorized exports. This test has shown a natural gas surplus of 4.5 trillion cubic feet. The current reserve test compares the inventory of established reserves with 25 times the first year's forecast for Canadian demand plus previously authorized exports. This test has shown a gas surplus of about 10 trillion cubic feet. The future deliverability test compares estimated annual deliverability from established reserves and from additions to these reserves with estimated annual Canadian demand plus previously authorized exports. This test resulted in a surplus of 13.8 trillion cubic feet. Gas will not be licensed for export unless it meets the stringent current deliverability test.

Except for certain emergency exports and short-term deliveries, Canada had authorized no new licenses since 1970 for the export of natural gas to the United States. At the end of 1979, about 9.4 trillion cubic feet remained to be exported under old licenses. During hearings before the NEB in July and August 1979, 10 Canadian companies proposed exports totaling 9 trillion cubic feet over the next 15 years. On December 6, 1979 the NEB announced that it had authorized 3.75 trillion cubic feet of new exports of natural gas to the United States, less than one-half of that requested. The first deliveries under the new licenses were scheduled for January 1, 1980. The longest term of the new authorizations is 8 years, and all of the new exports are scheduled to terminate by December 31, 1987.

Tar sands.--Canada has immense petroleum resources in the vast Athabasca oil sands of Alberta. Although the technology to exploit these resources is available, it is extremely costly and will require the full commitment, including financial support, of the Government. At a United Nations conference in June 1979, Canada, the United States, and provincial representatives from Alberta and Saskatchewan signed a "Memorandum of Understanding for Cooperation in the Research and Development of Tar Sands and Heavy Oil." The purpose of the memorandum is to assist the parties in assembling, coordinating, and interpreting existing knowledge in the field, and in assembling a data base.

Oil produced from tar sands is considered heavy oil. In the past, heavy oil has been shipped to the United States, as Canadian refineries have not been adapted for using it except to meet seasonal asphalt requirements. However, Canada has been upgrading its technology and is developing

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1/ Estimate by Canadian Petroleum Association. Estimate for natural gas includes 17.5 trillion cubic feet in frontier areas: the Mackenzie Delta/Beaufort Sea and the Arctic Islands.

2/ Estimate of Dr. Lawrence J. Murphy, Senior Economist, Gulf Canada Ltd.

hydrotreaters to convert heavy bituminous material to light crude. When these plants are in place (probably by the mid-1980's), oil exports to the United States will probably decrease, since it is expected that the additional light crude oil will be used by Canadian petrochemical producers to increase output.

Energy forum.--Many energy subjects of mutual interest to Canada and the United States are now discussed in a new forum, the Canada/U.S. Consultative Mechanism on Energy. This forum was established early in 1979 as the world oil situation became increasingly uncertain with the overthrow of the Shah of Iran. Within this framework, senior officials have discussed the international oil picture, the oil and natural gas situation in each country, bilateral energy issues including crude oil exports and oil exchanges, the U.S. petroleum strategic reserve program, and west-to-east pipelines.

Japan

The economic situation in 1979

The real growth of the Japanese economy continued at the relatively moderate rate of 6.0 percent in 1979, approximately the same as in 1978, and gross national product reached $1,008 billion. International confrontation over trade issues subsided somewhat as the Japanese surpluses in trade and current accounts disappeared, owing in part to the 1978 appreciation of the yen and in part to the growth of demand within Japan. Continued diplomatic activity addressed the more substantive issues which had surfaced within the context of bilateral and multilateral discussions, particularly those related to the MTN.

Efforts by the Japanese Government to stimulate the domestic economy showed positive results, as Japan displayed its traditional resiliency by adapting to slower growth in the export sector through much of the year. Exports grew by only 5.6 percent in dollar terms to $103 billion, but showed particular strength late in the year. Industrial production accelerated slightly to a growth rate of about 8 percent, reflecting expanded demand for both capital and consumer goods. The rate of unemployment declined slightly from the high in 1978 to 2.1 percent in 1979.

As the improvements in production and employment became apparent, the Government began to shift from a growth strategy to one of anti-inflationary emphasis. Under the earlier policy, the wholesale price index reversed direction from a 2.5-percent decline in 1978 to a 7.3-percent increase in 1979; by yearend, this index was rising at an annual rate of nearly 20 percent. The rise in wholesale prices in 1979 is attributed to the rise in energy costs and the decline in the value of the yen relative to the currencies of Japan's major trading partners. Consumer prices increased an average of only 3.5 percent during the year, not yet reflecting the movements in the wholesale prices, but showing similar indications of acceleration at yearend. The Bank of Japan raised its discount rate from 3.5 percent to 6.25 percent during 1979 and tightened its "window guidance" on lending activities as anti-inflationary measures.

The Japanese yen was valued at 195 per U.S. dollar as 1979 began, having declined 10 percent in value from the record high value of the previous November. Throughout the year the value of the yen continued this weakening trend, primarily owing to unease concerning the vulnerability of the country to the uncertain petroleum supplies from the Middle East and to the selling pressures generated by international interest rate differentials; at yearend the yen was valued at 240 per U.S. dollar. The Bank of Japan frequently intervened in the exchange markets in an effort to control excessive short-run fluctuations in transactions without distorting the underlying trend. Foreign exchange reserves of the Bank of Japan declined more than 30 percent during the year, to $20 billion, partially because of this intervention.

The exchange-rate changes of the previous year, during which the yen had appreciated 23 percent relative to the U.S. dollar, were followed in 1979 by the long awaited decline in the trade surplus, a situation which had plagued Japan's relations with its trading partners for several years. 1/ This realinement had been expected to produce results somewhat sooner; nevertheless, monthly trade surpluses persisted into 1979. By mid-year, the trade effects were apparent, as imports consistently outweighed exports; the merchandise trade deficit for the year was $7.5 billion (exports valued f.o.b., imports valued c.i.f), compared with a surplus of $18.2 billion in 1978. The balance on current account likewise became negative, reaching a record $8.6 billion deficit, compared with the 1978 surplus of $16.5 billion. The leading contributor to the deficit was not, however, the $7 billion increase in manufactured imports (stimulated partly by the 1978 yen appreciation), but was a $10 billion (42 percent) increase in the value of petroleum imports. Crude oil was more than 30 percent of the total import bill of $111 billion; other mineral fuel imports added $12 billion to the cost of energy to Japan.

Controls on international transactions

In September 1979, the Ministry for International Trade and Industry (MITI) announced the end to its export-monitoring program. 2/ These voluntary restraint measures had been put into effect during 1978 in a period of international tension over the persistent Japanese trade surplus. MITI explained that the guidelines were no longer necessary in light of the trade deficit which Japan apparently would suffer in 1979. The eight industries which were monitored were those particularly competitive with similar industries in other industrialized countries and which showed indications of continuing export growth. Exports of products from the first group of four--automobiles, steel, television receivers, and ships--were to be held at levels not exceeding those of 1977. Exports of products from the second group--cameras, watches, copiers, and motorcycles--were to be held to rates of growth not exceeding the rates of 1977. Among these products, during 1978 only automobiles exceeded the export guidelines suggested by MITI.

A review of the Japanese foreign exchange control system had been conducted in 1978. The review determined that the extensive balance-of-payments controls, dating from the immediate postwar period, were no longer required to avoid balance-of-payments difficulties and were a cause of criticism from other industrialized countries. Therefore, in December 1979 the Japanese Diet approved legislation permitting all foreign transactions except those which might require specific Government approval, such as export transactions with deferred payment periods over 1 year and the acquisition of mining rights. The Government retained the right to impose emergency controls, mainly on bond issues, lending, and direct investment, either by foreigners in Japan or by Japanese in foreign countries.

1/ See Operations of the Trade Agreements Program, 30th Report, pp. 82-91.
2/ Ibid., p. 85.

Special commodity problems

Rice.--In May 1979, the Government of Japan proposed a program for disposal in the world market of excess rice stocks purchased under a domestic price-support system. Initial projections were for the export of about 200,000 metric tons of rice during fiscal year 1979. 1/ Japan is not a traditional exporter of rice, and in 1978 such sales were only 82,000 metric tons; imports in 1978 reached about 62,000 metric tons. The bumper rice crop of 1978 raised official stocks by at least 1.4 million metric tons to about 7 million tons. Most domestic production is purchased by the Government at prices four to five times the world price of approximately $300 per ton for rice of comparable quality. By yearend 1979, however, total exports of rice from Japan surpassed the initial projections by a substantial margin; exports under the program exceeded 575,000 metric tons, and sold for an average value of less than $268 per ton. In addition, financial arrangements on a large portion of these sales included concessionary repayment terms. The major buyers were the Republic of Korea, Indonesia, and Bangladesh, all of which are traditional buyers of U.S.-produced rice. U.S. exporters expressed dissatisfaction with Japan's subsidized sales in these markets. Japanese imports of rice, most of which comes from Thailand, dropped to about 16,000 metric tons in 1979.

Pork.--On November 30, 1979, Japanese pork processors and importers responded to the urging of domestic producers to suspend contracts to import pork and to process imported pork for a period of at least 4 months; all pork arriving in Japan during this period was to be placed in bonded warehouses. Although U.S. Embassy officials were unable to verify reports of the formal use of administrative guidance by the Japanese Government, the program was supported by the several ministries having jurisdiction in this area. The program was viewed as a voluntary effort on the part of participants to stabilize the price of pork, recently fallen below the official support level. Reduction of pork imports was seen by U.S. Embassy officials as a supportive step in winning the approval of the Diet for the duty reductions to which Japan had agreed in the MTN. Japan imported about 33,000 metric tons of pork from the United States in 1979 (approximately 25 percent of Japan's total imports of pork).

Japan's participation in the Tokyo round

By yearend 1979 Japan had not yet ratified the Multilateral Trade Agreements. The agreements require formal approval by the Diet before they can take effect for Japan, a step delayed primarily because of domestic political considerations; the Government of Japan affirmed its intention to present the agreements to the Diet in early 1980. Only the dairy and meat agreements had been signed without reservation by Japan, although the Government indicated that it would act in accordance with the codes of the MTN to the extent consistent with existing laws.

Tariff reductions.--The average depth of tariff cuts, on a trade-weighted basis, agreed to by Japan for industrial products, is approximately 50 percent from GATT-bound rates. During recent years, however, Japan has unilaterally

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1/ All trade data in this report are based upon data in calendar 1979 unless specifically stated; because the Japanese fiscal year is from Apr. 1 to Mar. 31, Government plans and many statistics are not reported by official sources on a calendar-year basis.

reduced tariff rates on many articles included in the negotiations so that the depth of cut from the rates actually applied is 28 percent, comparable with the cuts made by the United States and the European Community. After the implementation of the agreements, Japan's trade-weighted average tariff rate for all industrial goods, vis-a-vis that of the United States, is expected to be approximately 2.3 percent. Particularly large reductions were pledged on some items of interest to the United States: the tariff rates on photographic film are to be reduced to 4 percent from 30 to 40 percent, those on automobiles to 3 percent from 17 to 30 percent, and on integrated circuits to 4.2 percent from 15 percent.

Government procurement and the joint statement of June 2, 1979.--A major issue which had emerged as a result of the negotiations on the Government Procurement Agreement was the insistence by the United States that certain of Japan's "public companies" be included in coverage by the code. These companies are quasi-Government in nature and are generally owned or controlled by Government agencies--similar to the Tennessee Valley Authority in the United States--but do not consider themselves to be Government agencies. Of particular interest to the United States is Nippon Telegraph & Telephone (NTT), which has absolute authority over the domestic Japanese telephone and telecommunications network. In 1977, NTT purchased over 2 billion dollars' worth of goods, of which imports accounted for only 0.5 percent. Much of the Japanese resistance to the inclusion of NTT originated in the company itself, which maintained that foreign equipment was inferior in performance to that made in Japan, and that, owing to the development of design criteria for its equipment in cooperation with Japanese suppliers, the opening of the bidding process to foreign suppliers would allow proprietary information to become public. The reluctant cooperation of NTT was obtained through persistent negotiation, although the extent to which foreign access to this market would be expanded had not been determined at yearend.

In anticipation of the Tokyo Summit Meetings scheduled for July 1979, Ambassadors Robert Strauss and Nobuhiko Ushiba initialed an agreement on June 2 concerning the issue of Government procurement and other MTN-related matters in an effort to relax tensions generated by continuing disagreement. Significantly, the two Governments agreed that Japan, the United States, and other major trading partners should provide mutual reciprocity in access opportunities to their markets, including that for telecommunications. Japan and the United States agreed to endeavor to reach final agreement on coverage of the field of telecommunications under the MTN Government Procurement Agreement before January 1, 1981, the effective date of the agreement. In a significant new offer, the United States accepted Japan's view that access opportunities to markets provided by U.S. telecommunications enterprises are also relevant under the program, reserving the right, however, to withdraw the offer should final agreement not be reached. 1/ The two Governments agreed that, during the course of the continuing negotiations, both would make efforts to facilitate sales and participation in their respective markets by foreign suppliers. Agreement was also reached on future review of the extent to which telecommunications trade is reciprocal, fair, and equitable. Negotiations on these issues were continuing at yearend 1979.

1/ This was the first admission by the United States that a comparison of the procurement policies of American Telephone & Telegraph (AT&T) with those of NTT is not wholly inappropriate.

Other MTN-related topics addressed by the June 2 agreement included Japan's agreement to make tariff cuts from applied rates rather than GATT-bound rates and to accelerate implementation, where possible, by taking both first- and second-year cuts in 1980. The Governments also agreed to negotiate an accord on Japan's testing and certification procedures prior to January 1, 1980, and to encourage imports of U.S. coal into Japan. Finally, Japan and the United States agreed to open discussions on problems relating to imported cigars and cigarettes in Japan, another issue relating to a public company (the Japan Tobacco and Salt Public Corporation).

Standards and the joint statement of December 7, 1979.--A joint statement of standards, testing, and certification was initialed by representatives of Japan and the United States on December 7, 1979. Although negotiations were begun on specific points of this issue within the United States-Japan Trade Facilitation Committee (TFC), the relevance of standards to the MTN led to formalization of the discussions by the Strauss-Ushiba statement of June 2. The December 7 statement, although not a resolution of specific TFC complaints, included most of the issues which had been raised within the TFC and its related group, the Trade Study Group. The eight points of the statement are:

1. Mutually acceptable arrangements for the acceptance of test data from the exporting country should be agreed upon, with the objective of achieving reciprocity of treatment between the United States and Japan;

2. There should be sufficient notice of proposed changes in standards and procedures to permit comments from foreign producers to be considered;

3. Standards and procedures applied to foreign products should be comparable to those applied to domestic products;

4. Information on standards and specific test procedures applied by testing organizations should be available to the producer, including information concerning areas in which a product may have failed to meet the relevant criteria;

5. Appeal procedures should be accessible and expeditious to foreign producers;

6. Minor changes in specifications of a product should require reevaluation of only those criteria affected by the change, not the entire application and testing procedure;

7. Standards should be specific in terms of performance criteria rather than design criteria so that products which meet the tests by alternative design techniques will not be considered as having failed;

8. Where maximum allowable limits of substances contained in products are set for health or safety reasons, consideration should be given to existing international standards.

The two countries agreed to consultations as necessary on specific points of the statement and agreed to attempt to reach accord on outstanding specific product issues by January 1, 1981.

Policies and programs of interest to the United States

The substantial bilateral trade imbalances between Japan and the United States for several consecutive years, and the concentration of Japanese exports to the United States in certain sectors--particularly automobiles and electronics--coupled with formal restrictions and other impediments to U.S. exports to Japan had raised tensions between the two countries during most of 1977 and 1978. The Strauss-Ushiba agreement of January 1978 1/ defused some issues as Japan agreed to promote increased imports on a global basis by following an expansionary economic policy, unilaterally removing or reducing some tariffs, relaxing quota restrictions on beef and citrus fruit, and actively promoting imports from the United States through its official trade-related agencies. Certain issues remained unresolved, however, and continued to plague U.S.-Japanese bilateral relations and progress at the MTN into 1979.

The joint statement of May 2, 1979.--The late Prime Minister of Japan, Masayoshi Ohira, and President Jimmy Carter met in Washington in May 1979 and, after conclusion of their discussions, issued a joint communique which said, in part:

1. Both countries agree that there must be a more constructive approach to bilateral economic relations and that continuing discussions on economic issues will emphasize overall trade and current account objectives more than the specific actions taken by each Government in support of these objectives, these actions being the national responsibility of each Government;

2. The strong economic links between Japan and the United States require joint actions to strengthen cooperation so that contentious bilateral economic issues can be removed from the forefront of their relations;

3. The respective current account imbalances in 1978 were not appropriate in existing international circumstances, and appropriate actions should be taken by both Governments to insure and sustain the progress that had been made in reducing these imbalances;

4. The policy of Japan will continue to encourage a shift to greater reliance on rising domestic demand to sustain Japan's economic growth, and Japan will continue to open its markets to foreign goods, particularly manufactured goods;

5. Both Governments will have as one objective of their policies the reduction of their current account imbalances until a position consistent with a balanced and sustainable pattern of international trade and payments has been achieved;

6. These goals are recognized as requiring several years to accomplish and, therefore, the existing Japan-United States subcabinet group will continue to meet and examine developments and results at periodic intervals;

7. A small group of distinguished persons from private life will be established to study and submit recommendations to the Prime Minister and the President on actions that the group considers would help to maintain a healthy bilateral economic relationship between the United States and Japan;

1/ See Operation of the Trade Agreements Program, 30th report, for more detailed discussion of these issues and the Strauss-Ushiba agreement.

8. Both Governments recognize the necessity for free and expanding trade, and that it is essential to reach a successful conclusion of the Tokyo round of the MTN as well as to proceed with its subsequent implementation;

9. Consultations and exchanges of information concerning the supply and demand situation for agricultural products that figure in bilateral trade would be established between the relevant authorities of the two Governments.

The Japan-United States Economic Relations Group.--The May 2 communique by President Carter and Prime Minister Ohira called for the establishment of a small group of distinguished persons to study and advise the two Governments of actions which the group believes will help to maintain a healthy bilateral economic relationship. The group was established in late summer with the official title of the Japan-United States Economic Relations Group, generally known as the "wisemen's group." It is co-chaired by former U.S. Ambassador to Japan Robert J. Ingersoll and former Japanese Ambassador to the United States Nobuhiko Ushiba, and the membership includes only people not holding current Government positions. The first meeting, held in Washington during December 1979, was organizational in nature with the primary goal of determining the terms of reference for the group. It was decided at that time that investigations should be of potential problem areas with a medium- to long-term nature and that the first area of consideration would be the relative accessibility of the two countries' markets to foreign products. Other topics suggested include the international competitiveness of U.S. industries and bilateral trade problems in the area of higher technology. Several additional meetings were planned before a final report on any specific topic is to be issued; interim reports may be available as work progresses.

The Joint Trade Facilitation Committee.--The Joint Trade Facilitation Committee (TFC) was established in September 1977 by the U.S. Department of Commerce and Japan's Ministry of International Trade and Industry. The primary function of the TFC is to resolve complaints by U.S. businessmen concerning Japanese Government policies, regulations, or practices which create in effect, if not in intent, barriers or impediments to trade between the two countries. 1/ The TFC also participates in other activities designed to promote U.S. exports to Japan. During 1979, the TFC received 12 trade-related complaints from businesses or trade groups, representing a substantial decline from more than 50 complaints in the previous year. This decline in caseload is attributed by Department of Commerce officials to the resolution of the backlog which had accrued over the years before the TFC was established. In 1979, after completion of the necessary documentation and evaluation by TFC representatives in Washington and Tokyo, six cases were determined to be appropriate for settlement within the TFC format and were added to the five cases in progress as the year began. At yearend, six of these cases had been resolved in a manner favorable to the U.S. plaintiff, and five continued under discussion between the TFC and authorities of the Japanese agency having jurisdiction over the alleged trade impediment.

One case in progress, that of the absolute and discriminatory control of the market in tobacco products by the Japan Tobacco and Salt Public

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1/ Ibid.

Corporation, became the subject of the bilateral consultations and two investigations under section 301 of the Trade Act of 1974. 1/ Another, involving standards, was the subject of a statement of principles on December 7, 1979. 2/

The complaints accepted by the TFC have concerned a wide range of products, suggesting that Japanese impediments to imports are not concentrated in narrow product categories. The subjects of its investigations have included medical equipment, telecommunications equipment, electrical appliances, tobacco products, automobile parts, and marine craft. The TFC shifted emphasis during 1979 from the problems of individual firms to those which face entire U.S. industries, e.g., producers of fertilizer and of modified food starches.

As had been expected by TFC authorities, 3/ there have emerged patterns in the types of trade impediments brought to the attention of the TFC. Most cases can be classified into one of the following categories:

1. The application of administrative guidance by the relevant Japanese Government agency with pressure on importers to reduce their procurement from foreign sources for the benefit of domestic producers;

2. Customs clearance difficulties faced by importers, including excessively rigorous enforcement of regulations, reclassification of an imported article to a category having higher rates of duty than the initial classification, and difficulties in obtaining refunds of duties paid on reexported articles; and

3. Standards, testing procedures, and product-approval procedures which may be subject to change without adequate notification to foreign producers or exporters, which are often inflexible with regard to alternative designs meeting the same performance and safety standards, said tests being acceptable only if performed in Japan by an approved agency--a violation of the principle of reciprocity with trading partners--and often being applied in a manner needlessly increasing the costs to the exporter.

Other TFC activities during 1979 included the conversion of a Japanese ship into a floating department store stocking quality U.S.-produced goods. The ship, known as Boatique America, visited 13 Japanese ports during October-December 1979, entertained over 400,000 visitors, and generated sales to consumers of more than $3 million. The Department of Commerce termed the project a trade promotion success.

The Trade Study Group.--The Trade Study Group (TSG), established in 1977, is a joint committee of representatives of the Japanese and U.S. Governments and of nongovernmental organizations such as the Chamber of Commerce of the United States and the Japanese Federation of Economic Organizations (Keidanren). The mission of the TSG is to identify and analyze barriers to trade with Japan and to recommend methods to remove them. The TSG is not intended to participate directly in the resolution of specific problems before the Trade Facilitation Committee, through which it reports, but to work toward

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1/ See p. 26, ch. 1.
2/ See p. 240 this chapter.
3/ See Operation of the Trade Agreements Program, 30th report, p. 88.

the solution of broader issues. Because of the lack of direct negotiating authority and the discussion of many of the TSG issues in more than one forum, the extent to which the TSG has been effective in its work is difficult to evaluate.

The TSG was reorganized in early 1979 into four committees, two of which serve as study groups. The Generic Products Committee (GPC) was directed to investigate, analyze, and propose solutions to nontariff barriers not specific to one product category. Initially, attention was given to the issue of Japan's standards from the perspective of the new GATT standards code. Other areas under study include testing procedures and customs matters. Each of these areas was closely related to the work of the TFC on specific complaints and to bilateral discussions in the MTN. No report was issued by the GPC in 1979. The second committee, the Products Program Committee (PPC), was directed to study barriers to trade in specific product and services categories; many of the issues under investigation overlapped with those studied by the GPC, and coordination between the two committees was relatively close. Specific areas examined by the PPC include automobiles, electrical appliances, agricultural chemicals, processed foods, health care products, and trade finance. Although no reports were released during the year, the attention drawn to these topics through discussion was productive in several instances. The MITI made several changes, effective April 1979, that were first addressed in the 1978 report on electrical appliances. 1/ Other changes included the acceptance of data from the Underwriters Laboratory for the purpose of meeting Japanese test requirements. There was little progress on the automobile issue, a subject of continuing bilateral consultations. The Ministry of Transportation, in an effort to improve communications channels between the Government of Japan and U.S. automobile manufacturers, posted several technical personnel in New York during 1979. Other areas of study showed no visible progress. The remaining two committees, the Communications Program Committee and the Program Promotion Committee, have public relations responsibilities in the development of communications between the TSG and the business communities of both countries and in the support of U.S. Embassy activities for trade promotion; the Program Promotion Committee was active in the development of the Boatique America project.

Textile agreement.--In August 1979, Japan and the United States signed a 3-year bilateral textile and wearing apparel agreement. 2/ The previous agreement, which had been scheduled to expire at the end of 1977, had been relaxed for Japan in February of that year, when it appeared that Japan would decline in importance as a supplier of textiles to the United States. However, owing to an increase of more than 60 percent in the value of U.S. imports of these articles from Japan in 1977, allocations were reestablished, retroactive to January 1977, and the agreement extended through 1978, so that negotiations on the issue might be pursued. 3/ The new agreement, retroactive to January 1979, sets no aggregate limits on trade in most cotton, wool, or manmade fiber products but provides for bilateral consultations in the event of perceived market disruption and for the imposition of unilateral restrictions if a mutually satisfactory solution is not achieved through such consultations. The agreement allows for reasonable growth in the quantity of imports of those articles which are restricted: 6 percent for wool and 20 percent for cotton and manmade fibers over the level of average annual imports during the first four of the five calendar years preceeding the request for consultations or over the level of imports during the first 12 of the 14

1/ Ibid., p. 89.
2/ See p. 39.
3/ See Operation of the Trade Agreements program, 29th report, p. 100.

months preceeding such a request, whichever is greater. The previous agreement had allowed 9 percent growth in wool and 30 percent growth in cotton or manmade articles over the most recent 12-month period.

The Sino-Japanese agreement

The late Japanese Prime Minister Ohira visited China in early December 1979. During the visit, agreement was reached between the two countries on Japanese financing of six major infrastructural construction projects, including several port facilities, railroads, and a hydroelectric power plant. Japan committed about $220 million for the remaining 3 months of fiscal year 1979 (ending Mar. 31, 1980) in untied aid for initial work on the projects. The total cost of the six projects is expected to exceed $1.5 billion, for which financing was tentatively committed depending upon the results of a review of progress of the construction and the status of the Japanese budget for official development aid. The terms of the loan were concessionary at 3 percent per annum over 30 years, and included a 10-year grace period. The loan was the first of this nature accepted by China since its announcement in July 1979 of its willingness to participate in joint ventures and the subsequent announcement in September 1979 of its willingness to consider government-to-government aid for development purposes as well as commercial financial arrangements. The joint statement following the meeting also included a commitment by Prime Minister Ohira to present to the Diet, in 1980, legislation proposing granting preferential tariff status (GSP) to China.

Concurrent with the meeting of the leaders of Japan and China, representatives of Japan's National Oil Corp. and China's Petroleum & Natural Gas Exploration & Development Corp. agreed to the mutual development of oilfields in Northern China. The costs of the exploration are to be divided, 51 percent to China and 49 percent to Japan, although the Japanese Import-Export Bank will bear the Chinese share of the project costs until the sale of the expected oil production allows reimbursement by the Chinese. Reserves in the region are estimated at 600 million barrels.

Mexico

International trade policy

The basic objectives of Mexico's trade policy are (1) promotion of exports, (2) encouragement of domestic industries, and (3) diversification of export markets and sources of supply.

Mexico strives to promote domestic production by protecting its industries from foreign competition. Protective measures have consisted of high-tariff barriers, complex systems of import licensing, domestic-content requirements, and official valuation of imports. Although a high degree of protection still exists, in recent years increased emphasis has been placed on export promotion and in developing more competitive domestic industries. Mexican views are divided about giving up highly protective import restrictions and allowing increased foreign competition, but some trade liberalization has occurred.

In 1974 the Mexican Government reorganized its tariff schedules to be compatible with the system of the Customs Cooperation Council. In the following year, Mexico began to liberalize its import restrictions as described below.

Import licenses.--For two decades, Mexico relied increasingly on import licensing as its primary method of controlling the quantities of imports. In 1975, because of balance-of-payments difficulties, all imports were made subject to license, but some were removed from such requirements in August of that year. In 1977, Mexico began a program of gradual replacement of import licenses by higher rates of duty. 1/ The intent of the higher rates was to maintain levels of protection comparable to what had been provided under import licenses. During 1975-78, import-licensing requirements were eliminated on over 4,000 products, representing about 35 percent of Mexico's imports by value.

In December 1979, Mexico removed the import-licensing requirement for an additional 586 tariff items, substituting increased tariff rates effective January 1, 1980. These items consisted of chemical products, textiles, wearing apparel and shoes, certain capital goods, and agricultural and forest products. Mexican representatives indicated that removal of requirements for remaining items, particularly other capital goods, was being considered. Mexican development plans called for possible reintroduction of import licenses for some products, to aid in establishing "priority industries" (See p. 153).

Customs valuation.--On July 1, 1979 a new customs valuation law went into effect, partly replacing the Mexican system of using official prices 2/ for customs valuation. Formerly, duties on many imported items were computed using higher "official prices" instead of invoice prices, often considerably increasing the amount of duty paid. The new law, which permits use of invoice prices for calculating duty, should result in somewhat lower tariff levies on items covered by the change. However, official prices will continue to be applied on tariff items that are exempt from import license requirements, on luxury items not manufactured in Mexico, and on other items when the use of such prices is deemed necessary to meet Mexican development goals. Mexican sources claim that official prices will be retained on some 800 items, accounting for about 6 percent of imports by value, compared with approximately 7,500 items under previous legislation.

Mexico's participation in the Tokyo round and its negotiations for accession to GATT

Mexico participated actively in the Tokyo round, looking toward possible accession to the GATT at the end of the MTN. A protocol for the accession of Mexico was prepared at the end of the year. Mexican tariff concessions and U.S. tariff concessions negotiated with Mexico were annexed to the protocol. By year-end 1979, however, the Mexican Government had not decided whether it would join the GATT or adhere to any of the nontariff measures agreements

1/ The Mexican import licenses are not compatible with GATT rules, and it is thought that Mexico began shifting to import duties in preparation for applying for GATT membership.

2/ Mexican use of official prices was not compatible with GATT rules.

negotiated in the MTN. Representatives of Mexico stated that the effects on Mexican interests of some of the nontariff barrier agreements, codes on import licensing and customs valuation in particular, were being analyzed and assessed by Mexican authorities.

On June 3, 1975, Mexico informed GATT officials that it was considering applying for GATT membership. In August 1975, as previously indicated, Mexico began substituting increased tariff rates for import quotas that had been coupled with licensing requirements, and in December 1978, in conformity with new customs legislation, it revised its practice of using official prices for customs valuation, bringing Mexican trade restrictions further in line with GATT provisions. On January 16, 1979, Mexico notified the GATT Council that it wished to enter into negotiations for possible accession to the General Agreement.

On January 29, 1979, the GATT Council appointed a working party to examine Mexico's trade policies and negotiate an accession accord. The group composed a draft protocol for the accession of Mexico. Mexican commitments were qualified by references to development plans and the necessity of protecting the agricultural sector. Mexico agreed to continue gradually phasing out its quantitative restrictions, coupled with import licensing, and to replace them with higher duties; to apply trade restrictions without discrimination; and to phase out official prices as a basis for levying import duties. Measures for periodic GATT review of Mexican progress in these areas were included in the protocol. On November 6, 1979 the GATT Council approved the protocol.

By the end of 1979 Mexico had completed its negotiations with the Contracting Parties, as required of prospective members, and the protocol of accession was prepared for submission to the Contracting Parties for approval. On March 18, 1980, however, the Mexican Government announced that Mexico was indefinitely postponing GATT membership. 1/

Bilateral trade agreement between the United States and Mexico

During 1979, the United States and Mexico negotiated a bilateral trade agreement within the context of the Multilateral Trade Negotiations. The agreement was signed on December 28, 1979. The U.S. and Mexican concessions contained in this agreement were to be appended to the protocol for the accession of Mexico to the General Agreement. Consequently, implementation of all the Mexican concessions was contingent on Mexico's joining the GATT; and the same applied to those U.S. concessions in the list which had not already been annexed to the Geneva (1979) protocol, which was opened for signature in July 1979.

1/ On Mar. 18, 1980, Mexican President Lopez Portillo announced that Mexico would not join GATT in the near future. He labeled the action a "postponement," leaving open the possibility of later Mexican participation in the General Agreement.

The Mexican concessions on manufactured goods (valued at approximately $130 million) 1/ included duty reductions, bindings of current rates, and staged easing of quota restrictions. Mexican representatives stated that, in line with Mexico's program of gradual substitution of higher tariffs for import quotas coupled with licenses, 2/ it was possible that the license requirements would be completely removed for some products before specified deadlines.

Products of key interest to the United States included bourbon whiskey; gelatin; nonferrous metal products; tin-coated steel sheet; outboard motors; parts for use in the aircraft industry; refrigerators; machinery for the paper, rubber, and plastics industries; scientific instruments; and certain controlling devices.

In conformity with Mexico's protectionist agricultural policy, most agricultural products listed in the agreement retained prior import permit requirements. Nondiscriminatory quotas were established in some cases, and some duty reductions were granted.

The U.S. concessions embraced a wide range of fresh, chilled, frozen, prepared or preserved fruits and vegetables; certain wood products; certain textile fibers, yarns, fabrics, and wearing apparel; certain ceramic articles; certain ores; unwrought lead, lead powder and flakes; offshore oil and natural gas drilling and production platforms; and other products.

Policies and programs of particular interest to the United States

Content requirements.--The United States has expressed its dissatisfaction with certain provisions of the Mexican Decree for Development of the Motor Vehicle Industry (enacted on June 20, 1977), requiring the use of certain Mexican-made automotive components. The decree sets forth minimum percentages of domestic content (often referred to as "content requirements") for motor vehicles produced in Mexico. The share of domestic content is planned to grow during 1978-81. Mexico has considered extending the use of content requirements to other products and industries.

National Industrial Development Plan.--In an attempt to help Mexico's industrial development keep pace with its petroleum industry, the Mexican Government instituted a new National Industrial Development Plan (NIDP) on March 19, 1979. The objectives of the plan include increasing Mexico's rate of economic growth to an annual average of 10 percent in the 1980's, reducing unemployment and underemployment, 3/ promoting decentralization of the Mexican economy, and encouraging exports of manufactured products, including capital goods.

The plan centered around increasing the volume of investment and channeling it to specified areas. Substantial investment by Government-owned companies and direct Government investment in infrastructure were planned.

1/ Based on Mexican import statistics for 1976.
2/ Licences are used for administering the quotas.
3/ Critics thought the NIDP's emphasis on development of capital-intensive industries might interfere with its employment goals.

Priority industries were designated for accelerated development. Key industries included those producing agri-industrial products, capital goods, certain nondurable consumer goods such as textiles and footwear, and semimanufactured products. Increased oil revenues and external borrowing were indicated as sources of financing.

The plan made widespread use of tax incentives and subsidies to channel investment to priority industries, promote decentralization, stimulate exports, and encourage job creation. Small and medium-sized businesses were permitted special tax credits. Subsidized energy prices were provided in newly established ports on the Gulf of Mexico, and a variety of export-related subsidies were planned.

The NIDP forecast an increase in Mexican imports of roughly 50 percent, in real terms, from 1979 to 1982. Imports of agricultural commodities were thought likely to increase by about 45 percent; capital goods, by about 36 percent and other industrial products by about 67 percent.

Consultative Mechanism.--In 1977, the United States and Mexico established a Consultative Mechanism to consider issues of mutual interest. That arrangement resulted in agreements and cooperative programs in many areas. In February 1979, the Consultative Mechanism was expanded and reorganized into eight specialized working groups to deal with border cooperation, trade, finance, tourism, industry, immigration, energy, and legal matters.

The United States-Mexican Trade Working Group held several meetings during 1979. The group discussed the proposed bilateral United States-Mexican trade agreement (p. 151) and reviewed certain technical issues covering Mexican meat exports, trade in hides, possible suspension of U.S. duties on railroad boxcars, possible application of lower U.S. duties on litharge and other lead products, and the U.S. trigger-price mechanism, which was being used in monitoring the prices of imports of certain steel mill products into the United States (p. 9).

Oil and natural gas.--During 1979, Mexico sent 80 percent of its crude oil exports, 163 million barrels, to the United States, reflecting a 45-percent increase over the 1978 level. Delivering 6.5 percent of U.S. crude oil imports, Mexico was the fifth leading supplier.

The Mexican Government wants to avoid using oil exports to finance imports of food and consumer goods, a situation faced by many less developed oil-producing nations. Officials plan to use oil income to purchase capital goods, hoping to speed development and eventually solve Mexico's serious unemployment problem. Major objectives of Mexican oil policy include conserving oil resources, balancing growth between oil and other economic sectors, diversifying oil customers, and exchanging oil for technology.

Mexican opinion is divided on oil production levels, some factions advocating rapid expansion, and others conservation. Conservationists believe that rapid expansion of oil exports would cause increased inflation, bottlenecks, and "overheating" of the economy. Balance of payments, foreign debt, 1/ and other economic pressures have limited Mexican achievement of conservation and balanced-growth goals. Early in 1979, Pemex (the State oil monopoly) announced plans for a production target of 2.25 million barrels per day in 1982. Later, following a rapid increase in Mexico's discovered reserves, the target was moved up to 1980. Pemex announced that oil production reached 1.8 million barrels per day in November 1979. In the same month, the Mexican Government reported that Mexico's proven reserves were 45 billion barrels. The figure for total estimated reserves has been revised upward from time to time.

As previously noted, the United States purchased about 80 percent of Mexican oil exports in 1979. However, the Mexican Government has indicated a desire to diversify its oil markets, limiting U.S. sales to about 60 percent of total exports. 2/ Mexico has agreed to sell oil to the following countries in 1980: the United States, Spain, Japan, France, Israel, Brazil, Nicaragua, Costa Rica, and Yugoslavia.

During 1979, Mexican discussions with Japan, France, and Spain focused on economic and technical cooperation. Mexico agreed to export oil to Japan under a 10-year accord. In exchange for improved "complementary relations" between the countries, Mexico agreed to study the possibility of increasing crude-oil export volume to Japan (above an initial 100,000 barrels a day beginning in 1980). France signed several technical and industrial cooperation agreements and a financial agreement; France also offered to help Mexico develop nuclear power facilities. Spain and Mexico signed a cooperative agreement for industrial promotion.

Mexico's natural gas production averaged 2.6 billion cubic feet per day in 1978 and was expected to rise to an average of 3 billion cubic feet per day in 1979. In order to minimize waste (through flaring) of the gas, the Mexican Government has encouraged increased substitution of natural gas for other fuels, and it also favors the export of gas at profitable prices.

In February 1977, a tentative agreement was reached by several U.S. firms and Mexican authorities under which the United States would import Mexican natural gas at a price of $2.60 per thousand cubic feet. However, the U.S. Government rejected the agreement on the grounds that the price was excessive. In April 1979, negotiations for a new gas agreement were resumed, and those negotiations continued sporadically until September 1979, when an agreement was concluded. The agreement calls for U.S. purchase of 300 million cubic feet of gas per day at a minimum price of $3.625 per thousand cubic

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1/ Mexico currently pays about $2 billion a year, roughly 22 percent of the government budget, to service national foreign debt. This is nearly as much as the Pemex budget and more than amounts assigned to other industrial sectors.

2/ Mexico's growing importance as a source of oil and natural gas has stimulated U.S. interest in expanding trade with Mexico. Indeed, in 1979, the Subcommittee on Investigation and Oversight of the Committee on Science and Technology, U.S. House of Representatives, held hearings on the possibility of exchanging U.S. technology for Mexican oil. Moreover, other congressional committees also held hearings in connection with obtaining additional energy supplies from Mexico.

feet, but permits regular price adjustments based on changes in world oil prices. The terms allow either government to cancel the agreement at any time with 6 month's notice.

The twin-plants concept and economic growth and development of border zones.--In 1966, in order to ease unemployment in its northern border regions, Mexico began a "border industries" or "inbond industries" program, designed to encourage U.S. firms to establish assembly facilities in Mexico along the U.S. border. This program was developed to operate in conjunction with U.S. tariff provisions whereby, under specified conditions, the U.S. import duty on articles having a U.S. content is levied on the value added outside the United States. 1/ Mexican foreign investment restrictions were relaxed considerably to attract U.S. firms. Incentives included duty-free entry for most machinery and raw materials and allowed 100 percent foreign ownership of the assembly plants. Later legislation permitted U.S. firms to open plants in coastal regions and, finally, throughout Mexico. Rules require that the products, once assembled, must be exported. Much stricter rules govern foreign firms intending to sell to domestic Mexican markets.

By 1979, because of low wage rates, the combined effect of customs practices of Mexico and the United States, and a favorable investment climate, nearly 450 assembly plants had been established as "inbond" plants. Most of these plants are located in Mexico's northern border regions because the "inbond industries" program initially was implemented there and because of the advantages attributable to their proximity to the United States.

The value of U.S. imports of products assembled in Mexican in bond plants rose from about $73 million in 1968 to $1.5 billion in 1978. In 1978, imports under offshore assembly provisions accounted for over one-fifth of the value of total U.S. imports from Mexico. Mexican value added in the assembly process was about 46 percent of the total value of the finished products in 1978.

In 1979, among the more important articles imported from Mexico subject to the provisions of TSUS item No. 807.00 were television receivers, subassemblies and certain parts for such receivers; railroad rolling stock; and transmissions and other parts for motor vehicles.

Eleven pairs of cities line the 1,952-mile United States-Mexican border. The twin cities are linked by strong economic and cultural ties, and border industrialization efforts have intensified economic interdependence. Some U.S. firms have operations in each of a pair of twin cities, manufacturing basic components in the U.S. city and conducting labor-intensive assembly in Mexico. Economic development and growth, which have induced migration from other areas, have accelerated the population growth of the Mexican border cities and intensified many problems.

In recent years, much United States-Mexican cooperative activity has focused on the problems of border zone areas. A border cooperation working group has been established under the new United States-Mexican Consultative Mechanism. Cooperative efforts include bilateral ventures in air and water

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1/ For details see items 806.30 and 807.00, in the Tariff Schedules of the United States, and the associated headnotes.

pollution control, a joint Mexican-United States study on border exchange of electric power, and arrangements to eliminate illegal narcotics production and traffic.

Mexico's relations with the Latin American Free Trade Association

In addition to Mexico, other Latin American Free Trade Association (LAFTA) members are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela. Mexico has participated in the LAFTA's trade liberalization program, under which concessions stemming from multilateral negotiations are extended to all of the Contracting Parties. In addition, there are "exclusive" concessions, granted to "relatively less-developed" members, and "complementarity" agreements, limited to the signatories of each agreement.

During LAFTA's early years (1960-70), some progress toward regional economic integration was achieved. Mexico granted 1,220 of the 11,238 concessions extended to all LAFTA members, and 1,376 of the 7,601 "exclusive" concessions given less developed members. Mexico also participated in 20 complementarity agreements, granting 936 concessions and receiving 959.

During the past decade, however, little progress has been made toward achieving the LAFTA goal of free trade among its participants. Some members have expressed doubt that LAFTA can continue to exist without basic restructuring. During 1979, LAFTA working groups discussed ways to improve the organization's performance as a mechanism for economic integration. In 1978, Mexican trade with seven major LAFTA countries accounted for only 5.3 percent of total Mexican two-way trade.

United States trade with Mexico

From 1975 to 1979, annual two-way trade between the United States and Mexico increased each successive year, growing from $8,127 million in 1975 to $18,480 million in 1979. In 1979, Mexico was the United States' fourth largest trading partner. Data on trade between the two countries are shown in table 17.

Table 17.--Value of U.S.-Mexican trade, 1975-79

(In millions of dollars)

Year	U.S. exports to Mexico	U.S. imports from Mexico	Two-way trade	U.S. exports to, minus imports from, Mexico 1/
1975	5,060	3,067	8,127	1,994
1976	4,904	3,606	8,510	1,297
1977	4,723	4,694	9,417	29
1978	6,542	6,093	12,635	449
1979	9,667	8,813	18,480	853

1/ Calculations were performed before rounding.

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

Between 1978 and 1979, the value of U.S. exports to Mexico increased by nearly 48 percent. Leading categories of U.S. exports were machinery and transportation equipment, chemicals, and agricultural products. The composition of U.S. exports to Mexico in 1979 reflected increased Mexican investment in capital goods, particularly in the rapidly growing petroleum industry.

The value of U.S. imports from Mexico rose nearly 45 percent in 1979. Major import categories were crude petroleum, machinery and transportation equipment, and agricultural products. U.S. imports from Mexico receiving duty-free treatment under the U.S. Generalized System of Preferences (GSP) amounted to $546 million in 1979. Certain other imports, valued at $1,381 million, would have received duty-free GSP treatment if the statutory competitive-need criteria had been met and/or the prescribed special documentation had been filed. 1/

The lack of more extensive use of GSP is partly attributable to lack of interest in, or information about, GSP by Mexican-owned firms. Another important reason for the low Mexican GSP utilization is the large amount of trade which is conducted under item 807.00 of the Tariff Schedules of the United States, for much of which Mexico could not meet the beneficiary country minimum content requirement. Apparently, subsidiaries of U.S. firms often have been among the more active users of GSP. In order to provide exporters with more information about GSP, the Mexican Foreign Trade Institute, under the present national administration, has conducted seminars in which the U.S. Embassy has participated.

1/ For more details about GSP, see pages 98-100 of this report.