

OPERATION OF THE TRADE AGREEMENTS PROGRAM

34th Report

1982



USITC PUBLICATION 1414

1983

United States International Trade Commission / Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Alfred E. Eckes, Chairman

Paula Stern

Veronica A. Haggart

Kenneth R. Mason, Secretary to the Commission

Report principally prepared by

Office of Economics

John W. Suomela
Director

Martin F. Smith
Chief, Trade Reports Division

Thomas F. Jennings

Hilliard H. Goodman
Patricia G. Marx
Anita V. Miller
M. Lynn Quincy
Kim A. Skidmore
Laurie S. Stevenson
Janet M. Whisler

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

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

OPERATION OF THE TRADE AGREEMENTS PROGRAM

34th Report

1982



USITC Publication 1414

1983

**Prepared in Conformity with
Section 163(b) of the
Trade Act of 1974**



Activities under the GATT committees--Continued	
Committee on Trade and Development-----	34
Subcommittee on Protective Measures-----	34
Subcommittee on Trade of Least Developed Countries-----	34
Committee on Balance of Payments Restrictions-----	35
Working Party on Structural Adjustment-----	36
Inventory of nontariff measures-----	37
Actions under the articles of the General Agreement:	
Article XIX: emergency action on imports of particular products---	37
Article XXII and XXIII: conciliation and dispute settlement-----	38
U.S. tax legislation (DISC) and income tax practices maintained	
by France, Belgium and the Netherlands-----	39
U.S.-EC dispute over extension of the manufacturing clause-----	40
U.S. import duty on vitamin B-12-----	41
U.S. imports of certain automotive spring assemblies-----	42
Canada: Foreign Investment Review Act-----	43
U.S.-EC citrus dispute-----	44
EC exports of canned fruit and raisins-----	44
EC sugar export subsidies-----	45
EC quantitative restrictions against imports of certain	
products from Hong Kong-----	46
EC complaint against Finnish internal regulations affecting	
imports of certain parts for footwear-----	46
Article XXIV: Enlargement of the EC-----	47
Accessions to the GATT-----	48
Implementation of the Tokyo round agreements-----	50
Agreement on subsidies and countervailing duties-----	50
The Committee on Subsidies and Countervailing Measures-----	52
Notification of subsidies-----	52
Countervailing duty actions-----	53
Calculation of subsidies-----	54
Dispute settlement activities-----	54
Agreement on Government Procurement-----	55
Activities of the Committee on Government Procurement	
during 1982-----	56
Renegotiation of the agreement-----	56
Agreement on Technical Barriers to Trade-----	57
Agreement on Customs Valuation-----	58
Antidumping agreement-----	60
Activities of the Committee on Antidumping Practices in 1982---	61
Antidumping actions-----	70
Agreement on Import Licensing Procedures-----	70
Agreement on Trade in Civil Aircraft-----	71
Arrangement Regarding Bovine Meat-----	73
International Dairy Arrangement-----	73
Unfinished agreements-----	74
Safeguards-----	74
Commercial counterfeiting-----	75

CHAPTER 3. Trade Agreements Activities Outside the GATT

The Organization for Economic Cooperation and Development-----	77
Agriculture-----	79
The arrangement on export credits-----	80
Structural adjustment-----	82
Trade-----	84

The Organization for Economic Cooperation and Development--Continued	
Investment-----	86
High technology-----	87
Services-----	89
Relations with developing countries-----	90
The United Nations Conference on Trade and Development:	
Introduction-----	91
The Integrated Program for Commodities and the Common Fund-----	92
Protectionism and structural adjustment-----	93
GSP and other preferences versus trade liberalization on an MFN basis-----	94
Negotiation and operation of international commodity agreements-----	95
Coffee-----	96
Sugar-----	96
Tin-----	98
Wheat-----	99
Cocoa-----	100
Natural rubber-----	100
The Customs Cooperation Council and adoption of the Harmonized Commodity Description and Coding System:	
The Customs Cooperation Council-----	102
Status of the Harmonized System-----	103
Bilateral trade agreements activities in 1982:	
Termination of the U.S.-Argentina hides agreement-----	104
Bilateral investment treaty program-----	105

CHAPTER 4. Developments in Major U.S. Trading Partners

The European Community:	
The economic situation in 1982-----	107
International economic performance:	
Balance of payments-----	108
Merchandise trade with major trading partners-----	108
U.S. trade with the EC-----	111
Major policy developments affecting trade:	
EC enlargement-----	111
Problems regarding accession-----	113
Negotiations-----	114
EC budget disputes-----	114
Industrial policies-----	115
Steel-----	116
Textiles-----	116
European Monetary System-----	117
Common agricultural policy-----	118
Price increases-----	119
Monetary measures-----	120
Next year's prices-----	120
Common fisheries policy-----	120
Preferential trading arrangements-----	121
Relations with Japan-----	122
Proposed changes in EC foreign investment rules: the Vredeling proposal-----	123
U.S.-EC bilateral trade issues-----	124
Steel-----	iii 124
U.S. actions and bilateral consultations-----	125
U.S.-EC agreement on steel trade-----	126

The European Community--Continued	
U.S.-EC bilateral trade issues--Continued	
Agriculture-----	127
U.S. reaction to the CAP-----	129
EC response to U.S. moves against farm export subsidies----	130
Corn gluten feed-----	130
Embargo on gas pipeline equipment-----	132
Canada:	
The economic situation in 1982-----	132
International economic performance-----	133
Merchandise trade with United States-----	134
Operation of the United States-Canadian Automotive Products Trade Agreement-----	139
Major policy developments affecting trade-----	142
Canadian grain supply agreements-----	142
National energy policy-----	143
Foreign Investment Review Agency-----	144
U.S.-Canada bilateral trade issues:	
Safeguards-----	145
Transborder trucking-----	146
Provincial liquor boards-----	147
Subway cars-----	148
Onions-----	151
Potatoes-----	151
Lumber-----	153
Japan:	
The economic situation in 1982-----	155
International economic performance:	
Balance of payments-----	158
Merchandise trade with major trading partners-----	160
Merchandise trade with the United States-----	163
U.S. exports to Japan-----	165
U.S. imports from Japan-----	165
Major policy developments affecting trade:	
Market access measures-----	168
Tariffs-----	170
Import procedures-----	171
U.S.-Japan bilateral trade issues-----	172
Customs procedures-----	172
Standards and Certification issues-----	173
Access to certification systems-----	174
Development of Standards-----	175
Lack of approval for additives-----	176
Acceptance of U.S. test data-----	176
Agriculture-----	176
Beef-----	178
Citrus-----	179
Tobacco-----	179
Forest products-----	180
Leather-----	180
Automobiles-----	181
High technology trade-----	182
Government procurement-----	183
Japan's industrial policies-----	184
Industrial policy toward the high technology industries-----	185
Industrial policy toward the structurally depressed industries-----	185

Japan--Continued	
U.S.-Japan bilateral trade issues--Continued	
Japan's industrial policies--Continued	
United States' response-----	186
Investment-----	187
Changes in Japan's financial system-----	188
New bank rules-----	188
Bonds-----	188
Securities-----	188
Syndicated loans-----	189
Capital flows-----	189
The Yen/Dollar Exchange Rate-----	189
U.S. interest rates-----	191
Limits on Japan's exports-----	191
Mexico:	
The economic situation in 1982-----	193
Government reaction to economic crisis-----	194
Foreign credit and loan assistance-----	197
International economic performance:	
Balance of payments-----	198
Merchandise trade with major trading partners-----	198
Mexico's trade with the United States-----	201
Major policy developments affecting trade:	
Adoption of exchange controls, multiple exchange rates and nationalization of banks-----	204
Regulation of imports and exports-----	205
Austerity under President de la Madrid-----	206
U.S.-Mexico bilateral trade issues:	
Laws governing U.S.-Mexican trade-----	207
The Joint Commission on Commerce and Trade-----	207
U.S. countervailing duty investigations of Mexican products-----	208
Graduation of certain Mexican products from the U.S. GSP---	209
Automotive issues-----	209
Mexico's computer industry development programs-----	210
Transborder trucking-----	210
U.S. sales of stockpile silver-----	211
Petrochemicals-----	211
Industrial property rights-----	212
U.S.-Mexico trade agreements:	
Renewal of agricultural purchase agreement-----	212
Textiles-----	213
Oil and gas-----	213
Nonmarket Economy Countries:	
Overall economic performance and trade with the United States-----	214
China-----	216
U.S.S.R.-----	216
Eastern Europe-----	218
Developments in 1982 in trade relations with the nonmarket economies-----	219
China:	
Negotiations on a new textile agreement-----	220
Lifting of U.S. embargo on furskins from China-----	221
GATT observer status-----	222
Bilateral agreements between China and third countries-----	222

Nonmarket Economy Countries--Continued

U.S.S.R.:	
U.S. sanctions and East-West policy coordination-----	223
Increase in restrictions on loans to the U.S.S.R.-----	224
Extension of U.S.-U.S.S.R. grain agreement-----	224
Bilateral agreements between the U.S.S.R. and third countries--	225
Other developments:	
Suspension of Polish MFN status-----	225
Continuation of MFN status for Romania, Hungary, and China-----	226
Status of Tokyo round MTN agreement signatures and acceptances by NME's during 1982-----	226
U.S. International Trade Commission actions affecting NME's----	227
CHAPTER 5. Administration of U.S. Trade Laws and Regulations	
U.S. actions under provisions for import relief:	
Safeguard actions under sections 201 and 203, Trade Act of 1974-----	229
Orderly marketing agreements and negotiated export restraints-----	230
Color television receivers-----	230
Textiles-----	230
Adjustment assistance-----	231
Market disruption-----	234
U.S. Actions on unfair trade-----	234
Antidumping investigations:	
Investigations under section 731, Tariff Act of 1930-----	235
Investigations under section 751, Tariff Act of 1930-----	239
Trigger price mechanism-----	240
Countervailing duty investigations-----	241
Investigations under section 701, Tariff Act of 1930-----	242
Investigations under section 104, Trade Agreements Act of 1979--	248
Unfair practices in import trade Section 337-----	256
Certain practices of foreign governments and instrumentalities-----	261
Other import administration-----	266
Section 603, Trade Act of 1974-----	266
Section 22 of the Agricultural Adjustment Act-----	267
Meat Act of 1964, as amended-----	269
U.S. actions in connection with national security-----	270
The Generalized System of Preferences-----	271
Appendix A. GATT Ministerial Declaration-----	283
Appendix B. Statistical Tables-----	297
Appendix C. Annex to the Subsidies Code-----	307
Index-----	311

Figures

1.--Japan's wholesale price increases; consumer price increases; wage increases; and call money rates, 1977-82-----	157
2.--Japan's exports to, imports from, and trade balance with the world, 1976-82-----	159
3.--U.S. trade with Japan, 1978-82-----	164
4.--U.S. trade with Japan, by commodity groups, 1982-----	167
5.--Yen/dollar exchange rate by quarters, 1975-82-----	190
6.--Short-term interest rates in Japan and the United States, by quarters, 1975-82-----	192

Figures--Continued

7.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries by county, 1981 and 1982-----	273
8.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries, by development levels, 1981 and 1982-----	276

Tables

1. United States: trade and trade balances for selected countries and country groups, 1980-82-----	7
2. Status of the Tokyo Round Agreements as of December 31, 1982----	51
3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982-----	62
4. Terms of the International Arrangement on Guidelines for Officially Supported Export Credits-----	83
5. Green coffee: ICO monthly average composite indicator prices, 1978-82-----	97
6. Raw sugar: Monthly world market prices, per 1977 agreement, 1977-82-----	97
7. U.S. merchandise trade and trade balances, by selected trading partners, 1982-----	107
8. European Community trade and trade balances, by selected trading partners, 1980-82-----	109
9. U.S. merchandise trade with the European Community: U.S. exports of domestic merchandise, U.S. imports for consumption, and U.S. merchandise trade balance, 1978-1982----	112
10. Steel mill products covered by the U.S.-EC steel Arrangement: U.S. imports for consumption from the European Community, apparent U.S. consumption, and limits on EC imports as a share of apparent U.S. consumption under the Arrangement, 1982-----	128
11. Canada's trade and trade balances, by selected trading partners, 1980-82-----	135
12. U.S. trade with Canada, by SITC Nos. (Revision 2), 1980-82-----	137
13. U.S.-Canadian automotive trade, 1964-82-----	140
14. U.S.-Canadian automotive trade, by specified products, 1981 and 1982-----	141
15. Summary of actions taken by the Canadian Foreign Investment Review Agency on applications from the United States and Western Europe for investments in Canada, fiscal years 1981 and 1982-----	145
16. The Japanese economy: selected data, 1980-82-----	155
17. Japan's trade and trade balances, by selected trading partners, 1980-82-----	161
18. Annual percentage change in the value of Japanese exports to the world, by commodity groupings-----	160
19. U.S. exports to, imports from, and trade balance with Japan, 1965-82-----	163
20. Average annual growth rate in U.S. trade with Japan, selected periods, 1965-82 (dollar basis)-----	165
21. U.S. trade with Japan, by SITC Nos. (Revision 2), 1980-82-----	166
22. Major U.S. agricultural exports to Japan, 1980-82-----	177
23. Yen/dollar exchange rate, by quarters, 1975-82-----	191
24. Short-term interest rates in Japan and the United States, by quarters, 1975-82-----	193

Tables-- Continued

25.	Mexico's trade and trade balances, by selected trading partners, 1980-82-----	199
26.	Mexico: Total exports and exports of crude oil, value and share of total, 1975-82-----	201
27.	U.S. trade with Mexico, by SITC Nos. (Revision 2), 1980-82-----	202
28.	Mexico: U.S. imports entered under TSUS items 806.30 and 807.00, 1980-82-----	203
29.	U.S. exports, imports, and trade balances with selected NME trading partners, 1980-82-----	215
30.	Selected nonmarket economies: Exports, imports, and trade balances with non-Communist countries, 1980-82-----	217
31.	Bilateral restraint levels on exports of textiles to the United States, by sources, 1982-----	232
32.	Preliminary antidumping investigations completed by the Commission in 1982-----	236
33.	Preliminary countervailing duty investigations completed or terminated by the Commission during 1982-----	243
34.	Countervailing duty actions undertaken or continued by the U.S. Department of Commerce during 1982-----	249
35.	Countervailing duty orders in effect on December 31, 1982-----	254
36.	Investigations under sec. 337 of the Tariff Act of 1930, completed by the Commission in 1982-----	257
37.	Investigations under sec. 337 of the Tariff Act of 1930, pending before the Commission on December 31, 1982-----	258
38.	Section 337: Outstanding exclusion orders as of December 31, 1982-----	259
39.	U.S. imports under GSP from the 10 leading sources, 1982-----	272
40.	U.S. imports for consumption from GSP beneficiary countries, by development status, 1982-----	275
41.	U.S. imports for consumption of the top 50 GSP-eligible articles, by TSUS items and by leading duty-free sources, 1982-----	277
B-1.	Leading items imported from the European Community, by TSUS items, 1980, 1981, 1982-----	298
B-2.	Leading items exported to the European Community, by Schedule B items, 1980, 1981, 1982-----	299
B-3.	Leading items imported from Canada, by TSUS item, 1980, 1981, 1982-----	300
B-4.	Leading items exported to Canada, by Schedule B items, 1980, 1981, 1982-----	301
B-5.	Leading items imported from Japan, by TSUS items, 1980, 1981, 1982-----	302
B-6.	Leading items exported to Japan, by Schedule B items, 1980, 1981, 1982-----	303
B-7.	Leading items imported from Mexico, by TSUS items, 1980, 1981, 1982-----	304
B-8.	Leading items, exported to Mexico, by Schedule B items, 1980 1981, 1982-----	305

PREFACE

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

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

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

This report is the 34th report to be submitted under section 163(b) and its predecessor legislation. The period covered in the report is calendar year 1982, although occasionally, to enable the reader to understand developments more fully, events in early 1983 are also mentioned. The report consists of an introduction and five chapters. The introduction provides background to the report by covering the economic and trade performance of the United States during 1982. Chapter 1 contains a summary of the report and treats two special topics which highlight developments in the trade agreements sphere during the year. Chapter 2 concerns activities in the General Agreement on Tariffs and Trade (GATT), the main area of multilateral trade-agreement activities. Such activities outside the GATT are reported in chapter 3. Chapter 4 discusses bilateral relations between the United States and its major trading partners. The administration of U.S. law, including decisions taken on remedial actions available to U.S. industry and labor, is covered in chapter 5.

The report was prepared principally in the Trade Reports Division of the Commission's Office of Economics. Assistance was provided by the Commission's Office of Executive Liaison and Special Adviser for Trade Agreements, the Office of the General Counsel, the Office of Tariff Affairs, the Office of Industries, the Office of Data Systems, and the Research Division of the Office of Economics.

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

INTRODUCTION

The U.S. Economy and U.S. Trade in 1982

Economic Performance of the United States

The U.S. economy began 1982 in the midst of a recession that started in July 1981. It continued throughout 1982 and turned out to be the longest and deepest recession of the post-World War II period. The unemployment rate reached a postwar high, and capacity utilization fell to a postwar low. Inflation, however, was greatly reduced from the levels of recent years, and interest rates fell sharply from their 1981 highs.

Real gross national product (GNP) declined 1.8 percent in 1982, the largest annual decline since 1946. In 1981, real GNP increased 1.9 percent, and in 1980, it declined 0.2 percent. In 1982, it was no higher than in 1979.

Declining U.S. exports contributed to the severity of the U.S. recession. The decline in real U.S. exports of goods and services accounted for more than a third of the total decline in real GNP in 1982. The share of U.S. production that was exported fell from 14.0 percent in 1980 to 11.5 percent in 1982. In the previous four recessions, strong foreign demand caused the share of exports to rise, somewhat offsetting the decline in domestic demand. But the strength of the U.S. dollar in recent years made U.S. goods less competitive and helped cause the decline in U.S. exports.

The pattern of business activity in 1982 was uneven. Real GNP dropped at an annual rate of 5.1 percent in the first quarter of the year. Sharply lower production of motor vehicles contributed substantially to the decline. In the second quarter, real GNP increased at an annual rate of 2.1 percent despite declining final sales. The increase in output and the decrease in final sales caused business inventory levels to increase sharply.

Although real GNP rose at an annual rate of 0.7 percent in the third quarter, final sales dropped even further. As a result, inventory levels increased slightly. Economists had hoped that the 10-percent cut in personal income taxes that occurred on July 1 would spark an economic recovery, but there was none.

Final sales increased in the last quarter of 1982, but real GNP fell at an annual rate of 1.9 percent. Business inventories decreased at a record pace in the final quarter, setting the stage for an increase in business activity in the first quarter of 1983. For 1982 as a whole, business inventories fell 22.5 percent.

Reflecting the poor overall performance of the U.S. economy in 1982, industrial production fell in 9 of the 12 months of the year. At the end of the year, the index of industrial production was 5.9 percent below its level at the start of the year and 8.8 percent below its cyclical peak of July 1981.

The unemployment rate, which was 8.8 percent at the beginning of the year, increased throughout most of 1982 before reaching a post-World War II high of 10.8 percent in December 1982. The previous postwar high had been the 9.0-percent rate reached in January 1975. About 2.75 million fewer nonfarm workers were employed in December 1982 than in July 1981.

The slowdown in economic activity did have one positive result: the rate of inflation fell sharply in 1982. All major price indexes showed sharply lower rates of inflation. The GNP deflator rose 4.4 percent in 1982, after rising 8.9 percent in 1981 and 10.2 percent in 1980. The Producer Price Index rose only 3.5 percent in 1982, compared with a 7.1-percent rise in 1981 and a 11.7-percent rise in 1980. The Consumer Price Index rose 3.9 percent in 1982, the smallest annual increase since 1972. Consumer prices rose 8.9 percent in 1981 and 12.4 percent in 1980.

In addition to the U.S. recession, other factors helped cause the rate of inflation to fall. A worldwide recession and energy conservation efforts lowered the demand for oil and caused its price to fall. Bountiful harvests kept agricultural price increases low in 1982. In addition, a strong U.S. dollar helped limit increases in the price of imports.

The recession and the sharp decline in the inflation rate combined to keep wage increases low. The wage rate of production workers rose 6 percent in 1982, the smallest annual increase in 15 years. In some hard-pressed industries, wages actually fell in 1982.

One of the year's most significant developments was the sharp decline in interest rates that occurred in the second half of the year. Interest rates fluctuated somewhat in the first half, but they were essentially the same in June as they were in January. Although both long- and short-term interest rates fell sharply after midyear, the decline in long-term rates was not as sharp as the fall in short-term rates. For example, the federal-funds rate fell 5 percentage points from June to the end of the year, from 14 percent to 9 percent; mortgage rates fell 4 percentage points over the same period, from 17 percent in June to 13 percent at yearend.

The yield on 3-month Treasury bills (T-bills), which reached an alltime high in mid-1981 at just over 16 percent, fell from 12 percent in July 1982 to 8 percent in September 1982. For the remainder of the year, the yield on 3-month T-bills fluctuated around 8 percent. The yield on long-term Treasury bonds fell 3.5 percentage points in the last 6 months of 1982, from 14.0 percent to 10.5 percent.

Several factors combined to lower interest rates. The recession lowered the demand for loanable funds by causing private borrowing to fall sharply. Businesses cut back on borrowing because of slow sales and unused capacity, whereas individuals cut back on borrowing because of growing uncertainties about future employment and high interest rates.

The sharp decline in the inflation rate also contributed to the sharp decline in interest rates. Interest rates may be thought of as containing two components, an inflation premium and a "real" rate. The inflation premium reflects the expected rate of inflation and ensures that investors who lend money will not see the value of the principal eroded by inflation. The real rate is the rate of interest after subtracting the inflation premium. The real rate reflects the increase in purchasing power that lenders receive from their loans. The sharp decline in the U.S. inflation rate in the first half of 1982 reduced inflationary expectations. As a result, the inflation premium in interest rates fell.

From the end of World War II to the early 1970's, the real rate of interest fluctuated somewhat, but averaged about 3 percent. In recent years, however, the real interest rate has fluctuated a great deal: it has been negative, and it has been as high as 12 percent. In 1982, real interest rates were at historically high levels. Despite the fall in nominal interest rates in the latter half of the year, the real interest rate averaged about 10 percent for the year. Economists believe that the large Government budget deficit and the recent history of double-digit inflation have helped keep the real interest rate unusually high, but they admit that they cannot completely explain why the real rate is so high.

The sharp decline in nominal interest rates lowered the real rate in the second half of the year, but the falling inflation rate prevented the drop from being even larger. The high real interest rate probably contributed to the severity of the recession. Businesses and consumers were reluctant to borrow because of the high real costs of borrowing. Without the spark provided by increased borrowing, the economy languished for most of the year.

Another reason why interest rates fell sharply in the second half of 1982 was the passage of a tax increase in July 1982. The size of the Federal budget deficit, which reached \$110 billion in 1982, had grown to such proportions that investors feared that the demand for credit by the Treasury would keep upward pressures on interest rates. Some investors felt that the tax increase showed that the Government was concerned about the deficit and was working to reduce it.

A sharp increase in the growth rate of the money stock (M1) also helped lower interest rates. ^{1/} As 1982 began, the Federal Reserve Board (Fed) vowed to restrain growth in money and credit to try to bring down the inflation rate. To accomplish this, the Fed set a target range of 2.5 to 5.5 percent for M1 growth. From December 1981 to July 1982, M1 grew at a 5.4-percent annual rate, which was just inside the target range. From July 1982 to December 1982, however, it grew at a 13.0-percent annual rate, which was well above the target range. For the year, M1 grew 8.6 percent.

The sharp increase in M1 in the second half of 1982 was caused by a number of factors. In July, Fed Chairman Paul Volcker announced to Congress that because of the sluggish U.S. economy and problems with international debt repayments, "[money] growth somewhat above the targeted ranges would be tolerated for a time" ^{2/} In addition, many All-Savers Certificates matured in the last quarter of 1982, causing an abnormally sharp increase in the money stock. In December, banks and savings and loan associations established new money market deposit accounts that distorted the money stock figures. As a result, the Fed announced that it would no longer concentrate on M1 growth in setting monetary policy and that it would pay more attention to M2, a broader money stock measure that was less affected by the institutional changes.

The surge in the money stock in the second half of the year and the fall in the demand for money combined to help push interest rates lower. At yearend, interest rates were still at historically high levels, but they were down considerably from their 1982 peaks.

^{1/} M1 is the sum of currency and demand deposits.

^{2/} Federal Reserve Bulletin, August 1982, p. 491.

High real interest rates and concerns about the international financial system kept the U.S. dollar strong in 1982. The high real interest rates attracted foreign capital to the United States, whereas problems with debt repayment for countries such as Argentina, Mexico, and Poland prompted investors to purchase U.S. assets, which are viewed as the safest in the world.

In 1982, the trade-weighted value of the dollar rose 12.4 percent; in 1981, it increased 11.3 percent. 1/ The value of the dollar peaked against most currencies in November, but fell in December because of concerns about a record deficit in the U.S. current account balance.

On a bilateral basis, the value of the dollar increased 18 percent against the British pound in 1982, 2/ 4 percent against the Canadian dollar, 17 percent against the French franc, 6 percent against the West German deutsche mark, and 7 percent against the Japanese yen. The value of the dollar, which at one point in the year was up 26 percent against the yen since the start of the year, fell 15 percent against the yen in the last 2 months of 1982, following statements by officials from both countries that the dollar was substantially overvalued.

The continued strength of the dollar in recent years has made U.S. exports less competitive in foreign markets and made imports more competitive in the United States. As a result, the U.S. merchandise trade balance has worsened. Because trade flows respond to exchange-rate changes only after a lag, 3/ the strength of the dollar in 1982 probably means that the merchandise trade deficit will worsen again in 1983.

Trade Performance of the United States

In 1982, the U.S. current account registered a deficit for the first time in 5 years. The \$6.1 billion deficit followed surpluses of \$6.6 billion in 1981 and \$3.7 billion in 1980. The surplus in services was relatively unchanged, but a sharp increase in the merchandise trade deficit pushed the current account into deficit. Although both the price of oil and the volume of oil imports declined in 1982, the U.S. merchandise trade deficit reached a record high of \$37.4 billion; the deficit was \$36.0 billion in 1981 and \$33.6 billion in 1980 (table 1).

Both imports and exports fell in 1982 because of the worldwide recession, but the decrease in exports was greater than the decrease in imports because of the strength of the U.S. dollar in foreign-exchange markets in recent years. The value of exports fell 11 percent in 1982, whereas the value of imports fell only 6 percent. 4/ The decline in exports was the first since 1958, and the decline in imports was the first since 1975.

1/ Trade-weighted average dollar value of 17 industrial countries as reported in International Monetary Fund, International Financial Statistics.

2/ Because of the weakness in oil prices, the value of the dollar increased another 9 percent against the pound in the first quarter of 1983.

3/ Depending on the type of product involved, a lag can last anywhere from a few days to 10 years.

4/ These percentages are based on data from the Survey of Current Business.

Table 1.—U.S. trade and trade balances, by selected trading partners, 1980-82

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
Exports			
Industrialized countries:			
Canada	35,395	39,564	33,720
Japan	20,790	21,823	20,966
European Community:	54,610	52,362	47,932
Other	15,395	16,570	15,215
Subtotal	126,190	130,319	117,833
Developing countries:			
Oil-exporting countries 1/	17,758	21,527	22,857
Mexico	15,145	17,788	11,817
Other	49,198	51,127	48,720
Subtotal	82,101	90,442	83,394
Nonmarket economy countries:			
China	3,755	3,602	2,912
U.S.S.R.	1,515	2,431	2,612
Other	2,626	2,267	1,297
Subtotal	7,896	8,300	6,821
Total	216,187	229,061	208,048
Imports			
Industrialized countries:			
Canada	41,998	46,826	46,791
Japan	32,972	39,904	39,931
European Community:	38,339	43,653	44,466
Other	13,106	13,014	12,553
Subtotal	126,415	143,397	143,741
Developing countries:			
Oil-exporting countries 1/	58,086	51,789	32,724
Mexico	12,835	14,013	15,770
Other	49,306	51,663	49,253
Subtotal	120,227	117,465	97,747
Nonmarket economy countries:			
China	1,164	2,062	2,502
U.S.S.R.	485	376	247
Other	1,508	1,739	1,248
Subtotal	3,157	4,177	3,997
Total	249,799	265,039	245,485

See footnote at end of table.

Table 1.--U.S. trade and trade balances, by selected trading partners, 1980-82--Continued

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
	Trade balance		
Industrialized countries:			
Canada	-6,603	-7,262	-13,071
Japan	-12,182	-18,081	-18,965
European Community	16,271	8,709	3,466
Other	2,289	3,556	2,662
Subtotal	-225	-13,078	-25,908
Developing countries:			
Oil-exporting countries ^{1/}	-40,328	-30,262	-9,867
Mexico	2,310	3,775	-3,953
Other	-108	-536	-533
Subtotal	-38,126	-27,023	-14,353
Nonmarket economy countries:			
China	2,591	1,540	410
U.S.S.R.	1,030	2,055	2,365
Other	1,118	528	49
Subtotal	4,739	4,123	2,824
Total	-33,612	-35,978	-37,437

^{1/} The country groupings used in this table follow the designations employed in Direction of Trade Statistics, published by the International Monetary Fund (IMF). Although Mexico is the source of over half of the crude petroleum imported by the United States, it is not included among the countries designated "oil-exporting countries" by the IMF. Such countries are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: International Monetary Fund, Directions of Trade.

Agricultural exports fell 15 percent in value in 1982. Export volume decreased 5 percent, primarily because of an 11-percent decline in corn exports and a 6-percent decline in wheat exports. Record harvests and weakened economic conditions in many consuming nations combined to lower the volume of U.S. agricultural exports and to lower prices of most major crops.

Nonagricultural exports fell 10 percent in value in 1982; export volume fell 13 percent. Although exports fell in all major commodity categories, especially large declines occurred in exports of capital goods and industrial supplies and materials. The strong dollar and the worldwide economic slowdown caused the sharp decline in U.S. nonagricultural exports.

The value of oil imports fell 21 percent in 1982. Most of the decrease was caused by the 14-percent decline in the volume of oil imports. In 1982, the United States imported an average of 5.36 million barrels a day; in 1981, the average was 6.25 million barrels. The average price of a barrel of oil fell from \$34.02 in 1981 to \$31.26 in 1982.

In 1982, oil imports supplied 35 percent of the oil consumed in the United States, down from 39 percent in 1981 and 42 percent in 1980. The value of oil imports from the Organization of Petroleum Exporting Countries (OPEC) fell 38 percent in 1982, whereas the value of oil imports from Mexico increased 25 percent. Oil imports from OPEC accounted for 48 percent of all oil imports in 1982, compared with 61 percent in 1981.

The value of nonoil imports in 1982 was essentially the same as it was in 1981; volume was also unchanged. Iron and steel imports were down sharply because of sharply lower domestic demand caused by the recession and because of the dispute between the European Community (EC) and the United States over subsidies. Auto imports, however, were up sharply. Although the number of cars imported from Japan fell 6 percent in 1982, Japan's share of the U.S. auto market increased from 21.8 percent to 22.6 percent.

U.S. exports to both industrialized and developing countries fell in 1982. U.S. exports to the former fell from \$130.3 billion in 1981 to \$117.8 billion in 1982, but exports to these countries accounted for 57 percent of U.S. merchandise exports in 1982, approximately the same percentage as in 1980 and 1981. Similarly, exports to developing nations fell \$7.0 billion from 1981 to 1982, but still accounted for 40 percent of all U.S. exports, the same as they had in 1981.

On the other hand, nearly all the decline in U.S. imports in 1982 resulted from a \$19-billion decline in imports from oil-exporting countries; the value of imports from industrialized countries in 1982 was essentially the same as in 1981.

Because of the modest decline in overall U.S. exports and the sharp decline in U.S. oil imports, the U.S. trade deficit with industrialized countries rose sharply and that with developing countries fell sharply. The U.S. trade deficit with industrialized countries rose from \$13.1 billion in 1981 to \$25.9 billion in 1982; the deficit was \$0.2 billion in 1980. The U.S. trade deficit with developing countries fell from \$27.0 billion in 1981 to \$14.4 billion in 1982; the deficit in 1980 was \$38.1 billion.

The United States had a trade surplus of \$3.5 billion with the EC in 1982, compared with a 1981 surplus of \$8.7 billion and a 1980 surplus of \$16.3 billion. The trade deficit with oil-exporting countries fell from \$30.3 billion in 1981 to \$9.9 billion in 1982; in 1980, the deficit was \$40.3 billion. The trade deficit with Japan rose to \$19.0 billion in 1982 from \$18.1 billion in 1981. The merchandise trade deficit with Japan was the largest ever recorded with a single trading partner.

The value of services exports increased 2 percent from \$136.6 billion in 1981 to \$139.1 billion in 1982, whereas the value of services imports increased 5 percent, from \$97.7 billion in 1981 to \$103.0 billion in 1982. Thus, the surplus in services trade decreased from \$38.9 billion in 1981 to \$36.1 billion in 1982. This was the first annual decrease in the services balance in 7 years. The worldwide recession caused income from U.S. direct investment abroad to decrease sharply, which caused net services receipts to fall.

CHAPTER 1

HIGHLIGHTS AND SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES DURING 1982

Highlights

Unfavorable global economic conditions caused a second consecutive annual decline in world trade in 1982. The Secretariat of the General Agreement on Tariffs and Trade (GATT) reported that world trade declined by 6 percent to \$1.8 trillion in 1982. This overall reduction was the composite effect of a 2 1/2-percent drop in the volume of trade and the appreciation of the dollar, which depressed the dollar value of that portion of international trade that is not denominated in dollars. The volume of world trade in 1982 declined to approximately the 1979 level. Compared with the 1981 level, world trade in minerals dropped by 7 percent, reflecting sharply reduced demand for petroleum products; world trade in manufactures slipped by only 1 percent and the volume of trade in agriculture edged up by 1 percent. Poor business prospects, high rates of unemployment, and idle productive capacities in the industrialized countries carry much of the blame for the weak trade performance in 1981 and in 1982. However, holding the industrialized countries alone responsible for the state of the world economy and trade would be to confuse the symptom with the disease. From the 1973/74 oil price rise, through belated and insufficient efforts for structural adjustments in the socialist and in most of the developing countries leading to astronomical foreign debts, to the ineffectively controlled international monetary system that allowed the development of the current impasse in international finance, a whole series of events involving the entire world community should be blamed for the decline in world trade in 1981 and 1982.

In 1982 there were a record number of international trade disputes. This reflected increasing tensions among trading partners, as world economic conditions brought about a contraction of trade in value terms and increased protectionist pressures for the third consecutive year.

Selected Issues in Trade Agreements Activities

In addition to the specific multilateral and bilateral trade issues described in this report, special attention has been given to two trade topics that were particularly important during 1982: (1) the November meeting of the GATT that took place at the Ministerial level, and (2) the treatment of subsidized agricultural exports under the GATT.

The GATT Ministerial meeting took place in what the participants called a "climate of deep and prolonged crisis." The Ministers sought to create a better understanding of current trade problems and how they could be minimized. In their final declaration, the Contracting Parties assumed responsibility for these and other formidable tasks.

One of the major bilateral disputes which arose during 1982 was that between the United States and the European Community (EC) concerning the interpretation of certain articles of the GATT Subsidies Code, particularly as they applied to agricultural exports. The dispute settlement features of the Code were invoked in cases involving pasta, wheat flour, and poultry. The outcome of these cases could help resolve a matter of longstanding concern to the United States.

International Trade Agreements Activities During 1982

Within the GATT, the principal multilateral forum that oversees world trade, activities during 1982 focused on consolidating the results of the Tokyo round of the Multilateral Trade Negotiations and on further removing barriers to the free exchange of goods and services internationally. In 1982, the third round of annual tariff cuts was carried out, and the implementation of the agreements relating to nontariff measures was pursued. The GATT also sought ways to improve the application of the "framework" agreements; it concentrated on making the conciliation and dispute settlement process more expeditious and effective.

Besides the GATT, several other international organizations play important roles in international trade matters, though their trade-related activities are more limited in scope. The United States works actively in the Organization for Economic Cooperation and Development (OECD), a forum for economic policy discussion and coordination among the industrialized countries. The United States also participates in a number of commodity organizations designed to stabilize the supply and demand for some internationally traded primary products.

During 1982 the OECD continued to work on ways to liberalize restrictions on trade-related investment, as well as those on trade in services, agriculture, and high-technology goods. Again this year it sought to reduce the trade-distorting subsidy element in officially supported export credits. In June, after extensive negotiations, an agreement to raise interest rates on official export credits was reached, and many countries were reclassified according to their need for financing. The OECD also continued to find ways to improve relations with developing countries and to facilitate structural adjustments in developed countries.

The United States continued its activities as a member of the United Nations Conference on Trade and Development (UNCTAD). Major topics discussed during 1982 included the agenda and site for UNCTAD VI; also, discussions on, or negotiations of, international commodity agreements received significant attention in UNCTAD deliberations.

During the first half of 1982, the United States was a member of five intergovernmental organizations that administer international agreements on commodities. The commodities are coffee, natural rubber, sugar, tin, and wheat. The Fifth International Tin Agreement expired on June 30, 1982. The United States did not sign the Sixth International Tin Agreement, which became effective on July 1, 1982, because of disagreement on the buffer-stock and export-control issues. The United States continues to be a member of the other four organizations referred to above.

U.S. Trade Relations With Major Trading Partners in 1982

In the fall of 1982 the European Community and the United States reached agreement on limiting EC steel exports to the United States, ending the most recent U.S.-EC quarrel over steel trade. Conflict over EC agricultural policies continued during the year, as the United States objected to subsidized EC sales of low-priced EC farm products in world markets. Within the EC, difficulties arose over its future enlargement to include Spain and Portugal. Disputes over the EC budget and the high cost of its common

agricultural policy (CAP) remained prominent issues. The European Monetary System (EMS) functioned well during the year, despite fluctuations in the values of member countries' currencies that led to two realignments of EMS exchange rates.

Bilateral trade relations between Canada and the United States continued to be tense during 1982, as U.S. objections to Canadian attempts to limit foreign investment held firm. The dispute resulted in a request in the GATT to establish a panel pursuant to article XXIII of the General Agreement to investigate the matter. Bilateral discussion of this and other issues continued into 1983.

In the face of another record bilateral trade deficit with Japan and increasing calls for action from U.S. high-technology producers, the United States continued to press Japan to open its market to foreign goods in 1982. Japan responded to this pressure by adopting three packages of measures designed to reduce tariff and nontariff barriers to trade. Notable improvements in Japan's customs procedures were made, and a new bilateral working group was formed to discuss high-technology trade issues. Meanwhile, the United States and Japan continued to discuss standards-related barriers to U.S. exports to Japan, with success imminent at yearend. Negotiations on removing Japan's beef and citrus quotas broke down in late 1982.

During 1982, the United States and Mexico discussed a variety of trade issues in the Technical Secretariat and economic sector study groups of the bilateral Joint Commission on Commerce and Trade. Among these issues were Mexico's domestic-content requirements for automobiles and computers, U.S. policy on silver stockpile sales, "graduation" of certain Mexican products from duty-free treatment under the General System of Preferences (GSP), the application of U.S. countervailing duty laws to imports from Mexico, and Mexican and United States laws on industrial property rights. Because of Mexico's acute shortage of foreign exchange, the United States played an important role in helping to mobilize a multinational "rescue package."

U.S. trade relations with the nonmarket economy countries (NME's) became more strained in 1982. Problems between the United States and China were heightened by a series of negotiations aimed at renewal of the bilateral agreement on trade in textiles. These talks were at an impasse when the initial 3-year pact expired on December 31, 1982. Allegations of injury to U.S. industries by imports from China also increased in 1982, and five investigations were conducted by the U.S. International Trade Commission during the year. U.S.-Soviet relations, after improving slightly in 1981, cooled again in 1982. On December 29, 1981, President Reagan imposed several sanctions against the U.S.S.R. for its role in the establishment of a martial-law regime in Poland; most were still in effect at the end of 1982. These sanctions included the postponement of negotiations on a new long-term U.S.-Soviet grain agreement, but the original 5-year bilateral agreement was extended for a second time, to run through September 1983. Relations with the Eastern European NME's also faltered as U.S. trade with these countries declined steeply in the aftermath of the Polish and Romanian payments crises. The poor state of U.S. relations with Poland was further exacerbated when the United States suspended Poland's most-favored-nation status on November 1, 1982.

Administration of U.S. Trade Laws

In 1982 the U.S. Department of Commerce and the U.S. International Trade Commission had a heavy caseload of antidumping and countervailing duty investigations. The Commission's caseload in the area of other unfair trade practices also continued to be heavy, although in the area of escape-clause actions it was light. The annual product review in connection with the Generalized System of Preferences again resulted in competitive-need exclusions, an increase in the number of "graduations" from GSP treatment by certain products from the more advanced developing countries, and reinstatement of GSP treatment on some products.

The GATT Ministerial Meeting

Background

In concluding their 37th session, the Contracting Parties to the GATT on November 25, 1981, unanimously decided that their 38 session would be convened in November 1982 at the Ministerial level. This marked the first time in nearly a decade that the Contracting Parties deemed it necessary to convene a meeting at such a high level. The call for a Ministerial meeting was, in part, prompted by the protracted downturn in the world economy and the consequent, serious repercussions that were increasingly manifest in the multilateral trading system. Protectionist pressures were escalating throughout the international community, and governments were finding it increasingly difficult to resist these pressures. ^{1/} In the face of this deep and prolonged crisis, the Contracting Parties decided that it was necessary for the Ministers themselves to address this emerging crisis that was beginning to endanger the very legal foundations of the GATT itself.

The Contracting Parties, in issuing their decision to convene the Ministerial, state its purpose to be "to examine the functioning of the multilateral trading system, and to reinforce the common efforts of the contracting parties to support and improve the system for the benefit of all nations." Toward this end, the Ministers would address themselves to the implementation of the results of the Multilateral Trade Negotiations, (MTN) problems affecting the trading system, the position of developing countries in world trade, and future prospects for the development of trade. In the context of their consideration of the work program of the GATT for the 1980's, the Ministers would also determine future priorities for cooperation among Contracting Parties.

The preparation for the Ministerial was entrusted to the GATT Council, which, in turn, established a Preparatory Committee, open to participation by all Contracting Parties, to assist the Council. The Preparatory Committee held its first meeting in December 1981. As a first order of business, the Committee agreed to compile a catalog of potential topics suitable for Ministerial discussion, which ultimately would be developed into the agenda

^{1/} In June 1981 the GATT Consultative Group of Eighteen (CG 18) had "agreed that it would be useful to consider at the political level the overall condition of the trading system." The initiative was subsequently endorsed in the Ottawa Summit Declaration. In October, the CG-18 prepared a specific 14 proposal for a Ministerial meeting, to be considered at the annual meeting of the Contracting Parties in November.

for the Ministerial. In preparation for the Committee's second meeting to be held in January 1982, the GATT Secretariat provided the following list of topics:

- Problems facing the world economic and trading system
- Protectionism
- Problems of developing countries
- Safeguards, voluntary export restraints, orderly marketing arrangements, and so forth
- Structural adjustment
- MTN agreements and arrangements
- Agriculture
- Tropical products
- Fisheries
- Textiles
- Nonferrous metals, minerals
- Tariffs, including the harmonized tariff system and tariff escalation
- Nontariff measures
- Quantitative import restrictions
- Export restrictions and charges
- Trade negotiations among developing countries
- Counterfeiting
- Services
- Investment performance requirements
- Trade practices of multinational enterprises
- Improvement of the text of the GATT
- Framework for international trade in agriculture
- Part IV of the GATT
- Greater participation of developing countries in world trade and the GATT system
- Full implementation of GATT rules and removal of exceptions to general rules of the GATT (in waivers, accession protocols, article XXXV, and so forth)
- Dispute settlement
- Notification, consultation, and surveillance
- Association of new countries with the GATT.

As the preparatory work got underway, the United States set as an objective a Ministerial meeting which would revitalize and strengthen the GATT, focus on the dangers of protectionism, provide a forum for discussion of North/South issues which could eventually result in agreement on mutual trade liberalization measures, and launch a program for trade liberalization in the 1980's. Such a program would be characterized by a commitment to negotiations currently under discussion (such as safeguards and counterfeit codes), study programs on emerging issues of the 1980's (such as services and trade-related investment issues) that may lead to future negotiations within a recognized time schedule, and recognition of the importance of certain issues (such as high technology and agriculture) and the need for eventual work programs.

Having initiated its work program, the Committee generally met on a monthly basis through November 1982. During this period, various countries submitted proposals for inclusion in the Ministerial agenda. Some delegations, including that of the United States, submitted ambitious and far-reaching proposals for endorsement by the Ministers. These included, inter alia, proposals to initiate GATT work programs on trade in services, trade in high-technology goods, and trade-related investment issues.

The United States noted, as justification for inclusion of these items on the agenda, that the international trading system was undergoing a marked transformation that would thrust these emerging trade issues into the forefront in the coming decade. The growth in trade in services had surpassed the growth in trade in goods in the past decade. Government involvement in trade in services had increased for both the achievement of broad social goals and, in some cases, restriction of foreign competition. In high-technology industries, the level of government involvement in both developed and newly industrializing countries, combined with the rapidity of market growth and product innovation, were seen as posing a serious strain on the trading system. In an increasing number of countries, controls on investment were distorting or restricting trade. In all these areas a framework was needed to insure an open world market. It was the U.S. view that the GATT provides a solid basis for such a framework and that the Contracting Parties must begin the necessary institutional work to insure that the GATT mechanisms keep pace with rapid technological and market developments. Moreover, the United States expressed the view that only through such a forward-looking program, could the GATT maintain the necessary momentum toward further trade liberalization.

Many delegations, however, questioned whether the Ministerial should attempt to launch a series of bold new GATT initiatives, particularly in the face of growing protectionist pressures and the condition of the world economy. The European Community and others advocated that the Ministerial agenda should be restricted for the most part, to a pledge to reinforce efforts to refrain from actions that are inconsistent with the GATT. It was their view that the ambitious proposals set forth by the United States should be left to some future time when the world economy would be more conducive to action on such proposals. Other delegations questioned whether the GATT was the proper international forum to consider certain of the U.S. initiatives such as trade in services.

The Committee decided to divide its work into three parts. Part one would be essentially political and would include an assessment of problems facing the international trading community, such as protectionism, and a reaffirmation of adherence to GATT disciplines. Part two would relate to substantive decisions to be submitted to the Ministers. The Ministers might then agree either on particular solutions to the problems submitted or on principles and directives for solution of the problems within a specified time. The third part would consist of issues requiring further clarification--the Ministers could decide that particular issues called for further work and set deadlines for recommendations to be submitted to the Council or the Contracting Parties.

Throughout the year progress in the preparatory work was hindered by these divergent conceptual approaches to the Ministerial. It became difficult even to achieve consensus regarding the agenda, as countries sought to have their particular issues included under the second part of the agenda, where substantive decisions would be called for. The First Draft of a Ministerial Document was circulated by the Chairman of the Committee on July 26-27, 1982, even though consensus regarding many of the substantive provisions of the document was lacking. Illustrative of the breadth of disagreement as to the substance of what would later become known as the Ministerial Declaration is the fact that virtually the entire text remained in dispute in a Committee draft circulated by the GATT Council on November 15, 1982, less than 10 days before the opening of the Ministerial. Ultimately, the form and content of the Ministerial Declaration were finally agreed upon after long and protracted negotiations during the Ministerial itself.

After a year of preparation, the GATT Contracting Parties held their annual meeting in Geneva, on November 24-29, 1982, at the Ministerial level. The session was attended by some 70 Ministers representing 88 GATT member countries.

The Ministerial Declaration

The meeting of GATT Ministers culminated in the issuance of a Ministerial Declaration, in which the Contracting Parties were called upon to resist the resurgent calls for protectionist measures at home and to establish a GATT work program for the coming years. The full text of the Ministerial Declaration is attached as appendix A to this report. It may be viewed as consisting of a statement of the Contracting Parties' political commitment to resist protectionist pressures, and work that will be undertaken by the GATT Contracting Parties through the GATT Secretariat and various GATT working groups and committees.

The political statement

In summary, the Contracting Parties set forth a number of commitments in the Ministerial Declaration that can best be termed "political resolves." Among these was the resolve of the Contracting Parties to abide by their GATT obligations and to "refrain from taking or maintaining any measures inconsistent with the GATT." Another was to "resist protectionist pressures in the formulation and implementation of national trade policy and in proposing legislation." The Contracting Parties also resolved "to bring agriculture more fully into the multilateral trading system by improving the effectiveness of GATT rules, provisions and disciplines and through their common interpretation; to seek to improve terms of access to markets; and to bring export competition under greater discipline."

Work to be undertaken

Safeguards.--In recognition of the need for an improved and more efficient safeguard system "to preserve the results of trade liberalization and to avoid the proliferation of restrictive measures," the Contracting Parties decided that "effect should be given to a comprehensive understanding to be based on the principles of the General Agreement"

This prospective understanding, which is to be submitted to the Council for adoption by the Contracting Parties not later than 1983, will contain at a minimum provision for the following elements:

- (1) transparency of national procedures;
- (2) coverage;
- (3) objective criteria for action;
- (4) duration of safeguard measures, and provisions for a rollback of the measures taken and for structural adjustment in the industry;
- (5) compensation and retaliation; and
- (6) notification, consultation, surveillance, and dispute settlement procedures.

To further the work of the Contracting Parties on this important issue, it was agreed that an interim report would be submitted to the Council in July 1983. ^{1/}

Trade in agriculture.--In recognition of the urgent need to find lasting solutions to the problems of trade in agricultural products, the Contracting Parties decided to establish a Committee on Trade in Agriculture. The Committee, whose membership is open to all contracting parties, will examine a broad spectrum of trade measures affecting agricultural products, including tariff and nontariff measures, subsidies, and various exceptions and derogations by contracting parties under the GATT. The Committee is instructed to report periodically to the GATT Council and the Contracting Parties and to make appropriate recommendations no later than the 1984 session.

Review of MTN agreements.--The operation of the various MTN agreements negotiated during the Tokyo round will be reviewed "with a view to determining what action, if any, is called for" This review would take into account reports prepared by the respective committees or councils concerned.

Trade in counterfeit goods.--The Contracting Parties directed the Council to examine the issue of counterfeit goods and determine whether action under the auspices of the GATT would be appropriate in promulgating rules to regulate the trade of counterfeit goods. In this context, the Contracting Parties requested the Director-General of the GATT to consult with the Director-General of the World Intellectual Property Organization (WIPO) to clarify any legal and institutional issues that may arise from such a GATT undertaking.

Quantitative restrictions and other nontariff measures.--A new group was created to review existing quantitative and other nontariff measures, the grounds on which they were maintained, and their conformity with the GATT with a view to achieving progress liberalizing or removing the restrictions. The group's findings will be considered at the 1984 session of the Contracting Parties.

Structural adjustment and trade policy.--The work on structural adjustment and trade policy is to be continued in order to focus on the interaction between structural adjustment and fulfillment of the objectives of the GATT.

Textile and clothing study.--A study on the textiles and clothing sectors would be conducted on a priority basis for submission to the Contracting Parties in 1984. In large part, this study will examine the existing system of restraints and restrictions relating to textiles and clothing and their impact upon trade, and further trade liberalization in textiles and clothing.

Studies on certain natural resource products.--The Contracting Parties decided to commence studies of problems in trade in nonferrous metals and minerals, forestry products, and fish and fisheries products.

^{1/} As in the past, the major obstacle to the successful negotiation of such an agreement is likely to be certain contracting parties' insistence that provisions for selective action be incorporated into the understanding. Traditionally, GATT art. XIX has been interpreted as requiring import relief measures to be taken on a most-favored-nation basis.

Tropical products.--On the basis of the work program pursued by the Committee on Trade and Development, the Contracting Parties will carry out consultations and negotiations to further liberalize trade in tropical products, including trade in their processed and semiprocessed forms, and will review progress in this area in their 1984 session.

Trade in services.--The Contracting Parties recommended that "each Contracting Party with an interest in services of different types . . . undertake, as far as it is able, a national examination of the issues in this sector." The Contracting Parties will review the results of these examinations during their 1984 session and consider whether multilateral action in the service area would be appropriate or desirable.

Export credits.--The Contracting Parties requested the Director-General of the GATT to consult with them regarding such use and to report to the 1983 session the effect of credits on the expansion of developing countries' imports of capital goods.

Export of domestically prohibited goods.--Contracting parties shall, to the maximum extent feasible, notify the GATT of any goods produced and exported by them but banned for sale in their domestic markets on grounds of human health and safety. This matter will be further considered at the 1984 GATT session.

Dispute settlement procedures.--The Contracting Parties reaffirmed their belief that the Understanding Regarding Notification, Consultation, Dispute Settlement, and Surveillance negotiated during the Tokyo round as part of the so-called Framework Agreement provides "the essential framework of procedures for the settlement of disputes among Contracting Parties and that no major change is required in this framework."

However, the Contracting Parties agreed that further steps were desirable to clarify and to streamline the existing rules. Toward this end, the Contracting Parties enumerated a series of clarifying and interpretive directives.

GATT rules and activities relating to developing countries.--In an effort to advance the objectives of part IV of the GATT, which deals in large part with the needs of the developing countries, the Contracting Parties instructed the Committee on Trade and Development to consult on a regular basis with individual contracting parties to assess how they are responding to the objectives articulated in part IV. Moreover, the Contracting Parties urged parties to more effectively implement the provision of their decision of November 28, 1979, regarding "differential and more favorable treatment, reciprocity and fuller participation of developing countries." The Contracting Parties will review these and the actions taken in this area in their 1984 session.

Tariffs.--In accordance with the concerns of a number of delegations, the Contracting Parties decided that prompt attention should be given "to the problems of escalation of tariffs on products with increased processing with a view to effective actions towards the elimination or reduction of such escalation where it inhibits international trade"

The Contracting Parties also determined that the wide acceptance of the soon-to-be completed, harmonized system of tariff classification would facilitate world trade. The Contracting Parties cautioned delegations that, in implementing this new system, the general level of benefits provided by GATT concessions must be maintained.

Exchange-rate fluctuations and their effect on trade.--The Director-General is requested to consult the Managing Director of the International Monetary Fund on the possibility of a study of the effects of erratic fluctuations in exchange rates on international trade. The report would be submitted to the Council, which would consider any implications for the GATT.

Dual-pricing and rules of origin.--The Council is to arrange for studies of dual-pricing practices and rules of origin and to consider what further action may be necessary with regard to these matters.

The Ministerial Meeting

As was stated earlier, when the meeting of GATT Ministers began, major areas of disagreement still remained among the principal participants concerning the issues that would be included in the Ministerial Declaration and the manner in which many of the most important issues would be addressed. The extent of these disagreements was indicative of the seriousness of the trade problems giving rise to the convocation of the Ministerial, and of the wide divergence in the approaches which the various governments were willing to take toward resolution of the problems. In addition, the Ministerial was plagued from the beginning with virtually irreconcilable conceptual approaches to the meeting itself among the principal participants.

The meeting had to be extended beyond its scheduled period in order to achieve a rather precarious agreement on a Ministerial Declaration. After protracted and difficult negotiations, the meeting ended in an atmosphere of general rancor and frustration. The disappointment of U.S. officials in the outcome of the Ministerial was not disguised. Two topics of major importance to the United States, trade in high-technology goods and trade-related investment issues, were not included in the Ministerial Declaration at all, and the program on services was far less ambitious than the one the United States had sought. At his news conference at the end of the meeting, Ambassador Brock summed up the U.S. assessment of what had been achieved: "Overall, the results might earn a grade of 'C.' It could stretch to a 'C+', but only time and future action will tell.

At a press conference in Brussels on the following day, the EC Commission released a statement "to make the Communities' position absolutely clear on certain points," which appeared to draw back from even the limited consensus represented by the Ministerial Declaration. The statement demonstrated the fragile and incomplete nature of the agreement among the participants on many of the key issues that had been on the Ministerial agenda, including the standstill on new protectionist actions, a work program on agricultural trade, and reform of the GATT dispute-settlement procedures.

Although the results of the Ministerial were regarded as modest, particularly when measured against the ambitious proposals set forth by the United States, it did achieve certain limited objectives. As Ambassador Brock

would later note in his testimony before the Senate Finance Committee on January 25, 1983, the United States entered the Ministerial with two objectives:

First, to restore a sense of political will, momentum, and commitment to the international trading system itself; [and] second, to link the reaffirmation of political will to procedures that would back up the promises.

Measured against these standards, Ambassador Brock observed that the Contracting Parties took a significant step toward fulfilling both objectives.

Post-GATT Ministerial Work

The implementation of the GATT Ministerial Declaration was to begin with the first meeting of the GATT Council, scheduled for January 26, 1983, at which the various work programs enumerated in the Ministerial Declaration were to be undertaken in accordance with the instructions and decisions of the Contracting Parties.

Subsidized Agricultural Exports--Legal Issues

Reflecting the current tension between the EC and the United States on agricultural trade issues, the majority of disputes that the United States had pending before the Subsidies Code Committee in 1982 involved agricultural commodities from the EC. 1/ The disputes involved wheat flour, pasta, poultry, and sugar. 2/ The outcome of these cases will largely determine the adequacy of the Subsidies Code to resolve trade disputes arising from agricultural subsidies. The complaints filed by the United States in the above cases invoked the benefits accruing to signatories under articles 8, 9 and 10 of the Code. Article 8 of the Code sets forth the general provisions governing the signatories' use of subsidization. It provides in relevant part (emphasis added):

2. Signatories agree not to use export subsidies in a manner inconsistent with the provisions of this Agreement.
3. Signatories further agree that they shall seek to avoid causing, through the use of any subsidy
 - (a) injury to the domestic industry of another signatory,
 - (b) nullification or impairment of the benefits accruing directly or indirectly to another signatory under the General Agreement, or
 - (c) serious prejudice to the interests of another signatory.

1/ In addition to the descriptions in this section, summaries of these cases can be found in ch. 5, in the section on certain practices of foreign governments and instrumentalities. The effect of EC export subsidies on the EC share of world trade in farm products is described in ch. 4.

2/ Dispute settlement procedures have also been invoked by the United States under article XXIII of the GATT involving two other groups of agricultural commodities: canned fruit and raisins, and citrus products. These disputes²¹ are discussed in the section of ch. 2 on dispute settlement.

Articles 9 and 10 of the Code apply specifically to the use of export subsidies on agricultural commodities. 1/ Article 9 provides (emphasis added):

Export subsidies on products
other than certain primary products

1. Signatories shall not grant export subsidies on products other than certain primary products. 2/
2. The practices listed in points (a) to (1) in the Annex are illustrative of export subsidies. 3/

Thus, under article 9, the use of an export subsidy on a nonprimary product is per se a violation of the Code. The use of export subsidies on primary products is not an automatic violation of the Code; it depends on the use and effect of the subsidy. Article 10 of the Subsidies Code governs the use of such subsidies. It provides (emphasis added):

Export subsidies on certain primary products

1. In accordance with the provisions of Article XVI:3 of the General Agreement, signatories agree not to grant directly or indirectly any export subsidy on certain primary products in a manner which results in the signatory granting such subsidy having more than an equitable share of world export trade in such product, account being taken of the shares of the signatories in trade in the product concerned during a previous representative period, and any special factors which may have affected or may be affecting trade in such product.
2. For purposes of Article XVI:3 of the General Agreement and paragraph 1 above:
 - (a) "more than an equitable share of world export trade" shall include any case in which the effect of an export subsidy granted by a signatory is to displace the exports of another signatory bearing in mind the developments on world markets;

1/ Arts. 9 and 10 apply to goods other than agricultural goods as well. The language is phrased in terms of primary versus nonprimary products. See footnote 2 below.

2/ Footnote 29 of art. 9 of the Subsidies Code, and Note Ad art. XVI of the General Agreement, sec. B, par. 2. Footnote 29 provides: "For purposes of this Agreement 'certain primary products' means the products referred to in Note Ad Article XVI of the General Agreement, Section B, paragraph 2, with the deletion of the words 'or any mineral'." Par. 2 of sec. B of the Note Ad Article XVI provides: "For purposes of section B, a 'primary product' is understood to be any product of farm, forest or fishery, or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade." 22

3/ The Annex is reproduced in app. B of this report.

- (b) with regard to new markets traditional patterns of supply of the product concerned to the world market, region or country, in which the new market is situated shall be taken into account in determining "equitable share of world export trade";
- (c) "a previous representative period" shall normally be the three most recent calendar years in which normal market conditions existed.

3. Signatories further agree not to grant export subsidies on exports of certain primary products to a particular market in a manner which results in prices materially below those of other suppliers to the same market.

The wheat flour, pasta, and poultry cases raise issues that require the interpretation of key terms in the provisions pertaining to agricultural goods in the Subsidies Code, and illustrate the difficulty of interpreting those provisions. The resolution of these issues will bear on the future usefulness of the Code in resolving trade disputes arising from agricultural subsidization.

The Pasta Case

The pasta dispute between the United States and the EC is centered on the issue of whether pasta constitutes a primary product. The United States contends that pasta is a processed product rather than a primary product; thus, the export subsidies on pasta are per se a violation of article 9 of the Code. The EC concedes that pasta is not a primary product. However, it contends that it subsidizes only the primary-product component of pasta (durum wheat), and that such subsidization is permissible under article 9. The EC advances two theories in support of this interpretation of article 9. It first contends that the subsidy is on wheat, a primary product which is then incorporated into the pasta. In the alternative it contends that it is permissible under article 9 to subsidize a processed (i.e., a nonprimary) product, to the extent of its primary-product components. The EC argues that these interpretations of article 9 are supported by established practice. The United States contends that article 9 and established practice do not support the EC's position. Moreover, the United States contends that these arguments do not help the EC, because the EC subsidies on pasta extend beyond any primary-product component. A panel has been formed to arbitrate the pasta dispute, and will issue a report in 1983.

The Wheat Flour Case

The wheat flour dispute also raises the issue of what constitutes a primary product. The United States contends that wheat flour is a processed product, rather than a primary product, because substantial processing takes place before wheat can be sold as wheat flour, and such processing is not necessary or customarily required to prepare wheat for marketing in international trade. Substantial volumes of wheat grain as opposed to milled wheat flour are sold in international trade. The EC contends that wheat flour is a primary product. It additionally argues that it is subsidizing only the primary-product component (the wheat grain) of wheat flour.

The United States contends that even if the panel should find that wheat flour is a primary product, the EC's use of subsidies on wheat flour violates articles 8 and 10 of the Code. The United States contends that the EC subsidies on wheat flour are applied in such a manner as to (1) secure "more than an equitable share of world export trade" in wheat flour within the meaning of article 10:1, (2) result in EC prices' being "materially below those of other suppliers to the same market," within the meaning of article 10:3, (3) nullify or impair the benefits accruing to the United States under the GATT, and (4) cause serious prejudice to the interests of another signatory within the meaning of article 8:3.

The most interesting issues presented revolve around the argument that the EC has gained more than an equitable share of the world market. The United States argues that the representative period should be the prior 20 years, rather than the immediately preceding 3 years; the panel must look back 20 years to assess the distorting effect of the EC subsidies on the world market for wheat flour which began in 1962 with the common agricultural policy. 1/

The United States advances two theories in support of its claim that the EC has gained more than an equitable share of the world market. It argues first that the dramatic increase in the EC's share of the world market for wheat flour since 1962 at the expense of all the other suppliers, in and of itself, establishes a prima facie case that the EC has gained more than an equitable share of the world market. It was a direct result of the EC subsidies. The U.S. producers of wheat flour are technologically more advanced and efficient than European producers. Without the subsidies, the EC price of wheat flour would have been higher than the prices of other exporters, including the United States.

The second theory is that the EC subsidies on wheat flour have resulted in displacement of U.S. exports and those of other signatories, within the meaning of article 10:2(a). The United States contends that in addition to the loss of market share noted above, the preemption of a signatory from a new market, or a rapidly expanding market, qualifies as displacement. The panel's findings regarding this dispute will be particularly meaningful in assessing the Code's effectiveness in regulating export subsidies on certain primary products.

The Poultry Case

The United States does not argue in the poultry case that poultry is not a primary product. The U.S. complaint is based solely on articles 8 and 10 of the Code. The United States has alleged that EC subsidies on poultry (1) threaten serious prejudice to the interest of the U.S. industry within the meaning of article 8:3, (2) provide the EC with more than an equitable share of world trade within the meaning of article 10:1, and (3) materially underprice whole chickens below prices of comparable U.S. products within the meaning of article 10:3.

1/ Art. 10:2(c) provides that "'a previous representative period' shall normally be the three most recent calendar years in which normal market conditions existed."

The most significant legal issue arising from the U.S. case against EC poultry subsidies arises from the allegations of price undercutting. The EC's defense to the allegations of price undercutting is that its prices were calculated to meet competition from Brazil, the source of the lowest priced poultry in the Middle East market. The EC contends that the prohibition in article 10:3 against price undercutting permits the EC to reduce its price to that of the lowest priced competition in the market, until it is proven in the GATT that the lowest priced country's subsidies are illegal. The United States is strongly opposed to the EC position on this issue, since the EC interpretation of article 10:3 would have potentially far-reaching implications for its use.

If the Committee adopts the EC's position, it may become necessary to proceed against all countries in a market that are subsidizing their exports in order to proceed against any single country. In light of the extensive worldwide use of agricultural subsidies, this rule would render the use of article 10:3 very burdensome and substantially reduce any likelihood of prevailing on a complaint brought under this provision. Thus, the adoption of the EC position on this issue by the Committee could have far-reaching implications on the usefulness of this provision.

CHAPTER 2

GATT ACTIVITIES DURING 1982

The General Agreement on Tariffs and Trade (GATT) is an international agreement aimed at liberalizing world trade and ensuring fair trade by enforcement of an agreed set of rules. These rules and the contractual obligations of the parties to the Agreement constitute the major body of international trade law, and are the focus of most of the trade agreements activities of the United States. Originally signed in 1947 by representatives of 23 countries, the GATT rules are currently applied by a total of 119 governments, which together account for more than four-fifths of world trade. The product coverage of tariff concessions under the General Agreement has increased through successive multilateral negotiations, under the auspices of the GATT, in which both tariff and nontariff obstacles to trade have been progressively reduced.

The Tokyo round, the most comprehensive of the seven rounds of multilateral trade negotiations (MTN) held under the GATT, began in 1973 and concluded in 1979. It produced agreements covering both tariffs and nontariff barriers. In 1982, the signatories to the 1979 Geneva Protocol implemented the third of eight annual installments of tariff reductions agreed upon in the Tokyo round. 1/ Also, the implementation of the agreements relating to nontariff measures continued during 1982. 2/ Although these agreements are contributing to the liberalization of world trade, areas of uncertainty and disputed interpretation still exist, particularly in the area of subsidies.

Major changes in the world economy in recent years have increasingly challenged the effectiveness of the GATT: (1) there have been shifts in relative trade competitiveness among countries; (2) the developing countries have emerged as important participants in world trade, straining the industrial countries' ability to maintain traditional shares of world trade; (3) regional or preferential economic groups have expanded their size and increased their power; (4) debt and balance-of-payments problems have reached crisis proportions; (5) and the volume of world trade declined for the third consecutive year. These changes have strained trade relations, and, as a result, there were a record number of international trade disputes in 1982. In addition, another year passed without significant progress on one of the most significant issues left unresolved at the end of the Tokyo round: an agreement on safeguards.

1/ The 1979 Geneva Protocol and a Supplementary Protocol (1979) are the legal instruments that contain the Tokyo round tariff reductions. The major part of each country's concessions are being implemented through annual staged duty reductions which began January 1, 1980, but there are important deviations from this general rule. For example, U.S. and EC textile and steel concessions are in 6 stages beginning January 1, 1982; Japan's annual reductions are made on April 1, and for all countries are already fully implemented.

2/ The agreements relating to nontariff measures entered into force on Jan. 1, 1980, except for those on government procurement and on customs valuation, which entered into force 1 year later. The United States and the European Community implemented the agreement on customs valuation on July 1, 1980, however.

The GATT contracting parties met at the ministerial level in November 1982 in what the participants called "a climate of deep and prolonged crisis." It was the first ministerial meeting since the one that initiated the Tokyo round negotiations in September 1973. ^{1/} The strained relations were evident at the Ministerial; consensus on the final Declaration was difficult to achieve. However, the most important objective of the United States, to create a better understanding of current trade problems, was fulfilled. The work program outlined in the Declaration presented a demanding trade agenda for the rest of the 1980s.

GATT Council

The governing body of the GATT is comprised of the Contracting Parties, who usually meet annually to oversee the operation and direction of the GATT. Between sessions of the Contracting Parties, the Council of Representatives ("the Council") is authorized to act on both routine and urgent matters. It meets frequently during the year.

In 1982, the GATT Council met nine times, and considered a variety of issues. On June 29 it held a special session to carry out its fourth review of developments in the international trading system. It paid particular attention to GATT rules and procedures for dispute settlement which have been used increasingly in recent years, and to suggestions that might be put before the Ministers in November 1982 for improving the system's functioning. Some countries considered that the rules comprising the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance ^{2/} were adequate and that only better application of them was needed. Other representatives, including the United States, proposed procedural improvements with some strengthening of existing mechanisms, in particular the conciliation and jurisdictional functions of GATT. They underlined the need for a better balance between those two functions. Subsequently, the Chairman of the Council consulted informally with delegations to formulate a proposal on this, as well as on other issues to be put before the ministers.

The GATT Council exercised its conciliation and dispute settlement function with regard to several cases brought before it. ^{3/} It set up a working party to examine the U.S. report on application of trade restrictions applied under its Agricultural Adjustment Act, covered since 1955 by a waiver from certain provisions of the GATT. ^{4/} It also adopted the report of a working party on the fifth triannual review of the application of the Protocol for the Accession of Switzerland to GATT, and adopted the report of a working group it had set up to examine the conformity with GATT rules of the Second ACP/EEC Convention of Lomé, which entered into force on January 1, 1981. In adopting these reports, the Council acknowledged that the Lomé Convention was

^{1/} See Chap. 1 of this report for full coverage of the GATT Ministerial meeting and the events leading up to it.

^{2/} This "Understanding" is part of the agreements relating to the Framework for the Conduct of International Trade which was negotiated during the Tokyo round. It seeks to increase transparency in international trade relations. It also seeks to restrain the adoption of certain trade-restrictive measures and provides mechanisms for their elimination.

^{3/} These are discussed in the section of this Chapter entitled, "Article XXII and XXIII: Conciliation and Dispute Settlement."

^{4/} This working party will report its conclusions to the Council regarding U.S. obligations to the GATT in 1983.

compatible with the GATT and that Switzerland had complied with its GATT obligations under the terms of its Protocol of Accession. Other major issues considered by the Council are discussed in the following sections.

Trade Restrictions Affecting Argentina Applied for Noneconomic Reasons

The GATT Council considered trade restrictions applied by the European Community (EC), Australia, and Canada on Argentina for noneconomic reasons. Import restrictions were applied in April, during the conflict between Argentina and the United Kingdom regarding sovereignty over the Falkland Islands. Argentina argued that these had not been applied for economic and trade reasons and were unjustified under the security exceptions to the General Agreement. 1/ The Community said that it had acted in accordance with its rights of Article XXI of the General Agreement; Canada explained its action in light of U.N. Security Council obligations. 2/ Canada also asserted that it was consistent with its international obligations, including those under the General Agreement. The Government of Australia associated itself with the positions of Canada and the EC. The GATT Council had lengthy discussions on the legality of these actions under the GATT, and whether the matter was political and outside of the competence of the GATT. The EC, Australia, and Canada suspended the economic restrictions against Argentina in June.

Upon request of Argentina, a decision stipulating procedural rules for applying article XXI was drawn up and adopted by the Contracting Parties. That decision notes, in particular, that recourse to article XXI could constitute in certain circumstances an element of disruption and uncertainty for international trade and could affect benefits accruing to contracting parties under the General Agreement. The decision provides for better information to be supplied to contracting parties where such measures are applied, and confirms that member states affected by actions taken under article XXI retain their full rights under the General Agreement.

Poland: Suspension of MFN Treatment by the United States

In late October 1982, the United States suspended application of most-favored-nation (MFN) treatment to Poland. The United States notified GATT that since Poland had been unable to fulfill its import commitments under GATT, as provided for in the Polish Protocol of Accession to GATT, 3/ and since bilateral consultations had not led to a satisfactory solution, the United States suspended concessions and obligations to Poland under the General Agreement.

1/ Article XXI provides for protecting national security interests regarding fissionable materials, traffic in arms, ammunition, or other equipment; actions taken during time of war or other international emergency; or actions taken to maintain international peace and security.

2/ Specifically, Resolution 502 was cited.

3/ Poland acceded to the General Agreement in 1967. The Protocol of Accession governing its membership provided that Poland's concessions, in exchange for the privileges of GATT membership, were to consist not of tariff reductions, but of commitments to increase the value of its imports from other GATT members by 7 percent each year.

Poland argued to the Council in November 1982 that the unilateral suspension of MFN tariff treatment was taken in response to a legislative action by the Polish Parliament pertaining to domestic affairs which did not concern the commercial, economic, political, or security interests of any country. ^{1/} Poland also said that the bilateral consultations on the matter had never taken place, even though Poland had indicated its readiness to engage in such discussions. Poland rejected the attempt by the United States to justify its action by referring to Poland's import commitments. Poland asked the Council to take a stand on the issue by recommending to the United States that it reinstate MFN tariff treatment.

The United States countered that it had acted within its rights under the Protocol of Accession, as Poland had not honored its import commitment under GATT since at least 1978. The United States did not deny the importance of factors other than trade in deciding to exercise its rights under the Protocol of Accession, but added that these factors were not within the purview of GATT. The issue received lengthy discussion in the Council, and at the November 1982 Ministerial meeting, when it was agreed to pursue the matter further in the Council. Discussions on this matter continued into 1983.

Activities under the GATT Committees

Consultative Group of Eighteen

The Consultative Group of Eighteen (CG-18) was established in 1975 as a temporary body to help the Contracting Parties formulate and implement GATT policies, to manage actual or potential threats to the multilateral trading system, and to coordinate aspects of the process of the international economic adjustment. The CG-18 was made a permanent body in 1979. The committee members are high-level trade policy officials representing both developed and developing nations, who sit on the committee on a rotating basis. In 1982 the member countries were Argentina, Australia, Brazil, Canada, Egypt, the European Community and member states, Finland, India, Japan, Nigeria, Pakistan, Peru, Philippines, Poland, Switzerland, Turkey, the United States, and Zaire. The committee Chairman was Arthur Dunkel, who is also Director General of the GATT.

The CG-18 met four times in 1982--in February, May, July, and October. These meetings focused on three topics: CG-18's contribution to preparations for the November GATT Ministerial meeting, the economic situation and its implications for trade policies, and cooperation in the GATT on agricultural trade issues.

The CG-18 devoted a major portion of its time in 1982 to preparing the Ministerial agenda. Areas of special concern to the group were the continuing search for a comprehensive solution to the safeguards issue, the need for expedient dispute settlement procedures with effective enforcement, disagreements about interpretation of the Subsidies Code, and developing/developed country questions. Many CG-18 members pressed for a standstill and rollback commitment regarding protectionism as part of any declaration emerging from the Ministerial meeting, which they believed was needed to restore confidence in the international trading system. Other members were less optimistic about the results of such a declaration.

30

^{1/} Id est, the Polish Government's suppression of the Solidarity trade union. See the discussion of this issue in the section on East-West trade in Chap. 4 of this report.

The subject of worldwide economic conditions and their implications for trade policy also occupied a substantial portion of the CG-18 agenda. The group examined a GATT secretariat note which analyzed poor 1981 world economic performance and a corresponding increase in trade disputes, sectoral difficulties, and protectionist measures in that year. The most salient point in this discussion was that bad management, rather than unfavorable exogenous forces, was the root of the malfunctioning economic system. The members concluded, therefore, that the protectionist trend was reversible, given discipline and will. The members discussed the increase in discriminatory restrictive measures (both unilateral and other) and the adverse effect these measures have on trade and investment patterns. Accordingly, they stressed the importance of restoring confidence in the free trade system and suggested that this could be carried out in the administration of national trade policies through increased transparency (i.e., greater exposure to public scrutiny) and by improvement in the effectiveness of multilateral dispute settlement procedures. Concern was also expressed about conditions inimical to developing countries--declining export earnings, especially in the context of increasing borrowing needs, and increasing shortages of international credit.

Another contribution of the CG-18 was its paper, "Co-operation on Agriculture in the GATT," which analysed GATT rules and codes that apply to agricultural trade. The CG-18 proposed a work program in this area, consisting of identifying specific agricultural trade problems and of making improvements in the GATT as it applies to agriculture. The work is to be completed no later than 1984.

Committee on Tariff Concessions

The Committee on Tariff Concessions (CTC) supervises the procedures for updating the schedules on tariff concessions made by contracting parties, and the implementation of tariff reductions. It also provides a forum for discussion of questions relating to tariffs. The 43 members of the CTC focused efforts in 1982 on preparations for implementing new standard international tariff nomenclature, the Harmonized Commodity Description and Coding System, known as the Harmonized System. 1/

The Committee on Tariff Concessions is the GATT body responsible for the coordination of procedural matters related to its adoption. Because adoption of the Harmonized System will result in duty-rate changes in a number of instances as individual products are reclassified in terms of the new standardized system, any increases in bound duties will have to be renegotiated in order to maintain a balance of concessions between contracting parties. Ministers agreed in November that if the system is introduced, the general level of benefits provided by GATT concessions must be maintained and that any necessary negotiations should begin promptly. Negotiations under article XXVIII will therefore be required to reconcile these changes with existing GATT obligations. The target date for implementation of the Harmonized System completion is January 1, 1987. In order to assist GATT members in completing the article XXVIII procedures in time to meet this

1/ For a more detailed discussion of the status of the implementation of the Harmonized System, see the section on the activities of the Customs Cooperation Council in Chap. 3 of this report. 31

deadline, the Committee began work on agreed procedures to facilitate and expedite the conduct of the negotiations. These guidelines were nearly completed as of yearend.

In addition, during 1982 the CTC continued to monitor the implementation of the Tokyo round tariff concessions. In 1982, the signatories to the 1979 Geneva protocol carried out the third of eight annual tariff cuts agreed upon during the Tokyo round negotiations. The annual tariff reductions will extend to January 1, 1987.

Another tariff question considered by the CTC relates to tariff escalation. 1/ As part of a continuing effort to address the issues of tariff escalation, a pilot study was reviewed by the CTC to assess the degree of escalation present in tariff schedules for the copper mining and processing sector. Tariff escalation is thought to inhibit international trade as the degree of protection increases with the degree of processing. The Committee on Trade and Development CTD requested the CTC to conduct this study in response to the needs of certain less developed countries. The preliminary conclusion of this study was that there is escalation in the tariff schedules of all countries studied but that it seemed to be significantly higher in the countries at lesser stages of development (Brazil, the Republic of Korea, Yugoslavia and Spain) than in the fully industrialized countries (United States, European Community, Japan, Sweden, and Switzerland). Three other aspects of the matter were studied: the levels of nominal rates and nontariff barriers; the effect of the existence of special tariff treatment (other than MFN treatment); and the actual measurement of the degree of tariff escalation in the case of products in a specific processing chain (i.e., copper mining and processing). The Ministers agreed in November 1982 that GATT should give prompt attention to the problem, with the goal of eliminating or reducing escalation where it inhibits international trade. Work in 1983 will examine additional specific products (nonferrous metal and minerals, forestry products and fish and fisheries products) and the possibility of reducing escalation on these.

Textiles Committee

The Textiles Committee consists of signatories to the Protocol to Extend the Arrangement Regarding International Trade in Textiles (generally known as the Multifiber Arrangement or the MFA III). As of yearend, there were 42 signatories to the MFA III. Textiles and apparel trade of these countries accounts for four-fifths or approximately 80 billion dollar's worth of world trade in textiles and apparel (excluding intra-EC trade). The Arrangement was originally negotiated in 1973 and entered into force for a 4-year period beginning January 1974. It was renewed in late 1977 for 4 years. The current extension was agreed to by consensus on December 22, 1981. It will expire on

1/ Tariff escalation occurs when tariffs charged on semiprocessed products are generally higher than those on the raw material of which these products are based; tariffs on goods manufactured from the semiprocessed products are generally higher still. It is recognized that a small degree of escalation can provide substantial protection for the processing industries of the importing countries, and thus discourages the development of processing industries in the countries of origin of the raw materials.

July 31, 1986. 1/ The objectives of the MFA III are to expand and liberalize international trade in textiles and apparel while avoiding disruptive effects on individual markets and on lines of production in exporting and importing countries alike.

The Textiles Committee has two subordinate bodies. The Textiles Surveillance Body (TSB) reviews annually all new textile import restrictions imposed, whether unilaterally imposed or negotiated bilaterally, to determine whether they are fully consistent with the provisions of the Arrangement. The TSB also provides a forum for consultation and dispute settlement. It consists of an independent chairman and eight members who are chosen to provide balanced representation on the TSB of all MFA members. 2/ In 1982 the TSB met eight times to consider actions taken under the MFA. For example, the TSB reviewed the United States action with respect to imports of cotton shirts and trousers from Indonesia under article 3 of the Arrangement (new unilateral restrictions). The TSB also reviewed 16 bilateral agreements (both new and renewed) pertaining to a variety of textiles and apparel imports worldwide.

The Subcommittee on Adjustment was established under the 1981 Protocol extending the MFA. Its function is to monitor governmental adjustment policies and measures as well as the process of adjustment in the textiles and apparel sector. The subcommittee conducts periodic reviews of developments in these areas. Subcommittee membership is open to all countries that participate in the MFA.

The Subcommittee met for the first time in July 1982 and began establishing a work program under article 1:4 of the MFA. 3/ At the same time members laid plans for the collection of factual information on production and trade for inclusion in a comprehensive review of the worldwide textiles industry to be complete by Autumn 1983.

In December 1982 the Subcommittee released a report, entitled "Recent Trends in Production and Trade in Textiles and Clothing." This showed that world output in textiles and apparel declined in 1981 for the second consecutive year and that trade growth in value terms was declining. At the same time, the developed countries, who are the major suppliers of textiles, experienced a decline in their share of world textile exports 1 percent in 1981, to 53 percent. Exports of finished apparel from developing countries, the major suppliers of apparel, increased in that year to 59 percent, up 3 percent from that in 1980.

The experience of the United States was consistent with the trend in textile trade among all industrialized nations: there were increased imports from the Third World as against imports from developed countries, and U.S. exports of textiles declined marginally in value in 1981 and exports of clothing increased 4 percent. Developed countries remained the main market for U.S. textiles. The overall U.S. trade surplus in textiles was reduced substantially, from over \$1.3 billion in 1980 to less than \$0.8 billion in

1/ For a discussion of the most recent renewal of the MFA, see the OTAP, 33d Report, USITC Publication 1308, pp. 20-27.

2/ In 1982, the TSB members were Canada, EEC, Egypt, Japan, the Republic of Korea, Malaysia, Mexico and the United States.

3/ Part IV was added to the Agreement in 1966 to ensure that the special interests of developing countries were considered. 33

1981. The U.S. deficit in clothing trade continued to increase, reaching a new peak of \$6.3 billion in 1981; the deficit with developing countries accounted for \$4.4 billion of this total.

Committee on Trade and Development

The Committee on Trade and Development (CTD) was established in 1964 to ensure that issues that concern developing countries are given priority attention, as called for by part IV of the General Agreement. 1/ In 1982 the full Committee developed specific proposals on trade in agricultural goods 2/ and on quantitative restrictions, which were taken up at the 1982 Ministerial meeting. Prior to November, the Committee sponsored informal consultations between developing and developed countries in order to identify and analyze the particular problems of developing countries' exports to the developed markets. For each of a wide range of products exported by the developing countries, they examined market access conditions, tariff levels, and the use of nontariff measures and subsidies. They also studied macroeconomic constraints upon the national economies, such as the increasing current-account deficits of oil-importing developing countries. The participants in these discussions concluded that the best prospects for growth in the developing countries depended upon expansion of exports to developed countries through avoidance of new measures to restrict imports by developed countries, and on the liberalization of existing barriers to trade. As a result of these discussions, the CTD developed a proposal for consideration by the ministers to examine the prospects for increasing trade between developed and developing nations. The proposal also called for consultations and negotiations aimed at further liberalization of trade in tropical products in both processed and semiprocessed forms and for a review of progress toward eliminating or reducing existing obstacles to trade in tropical products.

Subcommittee on Protective Measures

The function of the Subcommittee on Protective Measures is to examine any case of protective action by developed countries against imports from developing countries in light of General Agreement provisions of part IV. Membership is open to all contracting parties, and developing countries that are not GATT members may request observer status. During 1982, the Subcommittee considered measures brought to its attention in three notifications: (1) one from Norway concerning prolongation of its article XIX action on textiles; (2) one from India concerning certain antidumping and countervailing duty actions in Australia, Canada, and the United States; (3) and one from Indonesia on European Community measures affecting imports of manioc and rice bran. It also considered ways to implement Part IV more effectively, i.e., how to ensure "differential and more favorable treatment, reciprocity and fuller participation of developing countries."

Subcommittee on trade of least developed countries

In its mandate to liberalize trade to a greater degree, the subcommittee members developed a proposal for the Ministerial to expand and diversify the trade of least developed countries, to strengthen technical cooperation in the trade area and to facilitate integration of these countries into the GATT

1/ This was done jointly with the CG-18. See section on CG-18, above.

2/ This article states that actions under this agreement "...shall not disrupt the autonomous industrial adjustment process of participating countries".

trading system. Specifically, the Subcommittee proposed to initiate work in the following areas: (1) further improvements in MFN or Generalized System of Preferences treatment for exports from least-developed countries; (2) adoption of more flexible rules of origin for exports from these countries; (3) elimination or reduction of non-tariff measures affecting products of interest to the least developed countries and greater flexibility in the participation of these countries in the Tokyo round trade agreements; (4) strengthening of trade promotion activities; and (5) reduction of tariff escalation.

Committee on Balance of Payments Restrictions

The Committee on Balance of Payments Restrictions monitors the use of import restrictions by contracting parties to correct balance-of-payments difficulties. Under article XII of the General Agreement, countries desiring to introduce, intensify, or maintain import restrictions for balance-of-payments reasons are required to consult with the Committee. Although quantitative restrictions are generally prohibited in the GATT, article XII requires that countries limit these restrictions to the minimum levels need and that they phase out these measures as the balance-of-payments difficulties diminish. Article XVIII governs the use of import restrictions for balance-of-payments purposes by LDCs, in recognition of their lesser ability to cope with foreign exchange difficulties. The provisions of article XVIII are less strict than those of article XII. The International Monetary Fund is invited to participate in GATT balance-of-payments consultations pursuant to article XV of the General Agreement.

In 1982, under a simplified procedure the Committee held "mini-consultations" with India, Pakistan, Ghana, Philippines, and Bangladesh. Full consultations were held with Portugal and Israel.

The Committee met on June 23 with representatives of India and Pakistan in accordance with the simplified procedures for regular consultations. The Committee concluded that the two countries had fulfilled their obligations for 1982 under article XVIII:12(b), which requires them to consult, and that full consultations were not necessary. They reached the same conclusion regarding Bangladesh and the Philippines on November 30. Regarding Ghana, the Committee noted that over a decade had elapsed since the last full consultation and that a number of changes had been introduced in the import regime--changes which warranted a more detailed review by the Committee. For these reasons the Committee decided that a full consultation should be held with Ghana in 1983.

On June 23 the Committee held full consultations with Portugal. Although the Committee noted that the country's external position had deteriorated sharply in 1981, and that this had hindered progress on the elimination of surcharges and quotas on certain consumer goods, the Committee expressed concern at the fact that certain restrictions had been applied for more than 6 years. Accordingly, the Committee reiterated its recommendation made in previous consultations that Portugal announce a time schedule for the removal of restrictive import measures in the future. The removal of the measures in advance of Portugal's accession to the EC would facilitate GATT consideration of Community expansion.

Full balance-of-payments consultations with Israel were held on November 30. The committee members welcomed the fact that Israel had terminated in November 1980 the import deposit scheme that had been introduced

only one year earlier, in November 1979. The committee noted that the Israeli current account deficit had widened in 1981 and in early 1982 and that quantitative restrictions had been imposed on 28 import categories and a 3 percent surcharge imposed on all imports in an attempt to counteract this trend. Committee members concluded that, although the effect of these measures was relatively small, less restrictive policy instruments were available; they expressed the hope that the quantitative restrictions and surcharges would be allowed to expire as of April 1, 1983.

Working Party on Structural Adjustment

Thirty-four countries participated in the activities of the Working Party on Structural Adjustment and Trade Policy in 1982. The working party was established by the GATT Council in November 1980 to study the relationship between trade liberalization and structural adjustment of economies. The objective of the working party in 1982 was to submit a major policy paper to the Committee on Trade and Development and to the CG-18, and ultimately, to the GATT Council in 1983. The 1982 work program was divided into three parts. It began with analysis of a GATT secretariat study which identified broad structural changes and examined the international patterns of production, employment, and trade since 1963, in agriculture, mining, and manufacturing. Second, the Working Party considered another secretariat paper which identified the main provisions of the General Agreement and of other GATT instruments that have a bearing on structural adjustment. These provisions were classified into four groups: (1) GATT provisions and instruments designed to achieve the lowering of barriers to trade; (2) provisions aimed at maintaining and consolidating the reduction of trade barriers; (3) provisions governing departures from GATT rules; and (4) provisions in the General Agreement or other GATT instruments which explicitly deal with structural adjustment of economies.

The third element of the working party's 1982 program was an examination of submissions from nations participating in the working party, each one of which discussed that country's experience with problems of structural adjustment. The United States submitted a detailed examination of its experience with structural adjustment, including the historical role of the escape clause in the adjustment procedure and the record of Government intervention in the adjustment process of certain industries, such as steel, footwear, and automobiles. Another aspect of the U.S. paper was U.S. agricultural adjustment. The objective of the Working Party review was to find common threads as well as significant differences among the adjustment patterns and policies of individual countries and, ultimately, to identify an appropriate role for the GATT in facilitating the economic adjustment process. Although the analysis had not been completed at yearend, the preliminary conclusion of the Working Party was that the GATT could best contribute to the process of structural adjustment by continuing to play its important role in promoting trade liberalization.

The work of the GATT Working Party on Structural Adjustment and Trade Policy is only one example of the analytical exercises on the subject of structural adjustment which are currently being conducted. Complementary studies are underway, with U.S. participation, in other international organizations such as the OECD, UNCTAD, and the World Bank; each study is being conducted in accordance with the organizations' particular terms of reference.

Inventory of Nontariff Measures

The inventory of nontariff measures (NTMs) alleged to impede trade (covering both agricultural and industrial goods), which was used as a basis for the MTN negotiations, was rendered at least partially obsolete by the successful completion of the Tokyo round. Following the end of the MTN, it was proposed to update the inventory. The updating process was approved in early 1981, and work was begun immediately.

By the end of 1981, GATT members had compiled an updated inventory of more than 600 nontariff measures (NTMs) imposed on industrial products. ^{1/} The inventory covered five main categories of measures: (1) government participation in trade and restrictive practices tolerated by governments; (2) customs and administrative entry procedures; (3) technical barriers to trade; (4) specific limitations, such as quantitative restrictions, import licensing, embargoes, exchange control, discrimination resulting from bilateral agreements, export restraints, measures to regulate domestic prices, tariff quotas, export taxes, etc.; and (5) charges on imports, such as prior deposits, surcharges, discriminatory credit restrictions, border tax adjustments.

At the November Ministerial meeting, the GATT ministers established the Working Party on Quantitative Restrictions and Non-Tariff Barriers. Its stated function is to pursue vigorously the expansion of the industrial inventory of NTMs and to act as a clearinghouse for information on such matters. The Committee on Trade in Agriculture, also established at the Ministerial, will continue the task of updating the corresponding agricultural inventory in 1983.

Actions under the Articles of the General Agreement

Article XIX: Emergency Action on Imports of Particular Products

Article XIX ^{2/} regulates the use of emergency or "escape" action against increased imports of a particular product. It is intended to be a temporary measure. Regardless of the intent of article XIX, an increasing number of

^{1/} The inventory lists hundreds of nontariff measures, notified by governments as obstacles to their exports or as unfair advantages to their competitors. These are confidential negotiating documents, and are available only to governments. For a discussion of earlier GATT actions in compiling the inventory, see OTAP, 32nd Report, USITC Publication 1307, pp. 32-33, and the 33rd Report, USITC Publication 1318, p. 46.

^{2/} Article XIX of the General Agreement authorizes signatories to impose emergency measures where actual or threatened serious injury to a domestic industry is demonstrated. The government taking the action must first notify the Contracting Parties and consult with exporting-country governments, and the restrictions imposed must be nondiscriminatory. Under these circumstances, protection can be applied "to the extent and for such time as may be necessary" either by the imposition of quantitative restrictions on imported goods or by suspension, withdrawal or modification of a negotiated tariff concession. In critical circumstances, where notification and consultation delays would "...cause damage difficult to repair," action may be taken without prior consultation, on the condition that consultations take ³⁷ place immediately after such action is invoked. The case for consultation is strong, as the affected exporting country or countries may suspend "substantially equivalent concessions or other obligations." There is no provision under art. XIX for negotiation of compensation.

"emergency" measures are being taken outside the GATT; a number of these actions ignore the escape clause entirely. Domestic pressures to implement safeguard measures on a bilateral or selective basis to avoid multinational vigilance and enforcement are often being used rather than the provisions for multilateral implementation and consultation under article XIX.

In 1982, the GATT was notified of five new article XIX actions. In August, Australia introduced a tariff quota on certain flat steel products, and pipes and tubes of iron or steel. On September 3, Switzerland raised the customs duty on imports of dessert grapes. On September 20, Australia notified the GATT that hoop or strip metal of iron or steel would be subject to a quota. On October 27, Canada notified the GATT of the imposition of a surtax on imports of yellow onions. On November 2, the European Community notified the GATT that imports of dried grapes would be subject to a minimum price, and to a countervailing duty where the minimum price was not met.

The GATT was notified during 1982 of the termination of one article XIX action, which had been taken by Australia on alloy steels in 1966.

Article XXII and XXIII: Conciliation and Dispute Settlement

Several articles of the General Agreement provide for conciliation and dispute settlement. For example, article XII:4(d) applies to dispute settlement regarding balance-of-payments restrictions, article XVIII:18 (b) applies to measures for economic development, and article XXVIII:4(d) applies to renegotiation of tariff concessions. The nontariff measure codes provide for dispute settlement procedures. Article XXII provides for consultation between parties with regard to "generally all matters affecting the operation of the agreement" and article XXIII 1/ provides a framework for dispute settlement.

1/ Article XXIII states that "if any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of (a) the failure of another contracting party to carry out its obligations under this Agreement, or (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or (c) the existence of any other situation". All parties must give "sympathetic consideration" to any representations or proposals made to it. Where no settlement is reached by means of bilateral consultation, the article further provides for consultation with the Contracting Parties. Article XXIII provides that, once a dispute has been referred to them, the Contracting Parties shall "promptly investigate". Usually the investigation is conducted by a panel of three or five "disinterested" members, who "make appropriate recommendations...or give a ruling on the matter". Article XXIII empowers the Contracting Parties to suspend "the application to any other Contracting Party or Contracting Parties of such concessions or other obligations under this Agreement as they determine to be appropriate", and any party against which any such suspensions are taken has the right to withdraw from the Agreement with 60 days' notice. Panels are required to take appropriate account of the particular interests of LDCs. The Understanding on Notification, Consultation, Dispute Settlement and Surveillance clarified and strengthened the existing GATT articles on dispute settlement, especially regarding the role of the panels. This Understanding was reached during the Tokyo round as one of the "framework" agreements. In 1982, the ministers agreed that although the mechanism for dispute settlement was adequate, more effective use could be made of it.

In 1982 there was a record number of international trade disputes under articles XXII and XXIII. The high number of disputes reflected increasing tensions among trading partners as world economic conditions brought about a contraction of trade in value terms and increased protectionist pressures for the second consecutive year. The following bilateral consultations under article XXII:1 and XXIII:1 took place in 1982.

If bilateral discussions fail to produce a settlement, disputes are often referred to panels or working parties set up under article XXIII:2. Those disputes that were being considered by panels or working parties during 1982 are discussed below in detail.

Conciliation and Dispute Settlement under Articles XXII:1 and XXIII:1

<u>Notifying country</u>	<u>Disputed issue</u>
European Community	Japanese copper pricing and marketing practices.
European Community	United States exports of corn gluten feed.
European Community	EC import ban on Canadian Sealskins and seal products.
United States	Canadian differentiated postal rates.
Brazil, EC, Ivory Coast	United States sugar import policy.
United States	Imports of footwear from Japan, Brazil, and Korea
Japan	United States tariff classification of cab chassis.
European Community	Swiss import duty on dessert grapes.
European Community	Japanese exports of video tape recorders.

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

As early as 1973, the European Community asserted that the U.S. Domestic International Sales Corporation (DISC) tax legislation was a direct export subsidy. Under the DISC provisions, qualified companies received a tax deferral on part of their export income. The DISC was enacted in 1972 as part of the Revenue Act of 1971 and as a tax incentive to increase U.S. exports, in part to offset export incentives offered by certain European tax systems. Soon after its enactment, the Community filed charges in the GATT that the DISC law was an illegal subsidy. At the same time, the United States filed countercharges against certain foreign-source income tax practices of France, Belgium, and the Netherlands. In 1976, panels were established under article XXIII to investigate the complaints. The panels concluded that the provisions of the DISC amounted to an export subsidy and the European tax systems were criticized for not following "arm's-length pricing." ^{1/} For the next 5 years, however, the Council could not agree on the adoption of the panel reports. In December 1981, they were adopted subject to an "understanding." That understanding stipulated that ". . . economic processes (including transactions involving exported goods) located outside the territorial limits of the exporting country need not be subject to taxation by the exporting country and should not be regarded as export activity in terms of article XVI:4 of the General Agreement" and ". . . that article XVI:4 requires that arm's length pricing be observed, i.e., prices for goods in transactions between exporting enterprises and foreign buyers under their or

^{1/} For a thorough discussion of the history of this case, see OTAP, 33rd Report, 1981, pp. 55-57.

the same control for tax purposes be the prices which would be charged between independent enterprises acting at arm's length. Furthermore, article XVI:4 does not prohibit the adoption of measures to avoid double taxation of foreign source income."

In April 1982, the Government of Canada claimed that the understanding did not justify the existence of the DISC, as it had already been declared a subsidy. It was thus explicitly against the provisions of article XVI:4 of the GATT and the Subsidies Code. The United States countered that the DISC was fully consistent with its GATT obligations because, "in its operation, the program approximates the effective tax treatment of income from exports which would otherwise prevail under a purely territorial system." In dispute of this claim, the Government of Canada, supported by the Commission of the European Community and other countries, pursued its rights under the article XXIII:2 settlement process in subsequent GATT Council and Subsidies Code Committee meetings. Delegates from the Community, Canada, Chile, Brazil, India, Sweden, Norway, and Finland called for a Council decision recommending formally that the United States bring the DISC into conformity with GATT and that U.S. compliance be monitored by the GATT Council. The United States used the single-country veto 1/ on the proposed resolution to require GATT conformity and to monitor compliance. Representatives from other countries (Argentina, the Philippines and New Zealand) suggested that the matter be given further study. In July 1982, the Community withdrew its proposed declaration to require U.S. conformity and replaced it with a proposed decision authorizing EC retaliation, although none of the countries was willing to authorize such measures. Therefore, both resolutions were effectively tabled until the next, and final, Council meeting of the year. At that meeting on October 1, the United States announced its intention to seek modifying legislation to the DISC, whereupon further consideration of the issue was deferred until after the November Ministerial meeting.

Although U.S. legislators, trade experts and interested businessmen viewed reform of the DISC as necessary, by yearend there was no agreement on the best alternative. By early March, 1983, however, a general proposal to replace the DISC had been developed and presented to members of the Congress and to the GATT Council.

U.S.-EC dispute over extension of the Manufacturing Clause

Section 601 of the U.S. Copyright Act of 1976, known as the "Manufacturing Clause," prohibits imports into the United States of "non-dramatic literary works" in the English language by authors of U.S. nationality 1/. This legislation (H.R. 3940), as enacted in 1976, provided for an exception for Canadian imports and the automatic expiration of this clause on July 1, 1982. Some version of the clause has been part of U.S. copyright law since it was enacted in 1891 to protect the "infant" U.S. printing industry.

In June 1981, a bill was introduced to Congress to extend the Manufacturing Clause until 1986. At that time the Government of Great Britain and the European Community made diplomatic representations to the United States Government, asking the Administration to oppose the enactment of the bill to extend the clause. In 1982, the legislation extending the

1/ As the GATT authorizes action by consensus only, dissent by a single country, out of a total of 88, is sufficient to veto a motion or ruling.

manufacturing clause was passed by Congress. On July 8, it was vetoed by the President, on the grounds that the U.S. printing industry was "one of the most modern and competitive" in the world and that extension would be "self defeating" at a time when the United States was seeking to eliminate nontariff barriers abroad. The veto was overridden by Congress and the bill became law. Officials of the European Community charged that the prohibition was prejudicial to the European printing and publishing industries. EC officials asserted that the Manufacturing Clause was inconsistent with article XI and was not covered by any of the exceptional provisions in GATT. It was further considered that allowance for imports only from Canada was discriminatory and contrary to article XIII. It was also charged that the new Manufacturing Clause, enacted in July 1982, was not covered by the GATT Protocol of Provisional Application because this Protocol did not cover new legislation. Finally, the Community considered that the new legislation enacted was contrary to understandings reached between the United States and the Community during the Tokyo round, in anticipation of expiration of the clause. EC officials argued that the final equilibrium of concessions reached during the Tokyo round had become unbalanced with this departure from the negotiated settlement. In short, Community negotiators charged that this restriction represented a new barrier to trade contrary to U.S. obligations in the GATT.

With a view toward resolution of the problem the Commission of the European Community requested consultations under article XXII:1 of the General Agreement. Consultations under Article XXII:1 did not yield satisfactory results. Therefore the Community notified the United States that it was seeking consultations under Article XXIII:1 of the General Agreement.

The consultations were held on October 7, 1982. The discussions focused on the amount of compensation to which the European Community was entitled on the grounds of extension of the Manufacturing Clause. Lacking statistical evidence of injury, European officials were unable to quantify the extent of injury and the amount of compensation required. It was decided that further consultation on this subject would be necessary; another round of consultations would be held in February 1983.

The Ways and Means Committee of the U.S. House of Representatives asked the U.S. International Trade Commission to conduct a study on the economic effects of termination of the clause to air publicly the issues connected with this legislation. This report is scheduled for publication in July 1983.

U.S. import duty on vitamin B-12

During the Tokyo round, the United States agreed to abolish the American Selling Price (ASP) system of establishing the dutiable value of certain imports. 2/ Although a single rate was applied to vitamin B-12, the ASP

1/ Several exceptions to this requirement exist. For example, imports from Canada are not covered and copies of printed matter imported in quantities of less than 2,000 copies are permitted.

2/ Under the ASP system, "competitive" products imported were valued for customs purposes at the wholesale price of a competitive U.S. product, rather than at the invoice price of the imported product. The United States agreed to eliminate this system upon entry into force of the Customs Valuation Code negotiated during the Tokyo Round. For more information on this dispute, see OTAP, 33rd Report, 1981, p. 53.

valuation system resulted in significantly lower amounts of duty being collected on feedgrade than was collected on pharmaceutical-grade vitamin B-12. In converting the tariffs on ASP items to provide tariff protection approximately equivalent to that which had been in effect, the duties collected for feed-grade quality and pharmaceutical quality vitamin B-12 were combined on a trade-weighted basis, which resulted in a higher rate of duty than had existed before for feedgrade-quality vitamin B-12. The European Community claimed that such action was contrary to U.S. obligations under the GATT, and since bilateral efforts failed to resolve the dispute, a panel was authorized by the GATT Council on June 11, 1981 to investigate the matter. The panel met nine times between July 31, 1981, and June 17, 1982, and concluded that the United States had not infringed its commitment under the General Agreement or under the ASP Chemical Products Understanding of March 2, 1979. Most importantly, the panel members stated their belief that the United States did not have an obligation to maintain tariff-rate differentiation for the two qualities of vitamins, as the conversion method used did not involve any arbitrary duty increase.

However, in recognition of the less favorable tariff treatment accorded feedgrade-quality vitamin B-12, the panel suggested that the United States might wish to advance implementation of the Tokyo round concession rate to such an extent that the imported vitamins could again attain their traditional competitive position in the U.S. market. The report was adopted by the GATT Council without qualification.

U.S. imports of certain automotive spring assemblies

On August 10, 1981, the U.S. International Trade Commission Commission issued an order excluding imports of automotive spring assemblies which infringed a certain patent. This order was issued after an investigation conducted by the Commission in which a determination had been made that imports from a Canadian firm violated section 337 of the Tariff Act of 1930, in that they infringed or would infringe valid U.S. patents and cause substantial injury to the U.S. industry. Article XX(d) of the GATT provides a general exception from the obligations of the GATT for the adoption or enforcement of measures which were necessary to secure compliance with laws and regulations relating to the protection of patent rights and other property rights, and for the prevention of deceptive practices.

The Government of Canada made the counterclaim that, as section 337 and the exclusion order applied only to foreign producers, the United States had violated the "national treatment" provisions of article III:1 of the General Agreement; Canada also asserted that the order was a "highly protective" instrument. Throughout the last quarter of 1981, bilateral consultations were held under articles XXII and XXIII:1. Believing the consultation had not yielded satisfactory results, Canada exercised its rights under article XXIII:2 and called for the GATT Council to convene a panel in order to find a mutually satisfactory solution. 1/

In June 1982, the panel announced its conclusion. The panel noted that, as far as it had been able to ascertain, this was the first time a specific case of patent infringement involving Article XX(d) had been brought before the GATT. The panel members also noted that the exclusion order had been directed against imports of certain automotive spring assemblies produced in

1/ For more background information on this dispute, see OTAP, 33rd Report, p. 54-55.

violation of a valid U.S. patent from all foreign sources, and not just from Canada. It was found, therefore, that the exclusion order was "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination against countries where the same conditions prevail," nor had it been applied in a manner which constituted a disguised restriction on international trade. The panel further noted that the exclusion order had been necessary to protect the patent rights of the U.S. company, and that these results could not have been obtained as effectively by any other means. The panel therefore concluded that the Commission action fell within the provisions of article XX(d), and was, therefore, consistent with GATT. As of yearend, the report had been circulated among GATT members, although it had not yet been adopted by the GATT Council.

Canada: Foreign Investment Review Act

The United States has consulted periodically with the Government of Canada since the 1974 enactment of Canada's Foreign Investment Review Act (FIRA), which the United States alleges to contain trade-distorting practices. ^{1/} The FIRA provisions require that new or newly-acquired companies seeking to invest in Canada submit investment proposals to the Canadian Government that describe the company's intentions, such as the extent to which Canadian products will be purchased and the export sales plans of the firm. During the review process, the Canadian Government attempts to make these proposals legally binding commitments. Until these conditions are agreed to, permission to invest is often refused. In addition, FIRA may impose local content requirements, which may take the form of commitments to buy a minimum-percentage Canadian goods or to give preference to "competitively available" Canadian goods, for example. Export performance requirements often entail enforceable commitments to export minimum percentages or amounts of a firm's Canadian production. In short, FIRA provides the Canadian Government with a mechanism to screen certain foreign direct investment proposals to determine whether those proposals are likely to be of significant benefit to Canada. The United States has charged that this screening mechanism violates the "national treatment" requirement of article III of the GATT.

Although consultations have taken place over the years since the enactment of FIRA, the United States began to address seriously the issue of Canadian investment policy only recently. Since 1981, U.S. concerns about FIRA have been the subject of a number of bilateral meetings at official and ministerial levels. U.S. officials detailed for the first time their concerns related to Canada's GATT obligations in relation to FIRA during article XXII consultations held in January and February 1982. Not having reached a satisfactory resolution of the matter, the United States asked the GATT Council on March 19 to convene a panel to consider the allegation that these Canadian trade practices nullified or impaired benefits accruing to the United States under GATT. The United States requested that the panel examine, in light of the relevant GATT provisions, local-content acts, policies or practices that require use of Canadian products or equipment in manufacturing. The panel was also asked to study FIRA or other Canadian acts, policies or practices that result in the imposition of requirements to export a percentage or quantity of production. The panel was established on March 31 and the terms of reference established in November 1982. The panel was not scheduled to meet until 1983.

^{1/} See also Chap. 4, "Developments in Major Trading Partners: Canada" for a discussion of this issue.

U.S.-EC citrus dispute

United States and European officials consulted informally under articles XXII and XXIII:1 from October 1980 through April 20, 1982, regarding EC imports of citrus fruits. 1/ The United States contended that the EC preferential trading arrangements on citrus imports were a violation of its MFN obligations and were therefore a prima facie case of nullification and impairment of benefits accruing to the United States. The United States believed that these preferences had an adverse affect on U.S. exports of these products. U.S. officials argued during April 20 consultations that the preferences were pervasive: they covered imports from 11 Mediterranean countries as well as from the Atlantic-Caribbean-Pacific (ACP) countries. They affected trade in nine citrus products of interest to the United States: fresh oranges, fresh tangerines, fresh lemons, fresh grapefruit, orange juice, lemon juice, grapefruit juice, grapefruit segments, and pectin. The United States contended that the preferences gave a discriminatory advantage to about 85 percent of EC fresh orange imports, over 50 percent of lemon imports, and over 60 percent of grapefruit imports. Further, the United States claimed that the EC was abrogating the Casey-Soames Agreement. 2/

Community officials countered this argument by noting that the preferential arrangements were consistent with article XXIV governing free-trade areas and that there was no evidence of injury to the United States. Therefore, the U.S. complaint was considered "inadmissible." The Europeans also argued that the U.S. action was contrary to the interests of the LDCs. After several attempts since June to convene a panel to examine the U.S. charge failed, the Director-General intervened in August with his good offices to negotiate a settlement without a panel. As the Director-General was unable to bring about a settlement, the United States insisted upon and received on November 2 the agreement of the GATT Council to convene such a panel 3/. After establishing its terms of reference, the panel was scheduled to begin its investigation into the case in January 1983.

EC exports of canned fruit and raisins

On March 17, the United States notified the GATT Secretariat that it wished the Council to establish a panel under article XXIII:2 to examine the U.S. charge that the European Community was granting subsidies on the production of canned peaches, canned pears, and raisins. 4/ The United States

1/ This case was initiated under sec. 301 of the Trade Act of 1974. For a discussion of the section 301 process, see Chap. 5, "Administration of U.S. Trade Law and Regulations."

2/ The Casey-Soames Agreement was a 5-point oral agreement between the United States and the European Community. The point referred to here, the fifth, states that when the special preferences caused difficulties for the U.S. trade interests, the Community would be prepared to seek a solution with the United States.

3/ This request was granted in spite of strong dissent on the part of the Mediterranean countries. These countries argued for the establishment of a working party; as many countries, not just the United States and EC bloc, were involved.

4/ This case was initiated under sec. 301 of the Trade Act of 1974. For a discussion of the sec. 301 process, see chap. 5, "Administration of U.S. Trade Laws and Regulations."

believed that the benefits accruing to the United States through tariff concessions on these products negotiated under GATT article II were being impaired and nullified by the existence of the production and storage subsidies. Also, the United States charged that, because peaches and pears comprise a major portion of fruit cocktail, tariff concessions on fruit cocktail were similarly impaired.

Prior to this, on February 25, 1982, U.S. and EC officials had engaged in consultations under article XXIII:1 of the GATT regarding the U.S. complaint. At that time the United States presented the argument that the subsidies were causing, and further threatened to cause, disruption of U.S. exports of these products to EC member states. Having failed to reach a satisfactory solution in consultations, the United States asked the GATT Council to convene a panel.

EC officials wished to separate the question of canned fruit from raisins, and asked for further article XXIII:1 consultations on raisins. The second set of article XXIII:1 consultations regarding raisin subsidies, took place on April 29. The EC argued that the raisin scheme was merely a continuation of a Greek support policy that existed prior to EC accession and that it was Greece that was suffering most from the EC raisin policy. Both sides agreed to the inclusion of raisins in the panel's terms of reference. The panel met on September 29 and again on October 29, although no decision was made by yearend.

EC sugar export subsidies

Since 1978, major world exporters of sugar have complained bitterly that the EC maintains subsidies on its sugar exports and that the EC has gained more than an "equitable" share of the world sugar market. The EC subsidy scheme was also considered to be "a permanent source of uncertainty in world sugar markets," as there were no limitations on Community practices regarding production, price or refunds ¹/ . Argentina, Australia, Brazil, Colombia, Cuba, Dominican Republic, India, Nicaragua, Peru, and the Philippines, whose sugar industries have traditionally accounted for the bulk of world sugar exports, claimed that the subsidization and pricing practices of the member states of the EC for sugar had nullified and impaired their rights under article XXIII:1 of the General Agreement. They requested consultations toward resolution of the matter on April 2. The 10 nations further maintained that the subsidization and pricing policies of the EC caused serious prejudice to their interests under article XVI:1. They also maintained that the subsidization of sugar exports had harmful effects and caused undue disturbances to normal commercial transactions and hindered the achievement of objectives under article XVI:2; that the common sugar regime of the EC did not seek to avoid the use of subsidies, as required under article XVI:3; and that this subsidization of sugar exports had been applied in a manner which resulted in the EC achieving a more than equitable share of world trade in sugar, in terms of article XVI:3.

On June 15 the EC Commission agreed to hold ten bilateral, rather than one joint, consultation. As of yearend, consultations had been held but there had been no resolution of the problem. The matter was being kept under review and all participating countries reserved their rights. Efforts in the

¹/ See OTAP, 33rd Report, 1981, for a discussion of the history of this case.

International Sugar Organization have been made concurrently toward resolution of the dispute. The United States has given its support to both efforts, with hopes that the GATT will adjudicate the complaint and the ISO will restore the market balance.

EC quantitative restrictions against imports of certain products from Hong Kong

On September 3, the United Kingdom informed the Council on behalf of Hong Kong that it would pursue the dispute settlement procedure under article XXIII:2 regarding the contention that France maintained quantitative restrictions against Hong Kong in a number of products 1/ and that Hong Kong considered these measures to be unjustifiable under any specific GATT provision. Therefore, the Community, representing France, was charged with breach of article XI, the general prohibition against quantitative restrictions. These measures were also considered discriminatory against Hong Kong and therefore in contravention of the GATT obligations of France under articles I and XIII.

During five rounds of consultations held under article XXIII:1, Hong Kong stated that it considered such restrictions a nullification or impairment of benefits accruing to it under the GATT, and requested that they be terminated. This request was not accepted, and Hong Kong requested investigation by a GATT panel. The panel was established on October 1, 1982, and its composition announced in January 1983.

EC Complaint Against Finnish Internal Regulations Affecting imports of Certain Parts for Footwear

The Board on Export and Import Licensing of Finland made a decision that, for 1983, leather soles used for footwear to be exported to the Soviet Union had to be of Finnish origin. The European Community believed that the implementation of this decision would infringe certain GATT provisions. In particular, European officials cited article III of the GATT, which prohibits internal taxes that discriminate against imports and charged that EC exports of leather soles to Finland would be disrupted substantially. European Community officials added that bilateral consultations on the issue had not produced satisfactory results and requested that a panel be convened. The European Community raised this matter before the GATT Council in October 1982.

Finnish officials responded that the EC charges were outside of the jurisdiction of the GATT and without legal justification. They stated that no restrictions existed in the trade of the product concerned between the EC and Finland, nor was there any internal regulation that would restrict the use of these products in manufacturing shoes in Finland. Their opinion was that no GATT provision, including article III, was infringed. The Finnish Government explained that the restrictions used for imported shoe soles in Finnish-Soviet trade was based on the fact that trade is conducted on a bilateral basis in non-convertible currencies. Without the limitation of such trade to products of domestic origin, Finland would be forced to pay for its imports in

1/ These are knitwear other than of cotton, manmade fibers and wool; clothing other than of cotton, manmade fibers and wool; umbrellas; wireless receivers (radios); pleasure and sports boats for marine use; compound optical microscopes; electric or electronic watches with piezo-electric quartz crystal regulating device; and toys.

convertible currency and receive payments for its exports in nonconvertible currency, gradually draining its convertible currency reserves. The Soviet Union not being a contracting party to the GATT, there was nothing in the GATT rules to prohibit application of such a rule to bilateral trade. Finally, the Finnish Government argued, the total amount of trade was insignificant, totaling only two or three million dollars from the EC as a whole. Furthermore, the decision did not lead to a substantial reduction of imports of shoe soles from the Community and the measure would not lead to serious economic and social consequences, as EC officials had charged. Despite this position the Finnish Government accepted the establishment of a panel to investigate the EC charges. The GATT Council agreed in November to establish a panel to begin its investigation early in 1983.

Article XXIV: Enlargement of the EC

Article XXIV of the General Agreement sets forth the rules of treatment of customs unions and free trade areas. The General Agreement recognizes the desirability of economic integration schemes as a means of promoting free trade, provided that such arrangements do not erect barriers to the trade of other contracting parties. 1/

On November 6, 1979, a working party was established to examine the provisions of the General Agreement in the light of the documents concerning the accession of the Hellenic Republic (Greece) to the European Communities, and to report to the Council 2/. The Working Party on the Accession of Greece to the European Communities met six times in 1980 and 1981 and once in 1982. The working party could not reach any unanimous conclusions as to the compatibility of the provisions of the documents concerning the accession of Greece to the European Community with the provisions of the General Agreement. Specifically, members of the working party could not agree on whether, on the whole, the commercial duties and regulations were more restrictive after Greek accession than before.

Despite the lack of consensus in the working party, the U.S. delegation entered into negotiations with the EC under article XXIV:6 in order to seek compensation for damage to its trade due to Greek accession to the Community. These discussions took place on June 23 and 24, 1982. EC officials argued that, in the case of Greek accession, most of the duties subject to increase as a result of the Greek adoption of the EC Common External Tariff were unbound (i.e., not covered by a GATT commitment). They reasoned that these unbound rates of duty created no obligations under article II and therefore a

1/ The article states that the agreement will not prevent the formation of a customs union provided that the duties and other regulations are not on the whole higher or more restrictive than the general incidence of duties prior to the formation of such a union [Para. 5(a)]. Any contracting party is required to notify the Contracting Parties should they consider entering into a customs union or free trade area, enabling the Contracting Parties to make such reports and recommendations regarding the integration scheme as they deem appropriate. These matters are normally addressed in a working party whose role is to analyze the overall effect of accession on the trade of the Contracting Parties.

2/ Greece submitted an application for membership to the EC in 1975 and became the 10th member on Jan. 1, 1981. ⁴⁷

contracting party such as the United States had no remedy in this case under article XXIV:6. Negotiations between the EC and other parties had been confined to increases in trade barriers and tariffs on items bound in the GATT.

Further, the EC contended during negotiations that the United States (and other contracting parties would benefit substantially from Greek accession, and therefore, that the EC was owed a "credit" in the form of bilateral tariff concessions or compensatory withdrawals on its part. The U.S. position was that article XXIV:6 sets forth the rights of aggrieved contracting parties for compensation and that these rights were not compromised by the requirement to take "due account" of favorable tariff changes occurring at the time of accession. The United States also strongly rejected any possibility that the EC was owed a credit stemming from Greek accession as the language of article XIV:6 does not support offsetting compensation as a result of tariff bindings which decrease. 1/ Thus, compensatory reductions made at the time of accession must be on the "corresponding" item and the United States is not compelled to accept as compensation unsolicited Greek tariff decreases on other items made in the context of accession. Further, U.S. officials argued that U.S. agricultural exports were apt to be severely damaged due to the extension of the Common Agricultural Policy (CAP) to Greek agriculture; that residual discriminatory tariff treatment will be experienced by U.S. exports vis-a-vis European Free Trade Association EFTA countries due to the effects of the EC/EFTA preferential trade agreement; 2/ and that the discriminatory application of residual Greek quantitative restriction is also grounds for compensation.

Negotiations continued throughout the year without a satisfactory resolution. Fundamental differences concerning the U.S. right to compensatory adjustment for tariff increases and the EC insistence upon being owed a "credit" were set out in an official exchange of notes between EC and U.S. officials in December 1982. Further discussions in February and March 1983 sought to resolve these differences.

As of yearend only Argentina, Uruguay, Austria, South Africa and Finland had completed negotiations with the EC under article XXIV:6; a few other countries were slowly progressing in their negotiations.

Accessions to the GATT

GATT membership expanded to eighty-eight contracting parties in 1982. Zambia became the 87th contracting party by means of a declaration under article XXVI of the General Agreement. This article states that, "if any of the customs territories . . . possesses or acquires full autonomy in the conduct of its external relations . . . such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the

1/ The relevant provision of art. XXIV:6 states that "due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union."

2/ The EC/EFTA preferential arrangement provides for reciprocal duty-free tariff treatment on most industrial trade between the member countries of the two organizations. Greece assumed responsibilities under the EC-EFTA arrangement upon accession, beginning a process that will result in duty-free treatment for trade in most industrial products between Greece and the EFTA countries in 1986.

The contracting parties to the General Agreement are listed below, in the following tabulation.

GATT Membership as of DECEMBER 31, 1982

Contracting Parties to the GATT (88)

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

Acceded provisionally (1)

Tunisia

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

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

fact, be deemed to be a contracting party" 1/. Zambia, with provisional status since her independence in 1964, was qualified to declare membership as a contracting party.

Thailand became the 88th Contracting Party to the GATT on November 20, acceding under the provisions of article XXXVIII of the General Agreement. Negotiations on Thai accession began in April. The Protocol of Accession was signed on October 21 in Geneva, and accession took effect thirty days later. It is customary that countries acceding to the GATT make a number of trade concessions to the contracting parties, in exchange for receiving the full benefits of the tariff reductions and other trade commitments that have been negotiated among GATT members since the inception of the General Agreement in 1948. Thailand agreed to bind a certain number of its customs duties under the GATT consistent with its development, financial and trade needs. These customs duties are listed in the tariff schedule attached to Thailand's Protocol of Accession.

Thailand was the last member of the Association of South-East Asian Nations (ASEAN) to join the GATT. The other ASEAN members are Singapore, Malaysia, Indonesia and the Philippines.

Implementation of the Tokyo Round Agreements

Among the results of the Tokyo round negotiations are six major agreements establishing rules of conduct governing the use of nontariff measures, and a sectoral agreement to liberalize trade in civil aircraft. Nontariff barriers (NTBs) were perceived by both the United States and our trading partners as the greatest obstacles remaining to the expansion of international trade after the tariff cuts of the Kennedy round. For this reason these agreements are frequently considered the most significant accomplishments of the Tokyo round.

The following section describes the implementation and operation of these agreements during 1982 as carried out by their respective committees. These committees were established by each agreement so that signatories would have a forum in which to consult one another over disputes and contested areas of interpretation of the agreements. The status of participation in each of the agreements as of yearend is shown in table 2.

Agreement on Subsidies and Countervailing Duties

The Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code) entered into force on January 1, 1980. Egypt and Spain became signatories to the Agreement during 1982, bringing the total number of signatories to 21. 2/

1/ See Article XXVI:4(c) of the General Agreement.

2/ Australia, Austria, Brazil, Canada, Chile, Egypt, Finland, India, Japan, Korea, New Zealand, Norway, Pakistan, Spain, Sweden, Switzerland, the United Kingdom on behalf of Hong Kong, the United States, Uruguay, Yugoslavia, and the EC were signatories to the Subsidies Code at the end of 1982. 50

Table 2 --Tokyo Round Agreements: Status as of December 31, 1982

Countries contracting parties	Technical barriers	Government procurement	Subsidies countervailing	Bovine meat	Dairy	Customs valuations agreement	Import licensing	Civil aircraft	Anti-dumping
Argentina	S			A	A	S 1/	S		A
Australia			A 1/	A	A	A	A		A
Austria	A	A	A	A	A	A	A	A	A
Belgium									
Brazil	A		A	A		A 1/	A	A	A
Canada	A	A	A	A		A 1/	A	A	A
Chile	A		A				A		A
Czechoslovakia	A 1/						A		A
Denmark	A 1/						A 1/		
Egypt	S		S	S	S		S	S	S
EEC	A	A	A	A	A	A	A	A	A
Finland	A	A	A	A	A	A	A	A	A
France	A	A							
Germany (Fed. Rep.)	A 1/	A 1/						A 1/	
Greece	S	S						S	
Hungary	A 1/	A 1/		A	A	A	A		A
India			A				A		A
Ireland	A	A						A	
Israel									
Italy	A	A						S	
Japan	A	A	A	A	A	A 1/	A	A	A
Korea	A	A	A						
Luxembourg	A	A							
Netherlands	A	A							
New Zealand	A	A	A 1/	A	A	A 1/	A	A	A
Norway	A	A	A	A	A		A	A	A
Pakistan	A	A	A				A 1/		A
Philippines	A	A							A
Poland	A	A		A	A	A	A		A
Romania	A	A		A	A			A	A
Rwanda	S	S							
Singapore	A	A							
South Africa				A	A		A		
Spain	A	A	A 1/			A 1/	A		A
Sweden	A	A	A	A	A	A	A	A	A
Switzerland	A	A	A	A	A	A 1/	A	A	A
United Kingdom	A 1/	A 1/	A 1/	A 1/	A	A	A 1/	A 1/	A 1/
United States	A	A	A	A	A	A	A	A	A
Uruguay			A	A	A	A			
Yugoslavia	A			A	A	A			A
Zaire									
Other countries:									
Bulgaria				A	A				
Tunisia 2/	A			A	A				

A: Accepted - S: Signed (acceptance pending)

1/ Reservation, condition and/or declaration.

2/ Provisional accession to GATT

The Subsidies Code clarifies existing GATT rules on the use of subsidies to promote exports. It also provides a means for signatories to seek redress when they believe other signatories' subsidy practices are causing material injury to their domestic industries or displacement of their exports to third-country markets. 1/

The Committee on Subsidies and Countervailing Measures (CSCM)

The CSCM, consisting of representatives from each signatory, held eight formal meetings and several informal meetings in 1982. Topics discussed at the meetings and other CSCM activities during the year included the obligations of signatories to notify the Committee of their use of domestic subsidies and of countervailing duty actions, and the appropriate methods to be employed in the calculation of subsidies in countervailing duty cases. The topics discussed follow.

Notification of subsidies.--One issue that generated discussion at nearly every meeting of the Committee on Subsidies and Countervailing Measures was notification of subsidies. All GATT members 2/ are required to respond every third year to a questionnaire on their current subsidy programs and to submit notifications of subsidy activities initiated during intervening years. Questionnaires were due at the end of 1981, and much discussion at Committee meetings concerned the tardiness and incompleteness of these documents. However, it was acknowledged that response to the recent questionnaire was better than response to past questionnaires. 3/ At Committee meetings throughout the year, mention was made of a tendency for developing countries that had made commitments to phase out export subsidies not to submit notification of subsidies to the Committee. As of the Committee's final meeting in October 1982, Brazil, Egypt, New Zealand, Pakistan, Spain, Uruguay, Yugoslavia, and Greece had not replied to the subsidies questionnaire.

Article 9 of the Code states that signatories should not grant export subsidies on products other than certain primary products. Subsidy notifications will be examined by the Committee to determine whether they violate this rule. If they are found to do so, signatories are required to examine methods of bringing their subsidy programs into conformity with GATT rules within a reasonable period of time.

1/ If one signatory's exports cause material injury to another signatory's domestic industry, the injured party may either impose countervailing duties under its domestic procedures to offset the margin of subsidy, or seek undertakings from the exporting country, for example, to eliminate or limit the alleged subsidy. A remedy is also provided in the Code for the case in which one signatory's subsidized exports displace another signatory's exports in third-country markets. The signatory whose exports were displaced may request consultations with the exporting country; if consultations do not result in a mutually acceptable solution, signatories may refer the matter to the Committee on Subsidies and Countervailing Measures (CSCM) established by the Agreement, for conciliation. The CSCM will appoint a panel if conciliation does not resolve the problem, and will make recommendations to parties to the dispute based on the panel's report. If the Committee's recommendations are not followed within a reasonable period of time, the Committee may authorize appropriate countermeasures.

2/ Not just Code signatories.

3/ During discussion of subsidy notifications, several members commented that the adoption by the United States of an injury test in countervailing duty proceedings contributed to the improved response.

Conflicts also occurred over "cross-notifications," by which member countries notify the Committee concerning other countries' practices. In March 1982, after Canada notified to the CSCM its Export Development Corp. (EDC) as a subsidy, Canada made a formal request pursuant to article 7(3) of the Code that the United States notify as a subsidy the DISC program, which Canada stated operates to increase exports. The United States refused to notify the DISC, stating that in light of the understanding adopted by the GATT Council when it adopted the panel reports on DISC and the tax practices of Belgium, France, and the Netherlands, 1/ it believed that the DISC was not an export subsidy, inasmuch as the level of federal direct taxation imposed upon U.S. exports subject to the DISC exceeded the level that would be applicable if a territorial system of taxation were in effect. Soon after, Canada brought the DISC program to the notice of the Committee. In Committee meetings, other members expressed agreement with Canada on notification of the DISC. 2/

At an April 1982 Committee meeting, the United States stated that GATT members should notify their export credit programs as subsidies. The EC strongly opposed a requirement to notify all export credits as subsidies, taking the view that export credits consistent with the Organization for Economic Cooperation and Development (OECD) Arrangement on officially supported Export Credits were not to be regarded as subsidies. Canada, Chile, and Switzerland expressed agreement with the U.S. position on this question, arguing that even subsidies that are legal under the Code must be notified. Japan supported the EC. The United States subsequently sent in cross-notifications of the export credit schemes of Austria, Brazil, France, Italy, the United Kingdom, and Spain and duty-remission schemes maintained by Canada.

Another matter mentioned several times at Committee meetings was the contention of the United States that the EC should notify certain of its industrial subsidies. The EC claimed that the subsidies were mainly for social purposes and did not have much direct effect on trade. The United States insisted that all such subsidies should be notified.

Countervailing duty actions.--Article 2:16 of the Subsidies Code requires that signatories submit semiannual reports to the Committee on Subsidies and Countervailing Measures on any countervailing duty actions they undertake during that 6-month period. Fifteen countries 3/ informed the Committee that they had not taken any countervailing duty action in 1982.

Chile initiated 75 countervailing duty actions against a variety of products from Brazil, Argentina, Peru, the EC, Spain, Colombia, Uruguay, South Korea, and China. No undertakings were decided upon during 1982.

The EC reported only three countervailing duty actions in 1982. On June 6, July 31, and August 10, the EC initiated countervailing duty actions against steel sheet from Brazil, steel plate from Brazil, and broad flanged beams from Spain. No undertakings were decided upon by the end of the year.

1/ For more information on these matters, see OTAP, 33d Report, 1981, p. 55.

2/ The EC is seeking action against the DISC in the GATT Council, see above.

3/ Austria, Brazil, Egypt, Finland, India, Japan, Korea, New Zealand, Norway, Pakistan, Spain, Switzerland, the United Kingdom on behalf of Hong Kong, Uruguay, and Yugoslavia. 53

The United States reported to the GATT that it had undertaken or continued a total of 135 countervailing duty actions against 22 countries 1/ during 1982. Of these, 100 were initiated in 1982. For a complete listing of U.S. countervailing duty actions during 1982, see the section on countervailing duty investigations in chapter 5 of this report. In 1982, the U.S. Commerce Department imposed countervailing duties on 35 products from 11 countries. At yearend, the United States had 29 cases pending.

Calculation of subsidies.---At its May 1980 meeting, the Committee established a group of experts on the calculation of the amount of a subsidy. The group had not submitted a report to the Committee by the end of 1982.

However, a dispute concerning the calculation of subsidies by the United States in its countervailing duty actions against steel imports from the EC was discussed at several CSCM meetings during the year. EC representatives submitted a paper to the Committee in which the EC complained that the methods the United States used in calculating the amount of EC subsidies on steel in conducting its countervailing duty investigations on EC steel resulted in numbers that were too high. Representatives of the United States claimed that the methods used in the countervailing duty calculations had scrupulously followed existing rules in adhering to the general guidelines for application of countervailing duties set forth in the Code. Many delegations expressed the belief that the dispute highlighted a need for further work by the group of experts.

Before the Committee's October meeting, and following conclusion of a U.S.-EC bilateral agreement to limit shipments of certain EC steel products to the United States, the EC withdrew its paper on U.S. countervailing duty actions affecting steel.

Dispute settlement activities 2/

In 1982, the United States continued actions under the Subsidies Code begun in 1981 against EC export subsidies on pasta, poultry, 3/ sugar, and wheat flour. 4/ None of the disputes was resolved during the year. When the conciliation phase of the Code's dispute settlement process did not lead to a mutually acceptable solution, the United States asked the Committee to appoint panels to examine the disputes on wheat flour and pasta. Accordingly, the Committee established panels for wheat flour in January 1982 and for pasta in June 1982, but at yearend neither panel had submitted a report on its findings.

1/ Argentina, Australia, Belgium, Brazil, Canada, Colombia, France, India, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Peru, South Africa, Spain, Taiwan, United Kingdom, Uruguay, and West Germany.

2/ A dispute may be brought for settlement under the Subsidies Code when the issues involved are within the purview of the Code and when all parties to the dispute are Code signatories. Otherwise, the matter may be brought up under the normal dispute-settlement procedures of the GATT-arts. XXII and XXIII.

3/ During 1982, the United States also held informal consultations with Brazil on Brazilian export subsidies for poultry.

4/ A description of these cases is contained in chap. 5 of this report. In addition, during the spring of 1982, the Commission conducted a countervailing duty investigation under sec. 701 of the Tariff Act of 1930, involving sugar exports from the EC. ⁵⁴

During 1982, the United States also began actions under the Agreement against production subsidies on specialty steel maintained by Austria, Sweden, and four EC countries. 1/ The United States held formal consultations with Austria, Sweden, and the EC under article 12 of the Subsidies Code in October 1982. 2/ Consultations were scheduled to continue in 1983.

Another action under dispute settlement procedures of the Subsidies Code during 1982 involved a request by India for conciliation in a dispute with the United States. Until September 1981, the United States refused to apply the provisions of the Subsidies Code to India pursuant to Article 19:9 of the Code on the grounds that India had not made a sufficient commitment to phase out export subsidies. This meant that the United States did not require a finding of material injury to a U.S. domestic industry before imposing countervailing duties on dutiable imports from India. In September 1981, the United States agreed to recognize India as a Code participant in exchange for a commitment from India to discipline the use of its export subsidies. 3/ In April 1982, India made a request to the Committee for conciliation, protesting that the injury criterion still had not been applied to certain Indian products and objecting to U.S. practices in calculating and applying some countervailing duties. 4/ The dispute was not resolved by the end of 1982.

Agreement on Government Procurement

The year 1982 marked the second year of operation of the Agreement on Government Procurement. This code requires specified agencies of the signatory governments to allow bidding by foreign firms on certain governmental purchases, thereby opening new opportunities for trade which were previously closed by national policies to buy domestically. 5/

1/ Belgium, France, Italy, and the United Kingdom.

2/ On Nov. 16, 1982, President Reagan directed the United States Trade Representative to request that the U.S. International Trade Commission institute investigations under sec. 201 of the Trade Act of 1974 on specialty steel products from these countries; at that time, the President also requested that USTR monitor U.S. specialty steel imports.

3/ For additional information, see OTAP, 33d Report, 1981, p. 65.

4/ India claimed that the United States violated the Subsidies Code in its treatment of Indian products in the following instances:

(A) Non-extension of the benefit of injury criterion for industrial fasteners.

(B) Improper methods and principles of calculating countervailing duties in the case of industrial fasteners, iron metal castings, and leather footwear and uppers.

(C) Improper retroactive application of countervailing duties on leather footwear and uppers.

5/ The Agreement establishes common international procedures for providing information on bids, opening and awarding bids, and filing complaints. Furthermore, signatories provide lists of those government entities whose purchases are subject to the Agreement. The Agreement applies only to government purchases over a threshold value of Special Drawing Rights (SDR) 150,000 (approximately \$166,000 in 1982) and does not apply to services or to products which are leased. In addition, it does not apply to construction contracts, national security items, or purchases by local governments.

Activities of the Committee on Government Procurement during 1982

The Committee on Government Procurement was established under the Agreement to monitor compliance and to settle disputes arising over its implementation. The Committee, with representatives from each of the Agreement's signatories, met three times in 1982 to discuss complaints.

One matter brought to the Committee's attention during 1982 concerned Italian tendering procedures. The U.S. delegation charged repeatedly that during the course of the year Italy published very few tender documents and those that were published typically contained very short bid deadlines, omitted the short summary paragraph of the subject matter, and were not written in a language used by the GATT Secretariat (French or English). The U.S. delegation continued to ask that the West German practice of failing to notify unsuccessful bidders be changed. The delegation also expressed its concern over the Japanese practice of only allowing potential bidders to qualify in a short annual qualifying session instead of anytime during the year and continued to press the Japanese to lengthen bid deadlines and tighten compliance with other code provisions.

Another issue raised at the meetings in 1982 concerned the way the governments of members of the EC calculate the value of contracts. The EC countries subtract the value-added tax (VAT) when estimating the value of prospective contracts, thereby reducing the number of contracts that fall above the threshold level and are therefore subject to the Agreement. The EC position on this matter is that the Code applies to the exchange of goods, not of taxes, and, as the amount of VAT varies between member countries, purchases of equal value would be valued differently if the VAT were included. The U.S. delegation maintained that the code deals with the value of contracts and not of goods, and the varying VAT level between EC members was not relevant to the requirements of the Code. After failing to resolve this issue through bilateral consultations, the U.S. at midyear initiated dispute settlement procedures within the Committee. At yearend, the issue was still unresolved and the U.S. delegation indicated it was considering requesting a panel to study the question.

Complaints were leveled against the United States by the EC delegation regarding short bid deadlines and the low number of qualifying U.S. Government entities announcing contracts. The United States also entered into bilateral discussions with the EC regarding the classification of some U.S. Department of Defense purchases.

Renegotiation of the agreement

The Government Procurement Agreement requires that no later than the end of the third year from its entry into force, further negotiations should be undertaken with a view to broadening and improving the agreement. Ideas being considered for inclusion in the renegotiation package include expanded entity coverage, inclusion in the code of purchases of services and leased products, lowering contract value threshold levels, and lengthening bid deadlines.

Section 302 of the 1979 Trade Agreements Act prohibits nonsignatories from bidding on U.S. purchases subject to the Code, effective January 1, 1983. Excepted are countries with which the United States has equivalent bilateral agreements, the least developed developing countries, and purchases pursuant to reciprocal defense agreements. During the course of 1982, U.S.

representatives notified nonsignatory governments of the provision's impending implementation. The intent of the provision is to encourage other governments to sign the code; however, many governments expressed reluctance to do so as they felt it would not benefit them economically.

Agreement on Technical Barriers to Trade

The Standards Code, formally known as the Agreement on Technical Barriers to Trade, went into force on January 1, 1980. Its aim is to ensure that technical regulations and product standards established for reasons of safety, health, consumer or environmental protection, or other purposes do not create unnecessary obstacles to trade. 1/

The Agreement is administered by the Committee on Technical Barriers to Trade which is composed of representatives from each of the signatories. In 1982 the Committee met three times. A regular topic of discussion was the debate over the applicability of the Code to processes and production methods (PPMs). The issue is whether processes and production methods can be the subject of dispute settlement procedures under the current language of the code. Another recurring issue was compliance by regional and private standardizing bodies. Currently, only signatory governments are bound by the code but, as signatories, they are required to promote the principles of the Agreement among those regional and private standardizing bodies of which they are members. The discussion covered the extent to which it would be feasible to carry this out and the possibility of presentations to the Committee by representatives of these bodies regarding their standards procedures.

Other topics of discussion in the committee during 1982 were adherence to established international standards in the development of new national standards, and national inquiry points. National inquiry points were established by the code to provide information to signatory governments on standards and standards-related procedures. During the May Committee meeting it was decided that those signatory government agencies responsible for the operation of their government's national inquiry point should furnish brochures on their facilities and should meet biennially to exchange information and discuss their activities.

In addition to its annual review, the Committee began its first 3-year review as is required by the code. The purpose of the 3-year review is to assess the mutual advantage of the code and to amend its provisions if necessary. Among the U.S. proposals for review topics were two involving the procedures for notification of proposed regulations. The United States would like to see the current recommended comment period on proposed regulations extended from 6 weeks to 60 days, with 90 days recommended for complex

1/ Signatory governments are required to ensure that technical regulations and standards are not prepared, adopted, or applied with a view to obstructing international trade, and that certification systems are nondiscriminatory and applied equally to domestic producers and code signatories. The Agreement further seeks to open national-standards-setting procedures to international scrutiny and to encourage signatories to accept test results, certificates, or marks of conformity issued in the country of export. Whenever possible, standards are to be specified in terms of performance rather than design or descriptive characteristics.

activities. Also the United States advocated the establishment of criteria for assessing the effect of the code on international trade (i.e., measuring the dollar volume of trade affected).

Other U.S. proposals included interpretation of the code to cover PPMs; the extension of the code to apply to standards-making activities in services; action to obtain compliance with the code's procedures by regional standards-making bodies; and a compilation of revised inventory of standards-related nontariff measures (NTMs). Proposals put forth by the Nordic countries were aimed at securing uniform interpretation and application of the provisions regarding notification procedures and the obligations of national inquiry points.

The 3-year review process was to be concluded at the Committee meeting in February 1983 but preliminary discussions during the October meeting indicated the likely outcome of the review. There is general agreement as to the mutual benefit of the code and a reluctance to amend the language of the Agreement. The fact that no disputes have been referred to the Committee was generally regarded as a tribute to the Code's effectiveness. The United States and a minority of the signatories believe that the Code should be interpreted as to apply to PPMs; while a majority (including the EC) maintains that PPM requirements are not covered unless intentionally used to bypass code obligations. A majority support some lengthening of the comment period and a majority oppose the coverage of services.

The United States continued to conduct formal and informal bilateral discussions on standards-related issues. For example, the U.S. raised the question with Japan of obtaining treatment equivalent to that accorded Japanese producers in the certification of United States metal softball bats exported to Japan, and discussions were held with the United Kingdom and a number of other countries on telecommunications interconnect equipment.

During 1982, Rwanda and Czechoslovakia signed the Standards Code, bringing the number of signatories to 35. Bulgaria, which is not a contracting party to the GATT, continued to show an interest in accession to the Agreement, but certain points concerning the terms of its membership still need to be negotiated.

Agreement on Customs Valuation

The customs valuation agreement, formally titled the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, establishes a uniform system of rules to determine the customs value for imported goods. It entered into force on January 1, 1981. ^{1/} The primary purposes of the Agreement are to eliminate arbitrary practices which overvalue goods and to allow exporters and importers to predict accurately how their goods will be valued by customs authorities. The Agreement provides detailed rules for the determination of the value of imported goods for the assessment of ad valorem customs duties. The rules are designed to provide a fair,

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

uniform, and neutral system of valuation, and preclude the use of arbitrary or fictitious values. 1/

The Agreement established two committees to carry out the provisions of the Code. The GATT Committee on Customs Valuation supervises the implementation of the Agreement and provides a forum for the signatories to consult on matters concerning the management of the Agreement. The Technical Committee, which is under the auspices of the international Customs Cooperation Council (CCC) focuses on the technical interpretation of the code's provisions and makes technical recommendations on problems related to customs valuation.

The GATT Committee on Customs Valuation met twice in 1982. It held detailed examinations of national customs valuation legislation being considered by Austria and Canada. The Committee also had a preliminary exchange of views on two matters: (1) procedures for amending the Agreement; and (2) the question of collecting additional and more detailed information on the actual application of the various valuation methods permitted under the Code.

The GATT Committee received reports from the Technical Committee, inter alia, on two issues: the customs treatment and valuation of computer software, and the practices of the signatory countries with regard to the valuation of interest charges paid to finance the importation of goods. As the world's leading exporter of computer software, the United States has an important interest in the former issue. On May 4, 1982, the United States made a proposal to the Committee under which the valuation of imports of computer software would be based only on the value of the medium on which it is carried (e.g., a magnetic tape or punched cards), and would exclude the

1/ The Agreement provides for a primary method of valuation and a series of alternative methods that must be applied in a prescribed sequence. The primary method of valuation is the transaction value under which the dutiable value is based on the price actually paid or payable for the goods, with a limited number of adjustments for items such as selling commissions, packing costs, and certain costs for materials and services used in producing the goods that were borne by the buyer but not reflected in the price paid or payable for the goods. In most cases, the transaction value is used for customs purposes; however, the agreement provides for alternative methods when the customs value cannot be readily determined by using the transaction value method. The second method of valuation uses the transaction value of an "identical" good exported from the same country to the same importing country. The third method uses the transaction value of a "similar" good sold for export to the same importing country. If neither of these valuation methods is feasible, the resale price of the imported goods (less certain necessary expenses after importation) is used; lastly, production costs can be used to reconstruct the value of the good. In the situation where none of these five methods is feasible, the Agreement provides that any reasonable means consistent with the general provisions of the Agreement and article VII of the GATT may be used. A signatory to the Agreement is permitted to determine customs values on either a f.o.b. (free on board) or c.i.f. (cost, insurance, and freight) basis. The United States is continuing to use f.o.b., and other countries intend to continue their existing practices, mainly c.i.f.

value of the information or program contained thereon. 1/ These proposals were still awaiting final committee action at yearend.

With respect to the treatment of interest, the EC proposed that interest payable under a financing arrangement for imported goods which is distinguishable from the price actually paid or payable for the goods would not be regarded as part of the price in determining customs value, regardless of whether the financing was provided by the seller, a bank or another person.

In the 2 years of implementation of the Agreement on customs valuation there have been no formal consultations between signatories under article 19 of the Agreement, nor has there been any recourse to the specific dispute settlement procedures established by article 20 of the Agreement. Thus, the Agreement would appear to be operating quite satisfactorily.

At yearend 1982, there were 20 signatories to the Agreement including the European Community for its member states. Two countries (Australia and New Zealand) signed in 1982. Fourteen countries (Australia, Austria, the European Community, Finland, the United Kingdom on behalf of Hong Kong, Hungary, Japan, New Zealand, Norway, Romania, Sweden, Switzerland, the United States, and Yugoslavia) are applying the Agreement, while the other countries have delayed the application of the Agreement under the provision of article 21:1 2/ or under a special reservation.

Antidumping Agreement

The present GATT antidumping agreement is a revision of an earlier agreement. 3/ Like its predecessor, the current agreement is entitled the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade. 4/ The current agreement, a product of the Tokyo round, entered into force on January 1, 1980.

The agreement interprets the provisions of article VI, with respect to antidumping procedures, and furnishes guidelines on the conduct of antidumping investigations, including the making of determinations of dumping, and the imposition, collection, and duration of antidumping duties. It also addresses the circumstances under which antidumping duties and provisional measures can be applied retroactively and establishes guidelines for "price undertakings" in which the exporter volunteers ". . . to revise its prices or to cease . . . [dumping] . . . so that the authorities are satisfied that the injurious effect of the dumping is eliminated." The agreement also discusses consultation, conciliation, and dispute settlement. Moreover, the agreement

1/ Some signatories have taken the position that the customs value of imported software should include the full value of the program, data, and so forth, as well as the recording medium. The United States believes that adoption of this practice would create serious new barriers to international trade.

2/ Article 21 of the Customs Valuation Code provides for special and differential treatment to developing countries. A delay of up to 5 years in the application of the provisions of the Code is allowed under article 21:1.

3/ The previous agreement entered into force on July 1, 1968. Acceptance of the present agreement carries an automatic denunciation of the previous agreement.

4/ The agreement is also referred to as the GATT Antidumping Code.

obligates developed countries to give "special regard" to developing countries' "special situation," by considering the use of the Code's constructive remedies before applying antidumping duties.

Activities of the Committee on Antidumping Practices in 1982

The agreement is administered by the Committee on Antidumping Practices (CADP), composed of all signatories, which met three times in 1982. At the close of 1982, there were 21 signatories. 1/ Australia became a signatory to the Code on September 20, 1982. In addition, observer status was held by 27 contracting parties to GATT, 5 noncontracting parties, and by 2 international organizations, the International Monetary Fund and the United Nations Conference on Trade and Development.

At the April meeting, the CADP elected a member of the Hong Kong delegation as its new chairman, and a member of the Canadian delegation as vice chairman. The United States expressed interest in pending Canadian antidumping legislation. The Canadian representative indicated that the parliamentary committee with jurisdiction over this legislation was still in the process of preparing its report.

The EC complained about the United States practice of using a minimum profit margin of 8 percent in computing home (foreign) market value. The United States responded that the 8-percent margin originated in the U.S. Antidumping Act, 1921. The two sides disagreed on whether the historical practice of the United States is in conflict with the GATT antidumping agreement.

The June meeting was held, in part, to consider further a possible contribution to the GATT ministerial meeting. After discussion of a response to the invitation of the chairman of the preparatory committee for the GATT Ministerial, the CADP's chairman read the draft of a proposed reply. Among other things, the reply indicated that the Code's signatories recognized a need to observe the code's provisions, and to refrain from antidumping actions that would be unjustifiable trade barriers, and added that no signatory had proposed amending the antidumping agreement.

At the October meeting, the U.S. representative again asked for a status report on Canada's pending antidumping legislation. The Canadian representative indicated that new draft legislation was being prepared in response to a subcommittee report to the Canadian House of Commons. He doubted that the new legislation would be introduced in the House before the end of 1982.

The representative of the EC criticized proposed U.S. legislation providing for treble damages in cases of predatory dumping. He argued that such legislation would contradict article VI of the GATT. The U.S. representative replied that such legislation had been introduced four times in six years, that he had testified against such legislation, and that the United States would fully take its GATT and Code obligations into account in the enactment of legislation.

1/ See table 2, "Status of the Tokyo Round Agreements as of Dec. 31, 1982."

Table 3 -- Antidumping actions reported by signatories to the GATT Antidumping Code, 1982

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia	Austria	Files and rasps	12-17-80		9-8-82 - No injury.
	Belgium	Alkaline manganese dioxide batteries	5-21-82	5-21-82	11-10-82 - Definitive duty.
	do	Galvanized iron and steel sheet and coil	8-13-81	8-13-81	
	do	Polyvinyl chloride homopolymer	9-14-82	9-14-82	
	Brazil	Certain triethanolamine	11-4-82	11-4-82	
	do	Uncoated woodfree paper	11-22-82		
	Canada	Polyethylene resin, low density	8-5-80	2-24-82	10-21-82 - Price undertakings.
	do	Certain triethanolamine	8-31-81	2-5-82	12-24-82 - No dumping.
	do	Polyvinyl chloride homopolymer	11-18-81	1-11-82	11-3-82 - Definitive duty.
	do	Polystyrene	6-24-82	6-24-82	10-20-82 - No dumping.
	do	Instrument transformers	6-23-82		
	China	Woven polyolefin bags	7-6-82	7-6-82	9-21-82 - Price undertakings.
	do	Sodium tripolyphosphate	1-6-82	1-6-82	8-30-82 - Price undertakings.
	do	Phenol	4-28-82	9-10-82	9-11-82 - Definitive duty.
	do	Phosphoric acid	1-6-82	1-6-82	12-30-82 - Definitive duty.
	do	Woven worsted flannel and crepe	7-27-82		
	France	Polyethylene resin, low density	8-5-80		
	do	Certain triethanolamine	2-5-82	2-5-82	11-3-82 - Definitive duty.
	do	Sorbitol	10-16-81		
	do	Stainless steel flat products	10-20-82		
	do	Galvanized iron and steel sheet and coil	7-24-81	7-27-81	
	do	Nylon (polyamide) textured yarns	5-6-82	8-26-82	
	Hungary	Polyvinyl chloride homopolymer	9-14-82	9-14-82	11-3-82 - Definitive duty.
	India	Files and rasps	12-17-80	1-6-82	8-25-82 - Definitive duty.
	Ireland	Polypropylene baler twine	10-6-82		
	do	Carpet sweepers	7-27-82		
	Israel	Phosphoric acid	10-6-82	1-6-82	12-21-82 - Definitive duty.
	do	Polyamide nylon yarn	12-8-82	12-8-82	
	do	Polyvinyl chloride homopolymer	9-14-82	9-14-82	
	Italy	Chromium sulphate basic	8-7-81		
	do	Stainless steel flat products	10-20-82		
	Japan	Forklift trucks (internal combustion power type).	10-15-80		09-15-82 - Definitive duty.
	do	Sorbitol	8-31-81		
	do	Stainless steel pipes and tubes	2-24-81		11-3-82 - No dumping.
	do	Washing machines, compact and medium size twin-tub.	5-14-81		
	do	Paradichlorobenzene	1-6-82		
	do	Toluene and xylene	1-20-82	11-3-82	7-13-82 - Definitive duty.
	do	Power transformers	3-21-80	2-3-82	11-30-82 - Definitive duty.
	do	Outboard motors	8-26-82	8-26-82	
	do	Special steel bar products	10-20-82		

Table 3. --Antidumping actions reported by signatories to the GATT Antidumping Code, 1982--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia--Con.	Japan	Stainless steel flat products	10-20-82		
	do	Certain triethanolamine	11-4-82	11-4-82	
	do	Spark plugs	11-30-82	11-30-82	
	do	Vertical freezers	12-29-82		
	do	Stainless steel pipes and tubes	6-2-82		
	do	Polyethylene fabric, coated woven	8-13-81	8-13-81	11-11-82 - Definitive duty.
	do	Acrylonitrile butadienostyrene	1-25-82		
	do	thermoplastic compound.			
	do	Nylon tyre cord fabric - type 6	3-3-82	2-24-82	12-23-82 - Definitive duty.
	do	Combed cotton and polyester/cotton single yarns	4-5-82	6-25-82	11-03-82 - Definitive duty.
	do	Polystyrene	6-24-82	6-24-82	
	do	Power transformers	11-17-81	6-24-82	
	do	Toilet and laundry soaps	6-30-82	7-21-82	
	do	Passenger car tyres	9-29-82	10-21-82	
	do	Sodium lauryl ether sulphate	9-13-82		
	do	Passenger car tyres	9-29-82	10-21-82	
	do	Certain triethanolamine	11-4-82	11-4-82	
	do	Propylene oxide based polyether polyols	12-8-82		
	do	Disposable examination gloves	2-11-82	2-11-82	12-17-82 - Definitive duty.
	do	Automotive and industrial filters	1-15-82		
	do	Stainless steel pipes and tubes	6-23-82		
	do	Chest-type freezers	9-3-81		
	do	Brass rods, extruded	8-6-82		
	do	Fiberglass coated panels	10-22-82		
	do	Polypropylene baler twine	7-21-82		
	do	Souvenir teaspoons and cake forks	8-2-82		10-18-82 - No injury.
	do	Square dressed structural softwood timber	8-9-82		
	do	Suspended ceiling systems	9-16-82		
	do	Polypropylene strapping	9-24-82		
	do	Passenger car tyres	9-28-82		
	do	Chip coated metal roofing tiles	9-29-82		
	do	Marine anchor windlasses and capstans	10-27-82		
	do	Spark plugs	11-30-82		
	do	Propylene baler twine	7-21-82		
	do	Low density polyethylene resin	6-4-82		
	do	Toughened glass panels	6-16-82		
	do	Correction fluid	2-23-81		09-10-82 - Other action.
	do	Toughened glass panels	6-16-82		
	do	Galvanized sheet and coil of iron and steel	8-13-81		
	do	Instrument transformers	6-23-82		
	do	Stainless steel flat products	10-20-82		
	do	Combed cotton and polyester/cotton single yarns	4-5-82		11-3-82 - Definitive duty.
	do	Power transformers	11-17-81	6-24-82	
	do	Nylon (polyamide) textured yarns	5-6-82	5-6-82	
	do	Power transformers	3-10-82	3-10-82	
	do	Miniature plug in railway signalling relays	12-12-81		8-24-82 - No injury.

Table 3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982—Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Canada—Con.	Italy	Hydroelectric generators	6-29-82		
	do	Light polyester woven fabric	2-25-82	9-7-82	12-3-82 - No injury.
	Japan	Microwave ovens	4-3-81	12-30-81	8-26-82 - Definitive duty.
	do	Drywall screws	8-13-81	3-16-82	6-14-82 - Future injury.
	do	Stainless steel buttweld fittings	8-28-81	4-22-82	7-21-82 - Definitive duty.
	do	Stainless steel bars	6-23-82		
	do	Alloy tool steel	do		
	do	Stainless steel sheet	do	12-29-82	
	do	Woven polyester filament fabrics	6-4-82	12-9-82	
	Korea	Microwave ovens	4-3-81	12-30-81	8-26-82 - Definitive duty.
	do	Synthetic rope	1-6-82	7-9-82	10-7-82 - Definitive duty.
	do	Stainless steel bars	6-23-82		
	do	Stainless steel sheet	do	12-29-82	
	do	Woven polyester filament fabrics	6-4-82	12-9-82	
	do	Inner tire tubes	7-21-82		
	do	Carbon steel welded pipe	11-18-82		
	do	Wide flange steel beams	12-15-82		
	do	Carbon steel plate	do		
	Luxembourg	Steel sheet piling	4-1-82	8-19-82	11-17-82 - Definitive duty.
	do	Carbon steel welded pipe	9-14-82		
	Malaysia	Waterproof rubber footwear	5-22-81	1-26-82	4-23-82 - Future injury.
	Netherlands	Baler twine	7-16-81	11-25-81	2-23-82 - Future injury.
	Portugal	do	do	do	do
	do	Synthetic rope	1-6-82		
	Romania	Ladies' ballon boots	6-15-82	8-11-82	11-9-82 - No injury.
	do	Carbon steel plate	12-15-82		
	Singapore	Microwave ovens	4-3-81	12-30-81	8-26-82 - Definitive duty.
	do	Drywall screws	8-13-81	3-16-82	6-14-82 - Future injury.
	South Africa	Carbon steel welded pipe	11-18-82		
	do	Carbon steel plate	12-15-82		
	Spain	Stainless steel bars	6-23-82		
	do	Light polyester woven fabric	2-25-82	9-7-82	12-3-82 - No injury.
	do	Canned whole tomatoes	8-19-82		
	do	Wide flange steel beams	12-15-82		
	Sweden	Stainless steel plate	6-23-82	12-29-82	
	do	Carbon steel plate	12-15-82		
	Switzerland	Capacity voltage transformers	9-28-81	3-2-82	5-31-82 - No injury.
	Taiwan	Stainless steel screwed end fittings	7-17-81	2-9-82	2-10-82 - Case withdrawn.
	United Kingdom	Stainless steel plate	6-23-82	12-29-82	
	do	Steel sheet piling	4-1-82	8-19-82	11-17-82 - Definitive duty.
	do	Carbon steel plate	12-15-82		
	United States	Steel rule products	9-14-81	1-12-82	7-29-82 - Definitive duty.
	do	Bottoming materials	1-29-82	6-28-82	9-28-82 - Definitive duty.
	do	Centre pivot sprinklers	4-30-82		8-17-82 - Case withdrawn.
	do	Occasional chairs	3-12-82		6-11-82 - Case withdrawn.
	do	Woven polyester filament fabric	6-4-82		11-1-82 - Case withdrawn.
	do	Industrial wood-cutting band saw blades.	6-9-82	11-29-82	
	do	Soda ash	12-16-82		
	do	Toilet seats	9-22-82		
	do	Asbestos-cement pressure pipe	11-8-82		

Table 3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Canada-Con.	West Germany	Stainless steel plate	6-23-82	12-29-82	
	do	Stainless steel strip	do	do	
	do	Organic pigments, reds and yellow	5-28-82	11-15-82	
	do	Stainless steel bars	6-23-82		
	do	Alloy tool steel	do		
	do	Stainless steel sheet	12-29-82		
	do	Mold steel	do		
	do	Steel sheet piling	4-1-82	8-19-82	11-17-82 - No injury.
	do	Wide flange steel beams	12-15-82		
	do	Carbon steel plate	do		
	do	Waterproof rubber footwear	5-22-81	1-26-82	4-23-82 - Future injury.
	Yugoslavia	Canned pears	2-10-82		
EC	Australia	Aluminum foil	1-14-82		
	Brazil	Steel sheets	3-19-82	5-11-82	12-1-82 - No dumping.
	do	Steel plates	7-31-82		11-9-82 - Definitive duty.
	do	Fiber building board	5-5-82		
	do	Hot rolled coils	11-20-82		
	Canada	do	do		
	Czechoslovakia	Upright pianos	7-23-81		4-16-82-Price undertakings.
	do	Electric motors	8-5-81		3-31-82-Price undertakings.
	do	Refrigerators	7-2-81		6-29-82-Price undertakings.
	do	Oxalic acid	9-19-81	1-27-82	5-27-82-Price undertakings.
	do	Vacuum cleaners	9-25-81		6-18-82-Price undertakings.
	do	Perchloroethylene	5-25-82		12-30-82-Price undertakings.
do	Trichlorethylene	10-23-81		7-31-82 - No injury.	
do	Photographic enlargers	do		7-21-82-Price undertakings.	
do	Polyvinylchloride	12-19-81		9-24-82-Price undertakings.	
do	Copper sulphate	12-17-82			
do	Mexanthylenetetramine	8-13-82			
do	Low density polyethylene	9-3-82			
do	Fiber glass	11-27-82			
Hungary	Refrigerators	7-2-81		6-29-82-Price undertakings.	
do	Polyvinylchloride	12-19-81			
do	Fiber building board	7-4-81		6-25-82-Price undertakings.	
do	Electric motors	1/ 8-5-81		3-31-82-Price undertakings.	
do	Oxalic acid	9-19-81		5-27-82 - No injury.	
do	Aluminum foil	1-14-81		12-1-82 - No injury.	
Japan	Polypropylene film	6-24-81		6-18-82-Price undertakings.	
do	Outboard motors	8-19-82			
do	Fiber glass	11-27-82			
do	Video recorders	12-24-82			
Norway	Ferrosilicon	9-24-82			
Poland	Upright pianos	2-18-81		4-16-82-Price undertakings.	
do	Trichlorethylene	10-23-81	7-31-82	11-4-82-Price undertakings.	
do	Photographic enlargers	10-23-81	7-21-82		
do	Low density polyethylene	9-3-82			
do	Sodium carbonate	11-21-78	2/ 10-6-82	6-29-82-Price undertakings.	
do	Refrigerators	7-2-81			
do	Electric motors	1/ 8-5-81	3-31-82		
do	Vacuum cleaners	9-25-81		6-18-82-Price undertakings.	

Table 3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
EC--Con.	Romania	Refrigerators	7-2-81		6-29-82-Price undertakings.
	do	Trichlorethylene	10-23-81		7-31-82-Price undertakings.
	do	Fiber building board	1/ 7-4-81	6-25-82	
	do	Electric motors	1/ 8-5-81	3-31-82	
	do	Steel gas tubes	11-18-81	2-3-82	5-29-82-Price undertakings.
	do	Mexanthylentetramine	8-13-82		
	do	Sodium carbonate	11-21-78	2/ 10-6-82	
	do	Methylamines	3-31-82		8-13-82-Price undertakings.
	do	Polyvinylchloride	12-19-81		9-24-82-Price undertakings.
	do	Perchlorethylene	5-25-82		12-30-82-Price undertakings.
	Spain	do	do		do.
	do	Broad flanged beams	8-10-82	8-13-82	
	do	Trichlorethylene	10-23-81		7-31-82-Price undertakings.
	do	Ferrosilicon	9-24-82		
Sweden	United States	Fluid cracking catalysts	2-10-81		1-16-82-Price undertakings.
	do	Trichlorethylene	10-23-81		7-31-82-Price undertakings.
	do	Phenol	3-10-81	7-18-81	1-18-82 - Definitive duty.
	do	Polyester/cotton sheets and pillowcases.	6-26-81		2-20-82 - No dumping.
	do	Acrylonitrile	4-3-82		
	do	Bisphenol	4-4-82		
	do	Thiophen	5-13-82		10-21-82-Price undertakings.
	do	Perchlorethylene	5-25-82		12-30-82-Price undertakings.
	do	Sodium carbonate	6-11-82	11-13-82	
	do	Decabromodiphenylether	12-24-81		11-16-82-Price undertakings.
	do	Xanthan gum	9-28-82		
	do	Cellulose ester resins	11-16-82		
	do	Chemical fertilizer	2-26-80	3/ 7-27-82	
	Yugoslavia	Refrigerators	7-2-81		6-29-82-Price undertakings.
	do	Copper sulphate	6-26-82	11-4-82	
	do	Ferro-silicon	6-8-82		
United States	Australia	Portland hydraulic cement	10-19-82		
	Belgium	Carbon steel structures shapes	2-1-82	8-16-82	10-29-82 - Case withdrawn.
	Brazil	Carbon steel wire rod	10-26-82		
	do	Melamine	10-12-82		10-28-82- USITC preliminary negative. 4/
	Canada	Carbon steel wire rod	10-26-82		5-20-82 - USITC preliminary negative. 4/
	do	Chlorine	4-21-82		6-13-82 - USITC preliminary negative. 4/
	do	Frozen french-fried potatoes	5-21-82		9-15-82 - Suspension agreement.
	do	Steel sheet pilings	11-24-81	6-28-82	4-5-82 - Definitive duty.
	do	Elemental sulphur	5/ 5-6-82	11-15-82	
Chile	China	Sodium nitrate	11-16-82		
	do	Canned mushrooms	9-17-82		
	do	Cotton shop towels	9-1-82		
	do	Greige polyester printcloth	2-1-82		
France	do	Carbon steel structural shapes	do	8-16-82	10-21-82 - Case withdrawn.
	do	Hot-rolled carbon steel plate	do		2-25-82 - USITC preliminary negative. 4/

Table 3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States	France	Hot-rolled carbon steel sheet and strip.	2-1-82	8-16-82	10-21-82 - Case withdrawn.
--Con.	do	Cold-rolled carbon steel sheet and strip.	do	do	do.
	do	Galvanized carbon steel sheet	do		2-25-82 - USITC preliminary negative. ^{4/}
	do	Certain stainless steel sheet and strip products.	6-8-82	12-9-82	
	do	Nitrocellulose	7-28-82		
	do	Steel rails	9-29-82		10-21-82 - Case withdrawn.
	Hungary	Truck and trailer axles and brake assemblies.	3-11-81	9-10-81	1-4-82 - Suspension agreement.
	Italy	Hot-rolled carbon steel plate	2-1-82		2-25-82 - USITC preliminary negative. ^{4/}
	do	Hot-rolled carbon steel sheet and strip.	do	8-16-82	10-21-82 - Case withdrawn.
	do	Cold-rolled carbon steel sheet and strip.	do	do	do.
	do	Galvanized carbon steel sheet	do		2-25-82 - USITC preliminary negative. ^{4/}
	Japan	Clear sheet glass	^{5/}		4-5-82 - Antidumping order revoked.
	do	Certain steel pipes and tubes	2-12-82	8-25-82	4-8-82 - Definitive duty.
	do	Expanded metal	^{5/}		5-21-82 - Definitive duty.
	do	High power microwave amplifiers and components.	8-17-81	12-31-81	
	do	Stainless clad steel plate	10-15-81	3-22-82	6-4-82 - Definitive duty.
	do	High capacity papers	9-15-82		
	do	Portland hydraulic cement	10-19-82		
	Korea	Bicycles	11-21-82		
	do	Steel wire rope	10-22-82		
	do	Steel wire nails	7-2-81		
	Luxembourg	Carbon steel structural shapes	2-1-82	2-7-82	6-24-82 - Definitive duty.
	do	Hot-rolled carbon steel plate	do		2-25-82 - USITC preliminary negative. ^{4/}
	do	Hot-rolled carbon steel sheet and strip.	do		do.
	do	Cold-rolled carbon steel sheet and strip.	do		do.
	do	Galvanized carbon steel sheet	do		do.
	do	Galvanized carbon steel sheet	do		do.
	do	Hot-rolled carbon steel sheet and strip.	do		10-21-82 - Case withdrawn.
	do	Cold-rolled carbon steel sheet and strip.	do		do.
	do	Galvanized carbon steel sheet	do		2-25-82 - USITC preliminary negative. ^{4/}
Romania		Hot-rolled carbon steel plate	2-1-82		
Taiwan		Bicycle tires and tubes	6-1-82	12-7-82	
do		Fireplace mesh panels	9-8-81	1-22-82	4-9-82 - Definitive duty.
do		Motorcycle batteries	5-27-81	10-14-81	6-7-82 - Price undertakings.
do		Bicycles	10-21-82		3-4-82 - Definitive duty. ^{6/}

Table 3. Antidumping actions reported by signatories to the GATT Antidumping Code, 1982--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States	Trinidad and Tobago	Carbon steel wire rod	9-29-82		
---Con.	United Kingdom	Steel rails	9-29-82		10-21-82 - Case withdrawn
	---do---	Prestressed concrete steel wire strand.	3-4-82	10-6-82	12-20-82 - Definitive duty.
	---do---	Carbon steel structural shapes	2-1-82	8-16-82	10-29-82 - Case withdrawn.
	---do---	Hot-rolled carbon steel plate	do	do	do.
	---do---	Cold-rolled carbon steel sheet and strip.	do	do	2-25-82 - USITC preliminary negative. ^{4/}
	---do---	Galvanized carbon steel sheet	do	do	do.
	---do---	Ceramic wall tile	5/		3-26-82 - Antidumping order revoked.
	Venezuela	Carbon steel wire rod	3-1-82	7-19-82	12-30-82 - Definitive duty.
	West Germany	Certain stainless steel sheet and strip products.	5-21-82	12-17-82	
	---do---	Carbon steel structural shapes	2-1-82	8-16-82	10-21-82 - Case withdrawn.
	---do---	Hot-rolled carbon steel plate	do	do	do.
	---do---	Hot-rolled carbon steel sheet and strip.	do	do	do.
	---do---	Cold-rolled carbon steel sheet and strip.	do	do	do.
	---do---	Galvanized carbon steel sheet	do	do	2-25-82 - USITC preliminary negative. ^{4/}
	---do---	Steel rails	9-28-82		do.
	---do---	Tool steel	8-24-82		

1/ Review of previous antidumping measure.

2/ Provisional duty imposed following reviews of previous antidumping measure.

3/ Provisional duty imposed following withdrawal of price undertakings.

4/ No reasonable indication of material injury. Date shown is date of USITC report.

5/ Not reported in 1982.

6/ This case had been postponed on Dec. 15, 1981.

Source: Compiled from documents of the Committee on Antidumping Practices, General Agreement on Tariffs and Trade.

The Australian representative raised the issue of "secondary dumping," described as a situation where an imported product gains an unfair competitive advantage by having been manufactured from materials that had been dumped in the country where the imported article was produced. The Australian representative invited comments on secondary dumping, and the application of Code provisions to such activity.

The U.S. representative indicated that looking behind all of a producer's costs would require multiple levels of investigation. He said that extending the scope of the term "dumping" would be alien to the GATT and the Code. The EC and Hong Kong representatives agreed with the U.S. representative. The Hong Kong representative also noted that a broadened definition, to encompass secondary dumping, would question the right of a producer to benefit from commercial opportunities.

Antidumping actions

Twice a year, signatories submit reports of any antidumping actions taken during the previous 6-month period. Sixteen signatories 1/ reported that they had not taken any antidumping actions during the period from January 1 to December 31, 1982.

Antidumping actions were reported by Australia, Canada, the European Community, and the United States. Canada initiated 92 antidumping actions, made 16 final determinations, and imposed antidumping duties in 5 cases. The EC initiated 69 antidumping cases, made 7 final determinations, and imposed antidumping duties in 2 cases. The United States reported 70 antidumping actions; it made 26 final determinations, and imposed antidumping duties in 8 cases. In addition, two outstanding antidumping orders were revoked. Australia initiated 106 actions, made 34 final determinations, and imposed antidumping duties in 19 cases.

Table 3 shows the antidumping actions by signatories to the Antidumping Code in 1982. Excluded are U.S. annual reviews that did not result in revocation of outstanding antidumping orders.

Agreement on Import Licensing Procedures

The Agreement on Import Licensing Procedures, which entered into force January 1, 1980, commits signatory governments to simplify the procedures importers must follow to obtain import licenses. 2/ The Agreement requires that signatories publish the rules for submitting import licensing applications, and that they clarify the forms and procedures for obtaining licenses. The agreement also stipulates that licenses can be denied on the

1/ Austria, Brazil, Czechoslovakia, Egypt, Finland, Hungary, India, Japan, Norway, Poland, Romania, Spain, Sweden, Switzerland, United Kingdom on behalf of Hong Kong, and Yugoslavia.

2/ Products traded internationally are sometimes subject to bureaucratic delays as a result of cumbersome import licensing systems, thereby adding to the cost of importation. Often, procedures and documentation on necessary to obtain such licenses are complicated. The "red tape" involved in obtaining licenses under these circumstances is considered a barrier to international trade. 70

basis of documentation errors only when the errors are significant. Nor are they to be denied for minor variations in value, quantity or weight of the product.

The Agreement established a Committee on Import Licensing, composed of representatives of each of the signatories. One of the major purposes of the Committee is to facilitate consultation and dispute settlement. In 1982, the Committee met in May and December. Since no licensing disputes were referred to the Committee, its activities consisted primarily of sharing information and consulting on procedural matters relating to how various countries administer the Agreement. In particular, the Committee took note of the statements made by signatories in response to questions addressed to them on the administration of automatic and nonautomatic import-licensing procedures applied in their countries. Several members explained their implementation of the provisions of the agreement relating to transparency. In this respect the Committee noted that further information was needed from Japan on the steps it is taking to comply with the relevant requirements of the Agreement. In 1982, the Committee continued to compile information on the licensing system of each signatory to be submitted to the GATT Secretariat.

At yearend, there were 23 signatories to the Agreement: Argentina, Australia, Austria, Canada, Chile, Czechoslovakia, Egypt, the European Community, Finland, Hungary, India, Japan, New Zealand, Norway, Pakistan, the Philippines, Romania, South Africa, Sweden, Switzerland, the United Kingdom on behalf of Hong Kong, the United States, and Yugoslavia.

Agreement on Trade in Civil Aircraft

The Agreement on Trade in Civil Aircraft was negotiated to promote free world trade in civil aircraft. Signatories agree to provide duty-free treatment for civil aircraft and specified aircraft parts and components, and to seek to reduce or eliminate nontariff measures that restrict or distort aircraft trade among signatories. Besides eliminating most tariffs on these products, the Agreement seeks to eliminate nontariff barriers with regard to standards, government purchase policies, quantitative restrictions, financing, and inducements in the aircraft sector. The Agreement's focus on removing both tariff and NTB's in a single sector of industry makes it unique among the Tokyo round MTN codes.

The Agreement went into effect on January 1, 1980, with 17 signatories. In January 1982, there were 20 signatories. 1/ No new members joined during 1982.

The Agreement established a Committee on Trade in Civil Aircraft composed of representatives from each signatory. The Committee held three meetings during 1982. Major topics discussed at the meetings are outlined below.

At Committee meetings, the interpretation of article 2.1.2 of the Agreement, which calls for elimination of all duties and other charges on repairs on civil aircraft, was a frequent topic of discussion. The United States took the view that repairs of aircraft should be duty-free only

1/ Austria, Canada, the EC, Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, Egypt, Japan, Norway, Romania, Sweden, Switzerland, and the United States.

for the aircraft and parts covered by the Annex to the Agreement. ^{1/} The EC expressed the opinion that repairs on any aircraft or aircraft product, not just on products covered by the Annex to the Agreement, should be duty free. The matter was not resolved during 1982, and further discussion was scheduled for future meetings.

The Committee also considered a proposal for expanding the Agreement's duty-free tariff provision to include additional aircraft parts (at present about 5 percent of the traded value of aircraft parts is excluded). The proposal was still under discussion at yearend.

Another issue was Japanese import-licensing procedures for certain aircraft, which some signatories claimed acted as a nontariff barrier to imports. Japan said that the procedures were used as a monitoring device and did not obstruct trade, but other signatories protested that the measures were in violation of the Agreement. At a March meeting, Japan announced that it had stopped requiring import licenses for civil aircraft, as of March 15, 1982.

In 1981, the Committee found certain Canadian tax practices to be inconsistent with requirements of the Agreement. In 1982, Canada reported that it had modified its sales tax on civil aircraft and parts exported for repair and subsequently returned to Canada, bringing its practices into conformity with Agreement rules.

In the original version of the Agreement, all aircraft with military registration were excluded from coverage. Signatories subsequently agreed that exclusion of nondefense aircraft with military registration was too restrictive, and members began taking steps to bring such nondefense aircraft (mainly operated by domestic police forces) under the Agreement. As of early 1982, only Canada and France had not yet fully settled the question of coverage of the Agreement with regard to military aircraft. By yearend, the two countries had completed internal procedures required to apply the agreement to aircraft operated by branches of their domestic police forces.

Article 8.6 of the Agreement requires that signatories notify the Committee when they initiate a countervailing duty investigation involving products covered by the Agreement to determine the existence of alleged subsidies. In June 1982, the United States notified the Committee that it was instituting an investigation concerning alleged subsidies on certain commuter aircraft from the EC. As required by the Agreement, the Committee heard the views of the parties concerned, and the two parties held bilateral consultations. The matter was not resolved by the end of 1982, although the United States had notified the Committee of the termination of the investigation.

The Agreement also established a subsidiary body, the Technical Subcommittee on Trade in Civil Aircraft, to examine and report to the Committee on technical matters related to the implementation of duty-free treatment for aircraft, parts, and repairs. The subcommittee has been examining the implementation of duty-free treatment for aircraft, parts, and repairs and working on a proposal for uniform statistical reporting of trade under the Agreement. During 1982, the subcommittee reported to the Committee on proposals for extension of product coverage. As indicated above, no decisions about extending product coverage under the Agreement had been reached by the end of 1982.

72

^{1/} The Annex to the Agreement lists products accorded duty-free treatment under the Civil Aircraft Agreement.

Arrangement Regarding Bovine Meat

The Arrangement Regarding Bovine Meat entered into force on January 1, 1980, with 16 signatories. At yearend 1982, there were 23 signatories. Poland acceded to the Arrangement in 1982. The list of signatories includes all of the major beef-exporting or beef-importing countries with the exception of the U.S.S.R. The Arrangement, which covers beef, veal, and live cattle, seeks to promote expansion, liberalization, and stabilization of trade in meat and livestock and to improve international cooperation in the sector. The Arrangement operates as a means by which signatories collect and disseminate data on production, trade, and prices, and as a forum for reviews and consultations among signatories on market conditions and problems in the sector.

The International Meat Council is made up of representatives of each of the parties to the Arrangement. It met on two occasions in 1982. It reviewed the operation of the Arrangement and made an evaluation of the world supply and demand situation and outlook for livestock and bovine meat. In the context of this evaluation, it was pointed out that demand for beef was declining. In a market where fluctuations normally result from supply changes and demand has traditionally been regarded as a "given," this is a significant development. The declining demand for beef has resulted in part from the continuing economic recession in most industrial countries, together with competition from cheaper meats such as pork and poultry.

The Council also discussed a series of papers prepared under the auspices of the Agreement concerning certain costs in the beef industry, the competition of other meats, and new markets. 1/ Of particular interest was the suggestion that food consumption patterns may be changing, at least in the more developed countries. The link between rising income and demand for beef has become weaker as consumers diversify their diet.

International Dairy Arrangement

The Dairy Arrangement entered into force on January 1, 1980, with 13 signatories. At yearend 1982 there were 18 signatories; Poland signed the Arrangement during the year. The purpose of the Arrangement is to improve cooperation in the dairy products sector with the objective of expanding and liberalizing world trade. This is accomplished through the establishment of a central pool of data on world production, trade, stocks, and prices of dairy products and through reviews and consultations on market conditions and problems in the sector. Minimum export prices for "pilot products" specifically outlined in the text are established by the Arrangement. These minimum prices are fixed in U.S. dollars and are subject to annual review and modification. 2/

1/ The third annual report under the Agreement, The World Market for Bovine Meat, was published in January 1983. It is primarily based on information furnished to the GATT by participating importers and/or exporters of bovine meat.

2/ For a number of years prior to the implementation of the International Dairy Arrangement, floor prices had been set (under Arrangements negotiated in the GATT) for internationally traded skimmed milk powder and milk fats. A comparable arrangement for whole milk powder operated under the OECD. The establishment of minimum export prices for certain products was, therefore, not a totally new development.

The Arrangement is administered by the International Dairy Products Council, which is made up of representatives of each of the parties to the Arrangement. In 1980, the Council established three Committees to implement the protocols of the Arrangement regarding milk powders, milk fat, and cheeses. Each of these three protocol Committees met four times in 1982. The Council itself met twice during the year.

In 1982, as required by the arrangement, the Council reviewed the functioning of the Arrangement and evaluated the market situation and outlook for dairy products. For its evaluation of the world market, the Council had a status report prepared under the auspices of the agreement 1/. The Council noted the market situation, particularly the downturn in world international prices of certain products such as skimmed milk powder. Concern was expressed about the growing stocks of dairy products in the United States and the EC and how these stocks would be disposed of. A situation of increasing stocks and declining prices (worsened by the appreciation of the U.S. dollar) emphasized the importance of cooperation and the need for a responsible attitude by signatories to the Arrangement in order to maintain international market stability.

In accordance with their terms of reference, the Committees reviewed the market situation for the products covered by the protocol they administered. At the September sessions, they examined the level of the minimum prices for specific products and decided to leave the prices, which had been fixed as of October 1, 1981, unchanged.

Unfinished Agreements

One of the disappointments of the Tokyo round was the failure to conclude agreements on safeguards and on commercial counterfeiting before the termination of multilateral discussions. This section briefly highlights progress made in 1982 toward completing these unfinished agreements. 2/

Safeguards

An agreement on the implementation of article XIX of the GATT remains uncompleted. Article XIX deals with the use of safeguards, that is, import relief actions to protect domestic producers from injury. Many contracting parties to the GATT fear that because of the recent and frequent resort to safeguards without reference to GATT rules or procedures--especially bilateral agreements such as orderly marketing agreements (OMAs) and voluntary export restraints (VERs)--the restraints imposed under article XIX are no longer being heeded.

Because article XIX is frequently ignored, several important principles of the GATT are being threatened. For example, existing GATT procedures require in part that relief actions meet the serious injury provision of article XIX, and that they be administered in accordance with the most-favored-nation provisions of article I. OMAs and VERs are seldom subject to the same GATT discipline. One of the reasons for a safeguards agreement

1/ World Market for Dairy Products, the third annual GATT Secretariat report on such products under the Agreement, was published in November 1982. 74

2/ Discussions of decisions made at the GATT Ministerial regarding the unfinished agreements on safeguards and commercial counterfeiting are contained in Chap. 1.

not being concluded in the Tokyo round was lack of consensus on the issue of non-discriminations: the application of article XIX actions to all GATT members as opposed to only those causing the import-related injury. This selective application of article XIX remains an outstanding issue and an obstacle to concluding an agreement.

During 1982 efforts to conclude such an agreement continued in the Committee on Safeguards. Examinations of actual safeguard measures were made, and despite a proposal for "consensual selectivity", 1/ the negotiations and consultations did not produce an agreement. Resolution of the issue of safeguards remained a priority for the Contracting Parties at yearend.

Commercial Counterfeiting

Another Code that remained incomplete as of 1982 is the Commercial Counterfeiting Code. The main purpose of the Code is to deny the economic benefits of trading in counterfeit goods. The preferred means of achieving this in the draft Code is by compelling the seizure, forfeiture, and disposal of counterfeit goods. The Code also provides for settling disputes by protecting against the use of anticounterfeiting laws to harass legitimate trade and for resolving conflicts over implementation or enforcement of Code obligations. 1/

One difficulty is the jurisdictional issue. In September 1982, the United States, the EC, Canada and Japan held plurilateral discussions under GATT auspices on a Counterfeit Code and developed a text of the Counterfeit Code which would serve as a basis for future work by the participating countries. The text has been circulated as a GATT document for possible subsequent action by that organization. However, a large number of less developed countries have maintained that the World Intellectual Property Organization (WIPO), and not the GATT, is the appropriate body for such an agreement.

If an agreement can be enacted, a Committee on Measures to Discourage the Importation of Counterfeit Goods will be established. It will be composed of representatives from each of the signatories and it will meet at least once a year to give signatories the opportunity to consult on matters relating to the operation of the Agreement.

1/ That is, application of safeguard measures with the consent of the affected exporting country.

2/ As part of the Tokyo round MTN, the United States and the EC completed negotiations on a draft Code in 1979. However, the Code was not included in the final MTN because there were no additional signatories and also because negotiations on the proposed Code were begun very late in the MTN and most contracting parties to the GATT preferred to proceed carefully with the proposed Code. Since 1979, the United States and the EC have continued to press for adoption of a Counterfeit Code under GATT auspices. In addition, the United States and EC broadened discussion of this Code to include Canada, Japan and Switzerland. There have been several working texts since the 1979 agreed text.

CHAPTER 3

TRADE ACTIVITIES OUTSIDE THE GATT

Although the General Agreement on Tariffs and Trade (GATT) is the principal multilateral forum for dealing with trade issues, the United States also participates in a number of other organizations that deal with trade and investment, notably the Organization for Economic Cooperation and Development (OECD) and various commodity organizations. The work of these organizations often complements the work done in the GATT. Exploratory discussions on trade and investment issues are usually held in the OECD; commodity organizations aim to regulate and normalize the supply and demand for internationally traded commodities. The following sections discuss U.S. participation in the OECD, the United Nations Conference on Trade and Development (UNCTAD), the Customs Cooperation Council and in international commodity organizations. It also discusses U.S. bilateral trade agreement activities during 1982.

The Organization for Economic Cooperation and Development

The objective of the OECD is to facilitate inter-Governmental cooperation on questions of common interest to policymakers in member states. ^{1/} The OECD generally undertakes joint studies of problems leading to coordination of national policies, rather than adoption of binding commitments, as does the GATT. The OECD also has dealt with a wide range of policy questions that the GATT has left virtually untouched such as services and investment. In this sense, the OECD, like the United Nations Conference on Trade and Development, has adopted a broader view of its mandate than the GATT.

^{1/} The OECD was established in 1961. The seat of the organization is in Paris, France. Its charter provides for promotion of policies designed to "achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy; to contribute to sound economic expansion in Member as well as non-Member countries in the process of economic development; and to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations." The OECD membership is composed of 24 industrialized nations: Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Yugoslavia is a country with special status: that country receives the benefits of full membership with respect to discussion of economic policies, scientific and technical matters, agricultural and fisheries questions, and technical assistance and productivity, but has only observer status with respect to other matters.

OECD work programs are carried out through committees, usually composed of senior officials from capitals or from permanent national delegations to the OECD. These committees are serviced by the Secretariat. ^{1/} The steering body of the OECD, the Council, meets several times annually at the Permanent Representative level and once annually at the Ministerial level.

The 1982 Ministerial meeting took place on May 10 and 11. The main themes discussed by the Ministers were improvement of economic performance, including employment and noninflationary growth, impediments to such progress, the changing world demand for oil, positive adjustment policies, current and prospective trade issues, and relations with non-OECD countries. During the meeting, U.S. officials proposed a new round of multilateral trade negotiations in the GATT in which the developed countries would offer tariff concessions to developing countries in exchange for commitments by the developing countries to reduce tariff and nontariff barriers to their markets. A U.S. objective was to negotiate intermediate tariff rates for developing countries whose products have been graduated out of the Generalized System of Preferences (GSP), with the new rate set somewhere between the GSP and the most-favored-nation (MFN) rate.

U.S. officials also called on their trading partners to coordinate their economic policies in the face of increasing protectionist tendencies worldwide that threaten the foundations of the international trading system. The U.S. representative expressed the belief that policies designed to revitalize economies must focus on: monetary discipline, budgetary discipline and greater reliance on market forces. Finally, U.S. participants suggested that the "major challenge" facing OECD members is adjusting to the infusion of new technologies into their economies and to increasing imports of manufactures from more advanced developing countries.

At the meeting, the Secretary General presented his report to the Ministers on the predominant features of the economic, structural, and institutional setting in which the world trading system will be operating during the 1980's. He went on to outline the more important trade and trade-related issues to be addressed during this decade. The report, entitled, "Issues to Be Addressed in the Trade Field in the 1980s," discussed various ways in which the process of international cooperation on trade issues might be improved in order to minimize the frictions and strains likely to continue throughout the 1980's. The first proposed change was to broaden international trade cooperation to cover a wider range of domestic policies having an effect on international competition. Second, the Secretary General urged consideration of trade problems and policy responses in their broader economic policy context to take account of the interlinkages among microeconomic policies, balance-of-payments adjustment, development policies, and trade issues, while keeping in mind the disparate economies of the countries involved and their individual interests. Third, the Secretary General called for adjustment to the growing number of participants in

^{1/} The Secretariat is made up of a Department of Economics and Statistics, Trade and Payments, and Development. It also contains Directorates concerned with the environment, development cooperation, international trade policies, financial and fiscal affairs, science, technology and industry, social affairs, manpower and education, agriculture and fisheries, and energy. These Directorates roughly correspond to the committee mandates. The OECD Development Centre, the OECD Nuclear Energy Agency, and the International Energy Agency are administratively independent bodies staffed by the Secretariat.

international trade. He noted that global cooperation will be necessary to carry out the adjustment, predicting that changes in trade laws may have to be made to take account of the differences in the stages of development among developing countries.

Agriculture

Domestic agricultural policies and related trade issues continue to be highly sensitive as countries strive for national food security and to maintain strength in the primary sector. The OECD Council of Ministers, on June 13 and 14, 1979, directed that a study be conducted to analyze agricultural trade flows, to identify the issues particular to both importing and exporting countries, and to examine ways to increase agricultural trade. In 1982, "Problems of Agricultural Trade" was published in response to this directive. There were two key conclusions in the report. First, in light of the close relationship between domestic policies and international trade, the report called for changes in domestic policies to be planned and coordinated within a multilateral framework to liberalize trade in agricultural products. Specifically, the particular characteristics of each nation's agricultural sector and domestic policies affecting it will be analyzed, and in the long run, coordinated. Second, this multilateral approach could be implemented, through general consultation aimed at reaching basic, longer term solutions, or by means of a more limited approach seeking practical and immediate solutions to specific problems.

This report was unanimously approved at the 1982 Ministerial meeting, and the ministers called for more work in this area. The ministers agreed to examine ways to achieve a balanced and gradual reduction of protection for agriculture, to examine relevant policies and measures which have an impact on trade, and to analyze the most appropriate methods for improving the functioning of the world agricultural markets. However, the resolution stopped short of calling for a round of multilateral agricultural trade negotiations.

Subsequently, the Committee on Agriculture met in December, also at the Ministerial level, to follow up on the Ministerial agreement. The Agricultural Ministers focused on developing policies to strengthen the efficiency of the agricultural sector, to improve international agricultural trading relations, and to enhance world food security. They stressed the need to maintain orderly international markets and asked that the Committee for Agriculture, in conjunction with the Trade Committee, develop possible solutions to problems arising from market imbalances. In recognition of the importance of these issues, the Secretary-General agreed to undertake consultations to facilitate the study of these issues. These projects were expected to help defuse tensions and restore a climate of confidence and stability in world agricultural markets. Finally, the Ministers recommended that consultations between member countries be held to discuss steps to strengthen cooperation in agriculture with developing countries through existing channels. The Committee will implement these decisions and present a progress report at the 1983 Ministerial meeting.

The Arrangement on Export Credits

Official export credit, one of three main sources of export finance, consists of direct loans by Government institutions, frequently below market interest rates, to foreign buyers and often for projects with long repayment terms. 1/ One of the principal means of industrialized nations to promote exports is by means of extensive subsidization of the terms of credit. In 1981, OECD member countries spent \$7 billion to bolster lagging export sales by subsidizing export credit terms. 2/

The Arrangement on Guidelines for Officially Supported Export Credits ("The Arrangement") seeks to insure fair competition for credit terms on most exports 3/ from OECD nations by setting interest rate floors, ceilings on maturities, minimum down payments, and maximum local-cost financing. The interest rates and maturities vary according to the income classification of the intended recipient: the highest rates and shortest maturities apply to buyers whose countries are considered "relatively rich," and progressively more lenient terms are permitted for "intermediate" and "relatively poor" countries. In all categories, the minimum interest rates are lower than commercial rates prevailing in most capital markets.

The Arrangement was first discussed in 1976, when seven industrialized countries banded together to try to limit subsidies on export credits. The agreement which emerged was ratified by 22 OECD nations on April 1 of the following year. 4/ As market rates in most industrialized nations have increased substantially since that time, modifications have been forced upon the Arrangement to remove the latitude for subsidization and the potential for significant trade distortion. 5/ The Arrangement was last revised in 1981.

Two notable developments which have had an effect on the Arrangement bear mention. First, a major innovation has been the trend to subsidize export credits in foreign currencies. By taking advantage of floating exchange rates and sharply diverging money market rates in major industrialized nations, exports in countries with strong currencies and relatively low interest rates (such as Switzerland and, for certain periods, the Federal Republic of Germany and Japan) have often received export credit financing on softer terms than specified in the OECD Arrangement. Within the context of international competition, buyers thus frequently had the choice of an export offer with low nominal interest rates in a currency they expected to appreciate or a higher

1/ The other two major sources of export finance are "buyer credits," or loans extended directly by private banks to foreign buyers or borrowers, which are characterized by repayment periods of a long term, occasionally up to 10 years; and "supplier credits," which are provided by the exporter, who then arranges his own financing with shorter repayment terms.

2/ International Monetary Fund, IMF Survey, Nov. 29, 1982, p. 370.

3/ Except aircraft, nuclear power plants, and ships.

4/ All OECD members except Iceland and Turkey are participants and the members of the European Community participate as a single entity. For a complete discussion of the history of the Arrangement, see OTAP, 33rd Report, 1981, USITC Publication 1308, pp. 76-79.

5/ It is noted in the GATT Subsidies Code that export subsidies should be prohibited and that any export credit interest rate below the Government market rate for capital is a subsidy, even though the GATT defers to the competence of the OECD Group on Export Credits and Credit Guarantees.

nominal rate in currency they expected to depreciate. In either case, the availability of these alternatives has underlined the difficulty of limiting subsidization while maintaining identical international guidelines on credit terms for all lending countries.

Second, the successful entry into export finance of a growing number of developing countries during the past decade has interjected another element of change into export credit considerations. These countries have supplied manufactured (and even capital) goods and have provided subsidized financing, and at the same time they have been increasingly important recipients of export finance. These countries, which include more economically advanced nations such as Argentina, Brazil, the Republic of Korea, Mexico and Yugoslavia, have become an increasingly important force in international trade for both the import and export of manufactured goods.

In anticipation of the expiration of the interim 1981 Arrangement, the Group on Export Credits met on March 10 through 12 to discuss revision of the Arrangement. Widely diverging positions on adoption of new minimum rates, country reclassification, and mixed credits, 1/ precluded agreement on new terms. The Group met again in May and June and considered a draft compromise, "The Wallen Compromise," 2/ proposing eligibility reclassification of many recipient countries; a 1.25-percent increase in the minimum interest rate for rich countries, and a 0.5-percent or 0.6-percent increase for intermediate countries; and a commitment from the member states not to derogate from the rates or from the maximum length of credit. Again, no agreement was reached, as certain EC member states that may have been subject to upward reclassification based on the new income criteria voiced substantial dissatisfaction with the Wallen Compromise. The Japanese Government also objected to the proposal, since the Japanese domestic market interest rate was already lower than the minimum rates proposed by the Arrangement.

On June 30, the day the old Arrangement was to expire, the participating countries agreed to new terms. The new Arrangement entered into force on July 6 and will remain effective until May 1, 1983. Under the new Arrangement, countries eligible to receive officially supported export credits are newly classified as (I) "relatively rich"--those whose 1979 per capita gross national product (GNP) amounted to over \$4,000; (II) "intermediate"--all countries with per capita GNP's between \$681 and \$4,000; and (III) "relatively poor"--countries eligible for concessional lending by the International Development Association, as well as other countries whose income levels fell below \$681 in 1979. The new accord also set higher minimum interest rates for export credits advanced to countries in I and II. For relatively rich countries, the minimum rates for credits with maturities of 2 to 5 years has been increased to 12.15 percent, and the rate for credits with maturities of 5 to 8.5 years has been increased to 12.4 percent. For countries classified as intermediate, the minimum interest rate for credits with maturities of 2 to 5 years has been increased to 10.85 percent, and the rate for credits with maturities of 5 to 8.5 years has been raised to 11.35 percent. The new accord included special provisions for countries whose classification changed from relatively poor to intermediate as of July 6. Thirty-eight countries, including Brazil, Cuba, Fiji, Mexico, Nigeria, and Taiwan, were graduated from Category III to Category II; and the U.S.S.R., Bahrain, Brunei, Czechoslovakia, the German Democratic Republic, Ireland, Israel, and Spain

1/ Mixed credits, the practice of blending foreign aid funds with conventional export credits, emphasizes explicit use of appropriated aid money to bring effective lending terms in an export-financing package well below the accepted norm.

2/ Mr. Axel Wallen, of Sweden, is chairman of the Group on Export Credits.

were newly classified as "relatively rich." These countries will be eligible to receive a minimum long-term interest rate of 10.75 percent, but this rate will increase to 11.35 percent, the full Category II rate, on January 1, 1983. In addition, these countries will continue to be eligible to receive credits with a maximum maturity of 10 years, which is available only to relatively poor countries. Finally, for those countries that are classified as relatively poor, the participants to the accord agreed to keep the minimum interest rate at 10 percent for all maturities. These rates are shown in table 4.

The nonderogation clause in the arrangement prohibited as of October 15 variations in maximum duration and minimum rate from the Arrangement. This was directed particularly at the United States, as on 34 occasions in the history of the Arrangement, the U.S. Eximbank has derogated by extending repayment terms in order to increase competitiveness. 1/

Another feature of the Arrangement was Japan's agreement to increase its commercial, long-term prime rate by 0.3 percent for credits in yen and to open up its capital market by allowing foreign agencies to arrange export credits in yen. Signatories further agreed that they would not offer mixed credits where the "gift" element exceeded 20 percent of the total credit offered.

Later in the year, on October 13, the Group on Export Credits convened once more to discuss possible expansion of the types of industries covered by the Arrangement. Although no decision was made, the signatories explored the possibility of broadening it to include nuclear power stations, certain aeronautical sectors (particularly small aircraft) and farm produce. The discussions were technical in nature; no decision is expected until Spring 1983.

Structural Adjustment

International trade has begun to play an increasingly important role in the economies of OECD nations. For example, countries and industries have been confronted with the need to adjust their domestic economic structures to new realities. The OECD stressed the need for positive adjustment in 1978 in the "General Orientations for a Progressive Shift to More Positive Adjustment Policies." The major features of this resolution are: (1) regarding industrial policy, assistance to specific industries or companies should be strictly temporary, such assistance should be integrally linked to plans to phase out obsolete capacity and reestablish financially viable enterprises and the costs of such assistance should be made as evident as possible to decisionmakers and the public at large; (2) regarding labor policy, measures to support employment should not have the effect of locking labor into declining sectors; (3) agricultural policies should be designed to achieve their social, economic, and political objectives at minimum cost to the consumer and taxpayer; and (4), regional policy should concentrate on general measures to develop industries that are able to withstand strong competition, by providing infrastructure and financial and fiscal incentives, rather than by providing financial relief.

1/ Statement by William H. Draper, III, President and Chairman of the Export-Import Bank of the United States, before the Subcommittee on International Finance and Monetary Policy, Senate Committee on Banking, Housing and Urban Affairs, U.S. Senate, Sept. 16, 1982.

Table 4.--Terms of International Arrangement on Guidelines for Officially Supported Export Credits

OECD classification :	Per capita GNP 1/ :	Repayment period interest rates 2/		
		2 to 5 years :	5 to 8-1/2 years :	8-1/2 to 10 years
		-----Percent-----		
Category 1-----	Over \$4,000 (over \$3,000)	12.15 (11.00) :	12.40 (11.25) :	-
Category 2(a)-----	\$681-\$4,000 (\$1,000-\$3,000)	10.85 (10.50) :	11.35 (11.00) :	-
Category 2(b) 3/-----	\$681-4,000	10.50 (10.00) :	10.75 (10.00) :	10.75 (10.00)
Category 3-----	Under \$681 4/ (under \$1,000)	10.00 (10.00) :	10.00 (10.00) :	10.00 (10.00)

1/ Figures in parentheses represent the old levels of GNP.

2/ After delivery of the goods or after completion of the plant, thus not including the time from commitment through the manufacturing or construction period. Figures in parentheses represent the old rates.

3/ Category 2(b) is the intermediate stage until Jan. 1, 1983, for the countries that are being moved from category 3 to category 2. After Jan. 1, 1983, these countries will have the same terms as those under category 2(a).

4/ The previous threshold of the International Development Association was deliberately chosen for category 3.

Source: Organization for Economic Cooperation and Development.

In 1979, the OECD Council established a special work program on Positive Adjustment Policies, and a Special Group on Positive Adjustment Policies was established by the Economic Policy Committee to carry out the program. The Special Group completed its activities in 1982 and issued its Final Report, which was presented to the Ministerial Council on May 10. One of the central conclusions of the Final Report of the Special Group on Positive Adjustment Policies was that carefully planned, preventive and anticipatory policies will generally bring about positive adjustment more effectively than selective, defensive policies or direct government involvement in production or investment.

Also noteworthy, the report made the observation that maintenance of an open multilateral trading system and the effective implementation of GATT rules are essential to achieving the objectives of positive adjustment. Conversely, it noted that many, if not most, of the major trade issues which currently affect the OECD nations are rooted in long-term structural difficulties and the inability of specific industries to adjust to changing conditions. Therefore, the report concluded, not only is international trade a means to enhance structural adaptation, but equally, positive responses to changing economic and technological circumstances are a precondition for reducing the risk of major trade conflicts. These conclusions were based on papers relating each OECD member's experience in implementing positive adjustment policies. These conclusions, approved by the Ministers, constitute the core of a larger publication entitled "Positive Adjustment Policies: Managing Structural Change." 1/

Also at the Ministerial meeting, the ministers adopted a Statement on Positive Adjustment Policies to reaffirm the 1978 General Orientations for a Progressive Shift to More Positive Adjustment Policies. They urged that these policies be effectively implemented. They also directed the Economic Policy Committee to continue study in this field in order to design an overall economic strategy for restoration of sustained, noninflationary growth and higher employment in which positive adjustment policies will play a central role.

Trade

The role of the Trade Committee is to make a contribution to the expansion of world trade on a multilateral and nondiscriminatory basis by consideration of issues of topical or practical interest. The Committee also provides a forum for consultation between members on trade measures which may adversely affect the interest of another member. It is also used to exchange information, consult, and coordinate policy with respect to relations with nonmember countries. In 1982, the Trade Committee and its subordinate bodies considered a great number of issues, either unilaterally or in conjunction with one or more other committees of the OECD. 2/

1/ This report was published in February 1983.

2/ Some of the more prominent issues taken up by the Committee, such as trade in services and high-technology goods, reviews of GSP and East-West trade, agricultural trade, relations with developing countries, and export credit are discussed separately in this section or in other chapters of this report.

In 1982, world leaders at the GATT Ministerial meeting called for a recommitment to an open trading system and for strengthened multilateral cooperation on trade and trade-related issues. Earlier in the year, the OECD Ministers agreed that full use should be made of conciliation and dispute settlement procedures and directed the Trade Committee to examine and report on ways to overcome weaknesses in the present arrangements.

Also at the Ministerial meeting, the Trade Committee was asked to conduct the third of a series of periodic reviews of the main developments and issues in the trade and trade policy fields, as provided for in the Declaration on Trade Policy, adopted by the OECD members in June 1980. The report, covering the period from May 1982 through yearend and into early 1983, is made up of three sections: a general evaluation of the developments and policy issues, a brief qualitative description of the main developments, and a documentary annex detailing the developments described in parts I and II.

In its "Periodic Review," the Trade Committee cited a contradiction between long-term policy objectives (trade liberalization) and the implementation of day-to-day trade management policies (escalation of sectoral protection measures, mainly bilateral restraint agreements). This conflict, according to the Committee report, ". . . reflects a deterioration in the implementation of the trading system." However, the report asserted that international trade has performed very well when viewed in the proper perspective: in recent years, the growth of trade in volume terms has been greater than that of production and the contraction in volume of trade in 1982 ^{1/} appears to have resulted primarily from economic recession. In assessing protectionist pressures in the microeconomic context, the report cited the gap in competitiveness of trading partners at a general or sectoral level (in terms of cost or technological lead) as the most important factor contributing to imbalanced trade relations. This arises in the form of either increasing deficits in the current account or of large and rapid rises in import penetration. These circumstances have led to the formation of bilateral restraint agreements, and perhaps to the increasing "bilateralization" of trade.

In addition to increased numbers of bilateral arrangements, the Trade Committee also noted the increase in antidumping and antisubsidies procedures, creating suspicions that industries in certain countries use such procedures to erect barriers to fair trade. Another noteworthy development and contribution to protectionism is the tendency to devalue exchange rates to produce substantial increases in purchasing power. Politically motivated trade measures were also given attention in the report; problems stemming from extraterritorial application of national policies and provisions were also considered. The Committee noted that the greatest trade tensions occurred between developed countries themselves, rather than in North-South relations; but at the same time, it emphasized the importance of developed-developing country trade issues, especially in a climate of weakened demand in industrialized countries, low world prices of less developed country exports of raw materials, problems of debt and external financing, and the impact of restrictive trade policies of developed countries on the economies of less developed countries. Also, the use of countertrade transactions as a policy (as in the case of Indonesia) rather than on a case-by-case basis was considered potentially disruptive of world trade.

^{1/} See GATT, "International Trade in 1982 and Current Prospects", GATT/1333, Mar. 4, 1983.

These constituted the major observations to be presented to the Ministers for consideration in May 1983. At that time, the Ministers may request that another periodic review be conducted as a policymaking guide for the following years.

Investment

Trade-related investment issues were a high priority of the OECD in 1982. The United States pressed for, and achieved agreement on, an OECD work program on trade-related investment issues in 1982. The program was endorsed by Committees such as the Committee on Investment and Multinational Enterprises (CIME), 1/ the Trade Committee and the Executive Committee in Special Session (XCSS), as well as the 1982 Ministerial Council. The CIME began the initial work in 1982. Committee members began by developing an inventory of precondition and performance requirements. 2/ To this end, a questionnaire regarding trade-related investment measures at the national and subnational level was circulated, requesting information regarding performance requirements, motivations of governments to institute performance requirements, international product mandate requirements, and technology transfer requirements.

In 1983, the Trade Committee will analyze the trade and investment effects of such policies, particularly local-content and export-performance requirements, and will propose steps to restrict use of such measures by extending existing OECD instruments or by creating new ones. At the same time, the United States complemented its initiative in the OECD with a proposal for a similar work program on trade-related investment measures at the 1982 GATT Ministerial. Although the GATT ministers did not adopt a work program on investment due to strong opposition from advanced developing countries, the United States is continuing to use other means to eliminate the trade-distorting and investment-distorting effects of minimum export performance requirements: pursuit in GATT dispute settlement procedures of the Canadian Foreign Investment Review Agency practices; prohibition of performance requirements contained in the two signed (ad ref) bilateral investment treaties, and retention of this clause as a future negotiating objective; active support of a World Bank study on investment incentives and disincentives; and completion of an internal U.S. Government inventory of trade-related performance requirements for use in developing future strategies and positions.

The CIME also reviewed the implementation of the Guidelines for Multinationals in 1982. The original guidelines were first reviewed by the OECD Ministers in 1979, and at that time, the Ministers asked that another review be held in 5 years, but that the CIME present a midterm, in addition to

1/ The CIME was established in 1976 to monitor implementation of the Guidelines for Multinationals. The Guidelines seek to promote multinational cooperation in areas such as disclosure of information, competition, taxation and employment and incentives and disincentives.

2/ Examples of these are local-content or minimum-export requirements, which are imposed by many governments around the world, both as a condition of establishment or expansion for investors and in connection with various incentive programs. The effect of these is to often distort international trade and investment flows. The use of these requirements has increased significantly in recent years. Though many countries, both developed and developing, use these measures, the greatest use of these is by advanced developing countries and some developed countries.

a final, report. The 1982 review concluded that much remained to be done to improve the foreign investment climate. Further steps needed to be taken to heighten public awareness and company acceptance of the guidelines, to promote disclosure of business information through clarification and harmonization of accounting and data-reporting standards, encouragement of national treatment policy and disclosure of impediments to its implementation, 1/ and finally, increased transparency for government use of incentives and disincentives to foreign investment.

The Committee on Capital Movements and Invisible Transactions (CMIT) 2/ also undertook a work program on foreign direct investment. That Committee compiled an inventory of the Member country policies, laws, regulations and administrative practices relating to inward direct investment operations in order to achieve greater transparency and closer international cooperation in these transactions. This updated and supplemented previous work since the adoption of the Code of Liberalization of Capital Movements over two decades ago. 3/

High Technology

High-technology products are becoming increasingly important in world trade. Total estimated trade in these goods has soared from \$25 billion to \$500 billion in the past two decades. In 1980, the United States showed a trade surplus of \$30.5 billion in high-technology goods. Japan, with a \$2.3 billion surplus, was the second largest net high-technology exporter. West Germany ranked third, with a \$15.7 million trade surplus. 4/ The growing importance of technology-intensive trade has several important implications for long-run growth and the need for adjustment in the industrialized countries. The movement of low-technology production to low-production-cost countries, particularly to the developing nations, requires adjustment of labor and capital in the industrialized nations and provides an incentive for them to develop new high-technology products of yet greater sophistication. If the required adjustments are allowed to take place, this reallocation of low-technology production to less developed countries and the reallocation of resources within the more technologically advanced countries to products on the upper end of the technological scale is a potentially important stimulus to growth in both groups of countries. 5/ International trade plays an

1/ Member states should accord to foreign-owned enterprises operating in their territories treatment no less favorable than that accorded in like situations to domestic enterprises.

2/ The CMIT, composed of independent experts nominated by member countries, oversees the implementation of the Code of Liberalization of Capital Movements. The code permits inward direct investment transactions and transfers to be carried out by multinational corporations to or from OECD nations. It also allows their proceeds to be retransferred. The Code became a legal instrument in 1961; all members except Canada adhere to it.

3/ See OECD, International Direct Investment: Policies, Procedures and Practices in OECD countries, 1979.

4/ U.S. Department of Commerce, "An Assessment of U.S. Competitiveness in High Technology Industries", 1983, pp. 46 and 47.

5/ This process will take place according to the "product cycle" notion. When a production process becomes standardized and technology diffuses abroad, the theory states that the developed countries must then continue to develop new technologies and new products in order to maintain or expand their share of world trade in technology-intensive goods.

important role in this growth process. Trade distortions caused by government policies designed to enhance domestic technology-intensive industries or to protect infant industries may inhibit adjustment. Another key to effective policymaking for production and effective marketing of high-technology goods is to understand which factors have an influence on technological development and the competitiveness of these industries.

The United States chose the OECD as the principal forum to appeal for an analysis of these issues. In May 1982, the OECD ministers agreed to study factors affecting competition and to produce an inventory of policy instruments maintained in certain industries and by member Governments that distort trade in high-technology products. They also agreed to study ways to facilitate the flow of technologies across national borders. This work was undertaken jointly by the Trade, Industry and Science and Technology Policy Committees (CSTP); they will report to the Council by May 1, 1984.

The project was begun by soliciting views on problems in hightechnology trade from Member governments. At the same time, a review of recent OECD studies of high-technology industries was undertaken to assess their trade implications. This phase was still being completed at yearend. Drawing on the conclusions of these, the Committees will develop an internationally agreed upon catalogue and analysis of measures which may lead to trade distortions in the high-technology sector--particularly in the field of domestic industrial policy--either on a sectoral or country basis. Such research will be the foundation for future work in the GATT, which has a particular interest in addressing proposals for greater trade liberalization.

Given the high priority of high-technology trade issues, the United States raised high-technology trade issues in organizations other than the OECD. At the 1982 GATT Ministerial, the U.S. delegation proposed that a study of barriers to high-technology trade be conducted with regard to the computer, telecommunications, microelectronics, aerospace, robotics, biotechnology, and pharmaceutical sectors. Following this introductory work, the proposal suggested development of a more encompassing inventory of barriers and distortions across all high-technology industries; this inventory would then be analyzed in relation to the GATT structure to assess whether modification or expansion of the rules would be necessary to insure free trade for this unique group of goods and services. 1/

In terms of bilateral initiatives, the United States-Japan Working Group on High Technology was established in 1982. Representatives from both countries met three times and posed recommendations to their respective Governments regarding improvement of market access, exchange of information, data collection, and acquisition of access for private firms to commercially oriented government-sponsored programs. Bilateral consultations are also being sought with other industrialized, and especially with the newly-industrialized nations such as Mexico, Brazil, Taiwan, and Korea.

1/ See Chapter 1 of this report for information regarding other proposals and resolutions made during this meeting. This particular initiative was not taken up by the Ministers at that time; it was referred to the GATT Council for consideration. U.S. officials have continually pressed for the adoption of the proposal; it will remain an objective until a work program can be agreed upon and undertaken.

Services

World trade in services is equal to approximately one-fifth of trade in goods. Between 1960 and 1970, the volume of trade in services doubled, and between 1970 and 1975, it doubled again. ^{1/} According to OECD estimates, trade in services among member states rose from \$85 billion to \$300 billion over the past decade. In the United States, the value of service exports increased to \$42 billion in 1981, reflecting an approximate 300-percent increase since 1970. Service industries play a proportionally smaller role in the economies of other OECD countries, but that role is steadily increasing.

Service industries are diverse; they range from shipping to banking and from construction to telecommunications, and a wide variety of barriers to trade in services exist. Barriers to trade range from denying right of establishment to a foreign business, to imposing exchange controls, or to administering unfavorable tax provisions. In addition, many service industries, such as data processing and telecommunications, are often regulated for noneconomic reasons, such as for national security. The question is whether a common conceptual framework can be developed to establish the basis for negotiations to reduce these barriers. The lack of a unifying theme is the primary obstacle to discussion of service issues on a multilateral basis. In 1982, the United States asked the OECD Trade Committee to develop a conceptual framework for liberalizing trade in services. ^{2/} The elements of this task are to analyze the applicability of existing laws and cooperative mechanisms and their possible expansion; to explore approaches for possible negotiations on barriers to trade in services; and to suggest operating principles and negotiating objectives for such an exercise. Committees with sectoral expertise will complete an inventory of barriers to trade in various industries. These barriers include problems of market access and difficulties in doing business in foreign countries once access has been established. The Trade Committee will analyze the completed inventories from a trade perspective and will examine the applicability of GATT principles and procedures to trade in services. This examination will include analysis of barriers to market access, as well as review of the applicability of the Standards, Subsidies, and Government Procurement Codes to services trade.

Various OECD committees have been studying trade in banking, insurance, construction and engineering, shipping, and tourist services. In 1983, studies were also initiated in telecommunications, data processing and information services, advertising, the motion picture industry, and professional services. Also, in the GATT, the issue was addressed for the first time in November 1982 at the Ministerial meeting in response to a U.S. proposal for a work program for trade in services. According to the GATT Ministerial declaration, national delegations will conduct a study of domestic service industries and service-industry trade issues on a voluntary basis. Findings will be discussed at the 1984 meeting of the Contracting Parties to determine if action is required. This work program has two objectives. The first is to choose an appropriate forum for discussion--whether in the GATT, where all Contracting Parties, both developed and developing, would

^{1/} International Monetary Fund, Balance of Payments Statistics, Washington, D.C., vol. XXXII, 1981, pt. 2.

^{2/} For a history of the OECD work program in services trade liberalization, see OTAP, 33rd Report, 1981, USITC Publication 1308, p.81.

participate, regardless of the size of the service sectors in the economy of that country--or in the OECD, among the 24 industrialized nations only, to the exclusion of other nations with current or future legitimate interest in this issue. The second objective is to establish an international set of trading rules. The proposals made in 1982 will build on previous work in the OECD on liberalization of service transactions among members. The Code of Liberalization of Current Invisible Operations, 1/ the Code on Liberalization of Capital Movements, 2/ and the Declaration on International Investment and Multinational Enterprises 3/ aim at liberalizing flows of investment and services. They may therefore provide a foundation for negotiations on liberalizing trade in services.

Relations With Developing Countries

Mutually satisfactory trade relations between developed and developing countries call for creative solutions to divergent economic and political needs of the two groups. Among the more prominent issues in 1982 in this connection was how to follow up on the call for "global negotiations", 4/--which the OECD members agreed to pursue in principle at the October 1981 North-South economic summit held in Cancun, Mexico.

Early in 1982, the U.S. Government developed a proposal to liberalize global trade to fulfill the pledge made a year earlier to hold "global negotiations". Under this proposal, all developed countries would be expected to make tariff concessions to all developing countries on a preferential basis. The developing nations, in return, would be required to take steps to liberalize import policies on an MFN basis. These concessions by developing countries would range from tariff concessions and lifting of quantitative restrictions to relaxed import-licensing procedures or liberalized direct inward-investment requirements on both goods and services. This proposal is of particular interest to developed countries, because advanced developing countries would be further "graduated" and they would "pay" for the first time for preferential market access. The renegotiated rate for them would fall between the MFN and the GSP rate. 5/ The advanced developing countries, in particular, will assume greater responsibilities and at the same time benefit from having greater rights in the world trading system under this scheme. The proposal not only suggested ways to improve market access for developing countries, it also offered prospects for improving developed country access to

1/ Subscribers to this Code have undertaken since 1950 to eliminate, among themselves, restrictions on invisible transactions. Invisible transactions in national income accounting have five components: services trade, services investment income, investment income from nonservice industries, official transactions, and royalties and license fees.

2/ Adopted originally in 1959, this code established machinery for providing more liberal treatment for certain types of foreign investment in services and other sectors.

3/ This Declaration aims at extending national treatment to foreign enterprises.

4/ "Global negotiations" were recommended by the United Nations General Assembly in 1974 as part of its proposal for a New International Economic Order. The objective of these is to integrate the less developed countries more fully into the world economy.

5/ The GSP, up for legislative renewal in the United States by 1985, is discussed in Chap. 5 of this report.

rapidly expanding less developed country markets, particularly in the newly industrializing countries. Adoption of such a proposal is expected to strengthen the role of the GATT as a forum for resolving trade issues between developed and developing nations, and to help establish trade as an effective mechanism for economic development in the Third World.

This proposal received general support from OECD member states, although many technical issues and procedural aspects remained unsolved as of yearend. The OECD Ministers endorsed the plan and ". . . declared their determination to carry forward policy-oriented consultations as well as negotiations and cooperation on particular issues with developing countries in the appropriate international fora. . . in particular the forthcoming GATT meeting at the Ministerial level and at UNCTAD VI". 1/

The OECD North-South Group and Trade Committee also began preparations for the UNCTAD VI Conference to be held in Belgrade during the summer of 1983. 2/ Issues likely to be discussed at UNCTAD VI were highlighted, and substantive preparations were made for these discussions. Among the issues discussed were stabilization of commodity export prices or earnings; trade protectionism and the need for structural adjustment; international debt and capital flows; the increasing interdependence among countries, particularly as it relates to technological advancement and environmental questions; and world food security.

Finally, the Chairman of the Development Assistance Committee (DAC) 3/ published its annual review of each members' performance and policies with regard to development assistance. In "Development Co-operation--1982 Review" it is stated that more aid alone will not improve the standards of living or promote economic development; concerted action by all countries is equally important to raise the effectiveness of development efforts. The report went on to suggest a four-stage approach to solving the problems of low-income countries: (1) an in-depth appraisal of each country's situation, focused on key obstacles to development; (2) assigning high priority to food security and agricultural development; (3) improving coordination both among aid donors and between them and recipient governments, and (4) improving the quality of technical assistance and advice.

United Nations Conference on Trade and Development

Introduction

The United Nations Conference on Trade and Development (UNCTAD) was created as a subdivision of the U.N. General Assembly in December 1964. The original U.N. General Assembly resolution entitled "International Trade as a Primary Instrument for Economic Development" accorded UNCTAD the following functions relating to international trade:

1/ The proposal did not receive the desired support at the GATT Ministerial; the Ministers agreed to "carry out an examination of the prospects for increasing trade between developed and developing countries and the possibilities in GATT for facilitating this objective".

2/ See below for more information on UNCTAD VI.

3/ The DAC was established to augment the flow of financial resources to the developing countries and to increase its effectiveness.

. . . To formulate principles and policies on international trade and related problems of economic development . . .

. . . To institute action, where appropriate, in cooperation with competent organs of the United Nations for the negotiation and adoption of multilateral legal instruments in the field of trade, with due regard to the adequacy of existing organs of negotiations without duplication of their activities.

Since its inception in 1964, UNCTAD's role in trade has been limited largely to exchanges of views among countries having different stages of economic development and different economic systems. UNCTAD's headquarters are in Geneva, and its governing body is the Trade and Development Board (TDB). The committees on commodities, manufactures, and invisibles and financing related to trade are the three principle subdivisions of the TDB. The TDB holds two or more regular sessions per year and an occasional special session. The Board's various committees meet every two years. UNCTAD conferences are held every 3 or 4 years. UNCTAD held its fifth conference (UNCTAD V) in 1979. It will hold UNCTAD VI in 1983.

The discussions on trade at UNCTAD VI will focus on the implementation of the Integrated Program for Commodities and the Common Fund, UNCTAD's work on protectionism and structural adjustment, and UNCTAD's work on trade liberalization between developed and developing countries. A brief consideration of these issues follows.

The Integrated Program for Commodities and the Common Fund

The integrated commodity program proposed by developing countries and unanimously adopted at UNCTAD's fourth session in 1976 calls for a series of commodity-pricing agreements within a general framework and a common fund to be used primarily for buffer stock financing. ^{1/} One of the principal aims of the Integrated Program for Commodities (IPC) is to ". . . achieve stable conditions in commodity markets including avoidance of excessive price fluctuations with a view to maintaining price levels which would be remunerative to both producers and consumers." To achieve this goal, conference resolutions urged negotiation and renegotiation of international commodity agreements and arrangements, to include, in particular, negotiated price ranges which would be periodically reviewed and appropriately revised, taking into account movements in prices of imported manufactured goods, exchange rates, production costs, and levels of production and consumption.

New international commodity agreements, of which price stabilization measures are an integral part, however, have not been realized under the IPC, except for the International Natural Rubber Agreement (INRA). The United States deposited its ratification of this agreement on May 28, 1981. Discussions in 1982 on price stabilization did not provide a basis for negotiating agreements on other commodities, such as cotton, copper, tea, hard fibers, bananas, and meat. On the other hand, there was some progress in areas other than price stabilization measures, primarily research and

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

development and market promotion. An agreement of this nature was negotiated for jute, 1/ and comparable agreements may be reached on cotton, hard fibers, and tropical timber.

The deadline for ratification of the agreement establishing the Common Fund for Commodities, originally set at March 31, 1982, has been extended to September 30, 1983. As of December 31, 1982, the agreement had been signed by 90 countries, and ratified by 39 countries. 2/ Collectively, these countries have contributed \$144 million, or one-third of the Common Fund's capital requirements. For the agreement to come into force, 90 countries must ratify it, and two-thirds of the contributed capital must be paid in. Voting shares among members of the Common Fund will be distributed with the G-77 countries allocated 47 percent; Group B countries, 42 percent; Group D countries, 8 percent; and China, 3 percent. 3/ Major decisions will require a two-thirds or simple majority vote, depending on the importance of the issue.

Protectionism and Structural Adjustment

Through resolution 96 (IV), adopted at UNCTAD's fourth session, and resolution 131(V), adopted at its fifth session, UNCTAD called upon the developed countries to transfer those industries that were less competitive internationally to developing countries. During 1982, UNCTAD continued its surveillance of the process of industrial restructuring and redeployment. UNCTAD believes it is essential to examine annually the entire complex of structural adjustment and, in particular, the impact of national measures on the international system of production and trade. UNCTAD's program objective is a detailed and ongoing exchange of views between governments on key policy issues affecting protectionism and structural adjustment. In 1982, governments exchanged views on (1) the need for domestic policy intervention to be geared as closely as possible to the specific problems hampering adjustment; (2) the sources of market disturbances; (3) the role of nontariff measures; (4) the factors affecting structural adjustment; (5) the role of preferential and nondiscriminatory treatment; (6) the importance of transparency with regard to protective action; and (7) the extent of discriminatory protection.

At the TDB's 24th session, a spokesman for Group B countries, in focusing on the question of protectionism and structural adjustment, noted that ". . . considerable structural adjustment had taken place over the previous two decades, as evidenced by the doubling in the ratio of trade to GNP in the industrialized countries." The spokesman further noted that ". . . during the same period a number of developing countries had undergone dramatic changes in the structure of their economies, which had been facilitated by an open trading system and the willingness of most countries to allow the necessary structural adjustment to accommodate these changes."

1/ On Oct. 1, 1982, an International Agreement on Jute and Jute Products was adopted by the United Nations Conference on Jute and Jute Products, which will come into force on July 1, 1983. This is the first agreement under the IPC to be negotiated with no price stabilization measures.

2/ The United States signed the agreement on Nov. 5, 1980. As of yearend 1982, the United States had not ratified the agreement.

3/ The industrialized countries with market economies are known as Group B; most communist countries are in Group D; the developing countries are in "the Group of 77" (or G-77); and China is not in any group.

The issues of protectionism and structural adjustment continue to be important at UNCTAD meetings. It is the position of the United States that trade measures, such as countervailing and antidumping duties, are legitimate and in conformity with existing international agreements. Because they are taken in response to unfair trade practices of others, such measures should not be viewed as protectionist. President Reagan reaffirmed the U.S. stand on protectionism in his state of the Union message in January 1983, declaring that the United States must be ". . . an unrelenting advocate of free trade and must resist the forces of protectionism which are widely influencing other nations."

GSP and Other Preferences versus Trade Liberalization on an MFN Basis

Developed countries facilitate increased imports from developing countries generally through the pursuit of liberal trade and investment policies, and specifically through their system of preferences. 1/ In order to further the implementation, maintenance, improvement, and utilization of GSP, the TDB has established a Specialized Committee on Preferences. At recent sessions of the TDB and of this Committee, the developing countries, despite the Board's approval of a new Global System of Trade Preferences on October 28, 1982, continue to express their concern that the Multilateral Trade Negotiations (MTN) tariff reductions that were agreed to in the Tokyo round negotiations are eroding margins of preferences they enjoy under the various GSP systems, thus reducing the effectiveness of the GSP as an instrument for promoting their economic development. In addition, developing countries assert that MTN codes have introduced what they refer to as flexible measures of protection. It is the contention of the developing countries that such measures will lead to controlled trade. The most frequently cited example of controlled trade is the Multifiber Arrangement. 2/

The U.S. interpretation of the MTN is in marked contrast to that of the developing countries. It is the position of the United States that the trade agreements negotiated at the Tokyo round are not intended to promote "controlled trade," nor are they aimed at restricting the trade of any group of countries. At the TDB's 25th session, held in 1982, the United States indicated that the agreements have two purposes: (1) to establish new international rules to assure that trade is conducted more fairly and equitably between nations, and (2) to reduce specific barriers, both tariff and nontariff, to trade in individual products. The United States reiterated its position that the conditional application of some codes is not a defect as developing countries would assert, but rather a means to bring certain undesirable trade practices under multilateral discipline.

A representative of the United States noted the impressive achievements of the GSP during the past decade as evidenced by an increase of GSP imports by preference-giving countries from \$1 billion in 1971 to \$25 billion in 1981. In December 1982, President Reagan announced his intention to seek legislative renewal of the GSP beyond its expiration in January 1985.

1/ For a discussion of the background of the GSP and of the operation of the U.S. GSP system in 1982, see chap. 5 of this report.

2/ See OTAP, 33d Report, 1981, USITC Publication No. 1308, pp. 20-27.

Negotiation and Operation of International Commodity Agreements

In 1982, the United States continued to play an active role as a participant 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.

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

The U.S. Government is aware of the limitations, and even the contradictions, of international commodity agreements. Over the long run, it is unlikely that such agreements significantly alter the terms of trade for commodity producers. Raising commodity prices by market interference tends to result in increased production both in countries that are commodity agreement members and in nonmembers. Not only do inflated prices discourage consumption, but they also encourage competition from substitute products, including synthetics. U.S. policy has generally preferred research (including market research) and development funding and activity to interference with market forces. Where an international agreement provides for the use of a buffer stock, the United States takes the position that the stock should be adequately financed, and that it should be large enough to affect significantly world prices. Reflecting continued global recession during 1982, the International Monetary Fund's index of wholesale prices for agricultural raw materials (based on 1975=100.0) declined from 139.2 in the first quarter of that year to 129.6 in the fourth quarter. This index had begun its decline in the first quarter of 1981. The Fund's index of wholesale prices for metals (based on 1975=100.0) declined from 145.3 in the first quarter of 1982 to 130.3 in the fourth of 1982. This index had begun its decline in the fourth quarter of 1980. Prior to the global recession, there had been a pronounced upward trend in commodity prices. Considering the large fluctuations of commodity prices, and the large number of commodities that enter into international trade, stabilizing commodity prices in general through buffer stock operations would be an enormous task. U.S. participation in international commodity agreements and negotiations has been motivated primarily by foreign-policy considerations. 1/

During 1982, the United States was a member of international commodity organizations for coffee, natural rubber, sugar, and wheat. Until midyear, it was also a member of the International Tin Council. At that time, U.S. membership ended when the extended term of the Fifth International Tin Agreement expired. The United States did not sign the Sixth International Tin Agreement, which became effective on July 1, 1982. In 1982, the International Sugar Agreement was extended until December 31, 1984.

1/ U.S. Department of State, Bureau of Public Affairs, Washington, D.C., International Commodity Agreements: New Wave or Ebb Tide?, Special Report No. 83, May 1981.

Coffee

During 1982 the terms of the International Coffee Agreement (ICA) remained essentially unchanged from those of the previous year. The ICA has no provision for a buffer stock, but it does provide for export quotas. 1/ The agreement is administered by the International Coffee Organization (ICO) under rules and regulations established by the International Coffee Council (ICC). In 1982, the ICC agreed to establish a global export quota of 56 million 60-kilogram bags (a bag is equivalent to about 132 pounds) for the 1982/83 harvest year. This global quota was made up of 52.8 million bags (down about 1 percent from the number in 1981) for exporting members entitled to a basic quota and 3.2 million bags (up about 14 percent from the number in 1981) for exporting members exempt from the basic quota. The initial annual export quota of 52.8 million bags was to be distributed over the four quarters of coffee year 1982/83 in equal amounts of 13.2 million bags. The trigger prices for upward and downward quota movement remained the same as in 1981; that is, if the 15-day moving average of the composite indicator price 2/ is at or below \$1.20 per pound, the export quotas are reduced on a pro rata basis by an amount of 1.0 million bags. If the 15-day moving average of the composite indicator price is at or above \$1.40 per pound, export quotas are increased by an amount of 1.0 million bags. The export quotas can be increased or decreased further, depending on additional changes in the 15-day moving average of the composite indicator price.

Table 5 indicates that during 1978-82, the yearly average of the ICO's composite indicator price ranged from \$1.70 per pound, in 1979, to \$1.15 per pound, in 1981. In 1982, the monthly average composite indicator price ranged from \$1.34 per pound, in February, to \$1.16 per pound, in July.

Sugar

The International Sugar Agreement 1977, (ISA), is the latest of a series of five international sugar agreements. The United States has participated in the ISA since it became effective on January 1, 1978. The agreement was to have terminated on December 31, 1982; however, during 1982, it was extended for an additional 2 years, and implementing legislation was enacted enabling U.S. participation in the agreement to continue.

The ISA functions through a system of buffer stocks and export quotas. They are manipulated to dampen fluctuations in the free-market price of sugar. 3/ The target price range in the ISA during 1982 was 13 to 23 cents per pound. The ISA has been largely ineffective in controlling the free-market price of sugar. The demand for sugar tends to be price inelastic, and the supply response to price changes is slow, owing to the fact that sugar cane is a perennial crop. Moreover, much of world trade in sugar is subject to special arrangements and is not part of the free market. The volatile nature of sugar prices in recent years is indicated in table 6. The average annual price of sugar declined from 28.66 cents per pound in 1980 to 8.40 cents per pound in 1982. In 1982, the monthly average price declined

1/ For more details about the ICA see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 84-86.

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

3/ For additional details, see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 86-88.

Table 5.--Green coffee: International Coffee Organization (ICO)
monthly average composite indicator prices, 1/ on the
basis of the 1976 agreement, 1978-82

(Per pound)						
Period	1978	1979	1980	1981	1982	
January-----	\$1.92	\$1.31	\$1.66	\$1.25	\$1.24	
February-----	1.86	1.28	1.63	1.20	1.34	
March-----	1.66	1.33	1.77	1.20	1.29	
April-----	1.62	1.40	1.72	1.21	1.24	
May-----	1.53	1.49	1.82	1.17	1.21	
June-----	1.60	1.91	1.75	.99	1.21	
July-----	1.30	2.00	1.52	1.04	1.16	
August-----	1.33	1.90	1.34	1.07	1.17	
September-----	1.51	1.98	1.25	1.07	1.23	
October-----	1.52	1.93	1.26	1.18	1.29	
November-----	1.45	1.92	1.16	1.25	1.30	
December-----	1.32	1.86	1.20	1.23	1.31	
Average----	1.55	1.70	1.51	1.15	1.25	

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

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

from 12.90 cents per pound, in January, to a low of 5.76 cents per pound in September; it was below the minimum target price of 13 cents per pound during the entire year except for February, when it was 13.07 cents per pound.

Table 6.--Raw sugar: Monthly world market prices per 1977
agreement, 1/ 1977-82

(In cents per pound)						
Period	1977	1978	1979	1980	1981	1982
January-----	8.34	8.77	7.57	17.16	27.78	12.90
February-----	8.59	8.48	8.23	22.75	24.09	13.07
March-----	8.98	7.74	8.46	19.64	21.81	11.26
April-----	10.04	7.59	7.82	21.25	17.83	9.58
May-----	8.95	7.33	7.85	30.94	15.06	8.11
June-----	7.87	7.23	8.14	30.80	16.38	6.84
July-----	7.39	6.43	8.52	27.70	16.34	7.80
August-----	7.61	7.08	8.85	31.77	14.76	6.77
September-----	7.31	8.17	9.90	34.74	11.65	5.76
October-----	7.09	8.96	11.94	40.55	12.04	5.93
November-----	7.07	8.01	13.68	37.81	11.97	6.52
December-----	8.09	8.00	14.93	28.79	12.98	6.31
Average----	8.11	7.82	9.66	28.66	16.89	8.40

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

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

Tin

On July 1, 1982, the Sixth International Tin Agreement (ITA) came into effect despite the decision of the United States and U.S.S.R., the two major tin-consuming nations, not to sign the agreement. 1/ The United States had been a signatory to the Fifth ITA. The pact was signed by 16 consumer nations, accounting for 49 percent of world consumption in 1981 and four producer nations, accounting for 79 percent of world production in 1981. The Sixth ITA replaces the Fifth ITA, which expired June 30, 1982. 2/ The Sixth ITA calls for a buffer stock of 18,500 metric tons of tin financed by a compulsory levy from producers and consumers, with an extra buffer of 20,000 metric tons financed through commercial borrowing by the International Tin Council. This compares with authorization for a buffer stock of 50,000 metric tons which existed under the Fifth ITA. During negotiations on the Sixth ITA, the United States had proposed a buffer stock of 70,000 metric tons and elimination of export controls as a means to control prices, which can fluctuate greatly. 3/ The U.S. proposal was rejected by Malaysia and Thailand, the two major tin-producing nations.

The Sixth ITA also established a floor price of \$5.75 per pound of tin and a ceiling price of \$7.47 per pound of tin. 4/ When the price of tin falls below the floor price, the ITA Buffer Stock Manager is committed to buy tin (up to the buffer stock limit) until the price matches the floor price. Should the price of tin exceed the ceiling, the Manager is committed to sell tin. Despite moves by the Manager to support the tin market, prices declined from \$6.89 per pound in January 1982 to \$5.75 per pound, the ITA floor price, in December 1982. This decline was due to weak demand and further market penetration by such lower priced tin substitutes as aluminum. The price first fell to the floor level in June 1982, at which point the Buffer Stock Manager intervened by purchasing material for the stockpile. This intervention was sufficient to help increase the price to \$5.87 in September. However, the price again weakened by the end of the year. The average price of tin sold on the London Metal Exchange was \$5.30 per pound in 1982, which compares with an average price of \$6.50 per pound in 1981 and an average price of \$7.62 per pound in 1980.

In addition to intervention by the Buffer Stock Manager, the tin-producing nations, acting in part through the International Tin Council, took a number of steps in 1982 which were designed to keep prices from falling. These steps, largely unsuccessful, included the imposition of export controls 5/ in April 1982. These controls, which consisted of a 10 percent across the board cut in exports for all producers (a cutback totaling 4,500 metric tons), were originally due to be in effect through June 1982. Although supported by producers, these export controls were strongly opposed

1/ The United States did not sign the Sixth ITA, because (1) it provides for export controls and (2) the United States was dissatisfied with the provisions for buffer stock operations.

2/ The Agreement was originally scheduled to expire on June 30, 1981, but was extended for one year.

3/ In 1981, for example, tin prices on the London Metal Exchange rose from a low of \$5.80 per pound to a high of \$7.50 per pound in December 1981, despite the recession worldwide and generally falling metals prices.

4/ Floor and ceiling prices are quoted by the ITA in Malaysian dollars. However, for this discussion these prices are restated in U.S. dollars.

5/ Producer nations usually reduce production when export controls are imposed.

by the United States, the United Kingdom, West Germany, and the Eastern Bloc nations. The United States has traditionally opposed the use of export controls as a device for maintaining prices. Instead, the United States has favored tin purchases for the buffer stock to maintain prices, since an increased buffer stock could, in turn, be used to moderate prices, should they rise too high. In June 1982, the International Tin Council agreed to extend export controls from July 1 to September 30, 1982, and to expand export cutbacks by another 36 percent in a further effort to strengthen prices. In October 1982, the International Tin Council again decided to extend export controls through the first quarter of 1983 at the 10-percent level agreed upon in June of 1982. These actions appeared to have had little effect; tin prices in 1982 remained near the ITA floor price.

Another step taken by tin producers to maintain tin prices in 1982 was through the formation by Malaysia, Indonesia, and Thailand of an association of tin producers, separate from the International Tin Council, to "defend tin prices in international markets." The three founding countries together accounted for almost 70 percent of world tin production in 1981. The producers' organization called for export and production controls, and a joint marketing arrangement, the objective of which was to maintain prices by securing long-term contracts with customers rather than selling on the spot market. Thus far, the group has sought to defend tin prices through production cutbacks, with Malaysia announcing a cutback of 22 percent for 1982. There are, however, a number of obstacles to successful operation of the producers group. First, Malaysia is very much in favor of holding tin off the market at current low prices, due to its limited 20-year supply of known tin reserves and its sufficient foreign-exchange reserves. Indonesia and Thailand, on the other hand, are anxious to boost tin exports in order to earn badly needed foreign exchange. Accordingly, neither Indonesia nor Thailand announced production cutbacks in 1982. Second, conflict has arisen because Indonesia and Thailand market most of their tin under long-term contracts, but Malaysia, up until recently, sold its tin on the Penang and London exchanges. Because Malaysia has pursued its stated intention of stabilizing prices by selling tin directly to consumers under contract, conflict with Indonesia and Thailand has arisen because these nations compete for the same customers. As a result, the formation of a tin producers' group had very little effect on prices in 1982 due to the conflicting strategies of the member nations.

Another factor affecting the market is the substantial tin stockpile maintained by the United States. During 1982, the General Services Administration (GSA) continued sales of surplus tin in the stockpile despite vigorous opposition from producing nations. Most sales in 1982 were made during the first half of the year, when tin prices were near their peak. GSA stockpile sales in 1982 totaled 4,172 metric tons, compared with 5,920 metric tons sold in 1981. Between July 1980, when GSA first began selling tin under its current authorization program, and yearend 1982, tin sales have totaled 10,117 metric tons.

Wheat

The International Wheat Agreement of 1971 (IWA), unlike most intergovernmental commodity agreements, has no provisions for buffer stocks, intervention price ranges, or export quotas. The IWA consists of a Wheat Trade Convention and a Food Aid Convention. The IWA is administered by the International Wheat Council, the only commodity organization in which the

United States has membership as an exporting nation. 1/ The principal activities of the organization consist of exchanging trade data, collecting information on food needs, and providing food aid to developing-country members. 2/ It has been extended seven times. The seventh extension is for two years to June 30, 1983.

In 1982, the world supply of wheat continued to rise, and world wheat prices dropped. The total world supply of wheat climbed from 523 million metric tons in 1981 to 555 million tons in 1982, owing to increases in production and stocks. During the same period, world wheat exports declined 2 percent to 107 million tons, reflecting both a weak world economy and increased production for domestic needs. Wheat prices at Rotterdam, the Netherlands, a major world market, for example, dropped 10 percent, to \$184 per ton, 3/ in 1982 in response to the large supplies available.

Cocoa

The Third International Cocoa Agreement (ICCA), 4/ has been in effect since August 1, 1981. It replaced the ICCA, 1975, and its predecessor, the ICCA, 1972. The United States has not been a member of any of the ICCA's, but did participate in the negotiations for each agreement.

The ICCA functions through a system of buffer stock purchases and sales. One of the objectives of the agreement is to stabilize the price of cocoa beans within an "indicator price" range of \$1.10 per pound to \$1.50 per pound. The agreement provides for a maximum buffer stock of 250,000 metric tons. Buffer stock acquisitions are financed by a 2-cent-per-pound fee on exports from member countries (and on imports by member countries from nonmember exporters).

U.S. nonparticipation in the ICCA is based on a belief that buffer stock agreements will not work, that there is inadequate funding for the agreement, and that unrealistic price ranges are specified in the agreement. During 1982, the indicator price remained below the minimum price specified in the agreement, and buffer stocks were at their maximum. Proposals have been advanced to increase buffer stocks (through the use of borrowed funds) to lower the indicator price range and to increase the export fee to 3 cents per pound.

Natural Rubber

Developing countries account for virtually all of the world's production and exports of natural rubber. The International Natural Rubber Agreement (INRA) is the first new commodity agreement concluded under UNCTAD's

1/ In 1981 and 1982, the United States accounted for 49 percent of world exports of wheat and wheat flour.

2/ For more details about the IWA, see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 89 and 90.

3/ Average price for U.S. Dark Northern Spring, 14 percent protein content.

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

Integrated Program for Commodities. INRA's purpose is to stabilize world prices and supply. The buffer stock established in the agreement provides the mechanism to keep prices and supply stable. 1/

The operation of the buffer stock is governed by a daily indicator price, which is a composite weighted average of the prices of three types of natural rubber in four major international markets. In 1982, intermediate prices within the buffer stock price range, but not the ceiling and floor prices, were reduced by 1 percent. The "May-Buy" price was reduced to 177 Malaysian/Singapore cents per kilogram from 179 cents per kilogram; the "Must-Buy" price was reduced to 166 cents per kilogram from 168 cents per kilogram. These price changes were decreed at the April 1982 meeting of the International Natural Rubber Council, which is responsible for revising the upper and lower extremes and intermediate levels of the buffer stock price range.

Since the April 1982 meeting, certain producers, especially those in Malaysia, have been trying to stabilize or increase the price of natural rubber by withholding rubber stocks. However, this attempt has not been successful, because other producers, such as those in Singapore and Sri Lanka, have increased their production to compensate for any loss in rubber stocks.

It was also necessary for the Buffer Stock Manager to enter the market frequently in 1982, making purchases in order to keep the price of natural rubber at the "May-Buy" level. It has been reported that 170,000 to 280,000 metric tons of natural rubber were bought in 1982 throughout the world by the manager. By December 1982, the price of natural rubber began to rise, and it has not been necessary for the Buffer Stock Manager to make additional purchases.

The production of natural rubber worldwide in 1982 was reported at 3,700,000 metric tons, representing an increase of less than 1 percent over 3,675,000 metric tons in 1981. 2/ The data on consumption of natural rubber was just the reverse of data on production, amounting to 3,675,000 metric tons in 1982 compared with 3,700,000 metric tons in 1981. Stocks of natural rubber at the end of 1982 totaled 1,625,000 metric tons.

Malaysia is the world's leading producer and exporter of natural rubber. In 1982, Malaysian production of natural rubber amounted to about 1.5 million metric tons, or nearly 40 percent of the world's total output of about 3.7 million metric tons. Malaysia exports more than 40 percent of the world's natural rubber. 3/

Weak demand due to the international economic downturn resulted in Malaysian natural rubber exports amounting to 1.4 million metric tons in 1982, representing a decline of nearly 7 percent from 1.5 million metric tons in 1981. 4/

1/ See OTAP, 32d Report, 1980, USITC Publication 1307, and OTAP, 33d Report, 1981, USITC Publication 1308 for greater details.

2/ Malaysian Rubber Bureau, Natural Rubber News, Washington, D.C., November 1982, p. 7.

3/ Ibid., October 1982, pp. 4-7.

4/ Ibid., pp. 5 and 11.

Natural rubber is among 61 strategic and critical materials in the U.S. National Defense Stockpile. Currently, the stockpile includes approximately 120,000 metric tons of natural rubber, which is short about 744,000 metric tons from the goal of 864,000 metric tons.

In 1981, there was an announcement that natural rubber would be among the priority materials for future acquisition. However, except for several hundred tons acquired as part of a normal rotation program, no natural rubber was acquired for the stockpile in either 1981 or 1982.

The Customs Cooperation Council and Adoption of the Harmonized
Commodity Description and Coding System

The Customs Cooperation Council

The Customs Cooperation Council (CCC) was established by the Customs Cooperation Council Convention in 1952 as a technical body aimed at analyzing and resolving customs problems, promoting customs cooperation and uniformity, providing information on customs procedures, interpreting conventions on nomenclature and valuation, and conciliating disputes among members. Since 1973, the CCC has been developing the Harmonized Commodity Description and Coding System, more commonly referred to as the Harmonized System. The Harmonized System is a new international system for the classification of products moving in international trade. It is being developed as a comprehensive modern system to be used for customs tariff, statistical and transport documentation purposes. ^{1/} Although the United States is not a party to the convention creating the Customs Cooperation Council Nomenclature (CCCN), it has for some time participated actively in the development of the Harmonized System. ^{2/}

The Harmonized System has been developed as a 6-digit classification system. It is based on the 4-digit CCCN, which has been modified and expanded to reflect changes in technology, trade patterns, and user requirements since its promulgation in 1952. In the Harmonized System, the 4-digit headings continued in the CCCN have been expanded by some 25 percent, and through the use of 6-digit subheadings, there are provisions for nearly 5,000 distinct product categories. The Harmonized System has been designed as a six-digit "core" system used nomenclature for customs tariff, statistical enumeration, and transport documentation purposes. Individual countries may further subdivide the system according to their particular national tariff or statistical needs in a manner consistent with the international system. In the draft conversion of the Tariff Schedules of the United States, for example, the legal tariff is at an eight-digit level of product detail, with the statistical annotations added as the 9th and 10th digits.

The U.S. Government, and in particular the U.S. International Trade Commission, has been an active participant in the technical work on the Harmonized System, as mandated by section 608(c)(2) of the Trade Act of 1974.

^{1/} For a more detailed description of the Harmonized System, see "The Harmonized Commodity Description and Coding System," OTAP, 33rd Report, 1981, USITC Publication No. 1308, pp. 27-31.

^{2/} In addition, the United States contributes to the budget of the CCC and¹⁰² upon request supplies information and documentation, within the limits of U.S. law and the need to protect public and private interests. The United States is officially represented at the CCC by the U.S. Customs Service; the Commission and other Government agencies provide technical assistance.

In addition, the U.S. business community has been involved in the development of the system. The Commission has made available for public comment all draft chapters of the Harmonized System and Explanatory Notes thereto.

Status of the Harmonized System

As of yearend, the technical work of drafting and reviewing the Harmonized System at the international level was nearly complete. The Harmonized System is to be submitted to the CCC for approval at its June 1983 session. The intended target date for implementation internationally is January 1, 1987. This schedule leaves approximately three and one-half years for countries to convert their current tariff nomenclatures to the new system, to enter into and complete negotiations (principally under the GATT) ^{1/} to modify their schedules of trade-agreement concessions, and to complete necessary legislative and administrative procedures for domestic implementation.

As the technical work on the Harmonized System was nearing completion, the CCC began to discuss actively questions concerning the international implementation of the system. By the end of 1982, a number of decisions had been made concerning the rights and obligations of signatories to the Harmonized System. First, it was agreed that the Harmonized System would be implemented by a new convention rather than merely as a recommended amendment to the CCCN convention. A new international convention for the Harmonized System was the preferred alternative from the U.S. trade policy perspective, since the new convention would be a legally binding instrument that would clearly identify the nature and extent of commitment to it. A new convention could specify that all signatories would be identically obligated to use the full six-digit international system, whereas a recommendation by the Council would not require that they do so. Another advantage from the U.S. point of view was that a new convention offered the opportunity to limit the voting rights of customs unions in the Harmonized System Committee, so that a single customs entity could not dominate the decision-making process.

Second, by the end of 1982, members of the Harmonized System Committee had agreed that all signatories considered to be developed countries would be obligated to use the full six-digit system without exception for customs tariff and statistical purposes. In this respect, the members of the Harmonized System Committee agreed to accept the so-called working manual method of implementation. They also agreed that a country can set its legal tariff at the four-digit level provided that it uses the full six-digit system in an integrated tariff and statistical nomenclature.

A third issue concerned a possible derogation from full obligations which might be accorded developing countries. Many developing countries had expressed interest in joining the Harmonized System at the four-digit level, but, owing to their small trade volumes or lack of administrative resources, had reservations about their ability to adopt the full six-digit system for at least several years. By the end of 1982, all countries had agreed that some form of special and differential treatment should be provided for developing countries to enable them to join the system at the four-digit level and to adopt the full six-digit system at a later date. However, the exact form of such special and differential treatment was still under discussion.

^{1/} For a discussion of the preparations begun in the GATT for the art. XXVIII negotiations, see Chap. 2, above, entitled "Activities of the Committee on Tariff Concessions." 103

Other issues that remained unresolved at the end of 1982 concerning the international implementation of the system included (1) the voting rights of the European Community and other customs unions in the Harmonized System Committee, (2) the relationship between the committee and the Customs Cooperation Council, and (3) a Japanese proposal that would allow countries to insert national subheadings within the international six-digit nomenclature. It is expected that these issues will be formally resolved by June 1983, when the convention is scheduled to be presented to the Customs Cooperation Council for its approval.

Although the United States has made no commitment to adopt the Harmonized System, the U.S. Government has begun a program of work which could lead to congressional approval to implement the Harmonized System on January 1, 1987. In order to assess fully the impact of U.S. adoption of the Harmonized System, the President on August 24, 1981, requested the Commission to prepare a conversion of the Tariff Schedules of the United States (TSUS) into the nomenclature structure of the Harmonized System and to submit a report to him on the probable effect of adoption of the converted tariff schedule on U.S. industries, workers, and trade.

By early 1983, the Commission had published for public comment and hearing drafts of all of the converted chapters of the system, as well as additional special provisions which would be contained in chapters 98 and 99. The converted U.S. tariff schedule and conversion report are scheduled to be transmitted to the President no later than June 30, 1983.

After the Commission's draft tariff conversion is submitted, the Administration will review it, hold hearings, and solicit further public comment. After this review is completed, the Administration will consider (1) seeking the necessary legislation to adopt the Harmonized System and convert the TSUS into its nomenclature, and (2) initiating negotiations with our trading partners, principally pursuant to article XXVIII of the GATT, regarding any tariff rate changes associated with adoption of the Harmonized System. It should be noted that adoption of the Harmonized System is not intended to result in changes in trade-agreement concessions. However, some changes will be inevitable in order to adopt the Harmonized System, particularly in the cases of Canada and the United States, whose present tariff systems differ so significantly from the Harmonized System.

Bilateral Trade Agreements Activities in 1982

Termination of the U.S.-Argentina Hides Agreement

The United States terminated one bilateral trade agreement in 1982. On October 9, 1981, a petition was filed by the Tanners' Council of America pursuant to section 301 of the Trade Act of 1974, as amended, alleging that Argentina had breached the 1979 U.S.-Argentina Hides Agreement. The petition said that Argentina had failed to reduce its export tax on cattle hides to the schedule set forth in the agreement. On October 20, 1981, the President suspended U.S. obligations under the agreement by proclamation. On November 24, the USTR initiated a formal section 301 investigation into the matter, which culminated in the termination of the agreement effective October 30, 1982. In terminating the agreement, the President restored the U.S. tariff on bovine leathers (TSUS item no. 121.61) to its preagreement 104 level of 5 percent ad valorem. However, he maintained the tariff on corned

beef (TSUS item no. 107.48) at 3 percent ad valorem until October 30, 1983. On that date it will revert to its preagreement level of 7.5 percent ad valorem unless further action is taken.

Bilateral Investment Treaty Program

A program to negotiate bilateral investment treaties to ensure liberalized trade-related investment policy has been a U.S. objective since 1979. The United States has held informal discussions with over thirty countries to date, but only two treaties have been signed, one with Egypt, signed in September 1982, and one with Panama, signed in October 1982. Both of these require ratification by the U.S. Senate before becoming legal instruments. Another ad ref agreement with Costa Rica was negotiated in February 1983.

CHAPTER 4

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

Economic conditions in the rest of the world and policy decisions made by U.S. trading partners help form the environment in which U.S. trade policy decisions are made. This chapter provides information on economic and trade policy developments in major U.S. trading partners during 1982. Bilateral trade issues are also discussed. Sections are included on the European Community (EC), Canada, Japan, Mexico, and nonmarket economy countries (NME's). U.S. merchandise trade with these countries and U.S. trade balances with them in 1982 are shown in table 7.

Table 7.--U.S. merchandise trade and trade balances, by selected trading partners, 1982 ^{1/}

(In millions of U.S. dollars)

Trading partner	Imports ^{2/}	Exports ^{3/}	Trade balance
European Community-----	42,300	47,932	5,632
Canada-----	46,328	33,720	-12,608
Japan-----	37,422	20,966	-16,456
Mexico-----	15,488	11,817	-3,671
NME's-----	3,275	6,554	3,279
Other countries-----	97,527	91,286	-6,241
Total-----	242,340	212,275	-30,065

^{1/} Official U.S. Department of Commerce statistics are used in this table. Certain discrepancies exist between these figures and the International Monetary Fund statistics used later in this chapter.

^{2/} Customs value.

^{3/} Exports of domestic and foreign merchandise, f.a.s. value.

Source: U.S. Department of Commerce, Bureau of the Census, Highlights of U.S. Export and Import Trade, December 1982.

The European Community ^{1/}

The Economic Situation in 1982

The European Community experienced another year of virtual economic stagnation in 1982, a much worse performance than EC experts had originally predicted. Both domestic demand and capital expenditures were weaker than expected. EC gross national product, (GNP), which showed almost no growth during the year, amounted to \$2,128 billion ^{2/} in 1982.

Unemployment in the EC averaged 9.6 percent of the labor force for the year as a whole (up from 7.9 percent in 1981), leaving 11.7 million unemployed in the EC at the end of 1982. The substantial rise in unemployment resulted from a steady increase in the labor force and a significant fall in employment (1.1 percent) in the Community.

^{1/} In 1982, Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany were members of the Community.

^{2/} Preliminary estimate.

Two positive points emerged from an otherwise dismal picture. Inflation 1/ continued to slow, dropping from an annual rate of 11.8 percent in 1981 to 10.5 percent in 1982. This occurred despite the continuing strength of the U.S. dollar relative to currencies of EC countries, which tended to stimulate inflation in the EC. 2/ Lower oil prices contributed to the reduced inflation rate. The Community's overall trade deficit also fell slightly during the year.

International Economic Performance

Balance of payments

The European Community's aggregate current account deficit declined slightly in 1982. Expressed as a percentage of gross domestic product (GDP), the EC's aggregate current account deficit decreased from 0.8 percent in 1981 to 0.5 percent in 1982. Weak domestic demand and a decline in oil prices were largely responsible for the improvement. EC members' current account balances and current account balances as a percentage of GDP in 1982 are shown in the tabulation below.

Country	Current account balance <u>1/</u> Billion dollars	Current account balance as a percentage of GDP in 1982 Percent
Belgium-----	-3.1	-3.8
Denmark-----	-2.2	-4.5
France-----	-11.0	-2.4
Greece-----	-1.6	-5.7
Ireland-----	-1.1	-8.0
Italy-----	-4.1	-1.5
Luxembourg-----	1.0	30.2
Netherlands-----	4.6	3.3
United Kingdom-----	6.1	1.5
West Germany-----	3.4	.5
Total-----	-10.6	-.5

1/ Estimated by the staff of the U.S. International Trade Commission using preliminary data.

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

Merchandise trade with major trading partners

As seen in table 8, EC exports fell by over 6 percent in 1982 to \$279 billion. Depressed world economic conditions were largely responsible for the decline. Oil-exporting countries, faced with reduced income due to the drop in oil prices, purchased nearly 10 percent less EC merchandise in 1982 than in 1981. The value of EC exports to the United States increased about 1 percent during the year.

1/ Private consumption prices.

2/ For an explanation of this point, see OTAP, 33rd Report, 1981, p. 97.

Table 8.--European Community trade and trade balances, by selected trading partners, 1980-82

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
	Exports		
Industrialized countries:			
Canada-----	4,732	4,895	4,395
Japan-----	6,377	6,247	6,225
United States-----	36,997	40,875	41,332
Other-----	87,309	76,310	74,163
Subtotal-----	135,415	128,327	126,115
Developing countries:			
Oil-exporting countries <u>1</u> /-----	51,376	58,891	53,159
Mexico-----	3,021	3,537	2,400
Other-----	82,779	81,230	74,623
Subtotal-----	137,176	143,658	130,182
Nonmarket economy countries:			
China-----	2,408	2,130	1,973
U.S.S.R-----	10,525	8,799	8,591
Other-----	18,254	14,875	11,794
Subtotal-----	31,187	25,804	22,358
Total-----	303,778	297,789	278,655
	Imports		
Industrialized countries:			
Canada-----	8,762	7,621	6,617
Japan-----	18,552	18,283	17,963
United States-----	60,802	54,755	51,010
Other-----	80,424	71,762	68,655
Subtotal-----	168,540	152,421	144,245
Developing countries:			
Oil-exporting countries <u>1</u> /-----	93,407	82,881	67,347
Mexico-----	1,443	2,115	2,362
Other-----	79,599	70,003	64,863
Subtotal-----	174,449	154,999	134,572
Nonmarket economy countries:			
China-----	2,624	2,555	2,291
U.S.S.R-----	14,644	14,752	16,586
Other-----	14,694	11,216	10,560
Subtotal-----	31,962	28,523	29,437
Total-----	374,951	335,943	308,254

See footnote at end of table.

Table 8.--European Community trade and trade balances, by selected trading partners, 1980-82--Continued

(In millions of U.S. dollars)			
Trading partner	1980	1981	1982
	Trade balance		
Industrialized countries:			
Canada-----	-4,030	-2,726	-2,222
Japan-----	-12,175	-12,036	-11,738
United States-----	-23,805	-13,880	-9,678
Other-----	6,885	4,548	5,508
Subtotal-----	-33,125	-24,094	-18,130
Developing countries:			
Oil-exporting countries ^{1/} -----	-42,031	-23,990	-14,188
Mexico-----	1,578	1,422	38
Other-----	3,180	11,227	9,760
Subtotal-----	-37,273	-11,341	-4,390
Nonmarket economy countries:			
China-----	-216	-425	-318
U.S.S.R-----	-4,119	-5,953	-7,995
Other-----	3,560	3,659	1,234
Subtotal-----	-775	-2,719	-7,079
Total-----	-71,173	-38,154	-29,599

^{1/} The country groupings used in this table follow the designations employed in Direction of Trade Statistics, published by the International Monetary Fund (IMF). Although Mexico is the source of over half of the crude petroleum imported by the United States, it is not included among the countries designated "oil-exporting countries" by the IMF. Such countries are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: International Monetary Fund, Direction of Trade.

Weak domestic demand and a decline in oil prices caused EC imports to fall over 8 percent in 1982 to \$308 billion. The value of EC imports from oil-exporting countries decreased nearly 19 percent during the year. Perhaps partly due to the continued strength of the dollar, EC imports from the United States declined by almost 7 percent in 1982.

The Community's merchandise trade deficit fell more than 22 percent to less than \$30 billion in 1982, as the drop in imports outstripped that in exports. A large decrease in imports from oil-exporting countries resulted in a decline of over 40 percent in the EC's trade deficit with those countries. Because EC imports from the United States decreased more than EC exports to the United States increased, the EC-U.S. trade deficit fell over 30 percent in 1982, to about \$10 billion.

U.S. trade with the EC 1/

Table 9 shows total U.S. trade with the European Community by major product groups. As seen in the table, machinery and transport equipment account for the largest share of both U.S. exports to and U.S. imports from the EC--about 38 percent of exports and 35 percent of imports in 1982. Manufactured goods 2/ are second, accounting for 17 percent of U.S. exports to, and 29 percent of U.S. imports from, the EC during the year. Mineral fuels and lubricants are also a large share--16 percent--of U.S. imports from the Community. 3/ The crude materials category, of which soybeans make up a significant portion, accounts for about 13 percent of U.S. exports to the EC.

Tables B-1 and B-2 in the appendix of this report show the 20 leading export and import items in U.S. trade with the EC in 1982. The top U.S. imports from the Community in 1982 were crude petroleum, passenger automobiles, airplanes, engines for aircraft, motor fuel, and wine. Leading U.S. exports to the EC in 1982 were soybeans, coal, parts of business machines, 4/ computer equipment, parts for aircraft and spacecraft, engine parts, petroleum, vegetable oilcake and oilcake meal, certain machinery, 5/ corn, and airplanes.

Major Policy Developments Affecting Trade

EC enlargement

Negotiations regarding the accession of Spain and Portugal to the European Community continued during 1982. Although substantial progress was made in some areas, major problems must be solved before the countries will be permitted to join the Community. Most of the problems center on Spain's

1/ Official U.S. Department of Commerce statistics are used in this section. Certain discrepancies exist between these figures and the International Monetary Fund statistics used in the above section.

2/ Manufactured goods classified chiefly by material and miscellaneous manufactured articles, n.s.p.f.

3/ Mostly crude oil transshipped through the Netherlands.

4/ Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.

5/ Excavating, leveling, boring, and extracting machinery, excluding 111 front-end loaders, pile drivers, not self-propelled snowplows, and parts.

Table 9.—U.S. merchandise trade with the European Community: U.S. exports of domestic merchandise, U.S. imports for consumption, and U.S. merchandise trade balance, 1978-1982

Item	(In thousands of dollars)				
	1978	1979	1980	1981	1982
U.S. exports of domestic merchandise:					
Food and live animals	4,922,055	3,996,496	4,995,187	4,717,945	4,005,931
Beverages and tobacco	836,314	701,066	870,643	885,488	908,497
Crude material (inedible) 1/	4,631,973	6,431,158	7,517,867	6,380,885	5,959,886
Mineral fuels, lubricants, etc.	751,344	1,429,085	2,203,239	3,128,893	3,764,593
Oils and fats 2/	213,886	218,512	253,509	282,297	248,468
Chemicals	3,232,288	4,678,633	5,235,546	5,206,745	4,963,561
Manufactured goods	5,567,595	7,691,498	11,283,690	8,345,537	7,612,629
Machinery and transport equipment	10,302,485	14,212,787	18,708,369	19,220,839	17,548,041
Other	1,029,330	2,661,120	2,017,514	2,456,992	711,615
Total	31,487,268	42,020,355	53,085,566	50,625,620	45,723,222
U.S. imports for consumption:					
Food and live animals	997,086	847,287	917,543	965,465	1,098,839
Beverages and tobacco	1,317,996	1,513,550	1,614,707	1,805,943	1,869,993
Crude material (inedible) 1/	422,385	481,620	555,875	615,465	478,274
Mineral fuels, lubricants, etc.	1,526,864	2,541,350	2,411,927	6,111,426	6,638,707
Oils and fats 2/	35,846	42,209	48,712	46,083	48,318
Chemicals	2,838,595	2,998,471	3,315,505	3,303,489	3,515,384
Manufactured goods	10,284,776	11,139,276	10,687,397	12,516,512	12,352,393
Machinery and transport equipment	11,283,734	13,438,724	15,501,329	14,833,773	14,756,742
Other	734,584	808,110	1,356,238	1,261,239	1,541,555
Total	29,441,865	33,810,597	36,409,235	41,459,395	42,300,204
U.S. merchandise trade balance:					
Food and live animals	3,924,969	3,149,209	4,077,644	3,752,480	2,907,092
Beverages and tobacco	-481,682	-812,484	-744,064	-920,455	-961,496
Crude material (inedible) 1/	4,209,588	5,949,538	6,961,992	5,765,420	5,481,612
Mineral fuels, lubricants, etc.	-775,520	-1,112,265	-208,688	-2,982,533	-2,874,114
Oils and fats 2/	178,040	176,303	204,797	236,214	200,150
Chemicals	393,693	1,680,162	1,920,041	1,903,256	1,448,177
Manufactured goods	-4,717,181	-3,447,778	596,293	-4,170,975	-4,739,764
Machinery and transport equipment	-981,249	774,063	3,207,040	4,387,066	2,791,299
Other	294,746	1,853,010	661,276	1,195,753	-829,940
Total	2,045,403	8,209,758	16,676,331	9,166,225	3,423,018

1/ Includes soybeans, which make up a significant portion of this category. Does not include fuel.

2/ Animal and vegetable products.

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

Note.—The sum of items may not add to totals shown due to rounding.

accession, but they also delay Portugal's entry into the Community. This is because, according to many observers, admitting Portugal before Spain would be an affront to Spain, and might seriously damage EC-Spanish relations. Negotiations with Portugal have proceeded smoothly, but adapting EC farm policies to include Spanish agriculture remained a major obstacle to Spanish membership.

Problems regarding accession.--During a visit to Madrid in June 1982, French President Mitterand issued a strong statement describing France's reservations about the accession of Spain and Portugal. Mr. Mitterand's primary concerns were (1) the effects of cheap Spanish exports of Mediterranean products on southern French farmers; (2) increased costs for EC agricultural price-support programs after Spain joined; (3) a fear that free movement of labor 1/ might lead to an influx of Spanish (and Portuguese) labor into France; and (4) a belief that problems created by past EC enlargements 2/ still have not been worked through. He went on to say that, at a time when EC budgetary resources are nearly exhausted, another enlargement would further weaken the ability of the Community to make new initiatives (to solve economic problems, and so forth). Observers report that his harsh comments made some think that he was about to impose a veto on Spanish membership. 3/ At the end of his stay, President Mitterand emphasized that negotiations should continue, but that a slower pace was necessary.

In addition, at the EC Council 4/ held in June, President Mitterand argued that the proposed enlargement had not been adequately prepared for because there had been no analysis of the cost to the Community of Spanish and Portuguese accession. He stated that he did not oppose their accession, but that more study of costs and possible problems was needed before accession negotiations ended. He asked that the Commission study the problems and report its conclusions.

Soon after, the Commission called upon heads of Government of EC countries to send in lists of problems they saw as likely to result from the accession of Spain and Portugal. In December, the Commission issued a report on the problems of enlargement. A few of the major problems, and some of the proposed solutions, are described below.

In its report, the Commission stated that the costs of enlargement would use up all Community resources under current budgetary rules 5/ because EC finances are nearly exceeded by EC expenditures as it is, and because Spain and Portugal, as relatively less developed members, would be net beneficiaries from (rather than net contributors to) the budget. However, the Commission asserted that EC membership for Spain and Portugal would increase EC expenditures by only 4 to 6 percent, an amount it considered not unreasonable. The real budgetary problem, the Commission asserted, is that the EC budget needs to obtain more funds from member States; this problem exists even without enlargement. 6/

1/ Free movement of labor among EC countries is one of the main tenets of the European Community.

2/ The accession of the United Kingdom in 1973 and Greece in 1981.

3/ The EC can expand only if all members agree. President Mitterand's statements were described in European Trends, Aug. 1982, p. 5.

4/ A meeting of heads of State of EC members.

5/ EC countries donate 1 percent of revenues from a value-added tax plus all customs duties to the EC budget.

6/ The Commission stated that it considered that Community activity cannot be developed if the Community budget is bound by the present upper limit to its resources (see the section on EC budget disputes below).

The Commission reported that reaching consensus on Community decisions (necessary to address economic problems, promote economic convergence, and so forth) would be even more difficult than it already is with two more members in the Community. However, the Commission believes that, even without further enlargement, the EC's decisionmaking procedures should be made more flexible. The Commission proposed certain adjustments to one of the Community's founding treaties (the Treaty of Rome) to help solve this problem.

Another problem area concerned sectoral difficulties relating to Mediterranean agricultural products, fisheries, textiles, and iron and steel. These problems involve existing or potential surpluses in production capacity within the EC that might intensify unemployment problems in industrial and fisheries sectors or greatly increase the cost of operating EC programs in the agricultural sector. Agriculture is considered the major block to Spanish accession.

Spanish membership would increase EC production of olive oil by 59 percent, fresh fruit by 48 percent, vegetables by 25 percent, and cereals by 14 percent. 1/ Thus, besides difficulties faced by southern farmers in France and Italy if the Spanish products enter Community markets, the cost of operating EC price-support programs for Mediterranean products, especially for olive oil, would increase considerably with the accession of Spain. Feasible solutions acceptable to all parties for the problem of agricultural surpluses have yet to be developed, but such solutions are needed both for the enlarged Community and for the EC as it exists now.

Negotiations.--The Commission stated that accession negotiations with Spain continued satisfactorily during 1982. Negotiations were successfully concluded on capital movements, certain economic and financial questions, rights of EC companies to establish firms in Spain, freedom to provide services, transport policy, regional policy, and harmonization of laws (with the exception of patents). Agreement was also reached on the phasing-in of certain EC rules and on some matters related to taxation. Some progress occurred regarding external relations and patent law.

The Commission reported considerable progress in negotiations with Portugal during the year. The main points in the following areas were settled: capital movements, certain economic and financial affairs, regional policy, and transportation policy. Progress was also made regarding customs union, the European Coal and Steel Community (ECSC), external relations, taxation, and rights of EC companies to establish firms in Portugal. In addition, arrangements were made for Portuguese textiles exports "whereby disturbance of the Community market would be avoided while at the same time the Portuguese textiles industry would be able to increase its annual exports to the Community." 2/

EC budget disputes

For several years, rising levels of EC farm spending and imbalances among EC members' net contributions to the EC budget have provoked an escalating series of disputes within the Community. Because most EC spending 3/ centers

1/ Accession of Portugal, a small country, would increase EC production of these commodities by a much smaller amount. 114

2/ Commission of the European Communities, Sixteenth General Report on the Activities of the European Communities, 1982, p. 230.

3/ Spending from the EC budget, as distinct from the spending of member States.

on farm programs but all members contribute to the budget on about the same basis, 1/ countries with larger agricultural sectors (like France) come out as net beneficiaries from the EC budget, while others (especially the United Kingdom and West Germany) are net contributors. The United Kingdom and, recently, West Germany have protested strongly that this is unfair. In early 1980, British discontent with EC budget policies reached a crisis. Since then, difficult negotiations for rebates on the United Kingdom's contribution to the EC budget have resulted in much dissension within the Community.

In the spring of 1982, the budget dispute between the United Kingdom and other EC members reached a crisis. To pressure other EC members to give in to its budget demands, the United Kingdom blocked implementation of farm price increases until more than 6 weeks into the 1982/83 season. Then, a majority of the EC members, responding to their angry farmers, overrode the United Kingdom's veto and enacted the farm price package. 2/ Soon after, on May 25, the United Kingdom was pressured to accept a much smaller and shorter term rebate on its budget contribution than it had asked for.

During the rest of the year, the United Kingdom continued to argue that its contribution was too large, stating that the United Kingdom paid 21 percent of the budget but got back only 10 percent of Community expenditures. The Commission, in turn, argued that the British contribution had fallen rapidly during the past 2 years. In October, the Council agreed on an amended budget proposal for implementing the compensation agreement with the United Kingdom for 1982. The Council then submitted the proposal to the European Parliament for approval.

Matters became complicated when, in December, the European Parliament rejected the "draft supplementary and amending budget" developed by the Council that contained provisions for paying the United Kingdom's rebate because, it said, "the Council had shown no clear political will to find a definitive solution for the problem of financial imbalances in the Community budget," 3/ and because the Council had not gone far enough to meet the demands that the Parliament had presented after a draft of the supplementary budget was sent to it in October. At that time, the Parliament had pushed for a lasting solution to imbalances in the budgetary contributions of EC members, rather than ad hoc measures. The matter was unsettled at yearend.

Industrial policies

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

1/ Less developed members pay a little less.

2/ For more information on this dispute, see OTAP, 33d Report, 1981, p. 107.

3/ Commission of the European Communities, Sixteenth General Report on the Activities of the European Communities, 1982, p. 41.

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

In 1980, worsening conditions in the EC steel industry led the Commission to declare that a "manifest crisis" existed and on that basis to invoke, for the first time, article 58 of the European Coal and Steel Treaty. 1/ Under article 58, the Commission established a system of mandatory steel production quotas designed to bring supply and demand for EC steel nearer in balance.

In 1981 and 1982, depressed conditions continued in the EC steel industry, and the Commission extended article 58 production quotas in both years. 2/ The latest extension runs from July 1, 1982, through June 30, 1983, with a provision for a possible further extension to the end of 1983. The Commission also took steps to strengthen the monitoring system it uses to insure that excess production over permitted quotas is detected and penalized by fines.

To protect its steel producers from foreign competition, the EC has concluded bilateral agreements with major steel suppliers to restrain shipments to the EC. In addition, all steel products imported into the EC must be priced above "basic prices"--floor prices established by the Commission for imported steel. In 1982 the EC had arrangements with 14 major steel suppliers in effect, 3/ covering about 70 percent of EC steel imports, to restrain shipments of steel into EC markets. Citing depressed conditions in the EC steel industry, the EC Council limited the amount of steel imports permitted under the arrangements to 9.5 percent below the quantities negotiated in 1980.

In November, the EC Council extended the arrangements, with certain changes, for 1983. In view of the continuing steel crisis, quantities of steel imports permitted under the 1983 arrangements were reduced to 12.5 percent below 1980 levels. In addition, certain penalties were included in cases where supplying countries violated EC rules about minimum prices.

Textiles.--To help the declining EC textile industry, the EC Commission has negotiated bilateral agreements with textile-exporting countries to regulate textile shipments to the EC. Most of these bilateral agreements have been concluded under the General Agreement on Tariffs and Trade (GATT) in the Arrangement Regarding International Trade in Textiles (known as the Multifiber Arrangement (MFA)), 4/ which sets guidelines for operating such agreements.

1/ Founding treaty of the ECSC.

2/ The U.S. antidumping and countervailing duty actions against imports of EC steel contributed to the troubles the EC experienced in marketing its steel in 1982. For information on these actions, see the discussion on steel in the section on U.S.-EC bilateral issues below.

3/ Australia, Austria, Brazil, Bulgaria, Czechoslovakia, Finland, Hungary, the Republic of Korea (Korea), Norway, Poland, Romania, Spain, and Sweden; there is also a special understanding with Japan.

4/ For a description of the MFA, see the The Multifiber Arrangement, 1973 to 1980, USITC Publication 1131, March 1981. See also ch. 2 of this report.

In December 1981, the EC Council made a preliminary decision to adopt a protocol to extend EC participation in the MFA through July 31, 1986. EC textile producers wanted a cutback in textile imports into the EC, and a final decision on whether the Community would remain a participant in the Arrangement was due to be made during 1982; EC participation was subject to conclusion of "acceptable" bilateral agreements with textile-supplying countries.

During most of the year, some major EC textile suppliers strenuously resisted the cutbacks in quota levels, reduced growth rates, clauses to deal with "import surges," measures to address fraud, and other provisions the EC insisted upon adding to the new, less liberal textile agreements. Hong Kong, an important EC supplier and, effectively, the head of the resistance to the EC's demands, held out until December. Then, when offered slightly improved terms, and threatened with EC withdrawal from the MFA, Hong Kong initialed its agreement, and most of the remaining holdouts soon followed.

By yearend, the EC had successfully completed MFA-based bilateral textile import restraint agreements with 27 countries. 1/ On the basis of the more restrictive agreements, the EC decided that the Community should remain a member of the MFA.

European Monetary System

The European Monetary System (EMS) began operation on March 31, 1979. All nine EC countries except the United Kingdom joined. 2/ Designed to improve monetary stability in Europe, the EMS replaced the failed European currency "snake." 3/ Exchange-rate instability in 1982 forced participants to realign the values of EMS currencies twice during the year.

The basis of EMS operations is the European currency unit (ECU), a weighted average of EC currencies (including the British pound). 4/ Central rates denominated in ECU's are assigned each participant, and member central banks are required to intervene in the exchange market when their currency's exchange rate diverges from its ECU-denominated central rate by more than 2.25 percent. 5/

The EMS was originally intended as a means of promoting greater economic union among EC members. Designers of the system intended to expand EMS functions in progressive stages. Plans included establishment of a "European Monetary Fund" to act as a central bank for the Community. The ECU was to be developed into a reserve currency, and later into a full-fledged European currency. Lack of convergence of economic and monetary policies among EMS participants has so far prevented much progress toward achieving these goals.

1/ New agreements were concluded with Bangladesh, Brazil, Bulgaria, China, Colombia, Czechoslovakia, Egypt, Guatemala, Haiti, Hong Kong, Hungary, India, Indonesia, Macau, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Singapore, Korea, Sri Lanka, Thailand, Uruguay, and Yugoslavia. Negotiations with Argentina were unsuccessful, and surveillance arrangements were introduced to monitor textile imports from Argentina.

2/ Greece did not become a member of the European Community until Jan. 1, 1981. The Greek drachma is not scheduled to be included in the EMS until 1985.

3/ An earlier, largely unsuccessful, currency stabilization plan.

4/ For a further description of EMS mechanisms, see OTAP, 32d Report, 1980, p. 116.

5/ Or by more than 6 percent for Italy.

Diverging exchange rates among EMS currencies made it necessary to make changes in central rates during 1982. On February 21, the Belgian and Luxembourg francs were devalued by 8.5 percent, and the Danish krone was devalued by 3 percent, against other EMS currencies. On June 12, the French franc was devalued by 5.75 percent against other EMS currencies. At the same time, the Italian lira was devalued by 2.75 percent, and the West German deutsche mark and Netherlands guilder were revalued by 4.25 percent, against currencies of other participants. The June realignment was the sixth since the EMS began operation in 1979.

The countries whose currencies had been devalued agreed to undertake measures designed to help prevent further weakening in the value of their currencies. In Belgium, the February devaluation was part of a recovery program designed to help resolve structural problems in the Belgian economy. Just after the June realignment, France introduced a tightening of fiscal policies and a price freeze. 1/

The need for the second realignment of EMS exchange rates in 1982 resulted primarily from France's decision to employ expansionary economic policies at a time when other EC countries, most notably West Germany, had decided to do the opposite. High inflation and a large trade deficit in France and low inflation and a growing trade surplus in West Germany were the underlying causes of the exchange-rate movements.

Common agricultural policy

The European Community Common Agricultural Policy (CAP), which absorbed about 60 percent of the EC budget in 1982, uses price supports, variable levies on imports, and export subsidies to isolate Community agricultural markets from world competition and price fluctuations. The CAP maintains artificially high farm prices within the Community by buying and stockpiling products. In this way, supplies of the products on EC markets are reduced until prices are bid up to support levels. This practice has led to accumulation of substantial surpluses of milk, cereal products, and sugar, among other products. The Community's use of export subsidies to sell these surpluses on world markets has been a major cause of U.S.-EC tension. 2/

In recent years, EC members have been very concerned about the rising cost of financing the CAP. Projections made in the late 1970's indicated that the cost of running the CAP might exceed the funds available from the EC budget for CAP programs during 1982 or 1983. For reasons outlined below, this has not happened yet, but many observers believe that current CAP programs cannot run indefinitely under current funding arrangements. 3/

CAP spending grew an average of 23 percent per year during 1975-79 and 11 percent in 1980. In 1981, helped by high world prices for milk products, cereals, and sugar, 4/ CAP spending rose by only 2.3 percent. After the EC

1/ Despite these efforts, franc depreciation and deutsche mark appreciation led to renewed strains within the EMS in 1983.

2/ The section below on U.S.-EC bilateral trade issues related to agriculture describes this problem.

3/ For more information on EC budgetary procedures, see the section of this chapter on EC budget disputes above.

4/ For part of 1981, the EC actually charged export levies on sugar amounting to the difference between the world sugar prices and the EC support price for sugar. (This occurred when the world sugar prices rose above the EC support price for sugar.)

Council decided to make a substantial increase in CAP support prices (and following high levels of production of farm products in the EC during the year), appropriations for CAP programs increased almost 20 percent in 1982.

Observers report that the strong U.S. dollar helped lower EC payments for export refunds in 1982. Otherwise, the large increase in price-support levels and record EC crops might have caused an even greater increase in spending. Because the United States is a large producer and exporter of farm products, and the world price for many farm products is largely determined by the U.S. price, a strong dollar means a price rise in terms of currencies with a less strong performance (ie., EC currencies). Higher world prices for farm products in terms of EC currencies translate to lower EC payments for export refunds (which amount to the difference between EC prices and world prices 1/). Any weakening of the U.S. dollar in future years, observers warn, would impose a substantial financial burden on the CAP.

Price increases.--Each year, the EC Council sets new price-support levels for EC farm products. The negotiations on price setting are often difficult, as some EC members (especially France) generally want large price increases to support their farmers' incomes whereas others (particularly the United Kingdom) are concerned that the CAP budget is getting out of control. In 1982, the United Kingdom blocked institution of the new farm prices until several weeks into the 1982/83 farm year. 2/ Finally, in May, other EC members overrode the United Kingdom's veto and put into effect an extremely high increase in CAP prices for the 1982/83 farm year.

The average increase in CAP support prices for 1982/83, taking into account monetary adjustments made to various EC currencies (see following section), was 12.2 percent. Prices were increased by 10.5 to 11 percent for principal livestock products (including milk). Prices for cereals and sugar increased 8.5 percent and 9.5 percent, respectively. Price increases for most other products 3/ ranged between 11 and 16 percent.

The 1982/83 farm price package also included provisions aimed at controlling production of surplus products. As indicated above, prices of surplus products--dairy products, cereals, and sugar--were increased less than those of other products. In addition, "guarantee thresholds" were introduced for cereals; production over the guarantee thresholds is intended to entail a reduction in intervention prices for the following crop year, but many observers doubt that the scheme will be applied in a way that would make it an effective curb on cereals production. Plans to curb excess production enacted several years ago for dairy products and last year for sugar have not been effective in limiting production. EC production of major commodities in surplus reached record or near-record levels in 1982. Milk deliveries to dairies increased nearly 3 percent, and EC cereals production was 122.2 million tons in the 1981/82 crop year, only slightly less than the record crop of the previous year. 4/ EC sugar production during the year hit a record 15 million metric tons.

1/ In many instances, the EC export refunds are slightly larger than this, to enable EC prices to undercut world prices.

2/ See the section of this report on EC budget disputes for a description of this action. The United Kingdom's move was partly related to matters outside the farm price issue.

3/ Wine, olive oil, cotton, fruits and vegetables, certain tobacco, protein products, and other oilseed products.

4/ Preliminary indications show that the EC's 1982/83 cereals production will be at a record level, about 128 million metric tons.

Monetary measures.—The CAP does not really provide the same prices, or price increases, for the farm products of all EC members. In the late 1960's, when currency exchange-rate movements threatened to disrupt the prices set under the CAP, the EC began using a system of border taxes and rebates ^{1/} to neutralize the effect of exchange-rate changes on farm trade within the Community. EC members have been trying to work toward eliminating these payments and return to unified EC prices for farm products. Progress toward phasing out the payments was made during the past several years, but exchange-rate changes among EC currencies caused some setbacks in 1982. To illustrate this, the following tabulation shows the various average price increases that were given to each EC member in the 1982/83 farm price package, after monetary adjustments are taken into account:

<u>Country</u>	<u>Average increase in farm prices in 1982/83 (percent)</u>
Belgium-----	16.3
Denmark-----	13.7
France-----	13.8
Greece-----	19.7
Ireland-----	10.4
Italy-----	16.1
Luxembourg-----	16.5
Netherlands-----	8.2
United Kingdom-----	10.4
West Germany-----	6.9

Next year's prices.—In view of the large EC stocks of dairy products, cereals, sugar, and other products at the end of 1982, the EC Commission proposed an average increase of only 5.5 percent in intervention prices for the 1983/84 farm year. If past action is a clue to what actual 1983/84 prices will be set by the Council, the final price increase will probably be somewhat higher than 5.5 percent.

Common fisheries policy

For a number of years, the European Community has been trying to form a common policy for distributing and preserving EC fishery resources. In 1982, it almost succeeded.

For the past 7 years, a dispute over French access to British waters was the major block to agreement on a common fisheries policy (CFP). In mid-1982, a compromise was reached on this issue, and most observers thought immediate institution of a CFP was likely. Then, in a surprise move, Denmark refused to ratify the agreement without additional concessions from other EC members.

During the last months of 1982, other members began to respond to Danish demands. They threatened to adopt national measures that would restrict Danish access to their waters if the CFP were not in force by January 1, 1983. At the same time, they tried to induce Denmark to accept the plan by (1) enlarging the Danish catch quotas for mackerel, cod, and haddock; (2) reducing export refunds on mackerel to insure adequate supplies for Danish processing installations; and (3) promising aids for conversion of the Danish factory ship fleet (part of which will be idled by the CFP conservation measures).

120

^{1/} These payments are called monetary compensatory amounts.

Despite these steps, Danish representatives were instructed by the Danish Parliament to refuse to ratify the plan at the December 21 meeting of the EC Fisheries Ministers. This action surprised other EC members, because they thought they had met Denmark's demands before the meeting. No settlement was reached by yearend. 1/

Preferential trading arrangements

The European Community conducts most of its trade and development aid within the context of the Lomé Convention, a blanket agreement with 63 African, Caribbean, and Pacific (ACP) countries. 2/ The EC also has bilateral agreements with a number of Mediterranean countries and gives preferential trade treatment to less developed countries under the Community's generalized system of preferences (GSP) scheme.

In 1982, the second year of operation of the second Lomé Convention, 3/ ACP members expressed considerable dissatisfaction with the functioning of the agreement. Low world commodity prices and reduced demand for the products of developing countries have greatly increased the operating cost for the Lomé Convention's STABEX 4/ program. The STABEX program gives loans or grants to ACP countries to help stabilize their income from agricultural exports (to compensate for price drops, crop failures, and so forth). Responding to ACP members' demands, the EC went beyond its Lomé commitments to provide additional funds for the program, but ACP States still believed that more funding was needed. They also wanted more funding for, and greater sovereignty over, the planning and implementation of development projects under the agreement. ACP-EC discussions broke down in December over the issue of treatment of ACP students and nationals in EC countries.

For several years, Mediterranean countries that have preferential trading agreements with the Community have been concerned about the effect of the proposed EC enlargement (to include Spain and Portugal) on their relationship with the EC. On June 22, the Commission sent to the Council a communication on the implementation of a Mediterranean policy for the enlarged Community. The paper proposed measures to strengthen traditional EC-Mediterranean trade flows and encourage commercial and development cooperation. If the EC Council adopts the recommendations of the Commission, in 1983 the Commission plans to begin exploratory talks aimed at developing agreements with Mediterranean countries on the basis of guidelines set out in the document.

In December 1982, the Council adopted certain regulations and decisions concerning the EC's generalized system of preferences for 1983. These form part of the overall GSP scheme for 1981-85 adopted in December 1980. The new rules follow guidelines set up in 1980 that call for gradual and progressive differentiation in the treatment of imports under the EC's GSP program to give more beneficial treatment to the least developed developing countries. Two countries 5/ were added to the list of least developed developing countries,

1/ A common fisheries policy was adopted on January 25, 1983.

2/ Zimbabwe, Belize, and Antigua and Barbuda (a single member) joined the Lomé Convention during 1983.

3/ Lomé II, a 5-year extension of the first Lomé Convention, entered into force on Jan. 1, 1981. For more information on the terms of the agreement, see OTAP, 33d Report, 1981, p. 111.

4/ System for stabilization of export earnings.

5/ Togo and Sierra Leone.

making their products eligible for a greater degree of preferential treatment. As in the past, the GSP for 1983 provides preferential trade treatment for imports, subject to quotas or ceilings for many products. In general, imports from least developed developing countries are not subject to the quotas.

For 1983, the Council agreed to a general increase of 15 percent in the quantities of quotas or ceilings for some nonsensitive products, and in some cases quotas were replaced by more flexible overall ceilings. However, for the more sensitive products--steel, footwear, leather, chemical products, and certain textile products--little or no increase in quantities permitted was made for 1983. The 1983 GSP plan also made changes in provisions for agricultural products to improve access for the products of least developed countries.

Relations with Japan

EC relations with Japan continued to deteriorate in 1982. Despite a slight reduction in Japanese exports to the Community, the EC-Japan merchandise trade deficit remained high, at almost \$12 billion.

In March, EC countries reached agreement on a common strategy for trade, economic, and monetary relations with Japan. The five-point strategy called for (1) efforts to address "the root cause of economic friction, Japan's low import propensity," (2) continued pressure on Japan to provide "tangible assurances that henceforth it would pursue a policy of effective curbs on exports to the Community as a whole of products where any increase would cause significant problems," 1/ (3) recognition of a need to "implement a Community policy which would make European firms better able to develop positive strategies to meet Japanese competition, 2/ (4) exploration, aimed at balanced cooperation, of the possibilities for scientific and technological cooperation between the Community and Japan, and (5) initiation of proceedings against Japan under GATT article XXIII. 3/

The Community based its GATT complaint against Japan on the view that, by impeding imports of manufactured goods into its markets, Japan maintained a general policy of discouraging imports of goods other than raw materials. The EC also complained that Japan has kept the value of the yen artificially low, which helped to increase Japanese exports while reducing imports. These practices, according to the EC, contravened "GATT objectives to achieve mutually advantageous trade between its members."

During bilateral consultations throughout the year, the Community complained that structural obstacles hampered access to the Japanese market, and called on Japan to remove trade barriers and adopt a policy aimed at increasing its imports of manufactures. Japan's responses--two sets of measures in May and December announced by Japan as endeavors to respond to requests by several countries to open up the Japanese market--were called by the EC "steps in the right direction," but totally inadequate as solutions to trade problems.

1/ Notably, passenger cars, color television sets and tubes, and certain machine tools.

2/ The Council decided to establish a high-level working party to consider the problems of industrial restructuring linked to trade policy; the working party would also review Japanese export strategy in general and its implications for European industry.

3/ See also chap. 2 section on conciliation and dispute settlement.

In December, after a year of fruitless discussions, the EC further escalated its trade offensive against Japan. On December 13, the Council decided to initiate the second phase of the GATT article XXIII procedures by requesting that a formal panel be established to consider the dispute. At that time, the Council also decided to renew its request that Japan provide "tangible assurances" that it will moderate its exports of "sensitive" products to the EC. The EC Commission also introduced or extended, until December 31, 1983, provisions for Community surveillance of imports of Japanese video-tape recorders, color television sets and tubes, and certain machine tools.

Proposed changes in EC foreign investment rules: the Vredeling proposal

The Vredeling proposal, or Directive on Worker Information and Consultation Rights, first introduced in 1980 by the EC Commission, required that foreign and domestic firms operating in Europe report to their European workers at regular intervals concerning overall operations of both European subsidiaries and parent companies. The proposal also called upon the firms to consult with employee representatives on any decisions taken by their parent companies (whether situated within the EC or not), if those decisions were likely to have a substantial impact on the firms' employees within the EC. The proposal has been strongly backed by the European trade union movement, but has been vehemently opposed by business interests in Europe and the United States.

For the past 2 years, U.S. business leaders have lobbied vigorously against the proposal, which they have stated would impair their management control, require disclosure of confidential business information, and be costly to comply with. U.S. businessmen also objected that the proposal attempts to extend EC jurisdiction beyond the bounds sanctioned by international law.

In the spring of 1982, Ivor Richard, the EC Commissioner in charge of employment and social affairs and primarily responsible for drafting any changes that are made to the Commission proposal, traveled to the United States to meet with U.S. businessmen in an attempt to reduce U.S. opposition to the Vredeling proposal. Mr. Richard insisted that "strategic decisions made by large enterprises which directly affect the welfare of large numbers of citizens simply cannot be announced after the event." ^{1/} He also stated that he advocated changes to the proposal to protect confidential information and to lighten the administrative and financial burden that the original proposal placed on employers. He said that he would support "the process of consultation on both sides" to solve problems with the proposal "by dialog and agreement" and that he would "consider the opinions of [the European] Parliament" when putting together a final version of the proposal.

The European Parliament had to give a favorable opinion on the Vredeling proposal before the Council would be able to adopt it. In October 1982, the Parliament approved a heavily amended version of the proposal that would reduce the burdens faced by multinational corporations in complying with the new rules. The action followed what observers termed "the most expensive lobbying campaign in the Parliament's history, mounted mainly by American

^{1/} Europe, May-June 1982, p. 16.

companies." 1/ Reportedly, the Parliament made the changes because many of its members were convinced that adoption of the original proposal would have discouraged further U.S. investment in Europe.

Some observers said the Parliament's amendments "removed the teeth" from the proposal. Major changes included (1) excluding all firms with less than 1,000 employees and subsidiaries with less than 100 employees, (2) giving managers wider scope to declare information confidential, 2/ (3) preventing workers from bypassing subsidiaries and going straight to the parent firm for information, (4) reducing the amount of notice that has to be given to workers, and the length of the period for worker-management consultations, concerning management actions, and (5) giving employers the right to decide at what level in the firm the worker-management consultations will take place.

In December, before the Commission had composed a final version, Parliament decided to give a favorable opinion on the proposal, based on the understanding that the Commission would develop a compromise proposal that would take into account amendments suggested by Parliament. Commissioner Richard announced that he intended to put together a final version of the Vredeling proposal, incorporating some of the changes suggested by the Parliament, during the first half of 1983.

U.S.-EC Bilateral Trade Issues

For the past several years, major U.S.-EC trade conflicts have centered on EC steel exports to the United States and EC agricultural policies. Underlying the disputes is the U.S. view that EC use of export subsidies and EC subsidization of domestic industries has unfairly biased world trade in favor of EC farm products and steel [in violation of the GATT]. The United States has been pushing for elimination of such subsidies in the EC and other countries, and the EC has resisted U.S. attempts to limit subsidization.

In chapter 1 of this report, parts of the sections on the GATT Ministerial meeting and the GATT status of subsidized agricultural exports address the U.S.-EC conflict over subsidization. In chapters 2 and 5, U.S. actions against the EC under the Subsidies Code, other GATT dispute settlement procedures, and section 301 of the Trade Act of 1974 are discussed. 3/ In addition, chapter 3 contains a discussion of the new Organization for Economic Cooperation and Development (OECD) arrangement on export credits signed by both the United States and the European Community.

Steel

A dispute over EC steel exports to the United States has strained bilateral relations for several years. 2/ During 1982, the U.S. steel industry continued to experience difficulties while U.S. imports of EC steel as a share of apparent U.S. consumption 3/ continued to rise. Apparent

1/ The Economist, Oct. 16, 1982, p. 79.

2/ Employees' access to information labeled as confidential is limited.

3/ These include actions against EC pasta, poultry, sugar, wheat flour, canned peaches, canned pears, raisins, citrus products, and specialty steel.

4/ For further information on past disputes over steel, see OTAP, 32d Report, 1980 and OTAP, 33d Report, 1981, European Community sections.

5/ U.S. producers' shipments plus imports less exports.

consumption of steel mill products in the United States fell 28 percent from 105.4 million short tons in 1981 to 76.4 million short tons in 1982. During the same period, imports of EC steel mill products into the United States fell from 6.5 million short tons to 5.6 million short tons, or by 14 percent. However, because U.S. consumption of domestic steel fell more than U.S. consumption of steel imports from the EC, imports of EC steel mill products increased from 6.1 to 7.3 percent of apparent U.S. consumption in 1982.

U.S. actions and bilateral consultations.--On January 11, 1982, U.S. Steel Corp. and six other U.S. steel producers filed petitions seeking initiation of 132 antidumping and countervailing duty actions against steel firms in 11 countries, including 7 EC members. The U.S. Department of Commerce responded by fulfilling a threat to suspend the Trigger-Price Mechanism (TPM) 1/ if the petitions were filed. After examining the steel industry's petitions, the Commerce Department announced that it would initiate 109 steel antidumping and countervailing duty investigations involving producers of 9 products in 11 countries. 2/ U.S. steel producers filed additional countervailing duty and antidumping petitions against EC producers in the months that followed.

Throughout the year, the United States and the European Community held bilateral consultations to try to find a solution to problems in steel trade before the U.S. antidumping and countervailing duty investigations were completed. Both sides felt that trade relations could be seriously strained if additional duties were imposed on EC steel as a result of the investigations.

Negotiations traveled a difficult course. In August, the United States and the European Community agreed on a set of voluntary restraints on shipments of EC steel to the United States. U.S. steel producers, however, refused to accept the agreement, and refused to withdraw their petitions without better terms, particularly with respect to limits on EC shipments of steel pipes and tubes. Negotiations continued as the investigation deadlines approached.

On October 11, the EC offered to broaden the agreement to include six alloy products and sheet piling and to make some cuts in exports of hot-rolled carbon steel, but the U.S. industry continued to hold out for some action on pipes and tubes. U.S. producers feared that with EC shipments of other products limited under the system of restraints, the EC might divert steel shipments to products not subject to limits, such as pipes and tubes.

1/ The TPM was set up in 1977 to screen imports for possible sales at less than fair value. For information on the functioning of the TPM during 1981, see OTAP, 33d Report, 1981, p. 115.

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

On October 15, the U.S. International Trade Commission voted in the affirmative in 14 of 16 of the first set of countervailing duty cases against steel imports from the EC. 1/ Hot-rolled plate and cold-rolled sheet and strip from West Germany were found not to have injured U.S. firms. The Commission's findings were scheduled to be announced officially on October 21, whereupon the Commerce Department would have been required to assess countervailing duties on the products found to have caused injury to the U.S. industry.

West Germany, the principal opponent within the EC to accepting limits on pipes and tubes, resisted taking any steps regarding the products until the last minute. Shortly before the Commission's rulings were due to be transmitted to the Commerce Department on October 21, the EC announced that it would agree to develop a procedure for consultations regarding EC exports of pipes and tubes to the United States. The EC also agreed to avoid diversions of trade from other steel products to pipes and tubes. U.S. steel producers then agreed to withdraw their petitions in exchange for the compromise agreement on voluntary restraints on shipments of EC steel to the United States. The terms of the agreement are outlined below.

U.S.-EC agreement on steel trade.--The U.S.-EC Arrangement Concerning Trade in Certain Steel Products provides for a temporary voluntary restraint of Community exports of certain steel products at a level linked to projected levels of apparent U.S. consumption of those products. The stated objective of the Arrangement is to "give time to permit restructuring ... to create a period of trade stability" between the United States and the EC. Under the Arrangement, the EC is afforded time to continue with the restructuring of its steel industry and the progressive elimination of state aids for steel, without fear of further countervailing duty and antidumping cases being filed. The terms of the Arrangement specify that exports of certain steel products from the European Community to the United States are to be limited to a percentage of U.S. apparent consumption from November 1, 1982, through December 31, 1985. The Arrangement covers about 64 percent of total U.S. imports of steel products from the EC. The EC accepted the Arrangement provided that the U.S. steel industry withdrew its antidumping and countervailing duty petitions filed against EC products covered by the Arrangement, and agreed not to initiate any new proceedings with regard to those products.

The Arrangement provides for the establishment of export licensing in the EC for 10 major categories of carbon and alloy steel products exported to the United States, limiting them to the following shares of the U.S. steel market:

<u>Product</u>	<u>Percent</u>
Carbon and alloy hot-rolled sheet and strip-----	6.81
Carbon and alloy cold-rolled sheet-----	5.11
Carbon and alloy plate-----	5.36
Carbon and alloy structural shapes-----	9.91
Carbon wire rods-----	4.29
Carbon and alloy hot-rolled bar-----	2.38
Carbon and alloy coated sheet (including terne plate)-----	3.27
Tin plate-----	2.20
Carbon and alloy rails-----	8.90
Carbon and alloy sheet piling-----	21.85

126

1/ The countries involved in these cases were Belgium, France, Italy, Luxembourg, the United Kingdom, and West Germany; the products were hot-rolled plate, hot-rolled sheet and strip, cold-rolled sheet and strip, structural shapes, and hot-rolled bar.

Most exports of basic steel products that are not covered by specific limits will be subject to consultations, and possible licensing, if it appears that trade diversion is taking place.

Under a separate arrangement, the United States and the EC agreed on objectives and measures for restraint of EC exports of steel pipes and tubes to the United States. The EC made an official statement that it did not expect EC shipments of pipes and tubes to the United States to exceed the 1979-81 average of such shipments as a percentage of apparent U.S. consumption of pipes and tubes (5.9 percent). "In light of its market forecasts," the EC stated, "it expected that the U.S. industry will not file any petitions or commence litigating with respect to these exports." The EC will inform the United States of all shipments of EC pipes and tubes to the U.S. market. Consultations may be requested by the United States or the EC at any time to discuss market developments or trade problems.

If EC shipments of pipes and tubes exceed the 1979-81 average portion of apparent U.S. consumption, and if after 60 days U.S.-EC consultations have not provided a solution, either party may take "measures which it considers necessary within its legislative and regulatory framework" with respect to pipes and tubes or "terminate the obligations which it has assumed under the steel arrangement."

It is evident that EC shipments to the United States of the steel mill products subject to limits under the arrangement would have been substantially reduced if the Arrangement limits had been in effect throughout 1982 (table 10). In fact, U.S. imports of such products from the EC would have been reduced by about 21 percent, from approximately 3.6 million short tons to about 2.8 million short tons.

Agriculture

The U.S.-EC conflict over EC agricultural policies showed signs of escalating during 1982. The United States continued to complain that the European Community's common agricultural policy encourages European farmers to overproduce and then subsidizes sales of their surplus farm products on world markets at prices below world levels. In 1980 and 1981, the United States complained to the GATT (under the subsidies code) that the EC has used export subsidies to take over part of the U.S. share of world markets for wheat flour, poultry, pasta, and sugar. ^{1/} Toward the end of 1982, the United States took steps described below to subsidize U.S. exports of farm products to compete with EC exports in world markets.

Besides the controversy over export subsidies, U.S. concern over EC attempts to limit access to EC markets for certain U.S. farm products persisted in 1982. In 1981 and 1982, the EC attempted to place limits on imports into the Community of nongrain feeds that were displacing the more expensive EC grains in animal feeds produced in the Community; the United States soundly rejected the idea that it might be willing to limit U.S. exports of corn gluten feed to the EC.

^{1/} For more information on these cases, see the section on certain practices of foreign governments and instrumentalities in ch. 5 of this report. Other U.S. complaints to the GATT involving EC farm policies other than export subsidies are also described in this section; these involve citrus products and canned peaches, canned pears, and raisins.

Table 10.—Steel mill products covered by the U.S.-EC steel Arrangement: U.S. imports for consumption from the European Community, apparent U.S. consumption, and limits on EC imports as a share of apparent U.S. consumption under the Arrangement, 1982

Item	U.S. Imports		Apparent U.S. consumption	Imports from the EC as a share of apparent U.S. consumption	
	Quantity	Value		Limits under Arrangement	Actual 1982
	Short tons	1,000 dollars		Percent	Percent
Hot-rolled sheet and strip	891,734	272,968	11,208,863	6.81	8.0
Hot-rolled carbon sheet and strip	888,508	260,634	10,280,532	1/	8.6
Hot-rolled alloy sheet and strip 2/	3,226	12,334	928,531	1/	.3
Cold-rolled sheet	924,636	340,407	12,309,358	5.11	7.5
Cold-rolled carbon sheet	924,161	338,252	12,165,669	1/	7.6
Cold-rolled alloy sheet	475	2,155	143,689	1/	.3
Plate	349,924	121,406	5,125,965	5.36	6.8
Carbon plate 2/	327,439	107,992	4,105,944	1/	8.0
Alloy plate 2/	22,485	13,414	1,020,021	1/	2.2
Structurals	559,000	197,209	4,740,544	9.91	11.8
Carbon structural shapes	554,292	193,312	4,292,400	1/	12.9
Alloy structural shapes	4,708	3,897	448,144	1/	1.1
Wire rod 3/	172,591	54,119	3,212,854	4.29	5.4
Hot-rolled bar	116,984	54,560	5,082,338	2.38	2.3
Hot-rolled carbon bar	96,452	41,186	3,508,850	1/	2.7
Hot-rolled alloy bar	20,532	13,374	1,573,488	1/	1.3
Coated sheet 4/	260,404	114,740	7,211,650	3.27	3.6
Tin plate	82,982	51,152	3,007,798	2.20	2.8
Rails 5/	147,888	62,859	743,157	8.90	19.9
Sheet piling 6/	89,950	39,300	359,215	21.85	25.0

1/ The aggregate percent shown above applies to this item.

2/ The Tariff Schedules of the United States Annotated (TSUSA) classifies hot- and cold-rolled alloy strip in the same TSUSA item. Also, certain semifinished products that are excluded from the Arrangement are classified as plate in the TSUSA. Therefore, import data shown for hot-rolled alloy sheet and strip, carbon plate, and alloy plate may be overstated.

3/ Carbon wire rod. Import quantity adjusted by ITC staff.

4/ Carbon and alloy coated sheet terne plate and sheet.

5/ Carbon and alloy rails.

6/ Carbon and alloy sheet piling.

Source: U.S. International Trade Commission, Monthly Report on Selected Steel Industry Data, Report to the Subcommittee on Trade, Committee on Ways and Means, on Investigation No. 332-153 under section 332 of the Tariff Act of 1930, USITC Publication 1397, June 1983.

U.S. reaction to the CAP.---The EC's farm policy 1/ has made dramatic changes in the Community's position in world agricultural trade. After becoming a net exporter of grains in 1980, by 1982 the EC was challenging Australia for the position of third largest wheat exporter in the world. EC grain exports rose from 4.8 million metric tons in the 1976/77 crop year to 17.7 million metric tons in the 1981/82 crop year. EC sugar exports have more than doubled in 4 years, reaching 5.3 million metric tons in the 1981/82 crop year. 2/ Twenty years ago the EC was the world's largest importer of poultry meat; by 1982, the Community had become the world's largest exporter of poultry, with 35 percent of world trade in broilers.

As stated by U.S. Secretary of Agriculture Block, "In short, our problems with the CAP stem primarily from too much protection encouraging too much production, which is then exported through the use of subsidies." 3/ Although U.S. officials have expressed the view that the United States understands that the EC needs a CAP to preserve the security of food supplies and maintain incomes of EC farmers, the United States is seriously concerned about the effect of the current program on international trade. The United States has been pushing for a change in EC policies to bring EC farm prices closer to world levels and thus eliminate the need for export subsidies. 4/

Unlike EC policies, U.S. programs for maintaining stable farm prices do not rely on measures to unload surplus products onto world markets. The United States operates price-support programs for dairy products, sugar, wheat, rye, feedgrains, soybeans, and a number of other products. The U.S. Department of Agriculture purchases and stockpiles these products to keep prices above certain floor levels, but as of the end of 1982, these stockpiles had not been released onto world markets. U.S. farm policy attempts to reduce surplus production, rather than encourage it.

During 1982, the Reagan administration studied the possibility of using subsidies for U.S. agricultural exports as a response to subsidized exports from the European Community. Measures being considered varied from outright refunds when products were exported (similar to the EC practice) to low-interest loans for purchasers of U.S. farm products. Subsidies on U.S. farm sales abroad would end a longstanding U.S. free-trade policy on

1/ To support the incomes of EC farmers, CAP programs have maintained high price supports for most EC farm products. This has meant that EC farm prices have been set at artificially high levels, usually well above world market prices. High prices for farm products within the EC have been maintained by purchases of intervention stocks and by the use of variable levies on imports of agricultural products into the Community. The high prices for farm products within the EC have resulted in large amounts of surplus production of many farm products within the EC, especially of wheat, dairy products, and sugar. The EC uses export refunds (or subsidies) to sell its surplus farm products on world markets at prices below world levels, undercutting the prices of U.S. farm products in these markets. This is the source of U.S. objections to the CAP. For more information on CAP operations in 1982, see the earlier section of this chapter on the CAP.

2/ U.S. Secretary of Agriculture Block stated, "It is fair to say that the costly, restrictive sugar support program that was passed by Congress last December and the subsequent [U.S.] import quota program are the result of the price-depressing effect of EC sugar export subsidies." 129

3/ Europe, July-August 1982, p. 18.

4/ For more information on export subsidies, see the section on export subsidies in chap. 1 of this report.

agricultural products; as of the end of 1982, the United States had not directly subsidized exports of any major farm commodity (such as grain) since the early 1970's. On October 20, U.S. officials announced institution of a blended credit program 1/ for financing exports of U.S. farm products to developing countries.

At the November 1982 GATT Ministerial meeting in Geneva, 2/ EC export subsidies were an important issue. The United States argued for the phasing out of the EC's farm export subsidies as part of a general attack on competitive subsidies. The EC strongly resisted U.S. pressure, asserting that the export subsidies were permitted under GATT rules and were the basis for CAP operations. 3/

The United States and the EC arranged to hold high-level talks on December 10 to try to resolve differences on farm export subsidy practices. U.S. officials threatened in Geneva to retaliate against EC export subsidies by releasing major quantities of stockpiled U.S. grain and dairy products onto world markets if the talks failed to produce results. When they did not, U.S. officials took steps to compete with the Europeans by planning a series of subsidized sales of U.S. farm products aimed at traditional EC markets. The U.S. efforts were designed to make it too expensive for the EC to continue its farm export subsidies. 4/ In January 1983, the United States sold 1 million metric tons of wheat flour ground from surplus U.S. wheat to Egypt at prices below world levels. Also in January, several bills were introduced in the U.S. Congress that would provide more direct subsidies for U.S. farm products and make it easier to ship U.S. surplus stocks abroad as food aid.

EC response to U.S. moves against farm export subsidies.---In early 1983, the EC complained to the GATT that it believed the U.S.-Egypt wheat flour sale violated GATT rules. France, which claimed Egypt as its traditional market, wanted the EC to adopt a program of retaliatory measures if the United States continued to make similar sales. These measures would include a block on imports of U.S. farm products.

Corn gluten feed.---In the Kennedy round of multilateral trade negotiations in the early 1960's, the EC agreed to apply low or zero duties on its imports of a number of vegetable products, including corn gluten feed and

1/ The program allows loans to developing countries at concessional rates for purchase of U.S. farm products, providing an indirect subsidy for exports of the products.

2/ For more information on this meeting, see chap. 1 of this report.

3/ GATT rules permit the use of export subsidies for certain primary products, as long as the measures are not used to obtain more than an equitable market share, and so long as these subsidized exports are not priced materially below those of other suppliers to the same market. Defining an equitable market share has proven difficult. When asked the question "What, then, is a more than equitable share," Sir Roy Denman, head of the EC Commission's delegation to Washington, replied: "It's rather like the old description of the elephant. It's difficult to be precise, but you know one when you see it." (Europe, Jan.-Feb. 1983, p. 5.)

4/ EC expenditures to maintain high price-support levels--including the cost of subsidizing exports--threaten to exceed revenues available to run the CAP. Observers contend that the EC realizes it cannot win in an all-out price war 130 with the United States.

soybeans. ^{1/} At that time, the EC imported negligible amounts of most of the products. In recent years, EC imports of nongrain feeds ^{2/}--products that can be substituted for grain in the manufacture of livestock feeds--have grown rapidly. Rising imports of corn gluten feed, which have displaced EC grain in production of livestock feed within EC, have led EC grain producers to demand limits on imports of corn gluten feed into the Community.

The United States contends that the cause of the EC's problem with grains is not corn gluten feed imports, but EC programs for grains. High EC support prices for grains have led European farmers to produce much more grain than EC consumers will buy at the prices charged, if they have any alternative. The United States believes that the EC should bring its prices for grain closer to world prices. According to the U.S. view, lower EC grain prices, not more protection for EC agricultural markets, are what is needed.

The EC claims that because EC imports of U.S. corn gluten feed displace consumption of domestically grown grain within the EC, the EC is forced to sell more of its grain (using export subsidies) on markets outside the EC. The EC also asserts that the reduced cost of livestock feeds in the EC, made possible in large part by the use of inexpensive nongrain feed substitutes, contributed to increased production of poultry within the EC. This excess production of poultry, far above that required for consumption within the EC, is also exported with subsidies. Thus, the EC claims, the United States causes many of its own problems with the EC's exports of grain and poultry by selling its corn gluten feed to the EC.

In April 1982, the EC Commission proposed applying a tariff on imports of corn gluten feed above 3 million tons, the amount of U.S. corn gluten feed exported to the EC in 1981. ^{3/} Following the Commission proposal, U.S. officials stated that they objected strongly to any EC action against corn gluten feed, emphasizing that the United States is not prepared to accept any actions that would restrict EC imports of corn gluten feed. U.S. representatives stated that if the EC restricts imports of corn gluten feed, the action could spark the unraveling of trade concessions.

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

The EC had not taken action to limit access to EC markets for U.S. corn gluten feed by the end of 1982.

^{1/} The low EC duties were bound in the GATT "as a tradeoff for the acceptance by the Community's trading partners of the [EC's] variable levy system for cereals." (European Trends, 1982 Annual Supplement, p. 37.)

^{2/} Primarily corn gluten feed and manioc. Manioc is a nongrain feed product that the EC imports from Thailand, Indonesia, and Brazil. In 1982, the EC negotiated agreements with these countries to restrain their exports of manioc.

^{3/} The EC buys 75 percent of U.S. output of corn gluten feed, and the United States supplies 95 percent of the corn gluten feed imported by the EC.

Embargo on gas pipeline equipment

On December 30, 1981, in a move to delay the construction of a pipeline designed to carry natural gas from the Soviet Union to Western Europe, President Reagan placed an embargo on sales of oil and gas equipment by U.S. firms to the U.S.S.R. ^{1/} On June 18, 1982, he extended the scope of the embargo to ban sales of such equipment by the subsidiaries of U.S. companies abroad, and by foreign companies manufacturing under patents licensed by the United States, including European firms.

The pipeline sanctions attracted strong criticism from the European Community and individual EC countries. The EC said the measures would cause EC companies to lose business, stating that "the effects on EC interests of the U.S. measures, applied retroactively and without sufficient consultation, are unquestionably and seriously damaging." ^{2/} EC officials were especially concerned that the sanctions would keep European firms from being able to fulfill already-signed contracts with the U.S.S.R., which would give the impression to the U.S.S.R. that European firms could not be depended upon. This, they feared, would lead to future loss of business opportunities for European firms in trade with the Soviets.

A number of European firms announced that they intended to ignore the sanctions and fulfill their contracts with the U.S.S.R. The U.S. Department of Commerce announced that it intended to take action against any firms that did not adhere to the pipeline embargo.

In the fall of 1982, U.S. and EC representatives met in a series of talks designed to work out a common approach to economic relations with the Soviet Union. On November 13, President Reagan lifted the sanctions he had imposed on U.S. and other companies participating in the construction of the pipeline. The U.S. Department of State reported that the President undertook this action because "the United States and its key allies [had reached] 'substantial agreement' on an overall economic strategy toward the Soviet bloc." ^{3/}

Canada

The Economic Situation in 1982

Among the major industrialized countries, the recession in 1982 affected Canada most severely. The average rate of real GDP growth among OECD countries was -0.4 percent. In Canada, the rate was -5.0 percent, the lowest Canadian rate of growth in over 50 years. The continued downturn affected a number of major sectors of the Canadian economy. At yearend, unemployment was nearly 13 percent, having increased steadily on a quarterly basis throughout the year, from 8.9 percent in the first quarter to 12.7 percent in the fourth quarter, a postwar record.

^{1/} For more information on U.S.-U.S.S.R. trade issues in 1982, see the section of this chapter on nonmarket economy countries.

^{2/} European Community News, No. 23, Aug. 12, 1982, p. 1.

^{3/} Department of State Bulletin, January 1983, p. 85.

During the period 1971-81, growth in employment in Canada averaged 3 percent, the highest figure among the seven Western industrialized nations. However, owing to the worldwide recession, it moved to last place among Western nations in 1982 1/ as employment fell by 3.3 percent.

Industrial production in Canada fell by 10.8 percent during 1982 while consumer prices rose by the same amount. In the revised budget submission of June 1982, the Canadian Federal Government recommitted itself to the fight against inflation. The inflationary impact of wage increases during the first quarter (12.7 percent in Canada compared with 2.2 percent in the United States) contributed to the Consumer Price Index (CPI) increase in the first half of the year. 2/ The period of double-digit inflation seemed to be abating by yearend, as consumer prices fell by 1.2 percent between the third and fourth quarters of the year. The rate of increase in the Canadian CPI (10.8 percent) was significantly higher than the OECD average for 1982 (8.0 percent), whereas the rate in the United States (6.2 percent) was below the average. The Canadian-U.S. inflation differential narrowed considerably during 1982; for the year as a whole, U.S. prices declined more steeply. No doubt, this factor contributed to the smaller decline in real GNP and the lower unemployment rate in the United States relative to Canada.

Another important factor contributing to the different inflationary experience in each country was the oil price situation. The 1980 deregulation of oil prices in the United States had helped push U.S. prices of fuel oil and gasoline to world levels. The easing of world oil prices in 1981 was reflected in the U.S. CPI. In Canada, where oil prices are controlled, the Canadian CPI was reflecting an increase as domestic oil prices moved upward toward world levels. The CPI for energy in Canada rose 19.8 percent from 1981 to 1982.

Money-market interest rates peaked at 16.0 percent in Canada during the second quarter of 1982. The annual average rate was 14.4 percent--2 percentage points above the comparable rate for the United States. Among major OECD countries, the 1982 rate in Canada was exceeded only by the rates in France (14.6 percent) and Italy (20.0 percent).

The level of interest rates contributes considerably to performance in a number of important sectors of the Canadian economy. The unusually high nominal and real rates of 1981 and 1982 have had the effect of sharply reducing demand for houses, 3/ capital equipment, and cars--directly affecting the lumber industry, the mining sector (raw materials such as iron ore, copper, and nickel), and the auto industry, respectively.

International Economic Performance

The one bright spot in the Canadian economy in 1982 was the trade sector. Following a record Can\$5.4 billion deficit in 1981, Canada's current account registered a record surplus of Can\$2.7 billion in 1982, a dramatic increase of over Can\$8 billion. The current account surplus was the first since 1973, reflecting the sharp improvement in the merchandise trade

1/ Bank of Montreal, Business Review, December 1982, p. 2.

2/ One of the Government's effort to curb inflation was the introduction of ceilings on increases in Federal salaries. The ceiling was set at 6 percent for the year beginning July 1, 1982, and 5 percent for the following year.

3/ Housing starts in 1982 were down approximately 30 percent from the 1981 level.

account. The trade balance more than doubled between 1981 and 1982, climbing from \$6.1 billion to \$14.4 billion. 1/ A substantial reduction in imports (16.8 percent) contributed greatly to the favorable trade account picture. In volume terms, imports declined by nearly 17 percent (table 11). Total exports in 1982 were unchanged in both value and volume from 1981 levels. The nonmerchandise trade deficit grew from Can\$12.7 billion in 1981 to Can\$15.1 billion in 1982 as a result of increased net interest payments. Canadian borrowing from abroad increased in both years. The deficit in services transactions increased from Can\$2.2 billion in 1981 to Can\$16.5 billion in 1982 as higher interest payments on foreign bond offerings increased.

The relationship between the U.S. and Canadian dollars fluctuated somewhat during 1982. The year began with the Canadian dollar being exchanged for 83.56 U.S. cents; by yearend the rate was 81.34 U.S. cents. The exchange rate fell steadily in the first half of the year, hitting an alltime low of 76.80 U.S. cents in June. As Canada's overall balance of payments swung into surplus in the third and fourth quarters of 1982, the Canadian dollar reacted by appreciating; this upward movement continued into early 1983.

Merchandise trade with United States

In 1982, Canada recorded a \$9 billion trade surplus in merchandise trade with the United States. 2/ This was a record high for the Canadians substantially greater than the surplus they traditionally enjoy. In the last 15 years, annual merchandise trade surpluses have never been greater than \$3 billion, and deficits were recorded twice, in 1967 and 1975.

A key factor in the improvement of Canada's bilateral trade balance with the United States was the steep drop (15.0 percent) in Canadian merchandise imports from \$38.1 billion in 1981 to \$32.4 billion in 1982. In fact, the 1982 level of U.S. goods sold to Canada was 4.6 percent less than that in 1980. The deep recession in Canada was the main cause of the decline, the first since 1970.

Canadian exports to the United States rose slightly (by 1.2 percent) in 1982 to \$46.3 billion, after a 12.0-percent increase the year before. The United States accounts for 71 percent of Canadian imports and 69 percent of Canadian exports. Although trade with Canada represents a smaller share of overall U.S. trade (19 percent of U.S. imports and 18 percent of U.S. exports), Canada remains the largest single U.S. trading partner. Approximately 75 percent of U.S. imports from Canada enter duty free. The comparable percentage for U.S. goods entering Canada is 70 percent. 3/

U.S. trade with Canada is broken down into broad industrial categories in table 12. The table illustrates that U.S. exports to Canada in 1982 fell in 8 of 10 SITC sections. Half the sections on the import side registered declines. Machinery and transport equipment, SITC section 7, is the major area of bilateral trade between the United States and Canada. Trade in this sector accounted for 54.7 percent of overall shipments to Canada and 36.7 percent of goods received from Canada in 1982. Trade in motor vehicles

1/ Unless otherwise indicated, figures cited are in U.S. dollars.

2/ Certain discrepancies exist between official U.S. Department of Commerce statistics and those of the International Monetary Fund contained in table 11. 134

3/ When the final stage of Tokyo round duty reductions is completed in 1987, these shares will be approximately 85 percent of U.S. imports from Canada and 75 percent of Canadian imports from the United States.

Table 11.--Canada's trade and trade balances, by selected trading partners, 1980-82

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
	Exports		
Industrialized countries:			
Japan-----	3,750	3,647	3,712
United States-----	41,068	46,454	46,528
European Community-----	8,134	7,246	6,104
Other-----	1,883	1,862	1,532
Subtotal-----	54,835	59,209	57,876
Developing countries:			
Oil-exporting countries <u>1</u> /-----	1,807	2,040	2,108
Mexico-----	419	609	369
Other-----	4,226	4,110	4,147
Subtotal-----	6,452	6,759	6,624
Nonmarket economies:			
China-----	742	776	1,005
U.S.S.R-----	1,302	1,491	1,665
Other-----	845	764	657
Subtotal-----	2,889	3,031	3,327
Total-----	64,176	68,999	67,827
	Imports		
Industrialized countries:			
Japan-----	2,622	3,705	3,149
United States-----	45,321	49,746	38,520
European Community-----	5,209	5,783	5,094
Other-----	1,893	1,930	1,637
Subtotal-----	55,045	61,164	52,251
Developing countries:			
Oil-exporting countries <u>1</u> /-----	4,898	5,174	2,748
Mexico-----	324	876	886
Other-----	3,109	3,550	3,086
Subtotal-----	8,331	9,600	6,720
Nonmarket economies:			
China-----	145	201	181
U.S.S.R-----	55	67	38
Other-----	367	409	250
Subtotal-----	567	677	469
Total-----	63,943	71,441	59,440

See footnote at end of table.

Table 11.--Canada's trade and trade balances, by
selected trading partners, 1980-82--Continued

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
	Trade balance		
Industrialized countries:			
Japan-----	1,128	-58	563
United States-----	-4,253	-3,292	8,008
European Community-----	2,925	1,463	1,010
Other-----	-10	-68	-105
Subtotal-----	-210	-1,955	9,476
Developing countries:			
Oil-exporting countries <u>1/</u> -----	-3,091	-3,134	-640
Mexico-----	95	-267	-517
Other-----	1,117	560	1,061
Subtotal-----	-1,879	-2,841	-96
Nonmarket economies:			
China-----	597	575	824
U.S.S.R-----	1,247	1,424	1,627
Other-----	478	355	407
Subtotal-----	2,322	2,354	2,858
Total-----	233	-2,442	12,238

1/ The country groupings used in this table follow the designations employed in Direction of Trade Statistics, published by the International Monetary Fund (IMF). Although Mexico is the source of over half of the crude petroleum imported by the United States, it is not included among the countries designated "oil-exporting countries" by the IMF. Such countries are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: International Monetary Fund, Direction of Trade.

Table 12.--U.S. trade with Canada, by SITC 1/ Nos. (Revision 2), 1980-82

		(In thousands of dollars)			
SITC Section No.	Description	1980	1981	1982	
					U.S. exports
0	Food and live animals	1,444,104	1,629,517	1,487,984	
1	Beverages and tobacco	89,397	49,679	62,462	
2	Crude materials--inedible, except fuel	1,817,229	1,809,144	1,348,250	
3	Mineral fuels, lubricants, etc	1,843,956	1,904,719	1,927,733	
4	Oils and fats--animal and vegetable	39,361	35,011	30,681	
5	Chemicals	2,224,117	2,582,188	2,256,358	
6	Manufactured goods classified by chief material	3,839,504	4,586,613	3,497,891	
7	Machinery and transportation equipment	17,992,745	20,771,457	17,726,254	
8	Miscellaneous manufactured articles	2,281,423	2,670,030	2,505,232	
9	Commodities and transactions not elsewhere classified	2,396,382	2,095,162	1,572,412	
	Total	33,968,216	38,133,519	32,415,257	
					U.S. imports
0	Food and live animals	1,384,049	1,615,717	1,868,992	
1	Beverages and tobacco	369,047	408,922	436,122	
2	Crude materials--inedible, except fuel	4,998,520	5,239,329	4,290,441	
3	Mineral fuels, lubricants, etc	6,896,701	7,426,721	7,877,057	
4	Oils and fats--animal and vegetable	5,744	7,276	6,608	
5	Chemicals	2,400,867	2,815,959	2,675,750	
6	Manufactured goods classified by chief material	8,113,227	8,730,729	7,636,780	
7	Machinery and transportation equipment	12,507,557	14,961,027	16,992,389	
8	Miscellaneous manufactured articles	1,590,543	1,600,030	1,612,297	
9	Commodities and transactions not elsewhere classified	2,604,814	2,970,308	2,932,075	
	Total	40,871,070	45,776,018	46,328,510	
					Standard International Trade Classification.

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

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

accounted for 90.5 percent of bilateral trade in SITC section 7. This trade is governed by a 1965 bilateral agreement that provides for duty-free treatment for imports of specified automotive products. 1/

The major items of bilateral trade are highlighted in appendix tables B-3 and B-4. The top 20 export items shown account for 34.3 percent of all U.S. goods shipped to Canada in 1982, and the leading import items cover 54.8 percent of the total.

The following tabulation shows the five leading items imported from Canada in 1982 (in billions of U.S. dollars):

<u>Description</u>	<u>1981</u>	<u>1982</u>
Passenger automobiles-----	4.3	5.8
Natural gas, methane, ethane, propane, butane-----	4.5	4.8
Standard newsprint paper-----	2.8	2.7
Trucks valued at \$1,000 or more-----	1.9	2.6
Parts of motor vehicles-----	1.6	1.8

These five items accounted for 38 percent of total U.S. imports from Canada. Other significant import items included gold or silver bullion and ore, crude petroleum, wood pulp, and spruce lumber.

The five leading items exported to Canada from the United States were as follows (in billions of U.S. dollars):

<u>Description</u>	<u>1981</u>	<u>1982</u>
Certain parts of motor vehicles, except chassis and bodies-----	3.8	4.1
Passenger motor vehicles-----	3.2	2.4
Coal-----	1.0	1.1
Piston-type engines-----	.8	.8
Crude petroleum-----	.6	.6

Other significant U.S. exports included parts of data processing and calculating machines, computers, agricultural machinery, and gold or silver bullion.

The Canadian deficit in the bilateral services account swelled to \$9.8 billion during 1982. The main factor in the Canadian nonmerchandise trade deficit was high net outflows of interest and dividends. High interest rates in Canada have encouraged many Canadian borrowers to seek longer term financing in the U.S. bond market. Interest on this debt is recorded as a negative item in the Canadian services account. Canada's overall bilateral current account vis-a-vis the United States remained in deficit by \$847 million. This compares with significantly higher deficits of \$7 billion in 1980 and \$5.3 billion in 1981.

1/ U.S.-Canadian trade in motor vehicles is discussed below in the section on the operation of the automotive products trade agreement.

Operation of the United States-Canadian Automotive Products Trade Agreement

The Automotive Products Trade Act of 1965 implemented a bilateral agreement between the United States and Canada which removed duties on trade in new motor vehicles and original equipment parts between the two countries. In effect, the agreement created the basis for an integrated automobile industry in North America. 1/

Previous research has identified several problems in accounting for all the trade in automotive products between the United States and Canada. U.S. export statistics, for example, sometimes fail to capture as automotive items those products having a variety of end uses (e.g., engine parts, nuts, bolts, fabric for seat covers, and so forth). Consequently, a joint U.S.-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. 2/ The result is the "import/import" method of reporting automotive trade used in table 13.

Since the inception of the agreement, the value of two-way trade in automotive products between the United States and Canada has increased nearly 33 times in nominal dollars and approximately 12 times after adjustment for inflation. In 1982, U.S. shipments of automotive products to Canada declined 9 percent to \$11.0 billion (table 13). Assembled vehicles accounted for 28 percent of shipments, down from 35 percent in 1981. Dutiable imports into Canada of automotive products were valued at \$566 million in 1982, representing 5 percent of total U.S. automotive product exports to Canada (table 14).

Canadian shipments of automotive products to the United States increased 25 percent in 1982 to \$13.3 billion. Assembled vehicles accounted for 68 percent of shipments, up 3 percentage points from the share in the previous

1/ According to art. I, the agreement has three objectives: "the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved; the liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment production and trade."

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 (MFN) obligations under GATT insofar as they pertain to automotive products. Canada, on the other hand, did not consider it necessary to obtain a GATT waiver because, at the time the agreement went into effect, it accorded duty-free treatment to specified automotive products on an MFN basis to all manufacturers with production facilities in Canada. There is, therefore, a difference in the application of the agreement in the two countries. In the United States, anyone may import a finished vehicle covered by the agreement duty free. In Canada, however, the duty-free import privilege is limited to vehicle manufacturers. Individuals importing motor vehicles or parts thereof from the United States must pay the Canadian duty (currently 12.1 percent ad valorem on automobiles and various rates on automotive parts).

139

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

Table 13.--U.S.-Canadian automotive trade, 1964-82

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports <u>1/</u>	Canadian imports less U.S. imports
1964	76	640	563
1965	231	889	658
1966	819	1,375	556
1967	1,406	1,889	483
1968	2,274	2,634	360
1969	3,061	3,144	83
1970	3,132	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,023
1978	10,493	10,964	471
1979	9,715	12,274	2,559
1980	8,780	10,552	1,773
1981	10,618	12,055	1,437
1982	13,292	10,971	-2,321

1/ Data have been adjusted to U.S. dollars.

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

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

year. Dutiable imports of automotive products were valued at \$891 million, or nearly 7 percent of total automotive product shipments from Canada. The major categories of dutiable items for both Canada and the United States are replacement parts for motor vehicles (only original-equipment parts are accorded duty-free treatment under the agreement), and tires and tubes.

The decline in U.S. shipments to Canada, together with the significant increase in Canadian shipments to the United States, produced the first U.S. trade deficit under the agreement since 1972. The 1982 deficit was a record \$2.3 billion, and may be explained by two factors: the depressed Canadian dollar and the difference in the direction of gasoline price movements in the two countries.

During the second half of 1982, gasoline prices in the United States fell; those in Canada, which are administered by the Federal Government, rose over the same period. Higher gasoline prices may have dampened Canadian demand for automobiles from all sources. Lower gasoline prices, together with the 20 percent differential of the Canadian over the U.S. dollar, made the larger, less fuel-efficient Canadian-produced vehicles more attractive to U.S. consumers. The number of large- and intermediate-sized cars exported from Canada to the United States in 1982 increased by 39 percent.

Table 14.--U.S.-Canadian automotive trade, by specified products,
1981 and 1982

(In millions of U.S. dollars)		
Item	1981	1982
U.S. imports from Canada: <u>1/</u>		
Duty-free: <u>2/</u>		
Passenger cars-----	4,275.0	5,783.1
Trucks, buses, and chassis-----	2,521.1	3,142.5
Parts and accessories-----	3,064.0	3,475.6
Total-----	9,860.1	12,401.2
Dutiable:		
Passenger cars-----	19.7	21.7
Trucks, buses, and chassis-----	101.0	53.8
Parts and accessories-----	398.4	487.4
Tires and tubes-----	239.0	327.9
Total-----	758.1	890.8
Total:		
Passenger cars-----	4,294.7	5,804.8
Trucks, buses, and chassis-----	2,622.1	3,196.3
Parts and accessories-----	3,462.4	3,963.0
Tires and tubes-----	239.0	327.9
Total-----	10,618.2	13,292.0
Canadian imports from the United States: <u>3/</u>		
Duty-free: <u>2/</u>		
Passenger cars-----	3,002.0	2,265.4
Trucks, buses and chassis-----	1,065.1	681.7
Parts and accessories-----	7,224.4	7,458.0
Total-----	11,291.5	10,405.1
Dutiable:		
Passenger cars-----	93.2	58.2
Trucks, buses, and chassis-----	57.3	24.2
Parts and accessories-----	476.0	365.8
Tires and tubes-----	137.1	117.8
Total-----	763.6	566.0
Total:		
Passenger cars-----	3,095.2	2,323.6
Trucks, buses and chassis-----	1,122.4	705.9
Parts and accessories-----	7,700.4	7,823.8
Tires and tubes-----	137.1	117.8
Total-----	12,055.1	10,971.1
U.S. trade balance-----	1,436.9	-2,320.9

1/ U.S. import data.

2/ Duty-free under the United States-Canadian automotive products trade agreement.

3/ Canadian import data converted to U.S. dollars as follows: 1981, Can\$1.00=U.S.\$0.84382; 1982, Can\$1.00= U.S.\$0.80743.

Sources: Compiled from official statistics of the U.S. Department of Commerce and Statistics Canada.

Note.--U.S. imports are f.a.s. or transaction values as published by the Bureau of the Census. Canadian imports are valued on a similar basis.

Canada has expressed dissatisfaction with the operation of the trade pact in the past because of the continuing deficit with the United States. During the period 1978-81, this deficit averaged \$1.6 billion. The Canadian deficit in auto parts has been particularly acute. Table 14 indicates that in 1982 the Canadian surplus in finished motor vehicles was enough to more than offset the deficit in automotive parts.

Major Policy Developments Affecting Trade

During 1982, Canada imposed new quotas and other restrictions on a variety of products, including certain agricultural products (e.g., poultry and sugar). The Government also liberalized existing restrictions in some areas. 1/

In July, global import quotas were reimposed on leather footwear, annual U.S. shipments to Canada of which were valued at approximately \$7.4 million in 1979-81; these quotas are to remain in effect until November 1984. 2/

Because of the effect of certain Canadian policies on trade with the United States, the areas of grain sales, energy, and foreign investment remained special concerns. Government actions concerning grain agreements, the National Energy Program, and the Foreign Investment Review Agency are highlighted below.

Canadian grain supply agreements

During 1982 Canada significantly expanded the volume of its bilateral grain purchase agreements. Taking advantage of increased production at home and the questioned dependability of U.S. supplies after the January 1980 embargo on exports to the U.S.S.R., Canada strengthened its position among major grain-exporting countries. Canadian policy is to increase exports of grain and grain products to 30 million metric tons for the 1984/85 crop year. In the 1981/82 crop year, which ended July 31, 1982, such exports amounted to 27.2 million tons.

Governmental agreements between major grain exporters (other than the United States) and various importing countries now account for 40 percent of world sales of wheat and coarse grains, up from 30 percent just 2 years ago. 3/ The United States has three grain supply agreements with the Soviet Union, China, and Mexico. Australia has nine such agreements, and Argentina has six. Canada has signed bilateral agreements with 10 importing countries; it renegotiated agreements with the U.S.S.R., China and Brazil, among others, during 1982.

The minimum amount of grain to be supplied by Canada to the Soviet Union during the second year of their 3-year agreement is 4.5 million tons. This minimum was handily surpassed with the October 1982 announcement of a \$1.2 billion sale of 7.6 million tons of wheat and barley. The sale could result in Canada's accounting for one-quarter of Soviet grain imports in the

1/ One example is the elimination of the tariff on processed almonds and pistachio nuts.

2/ Canada's action was notified to the GATT under art. XIX on July 22, 1982. ¹⁴²

3/ U.S. Department of Agriculture, Foreign Agriculture Circular, "Export Markets for U.S. Grain and Feed Commodities," FG-20-82, June 28, 1982, p. 8.

1982/83 crop year. The United States accounted for three-fourths of grain purchases by the Soviet Union in 1978/79; this share fell to 34 percent in 1981/82. ^{1/}

The Canada-China grain supply agreement expired in July 1982. The renegotiated agreement boosted the range of allowable sales from 2.8 million-3.5 million tons to 3.5 million-4.2 million tons annually. A new 3-year arrangement with Brazil, signed in July, resulted in an increase in the range of sales from 500,000- 800,000 tons to 1.0 million-1.5 million tons. Canada also has agreements with Algeria, Mexico, Poland, Ghana, Iraq, Jamaica, and Lebanon.

National energy policy

On February 25, 1982, Canada's Minister of Energy, Mines and Resources introduced legislation to implement the final major elements of Canada's National Energy Program (NEP). The announced objective of the bill, entitled the Energy Security Act of 1982, was to achieve energy security for all Canadians and to provide the industry with a basis on which to explore and develop Canada's energy resources. One of the main components of the bill was the establishment of the Petroleum Incentives Program (PIP), which is aimed at stimulating massive new investments in energy resources, particularly by Canadians. At the end of 1981, Canadians owned 35 percent of their oil and gas industry, compared with 28 percent when the NEP was announced in October 1980. One of the goals of the NEP is 50-percent Canadian ownership by 1990. Under the PIP, the depletion allowances formerly available for exploration and development would be replaced by a system of direct incentive payments, which would pay up to 80 percent of exploration costs depending on the degree of Canadian ownership. According to the Canadian Government, the former system of depletion allowances tended to favor the larger, more mature, and usually foreign-owned companies while inhibiting the growth of the relatively small Canadian-owned and Canadian-controlled sector.

To qualify for incentives under the PIP, prospective investors must first obtain a certificate stating their "Canadian ownership rate" and "control status." The test for "control status" is based on the definition of a "noneligible person" as set out in the Foreign Investment Review Act. This definition is based on de facto control, or control in fact, as opposed to de jure control, or control seen from a purely legal viewpoint.

The United States has expressed its concern to Canada about various aspects of the PIP. First, because the value of the grant varies with the degree of Canadian ownership, the PIP clearly discriminates against foreign firms. This violates the principle of national treatment, which Canada, the United States, and other major trading partners have supported in the OECD. In addition, the United States believes that the criteria for determining the extent of Canadian control are unclear and may result in PIP grants' being allocated in a highly discriminatory, restrictive, and uncertain manner.

^{1/} A more complete explanation of U.S.-Soviet grain trade in 1982 can be found in the 33d Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1982, USITC Publication 1368, April 1983 (hereinafter 33d Quarterly Report . . .), pp. 64ff.

Foreign Investment Review Agency

As the largest foreign direct investor in Canada, the United States is seriously concerned about certain discriminatory and inequitable measures associated with the operation of Canada's Foreign Investment Review Agency (FIRA). As provided for in the Foreign Investment Review Act, the FIRA was established in 1973 to screen new foreign investments and acquisitions in Canada to determine if they offer "significant benefits" to Canada. There is no similar process for approval of investments or acquisitions by Canadian firms. Significant benefit is assessed in terms of (1) the effect of the investment on Canadian employment and exports, (2) the percentage of the firm's purchases that are supplied in Canada, (3) the level of Canadian participation as shareholders or directors, (4) the number of Canadians in management positions, (5) the contribution the proposed investment might make to the improvement of productivity and industrial efficiency, (6) the level of research and development expenditures to be made in Canada, (7) the improvement of product variety and innovation, (8) the effect on competition, and (9) the compatibility of the proposed investment with Canadian industrial and economic policies.

The United States has expressed to Canada its belief that certain practices of the FIRA, such as its trade-related performance requirements and its restrictions on foreign firms seeking to distribute their own products in Canada, are contrary to Canada's international obligations under the GATT. 1/ Furthermore, the United States has informed Canada that other FIRA practices raise major issues of international policy and principle. Such practices include undertakings by firms that effectively require the relocation of business activity from other countries to Canada; undertakings that contain obligations to transfer assets such as patents to Canada, without charge, or at less than fair prices; the absence of clear guidelines on FIRA's objectives and requirements; the imposition of new performance requirements by FIRA when ownership of a Canadian corporation has simply been transferred from one foreign corporation to another (i.e., the degree of foreign ownership has not increased); the lengthy time required for approval or disapproval of FIRA applications after an applicant makes its initial representation; and the low threshold levels for assets and employment, which make even small business subject to the FIRA process. When the Canadian Federal budget was submitted in June 1982, measures to expedite the review of FIRA applications were included.

At the March 31, 1982, GATT Council meeting, at the U.S. request the Council established a panel under article XXIII to examine the U.S. complaint that Canada's investment policies are trade distorting. The panel did not hold its first meeting until December 1982. The United States is particularly concerned about Canadian practices that result in the imposition of local content and export requirements. 2/

1/ GATT Article XXII consultations were held between the United States and Canada on the FIRA issue in Feb. 1982. See chap. 2 section on conciliation and dispute settlement for more information on the application of GATT rules to this issue.

2/ The U.S. challenge to the Canadian system of foreign investment review is discussed in Ch. 2 in the section on conciliation and dispute settlement.

In its annual report on the Foreign Investment Review Act, the Government of Canada reported that of the 594 cases decided during fiscal year 1982 (the fiscal year ends on March 31), 86 percent were approved. This compares with an 88-percent approval rate in the 511 cases decided during fiscal year 1981 and with a 92-percent approval rate in the 745 cases decided during fiscal year 1980. However, the report does not indicate the number of cases in which the foreign investor was required to commit itself to purchases of raw materials, equipment, supplies, or services from Canadian sources before the FIRA approved its application to invest in Canada. Table 15 summarizes the actions taken by FIRA on applications for investment in Canada from the United States and Western Europe during fiscal years 1981 and 1982.

Table 15.--Summary of actions taken by the Canadian Foreign Investment Review Agency on applications from the United States and Western Europe for investment in Canada, fiscal years 1981 and 1982

Type of application	(In percent)			
	United States		Western Europe	
	1981	1982	1981	1982
Acquisitions in Canada:				
Share of applications-----	63.6	58.3	30.6	34.3
Approval rate-----	84.4	83.2	87.8	91.4
Share of value of assets-----	74.2	65.3	23.1	24.5
Investment in new business in				
Canada:				
Share of applications-----	52.9	57.3	38.4	27.7
Approval rate-----	90.1	84.4	89.3	88.9
Share of value of assets-----	29.4	19.6	47.9	30.5

Source: Foreign Investment Review Agency, Eighth annual report on the Foreign Investment Review Act.

U.S.-Canadian Bilateral Trade Issues

Safeguards

For some time the United States and Canada have been engaged in discussions on compensation for a number of article XIX actions (including U.S. actions on specialty steel, mushrooms, and industrial fasteners and Canadian actions on footwear). Because a bilateral agreement governing safeguard actions between the two nations was under consideration, the article XIX compensation discussions on the above products were suspended during most of 1982.

The lack of agreed-upon interpretations on certain provisions of article XIX has resulted in bilateral differences in the application of safeguards by the United States and Canada. In the absence of a multilateral safeguards code, the Canadians suggested a bilateral safeguards agreement. The two Governments established certain procedures to facilitate agreement on safeguard actions and to minimize the likelihood of future disagreements on the issue. Clarification of safeguard procedures and obligations would be of mutual benefit to the trading partners. Among the desirable points of an

agreement would be specification of the advance notification required for taking a safeguard action against imports, the method of determining compensation, the time frames for both notification of actions and for consultations on compensation, and the need for regular review of safeguard actions. An explicit preference for compensation over the allowable suspension of equivalent concessions would also be valuable.

In June, an ad referendum agreement was reached with Canada on safeguards. While both Governments concentrated on preparations for the November GATT Ministerial meeting, where future work on a multilateral safeguards code was to be discussed, further bilateral action was put off. At yearend, the bilateral safeguards agreement was under consideration by both Governments.

Transborder trucking

From 1930 to 1979, both the United States and Canada used a three-part test to determine whether a foreign motor carrier should receive rights to operate domestically. With the passage of the Motor Carrier Act of 1980, the United States made it easier for new firms to enter the interstate trucking business. Most Canadian Provincial commissions, however, retained the criteria of the old method of certification that required a carrier to demonstrate a need for the service. The U.S. system only requires a carrier to show an ability to provide the service. U.S. truckers complained that the Motor Carrier Act of 1980 substantially deregulated the trucking industry in the United States and eased the way for Canadian carriers to win operating rights in the United States. Since the trucking industry is still closely regulated in Canada, U.S. truckers argued that they were discriminated against by foreign regulatory agencies. 1/

One of the major differences in regulation between the two countries is that in Canada both Federal and Provincial bodies can control trucking rights. U.S. truckers have to be certified on a Provincial basis to operate in Canada. In the United States, the Interstate Commerce Commission (ICC) is the agency responsible for the regulation of interstate surface transportation, including carriers engaged in foreign commerce to the extent that it takes place within the United States. It is estimated that two-thirds of all U.S.-Canadian trade is carried by trucks, at an estimated freight charge of \$1 billion annually. 2/

As a result of the complaints against Canadian policies, in February 1982 the ICC put a freeze on consideration of applications for trucking rights by Canadian firms, pending an investigation of the entire issue. Lobbying by U.S. truckers continued and eventually resulted in congressional action in the form of a rider attached to the Bus Regulatory Reform Act of 1982. The bill was signed into law on September 20 by the President. The rider established a 2-year moratorium on the granting of trucking rights in the United States to Canadian (and Mexican) firms. However, the President was empowered to lift the moratorium if he believed such action was in the national interest. As he

1/ Part of the complaint against Canadian practices concerned the FIRA. U.S. truckers maintained that FIRA review had become part of the procedure for gaining the right to operate trucks across the border.

2/ Journal of Commerce, Sept. 6, 1982, p. 13.

signed the bill, he partially lifted the freeze against Canadian truckers. 1/ The President determined that although U.S. truckers had not been precluded from providing services into Canada, a degree of restrictiveness regarding investment did exist. 2/

The Presidential action completely lifted the freeze on applications by Canadian motor carriers for rights to operate wholly within the United States on an interstate basis; it required that applications for operating rights across the border into the United States be reviewed by the United States Trade Representative and the ICC. Applications for such "single-line service" across the border were frozen. The President directed the United States Trade Representative to intensify efforts to negotiate a "fair and equitable resolution" of the trucking rights issue and to report back to him within 60 days on the progress of bilateral negotiations.

The possibility of immediate retaliation (in the form of a counter-moratorium on U.S. truckers in Canada) was avoided when the Canadians agreed to postpone any reaction on their part during the grace period afforded by the President's directive. 3/

At the time of the signing of the bus deregulation bill, the ICC was still studying the question of Canadian discrimination against U.S. common carriers. However, on October 18, during the 60-day bilateral negotiating period, the ICC reported on the results of its investigation. 4/ The ICC found no evidence of Canadian discrimination against U.S. trucking companies, although it did cite FIRA as a factor that could inhibit U.S. investment in Canada.

Following an exchange of letters between the two Governments, the ICC on November 30 lifted the freeze on the processing of applications by Canadian trucking companies to operate across the border.

Provincial liquor boards

One of the agreements arrived at between the United States and Canada in the Multilateral Trade Negotiations (MTN) concerned the sale of alcoholic beverages in Canada. Retail sales of alcoholic beverages in that country are conducted almost exclusively through official agencies at the Provincial level. U.S. suppliers of beers, wines, and distilled spirits had been experiencing difficulty in marketing their products in Canada because of discriminatory practices on the part of certain provincial liquor boards. Such practices included a difference in markup between domestic and imported products, and in some cases, an unwillingness to carry U.S. products.

1/ Because of Mexican restrictions against U.S. firms, the ban on issuing permits to Mexican truckers remains in effect.

2/ See the discussion on the Foreign Import Review Agency above.

3/ For the Canadians the trucking issue was an example of the broader question of extraterritoriality, which received considerable attention in connection with U.S. efforts to restrict the shipment of equipment headed to the Soviet Union for the Siberian natural gas pipeline.

4/ Interstate Commerce Commission, "Investigation Into Canadian Law and Policy Regarding Applications of American Motor Carriers for Canadian Operating Authority," Ex Parte No. MC-157 (132 MCC 870).

An understanding was reached in the Tokyo round by which the Canadian Federal Government committed itself to the elimination of the discriminatory practices. 1/ The understanding concerning alcoholic beverages was contained in a "Provincial Statement of Intentions" and constituted the basis for the concessions. The statement contained three major understandings; (1) pricing difference in markups between domestic and imported distilled spirits would reflect normal commercial considerations only; (2) differences in markups between domestic and imported wines would not be increased beyond March 30, 1979, levels, except as justified by normal commercial considerations; and (3) applications for listing with the Provincial authorities on the part of foreign alcoholic beverage suppliers would be treated in the same objective manner as domestic applications.

In October 1981, the Liquor Control Board of Ontario announced an Ontario Wine Assistance Program. Because the program resulted in changes in markups and special handling charges for most imported wines, the United States believed it violated the Tokyo round commitment. A request for GATT article XXII consultations, the first step in formal dispute settlement procedures, remains a distinct possibility. U.S. officials had been hoping that a solution could be reached between Canadian Federal and Provincial authorities and that formal GATT action would be unnecessary. The United States has been joined by other governments (e.g. of the EC and Australia) in complaints to the Canadian Federal Government that the practices of the Ontario Provincial authorities are discriminatory and contravene MTN commitments. The U.S. wine industry has pointed to a section of the Trade Agreements Act of 1979 which requires the United States to retaliate against any country that does not satisfactorily implement its MTN concessions on alcoholic beverages. 2/ Despite numerous consultations with both Federal and Provincial officials, a satisfactory resolution of the problem had not been reached by yearend.

Subway cars

One 1982 bilateral trade dispute between the United States and Canada produced a controversy involving the OECD arrangement on export credits, the GATT Subsidies Code, and the operations of the Export-Import Bank of the United States. The dispute raised serious long-term implications for trade relations among the major developed countries, and it presented the possibility of the Eximbank's financing a U.S. domestic sale for the first time.

The dispute was sparked by the tentative award by the New York City Metropolitan Transit Authority (MTA) in May 1982 of a \$633 million contract for the purchase of 825 subway cars to a Canadian company, Bombardier Corp. The Quebec manufacturer won the contract over The Budd Co., of Michigan, and a French firm. Bombardier's bid was enhanced by the offer of a low-interest subsidized loan from the Export Development Corporation (EDC), the Canadian Government's equivalent of the Eximbank. Under the terms of the loan, 85 percent of the cost of the cars would be financed at an interest rate of 9.7 percent, repayable over a period of 10-1/2 years. These terms were well below the minimum rates for officially supported export credit subsidies

1/ The package of reciprocal concessions included the elimination of the "wine gallon" method of tax assessment for Canadian whisky by the United States.

2/ Sec. 854(b) of the Trade Agreements Act of 1979.

specified by the OECD Arrangement on Guidelines for Officially Supported Export Credits. ^{1/} The amount of the subsidy was estimated to be as high as \$350 million. Final approval of the contract was scheduled for June.

After legal action to prevent the sale was threatened by The Budd Co., a clause was included in the contract stipulating that the sale could be reconsidered if the U.S. firm was able to obtain the same financing terms as the Canadian firm. The Treasury Department considered Budd's request for Eximbank financing. The Canadians admitted that the terms of the Bombardier deal were not in line with the OECD Arrangement, but asserted that they were only matching the official credit terms of the French Government in support of the third bidder for the subway car contract.

Eximbank financing customarily provides low-interest loans to foreign buyers of U.S. products, either to enhance the likelihood of a sale or to meet competition in third-country markets. In either case, financing is for exports only. U.S. firms do not normally get official (i.e., U.S. Government-backed) credit assistance for domestic sales. Such assistance became possible, however, under a 1978 amendment to the statute under which the Eximbank operates. ^{2/} This amendment expanded the Eximbank's role expanded by allowing it to lend money to U.S. firms threatened by competition in the United States from foreign companies supported by official export credits offered by their own governments. The amendment allowed the Secretary of the Treasury to authorize the Bank "to provide competing U.S. sellers with financing to match that available through the foreign official export financing entity." The Budd Co.'s request for export credits to meet the Canadian competition is believed to be the first time this provision of the law has been invoked.

Meanwhile, on June 22 the United States Trade Representative announced that as a result of the Canadian financing offer, formal consultations under the GATT Subsidies Code were being requested. Such consultations are the first step in dispute settlement proceedings under the Code. The rationale for seeking action in the GATT is the institutionalization of the OECD Arrangement into the Code. If uncontested, the United States believed the Canadian action could set an undesirable precedent for subsidization of bids into the U.S. market through "predatory financing."

The analysis of costs versus benefits of the loan was made more difficult by the fact that, according to Bombardier, U.S. content of the subway cars would be about 40 percent since they would be assembled in Barre, Vt., with the addition of other U.S. components. Budd, on the other hand, is a wholly owned U.S. subsidiary of Thyssen Steel AG, of West Germany. Assembly of its cars would take place at its Troy, Mich., facility and would result in the cars' allegedly having a U.S. content of 80 percent. The Budd bid for the subway car sale was supported by subsidized export credits from Brazil and Portugal, production sites for components of its cars.

^{1/} At the time of the awarding of the contract, the minimum rate for official export credits to rich countries under the OECD Arrangement was 11.25 percent. For additional information on the Arrangement, see the OECD section in ch. 3 of this report.

^{2/} Sec. 1912 of the Export Import Bank Act of 1945.

Before the U.S. Secretary of the Treasury can authorize Eximbank financing to match that available through a foreign export credit agency, he must determine that the foreign financing will be a key factor in a purchase decision. Following a request by The Budd Co., the subway car issue was investigated. In July the Secretary refused to recommend matching Eximbank financing, maintaining that the MTA decision to award the subway car contract to Bombardier was based on a number of factors besides financing. 1/ The Treasury decision effectively meant that there was no longer a compelling reason for the MTA to reconsider its May decision. The final contract was awarded to Bombardier in July.

The Budd Co., besides seeking court action to prevent the sale and attempting to obtain matching U.S. Government financing, sought official redress in June through the filing of petitions for countervailing duties against the Canadian-subsidized subway cars. 2/ The first step in the process of levying countervailing duties was taken in early August with the preliminary decision of the United States International Trade Commission that there was a reasonable indication of injury to the domestic industry in the subway car case. 3/ The Commission's ruling allowed investigation of the matter to continue.

The Commerce Department, with the responsibility for determining both the existence and the amount of Canadian subsidization, ruled in November that the Canadian Government was unfairly subsidizing the sale of subway cars to the MTA. The final Commerce and Commission determinations were to be made in February and March 1983 after further study. 4/

1/ The decision concluded: The evidence shows that in making its decision, the MTA considered Bombardier to be the superior bidder in terms of availability and cost of financing, the amount of work done in New York state, reliability of delivery, and quality of design, engineering, and performance, including compatibility with cars already on order by the MTA.

Accordingly, I have concluded that Bombardier would be awarded the contract even if Budd were able to offer matching financing, and thus I am compelled to conclude that the noncompetitive financing offered by EDC is not likely to be a determining factor in the MTA's decision.

2/ A group of labor unions, including the AFL-CIO, filed a complaint under sec. 301 of the Trade Agreements Act of 1979 on the subway car matter with the office of the United States Trade Representative at the same time. The petition sought to bar the cars from entering the United States.

3/ The determination, views of the Commissioners, and information obtained in the investigation are contained in the public report, Certain Rail Passenger Cars and Parts Thereof From Canada. . . , Investigation No. 701-TA-182 (Preliminary). . . , USITC Publication 1277, August 1982.

4/ In its final ruling in February 1983, the Commerce Department found that the unfair subsidies provided by the Canadian EDC amounted to \$91.2 million. The Budd Co. withdrew its petition following the Commerce action, and the Commission terminated its investigation without making a final determination of injury. An affirmative finding on the Commission's part could have effectively meant that the MTA would have to pay the increased duties resulting from the foreign export credit subsidy. Budd argued that the principle of "fairness in the marketplace" had been established by the Commerce ruling.

Onions

On October 20, 1982, Canada notified the GATT under article XIX of the imposition of a temporary surtax on yellow onions imported into Western Canada. 1/ The surtax on onions was the first time that the Canadian Government had invoked the provisions for a "fast-track" import-relief system for certain horticultural crops contained in a law 2/ which became effective in 1979. The system applies only to perishable agricultural commodities. The United States has questioned the consistency of the Canadian surtax system through GATT article XIX. 3/

Three Western States--Idaho, Oregon, and Washington--account for most of the late-crop onions produced in the United States. Canada is the second largest market for U.S. onions, and U.S. exports in 1981 amounted to 150 million pounds, valued at \$22 million.

Attempts at a prompt resolution of the issue were clouded by the mid-December extension of the surtax on yellow onions through mid-March 1983. At yearend, discussions were still taking place between the U.S. and Canadian Governments concerning compensation for the initial Canadian action.

Potatoes

The United States and Canada engage in a substantial amount of two-way trade in potatoes. The United States exports potatoes in the West: from Idaho, Montana and Washington into Western Canada, and it imports potatoes in the the East, from the Maritime Provinces into New England and the Middle Atlantic States. The reason is simple: because of transportation costs, it is cheaper to ship potatoes north or south across the border than to ship them across the country.

The relatively low value of the Canadian dollar, coupled with a Canadian program to improve the certification and quality of potatoes from Eastern Canada, has intensified the competition between Canadian potatoes and those grown in Maine, a traditional supplier for the Northeastern U.S. market. The surplus that the United States has customarily enjoyed in its bilateral potato trade with Canada has been steadily decreasing. In 1980, for the first time, the United States imported more potatoes than it exported, as U.S. potato imports from Canada were 1.4 times greater than potato exports to Canada. In the past 2 years the United States has gone from being a net exporter of potatoes to Canada to being a net importer. In late 1982, 67 percent of all potatoes entering the United States from Canada did so through Maine ports of entry. The comparable figure for 1981 was 44 percent.

1/ The surtax was to apply from Oct. 15 to Dec. 31, 1982. On Dec. 17, the Canadian Government notified the United States of its intention to extend the surtax for an additional 3 months through Mar. 15, 1983.

2/ The system allows for the imposition of a surtax whenever the f.o.b. price of the imported product falls below an established benchmark price. The benchmark price may be set at either 85 percent of the latest 3-year average f.o.b. price of the imported article or 90 percent of the latest 5-year average f.o.b. price.

3/ See chap. 2 section on "Article XIX: emergency action on imports of particular products." 151

Present U.S. rates of duty on fresh potatoes distinguish between certified seed and tablestock potatoes; tariff-rate quotas are in effect for each type. These rate differences are scheduled to be eliminated in 1987, the end point for the staged reductions negotiated in the Tokyo round of the MTN.

Political pressure to assist Maine producers intensified to the point where the State of Maine proposed taking direct action against imports from Canada in order to protect its own potato growers. 1/ In February 1982 the United States Trade Representative (USTR) requested the U.S. International Trade Commission to investigate the competitive conditions affecting the Maine potato industry. Information on the relative importance of the various factors which affect the competitive position of Maine producers vis-a-vis those in other states and marketing regions of the United States and Canada was specifically requested.

The Commission's report 2/ was concluded in August and forwarded to the USTR. The report noted that Canadian certified seed potatoes had been imported and used as tablestock potatoes, displacing U.S.-produced tablestock potatoes and depressing prices. It also pointed out that costs of production for Maine potato growers were "clearly competitive" with those in other areas of the United States and Canada. Price information collected in the investigation did not support the contention that Canadian potatoes enjoyed a competitive advantage in the U.S. market based on wholesale price. The report acknowledged that Canadian potato producers received some subsidies in the area of production and marketing, but maintained that "no information on government programs compiled for this investigation seems to unequivocally demonstrate a significant competitive advantage for either [U.S. or Canadian] potato producers." 3/ One important cause of the difficulties experienced by the Maine growers, according to the report, was the shift in consumer preference in Northeastern tablestock markets for russet potatoes over Maine round white potatoes.

The Maine potato farmers' difficulties persisted and frustrations increased to the point where a blockade of the border was threatened in order to prevent the shipment of Canadian potatoes. 4/ At yearend, Maine potato producers were attempting to seek Government action. Their consideration of filing either a countervailing duty or antidumping petition was reported. 5/

While the investigation requested by USTR into the Maine potato situation was continuing, the Commission conducted a preliminary antidumping investigation on frozen french-fried potatoes from Canada. The Commission determined on June 14, 1982, that there was no reasonable indication of injury to an industry in the United States by reason of the Canadian potato exports. 6/

1/ OTAP, 33d Report, 1981, p. 139.

2/ The Competitive Status of Major Supply Regions for Fall-Harvested Fresh White or Irish Potatoes in Selected Markets . . . Investigation No. 332-140. . . , USITC Publication 1282, August 1982.

3/ Ibid., p. xxi.

4/ Wall Street Journal, Dec. 14, 1982, p. 33.

5/ On Feb. 9, 1983 the Maine Potato Council filed a petition with the U.S. International Trade Commission and the U.S. Department of Commerce alleging that imports of fresh potatoes from Canada were being sold in the United States at less than fair value.

6/ Frozen French-Fried Potatoes From Canada . . . Investigation No. 731-TA-93 (Preliminary) . . . , USITC Publication 1259, June 1982.

Lumber

In December 1981 the Commission received letters from both the Senate Committee on Finance and the Subcommittee on Trade of the House Ways and Means Committee requesting an analysis of all relevant conditions relating to the importation of Canadian softwood lumber into the United States as well as a comparison of the competitive status of the U.S. and Canadian softwood lumber industries. The study was completed in the spring of 1982. ^{1/}

The high interest rates of the period directly contributed to a decline in building construction, which led to a contraction in the market for softwood lumber. The forest industries in both the United States and Canada felt the drastic effects of the downturn. U.S. consumption of softwood lumber was 29.8 billion board feet in 1981, 6 percent less than consumption in 1980. Decreased demand for softwood lumber from 1979 through most of 1982 resulted in production curtailments, mill closings, and layoffs in both countries.

Canada supplies virtually all U.S. softwood lumber imports. The ratio of imports to apparent U.S. consumption has increased markedly in recent years--from 18.7 percent in 1979 to 30.3 percent in 1981. U.S. producers contend that this increase in import penetration has exacerbated the industry's economic difficulties. They further maintain that Canada has been successful in penetrating the U.S. market because it enjoys a substantial price advantage. Of particular concern to U.S. producers is the fact that stumpage fees for lumber from Provincial lands are assessed on a noncompetitive basis at rates below the price that independent U.S. producers pay through competitive bidding for timber in U.S. national forests. In addition, they claim that Canada enjoys lower energy costs, cheaper transcontinental rail costs, and cheaper water-borne shipping to the U.S. east coast. However, one of the most significant problems facing U.S. producers in dealing with this issue is that many of the major U.S. forest products companies also have manufacturing operations in Canada, and these companies are benefiting directly from the difference in the price of standing timber in the United States and in Canada.

Canadian producers, concerned about mounting pressures in the United States to restrict imports of Canadian forest products, asserted that stumpage rates in Canada and the United States cannot be directly compared. In addition, they emphasized that, like their U.S. counterparts, they have been severely affected by the economic downturn in the industry and have suffered production curtailments, plant closures, and layoffs. Canadian production of softwood lumber was 16.4 billion board feet in 1981, compared with an average of 17.7 billion board feet during 1977-81.

One of the major differences between the softwood lumber industries in the United States and Canada relates to appraisal methods and stumpage prices. Although the appraisal systems used for sales of timber from Government lands in both countries are similar, standing timber on public lands in the United States is auctioned to the highest bidder after appraisal. The appraised price is thus the minimum at which U.S. timber will

^{1/} Conditions Relating to the Importation of Softwood Lumber into the United States . . . Investigation No. 332-134 . . ., USITC Publication 1241, April 1982.

be sold. In Canada, timber is offered and usually sold at the appraised price. The Commission's study concluded that the average Canadian price for stumpage in 1981 was approximately one-sixth that of comparable U.S. stumpage. The study also pointed out that the U.S. dollar premium over the Canadian dollar is an advantage for Canadian producers when they market lumber in the United States. These facts, coupled with the fact that U.S. wages are considerably higher than Canadian wages, encouraged the U.S. timber industry to seek relief from what it perceived to be unfair competition from Canadian softwood lumber.

In October, a coalition of U.S. softwood lumber producers charged that Canada was unfairly subsidizing lumber exports to this country and filed a countervailing duty petition with the U.S. International Trade Commission and the U.S. Department of Commerce. Covering nearly \$2 billion in imports, the case brought by the United States Coalition for Fair Canadian Lumber Imports 1/ was the largest countervailing duty case ever. The coalition's petition maintained that the Canadian practice of selling stumpage by allocation at a price that is unfairly low due to Government subsidization resulted in much worse injury to the U.S. industry than would have resulted from the downturn in housing construction alone. The petition cited over 20 alleged Canadian subsidy mechanisms, including transportation assistance through below-cost rail rates on the Canadian National Railway system, inventory financing, exchange-rate discounts, and Government grants and loans.

Successful determination of the petition's allegations would result in the imposition of countervailing duties to offset the effect of subsidization. If the allegations were correct, a 65-percent increase in the price of Canadian lumber in the United States could result. Such a result would nearly cripple the Canadian lumber industry in British Columbia, the source of two-thirds of the softwood lumber entering the United States. At the time of the filing of the petition, the Canadian forest industry was already suffering from a soft housing market both at home and in the United States. Layoffs in British Columbia numbered over 15,000.

On November 17, the Commission made a preliminary determination that there was a reasonable indication that industries in the United States were materially injured by the imports of softwood lumber 2/ which were allegedly subsidized by the Government of Canada. The effect of the affirmative decision was to allow the Department of Commerce to continue its corresponding investigations to determine the existence and extent of the alleged subsidies benefiting Canadian producers. The Commission decision opened the possibility of additional duties being levied on Canadian softwood lumber exports to the

1/ The coalition was made up of eight industry trade associations and over 350 U.S. companies. It represented companies responsible for about 20 percent of U.S. production. A number of larger U.S. lumber firms did not join in the countervailing duty action because they have operations in both the United States and Canada.

2/ Investigations on softwood shakes and shingles and softwood fence from Canada were concurrent with the softwood lumber investigation. Unanimously affirmative decisions were made on these other softwood investigations as well. Softwood Lumber From Canada . . . Investigation No. 701-TA-197 (Preliminary) . . ., USITC Publication 1320, November 1982, Softwood Shakes and Shingles . . . Investigation No. 701-TA-198 (Preliminary) . . ., USITC Publication 1321, November 1982) and Softwood Fence From Canada . . . Investigation No. 701-TA-199 (Preliminary) . . ., USITC Publication 1322, November 1982.

United States. In March 1983, the possibility of increased duties was foreclosed when the Department of Commerce found that although Canadian subsidies on softwood lumber did in fact exist, they were de minimis and therefore did not require the imposition of countervailing duties.

Japan

The Economic Situation in 1982

Japan's economic performance in 1982 compares favorably with that of other industrialized countries: its GNP increased in real terms by 3 percent, consumer prices rose by a similar amount and unemployment stood at 2.4 percent; its trade and current account balances were both positive during the year (table 16).

Despite a sharp downturn in exports and continued weak domestic demand, the Japanese economy grew at a real rate of 3.0 percent in 1982, keeping within the 0 to 5 percent range that has characterized its GNP growth since the second oil shock of 1979. Japan was the only major industrialized country that achieved real GNP growth in the year: the United States, Germany, the United Kingdom, Canada, Italy, and France all experienced declining or negligible growth rates in 1982.

Increased private demand accounted for nearly three-fourths of GNP growth in 1982, in contrast to Japan's experience in 1981 and 1980. In those years, rising external demand (exports) accounted for over two-thirds of the GNP growth. Net external demand accounted for 84 percent of Japan's GNP growth in 1980 and 73 percent in 1981. During those years, Japan's exports grew in yen terms by 19 percent and 16 percent, respectively. In 1982, exports had a strong negative influence on Japan's GNP growth: the export slump that began in the final quarter of 1981 proved to be a substantial drag on Japan's GNP growth in 1982.

Table 16.--The Japanese economy: selected data, 1980-1982

Item	1980	1981	1982
GNP growth (real)-----percent--:	4.2	2.9	3.0
Export growth (yen basis)-----percent--:	18.7	16.4	3.3
Export growth (dollar basis) ^{2/} -----percent--:	29.0	10.1	-5.8
Import growth (or decline)-----percent--:	-3.9	5.7	3.1
Private demand (growth)-----percent--:	.5	.6	2.8
Wholesale prices (increase)-----percent--:	17.8	1.4	1.8
Consumer prices (increase)-----percent--:	8.0	4.9	2.7
Industrial Production (growth)-----percent--:	6.8	3.1	1.1
Unemployment rate-----percent--:	2.0	2.2	2.4
Money market interest rates-----percent--:	11.4	7.5	6.8
Producers shipments-----percent--:	2.4	2.8	-.1
Inventory accumulation-----percent--:	8.5	1.8	1.3
Exchange rate-----yen per U.S. dollar--:	203.0	219.9	251.3

^{1/} Estimated.

^{2/} The difference between export growth on a yen basis and on a dollar basis is the change in the yen/dollar exchange rate.

155

Source: Economic Planning Agency of Japan.

Throughout the year, the Japanese Government was constrained in its pursuit of expansionary macroeconomic policies. Because of its large budget deficit, the Government was unable to adopt an expansionary fiscal program; and because of yen weakness, the Government was unable to spur domestic spending through lowered interest rates. In the face of slow growth in domestic demand and falling exports, the Japanese Government did authorize a fiscal stimulus package in the fall--as it has done in each year of the past decade with the exception of 1973. The major components of the package were increased public works expenditures, expanded loans to small- and medium-size businesses, increased loans for the housing industry, and a boost in export financing. However, because of budgetary constraints, no money was appropriated for these activities in 1982. Foreign pressure to avoid more yen depreciation effectively precluded the Government from using monetary policy to boost economic activity. The Bank of Japan kept its official discount rate at 5.5 percent throughout the year while expanding the money supply slightly. The Bank raised short-term interest rates during the summer of 1982 in an unsuccessful effort to stem the yen's decline. Nevertheless, Japan's money market interest rates averaged 6.8 percent in 1982, compared with 7.5 percent in 1981 and 11.4 percent in 1980.

Japan managed to trim its budget deficit in 1982. Its budget deficit as a percent of GNP declined from 4.2 percent in 1980 to 3.3 percent in 1982, a level on par with many other OECD countries. However, the Government budget deficit still accounted for over 20 percent of total Government expenditures. In the United States, Government deficits represent less than 20 percent of Government spending in 1982.

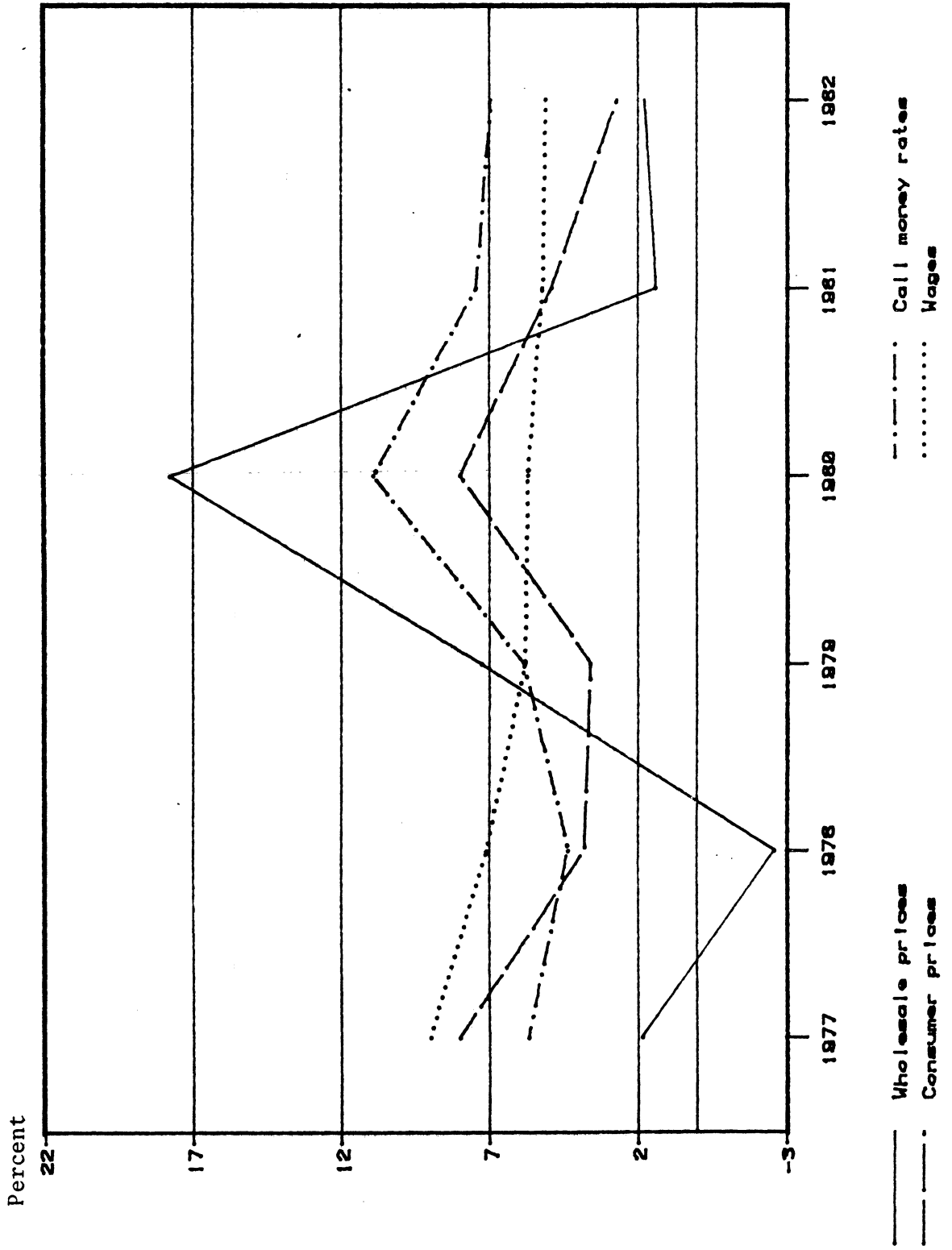
The yen depreciated relative to the dollar by about 14 percent in 1982, continuing the almost constant slide in its value vis-a-vis the dollar since October 1978. (In 1981, the yen depreciated by 8 percent relative to the dollar.) Although the yen strengthened in the last month of the year, the average exchange rate was 251 to the dollar in 1982, compared with 220 to the dollar in 1981. In late October, the yen hit its low point for the year, trading at 279 to the dollar, and then appreciated to around 235 to the dollar at the close of the year (see section on the yen/dollar exchange rate in this chapter).

Japanese industrial production increased by 1.1 percent in 1982, following rises of 3.1 percent in 1981 and 6.8 percent in 1980. Japan was alone among the major industrialized countries in realizing an increase in industrial production during the year. In fact, it is the only advanced economy whose industrial production has not actually declined from 1979 levels. During the year, production declines were experienced in the aluminum, iron and steel, machine tool, television, automobile, watch, camera, cement, naphtha, urea, caustic soda, and synthetic fiber industries. ^{1/} Paper and paper board and petrochemicals were the only major industrial categories to show production increases in 1982; both of these are designated as "structurally depressed" by the Japanese Government (see section on depressed industries later in this chapter).

Japan continued to make impressive progress in controlling inflation in 1982. Wholesale prices rose by 1.8 percent and consumer prices rose by just 2.7 percent. This compares with wholesale price increases of nearly 18 percent in 1980 and 1.4 percent in 1981 and consumer price increases of

^{1/} The aluminum, urea, and synthetic fiber industries are designated as "structurally depressed" industries by the Japanese Government.

Figure 1:--Japan's wholesale price increases, consumer price increases, wage increases, and call money rates, 1977-82



Source: International Monetary Fund, International Financial Statistics.

8.0 percent in 1980 and 4.9 percent in 1981 (see fig. 1). Moderate wage increases and depressed prices for internationally traded commodities restrained price increases in 1982. Slack global demand for primary commodities served to check most of the upward pressure on Japan's import prices that might have resulted otherwise from the depreciation of the yen. Import prices rose by 8 percent in 1982, compared with 2 percent in 1981, and nearly 45 percent in 1980 (in the wake of the second oil price "shock").

Real wages increased by 3.8 percent in 1982. The increase in real income helped fuel nearly a 3 percent rise in private domestic demand during the year. Personal consumption was in the doldrums in 1980 and 1981, reflecting the slow growth in wages since the second oil shock and the effects of income tax bracket creep. However, because real income growth in 1982 was modest, few analysts believe that Japanese consumers can lead the country out of its recent slow growth through a sustained and strong upswing in personal consumption. Unemployment stood at 2.4 percent of the workforce, up from 2.2 percent in 1981 and 2.0 percent in 1980. Although low by international standards, the unemployment rate was Japan's highest in 27 years. ^{1/} The number of workers in the labor force rose by about 1 percent, about on par with increases during much of the period from 1960 on; this slow labor force growth reflects Japan's stable and low rate of population growth.

In the fall of 1982, both corporate profit and sales recorded declines for the first time in 5 years. Declines were particularly sharp for steel companies. However, some of Japan's leading export companies, including some computer, auto, and construction equipment manufacturers, posted large profit gains.

International Economic Performance

Balance of payments

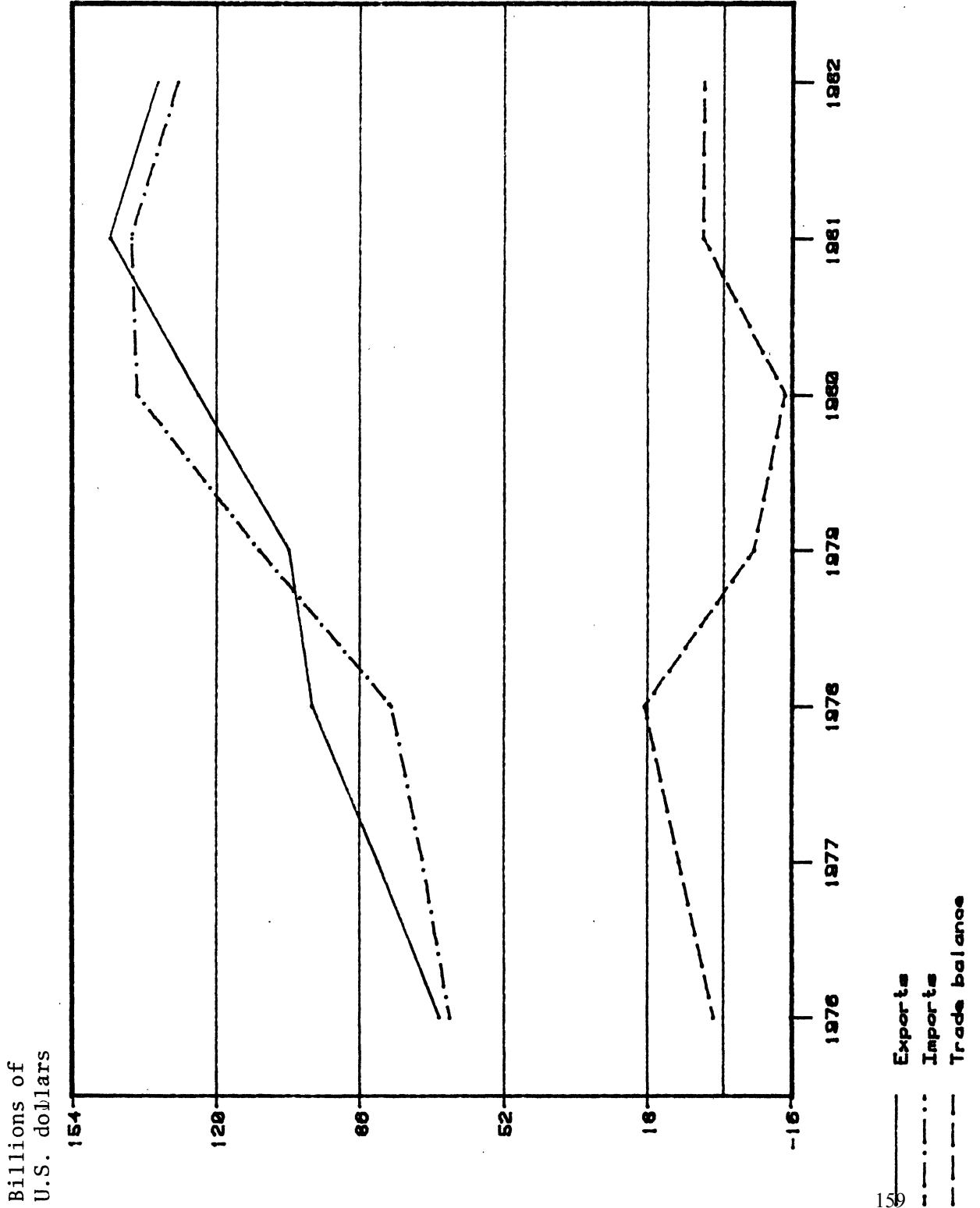
Japan's exports to the world (dollar basis) declined by nearly 8 percent in 1982, to \$134 billion (see figure 2). This was the first such decline in 30 years. Part of this decline in the dollar value of Japan's exports is attributable to the depreciation of the yen. In terms of volume, exports fell by 5 percent. Exports of video tape recorders, personal computers, electric appliances, heavy electrical equipment, and transport machinery, however, all rose from 1981 levels. By region, the sharpest declines were registered in Japanese exports to the Communist countries and to developing countries.

In recent years, Japan has come to rely on markets in the oil-exporting countries and Asian-developing countries for a substantial portion of export growth. The global recession and the decline in oil prices muted economic growth in these regions in 1982 and may have contributed to the decline in Japanese exports.

The dollar value of Japanese imports also declined in 1982, by about as much as exports. The 8-percent drop left imports at the level of \$129 billion. Imports from Western Europe and the developing countries showed the largest decreases. According to the Ministry of Finance, the decline in

^{1/} The Japanese unemployment rate is not directly comparable with the U.S. rate. The Japanese define an unemployed person as someone who has lost a job, so persons seeking their first job, such as new school graduates, are not counted. When adjusted to U.S. statistical methods, Japanese unemployment was about 5 percent in 1982. 158

Figure 2.--Japan's exports to, imports from and trade balance with the world, 1976-82



Source: International Monetary Fund, Direction of Trade Annual.

the value of imports was principally caused by the sharp drop in world prices for oil and other raw materials, which together account for roughly two-thirds of Japan's imports. The value of crude oil imports fell 13.3 percent from what it was in 1981; the volume imported dropped 7.2 percent from the 1981 levels. Japan's merchandise trade surplus narrowed to \$4.7 billion in 1982 compared with \$5.0 billion in 1981.

Japan's invisibles account showed substantial improvement during the year, with its deficit in services and investment dropping from \$15.2 billion in 1981 to \$11.3 billion in 1982, reflecting a dramatic increase in net investment profits.

Japan's current account surplus rose to \$6.9 billion in 1982, from \$4.8 billion in 1981, primarily as a result of the decline in the deficit on invisibles. Japan's long-term capital account registered a record deficit of \$15 billion in 1982, reflecting massive outflows of investment capital, particularly in the first half of the year. Capital flows into Japan actually declined in 1982.

Merchandise trade with major trading partners

During the year, the value of Japan's exports to advanced industrial countries fell by 7 percent--less than the decline in its total exports--and shipments to Communist countries fell by nearly 14 percent (see table 17.) Exports to developing countries fell by 8.1 percent while exports to Western Europe fell by 9.6 percent. According to the IMF, advanced industrial countries accounted for 49 percent, developing countries 44 percent and Communist countries 6 percent of Japan's exports to the world in 1982.

Export declines were particularly marked in steel, textiles, chemicals, and nonmetallic mineral products. Shipments of autos and machinery (other than transport machinery) fell by 2.1 percent and 4.8 percent, respectively, less than the average for all Japanese exports. Exports of electrical appliances increased over 12 percent in 1982; exports of heavy electrical equipment rose by 6 percent (table 18).

Table 18.--Annual percentage change in the value of Japanese exports to the world, by commodity groupings (custom clearance and dollar basis)

Commodity	1980	1981	1982 <u>1/</u>
Total	29.0	10.1	-5.8
Foodstuffs	28.4	-2.8	-26.9
Textiles	28.1	9.7	-9.2
Chemicals	5.3	-.7	-5.8
Non-metallic mineral products	23.6	7.8	-7.6
Metals and metal products	12.9	5.7	-9.3
Steel	8.4	9.4	-11.9
Machinery (except transport)	35.9	12.9	-4.8
Transport machinery	40.6	10.0	2.4
Automobiles	41.1	2.3	-2.1

1/ Estimated.

160

Source: Fuji Bank Bulletin, November-December 1982.

Table 17.--Japan's trade and trade balances, by selected trading partners, 1980-82

(In millions of U.S. dollars)			
Trading partner	1980	1981	1982
Exports			
Industrialized countries:			
Canada-----	2,448	3,387	2,851
United States-----	31,909	38,882	36,546
European Community-----	17,286	18,833	17,018
Other-----	7,997	9,999	9,635
Subtotal-----	59,640	71,101	66,050
Developing countries:			
Oil-exporting countries 1/-----	18,590	22,819	21,766
Mexico-----	1,228	1,699	974
Other-----	35,520	40,051	36,598
Subtotal-----	55,338	64,569	59,338
Nonmarket economy countries:			
China-----	5,108	5,076	3,500
U.S.S.R-----	2,795	3,253	3,893
Other-----	1,524	1,349	970
Subtotal-----	9,427	9,678	8,363
Total-----	124,405	145,348	133,751
Imports			
Industrialized countries:			
Canada-----	4,751	4,448	4,425
United States-----	24,566	25,274	24,185
European Community-----	7,910	8,565	7,530
Other-----	10,254	11,096	10,223
Subtotal-----	47,481	49,383	46,363
Developing countries:			
Oil-exporting countries 1/-----	56,747	54,861	48,463
Mexico-----	939	1,435	1,520
Other-----	26,863	26,791	25,258
Subtotal-----	84,549	83,087	75,241
Nonmarket economy countries:			
China-----	4,345	5,283	5,337
U.S.S.R-----	1,872	2,019	1,668
Other-----	674	547	489
Subtotal-----	6,891	7,849	16,494
Total-----	138,921	140,319	129,098

See footnote at end of table.

Table 17.--Japan's trade and trade balances, by selected trading partners, 1980-82--Continued

(In millions of U.S. dollars)

Trading partner	1980	1981	1982
	Trade balance		
Industrialized countries:			
Canada-----	-2,303	-1,061	-1,574
United States-----	7,343	13,608	12,361
European Community-----	9,376	10,268	9,488
Other-----	-2,257	-1,097	-588
Subtotal-----	12,159	21,718	19,687
Developing countries:			
Oil-exporting countries ^{1/} -----	-38,157	-32,042	-26,697
Mexico-----	289	264	-546
Other-----	8,657	13,260	11,340
Subtotal-----	-29,211	-18,518	-15,903
Nonmarket economy countries:			
China-----	763	-207	-1,837
U.S.S.R-----	923	1,234	2,225
Other-----	850	802	481
Subtotal-----	2,536	1,829	869
Total-----	-14,516	5,029	4,653

^{1/} The country groupings used in this table follow the designations employed in Direction of Trade Statistics, published by the International Monetary Fund (IMF). Although Mexico is the source of over half of the crude petroleum imported by the United States, it is not included among the countries designated "oil-exporting countries" by the IMF. Such countries are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: International Monetary Fund, Direction of Trade.

Imports from Western Europe fell by more than 12 percent, while imports from developing countries decreased by 9 percent. Imports from the United States and from the Communist area fell by 4.3 and 4.5 percent respectively, less than the average decline in Japan's imports during the year.

Merchandise trade with the United States

The United States and Japan together account for nearly one-fifth of total world exports and for over a third of the world's output of goods. The United States is the biggest market for Japanese goods and Japan is the United States' second leading supplier of imported goods, accounting for 37.4 billion dollars' worth of U.S. imports in 1982. Japan is the United States second largest export market (behind Canada), accounting for \$20.4 billion in overseas shipments in 1982. Table 19 shows U.S. exports, imports, and trade balance with Japan as well as the yen-dollar exchange rate during 1965-82. Figure 3 shows U.S. trade with Japan in 1978-82.

Table 19.--U.S. exports to, imports from, and trade balance with Japan, 1965-82

Year	Exports	Imports	Trade Balance	Trade Deficit as a percent of turnover	Yen/dollar exchange rate
	Billion dollars			Percent	
1965	2.1	2.4	-.3	7	360.90
1966	2.4	3.0	-.6	11	362.47
1967	2.7	3.0	-.3	5	361.91
1968	3.0	4.1	-1.1	16	357.70
1969	3.5	4.9	-1.4	17	357.80
1970	4.7	5.9	-1.2	12	357.65
1971	4.0	7.3	-3.3	28	314.80
1972	5.0	9.1	-4.1	29	302.00
1973	8.3	9.7	-1.4	8	280.00
1974	10.7	12.3	-1.6	7	300.95
1975	9.6	11.3	-1.7	8	305.15
1976	10.1	15.5	-5.4	21	292.80
1977	10.5	18.6	-8.1	28	240.00
1978	12.7	24.8	-12.1	32	194.60
1979	17.3	26.3	-9.0	21	239.70
1980	20.5	30.7	-10.2	20	203.00
1981	21.3	37.5	-16.1	27	221.00
1982	20.4	37.4	-17.1	30	249.00

Sources: Trade data are based on official statistics of the U.S. Department of Commerce, exchange rate information is based on IMF International Financial Statistics, various issues, market rates.

In the 3-year period ending 1982, U.S. exports to Japan declined at an average annual rate of 0.24 percent; U.S. imports from Japan increased at an average annual rate of 10.4 percent (table 20). This reflected an acceleration of the trend begun in the mid-1970's, when U.S. imports from Japan began to increase faster than U.S. exports.

Figure 3 - U.S. trade with Japan, 1978-82.

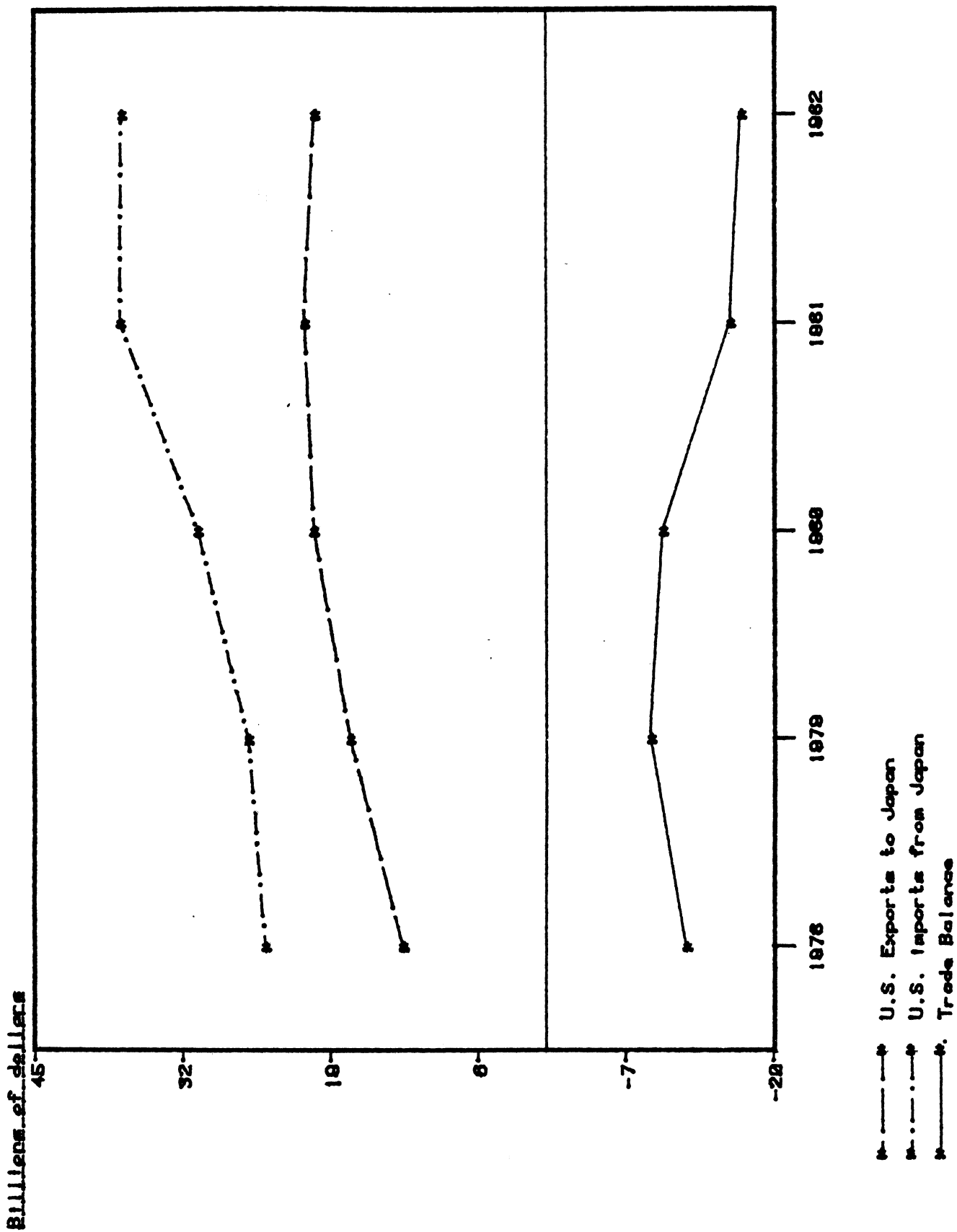


Table 20.--Average annual growth rate in U.S. trade with Japan, selected periods, 1965-82 (dollar basis)

	1965-82	1970-82	1965-69	1970-74	1975-79	1980-82
Total trade-----	16.20	15.18	16.89	21.37	20.18	6.25
U.S. exports to						
Japan-----	14.31	13.01	13.62	22.83	15.86	-0.24
U.S. imports from						
Japan-----	17.53	16.64	19.54	20.16	23.51	10.37

Source: Based on official statistics of the U.S. Department of Commerce.

During 1982, the value of U.S. exports to Japan declined for the first time since 1975, whereas U.S. imports from Japan remained virtually unchanged. Such exports were valued at \$20.4 billion in 1982, down from \$21.3 billion in 1981, reflecting lower world prices for most of the commodities the United States sells to Japan. A drop in the value of exports of agricultural commodities, particularly corn and soybeans, accounts for most of this decline. Nonagricultural exports were essentially unchanged at about \$15 billion, owing to slow Japanese economic growth. The United States imported 37.4 billion dollars worth of goods from Japan in 1982, marginally less than it did in 1981 (table 21).

At \$17.0 billion, the U.S. trade deficit reached another all-time high in 1982, rising by \$0.9 billion, or by 5.7 percent, from what it was in 1981. (The United States merchandise trade deficit with Japan rose by nearly 60 percent from 1980 to 1981.)

U.S. exports to Japan.--The United States exported 20.4 billion dollars worth of goods to Japan in 1982. Unprocessed goods accounted for the bulk of U.S. shipments to Japan in 1982, with food and energy materials dominating the list. Agricultural products accounted for nearly one-third of the value of U.S. exports to Japan in 1982 (see figure 4). By far the largest category of exports was grains--including wheat, corn, and soybeans--which amounted to 3 billion dollars worth of exports in 1982, or about 15 percent of the value of total U.S. exports to Japan in the year.

The leading sectors in nonagricultural exports were machinery and equipment, accounting for 20 percent, and chemicals, accounting for 19 percent of U.S. exports to Japan in 1982. The leading U.S. nonagricultural exports in terms of value were aircraft, chemicals, coal, forest products, and office machinery.

The fastest growing U.S. exports were petroleum products (up by 213 percent from what they were in 1981, to \$621 million); mining and gas well drilling machinery (up 51 percent to \$254 million); toys and sporting goods (up 37 percent to \$162 million); aircraft engines and parts (up 18 percent to \$177 million); metal manufactures (up 15 percent to \$174 million) and pharmaceuticals (up 14 percent to \$489 million).

U.S. imports from Japan.--The United States imported 37.4 billion dollars worth of goods from Japan in 1982. More than two-thirds of U.S. imports from Japan were in the machinery and equipment sector (SITC 7), with shipments valued at \$25.7 billion, or 69 percent of the value of U.S. imports from Japan

Table 21.--U.S. trade with Japan, by SITC 1/ Nos. (Revision 2), 1980-82
(In thousands of dollars)

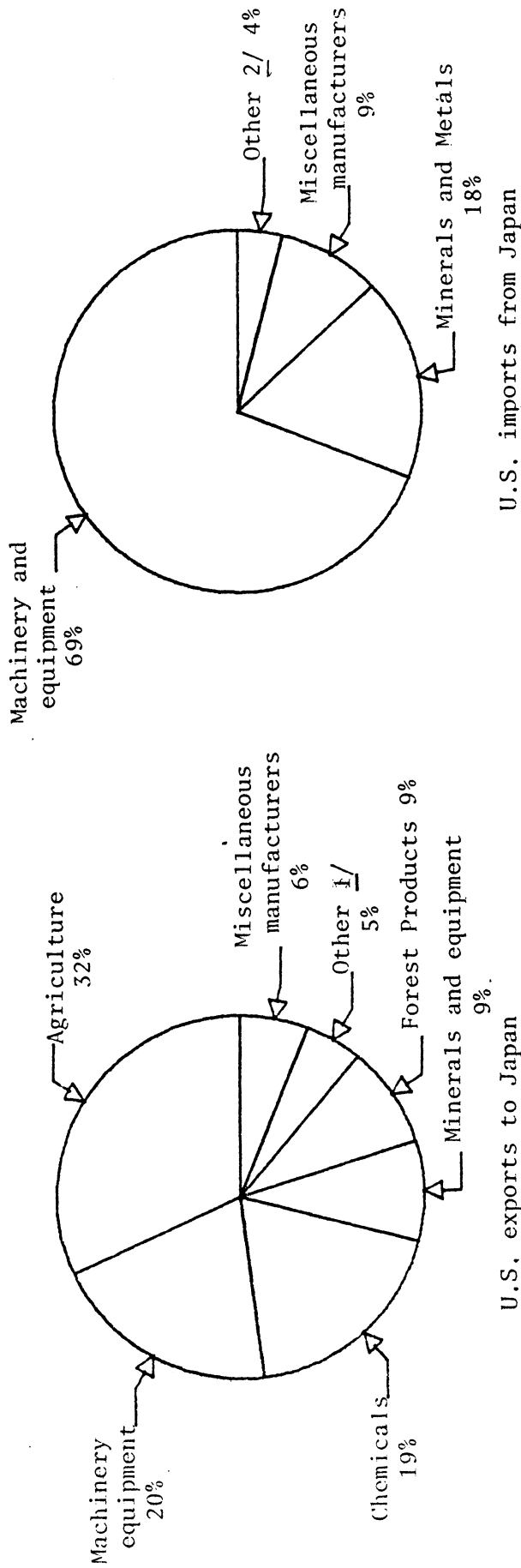
SITC Section No.	Description	1980	1981	1982
		U.S. exports		
0	Food and live animals	4,236,572	4,686,428	3,915,960
1	Beverages and tobacco	252,461	391,515	399,567
2	Crude materials--inedible, except fuel	5,479,389	4,401,704	4,052,116
3	Mineral fuels, lubricants, etc	1,741,119	2,098,841	2,441,187
4	Oils and fats--animal and vegetable	81,766	94,194	86,585
5	Chemicals	1,986,938	2,380,120	2,568,045
6	Manufactured goods classified by chief material	1,605,802	1,416,012	1,338,772
7	Machinery and transportation equipment	3,774,283	4,385,383	4,068,060
8	Miscellaneous manufactured articles	1,221,645	1,367,383	1,400,292
9	Commodities and transactions not elsewhere classified	89,095	111,316	96,187
	Total	20,469,070	21,332,897	20,366,770
		U.S. imports		
0	Food and live animals	272,716	266,611	277,459
1	Beverages and tobacco	9,699	14,104	14,809
2	Crude materials--inedible, except fuel	55,406	69,558	69,573
3	Mineral fuels, lubricants, etc	53,629	37,454	27,141
4	Oils and fats--animal and vegetable	5,631	5,901	5,969
5	Chemicals	714,824	930,133	859,291
6	Manufactured goods classified by chief material	5,822,060	7,006,125	6,827,125
7	Machinery and transportation equipment	20,733,444	25,462,402	25,667,101
8	Miscellaneous manufactured articles	2,708,299	3,400,007	3,402,314
9	Commodities and transactions not elsewhere classified	322,591	279,075	270,813
	Total	30,698,299	37,471,371	37,421,594
		U.S. imports		

1/ Standard International Trade Classification.

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

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

Figure 4.--U.S. Trade with Japan, by commodity groups, 1982



1/ Footwear, textiles, petroleum products.
 2/ Agriculture, forest products, textiles, footwear, petroleum, chemicals.
 Source: Based on official statistics of the U.S. Department of Commerce.

in 1982. Minerals and metals (SITC 8) accounted for another 18 percent and miscellaneous manufactured products, 9 percent of the value of U.S. imports. Taken together, these imports account for 96 percent of the value of U.S. imports from Japan in 1982.

Passenger cars alone accounted for one-fourth of the value of U.S. imports from Japan in 1982. Other major imports were lightweight trucks, steel pipes and tubes, motorcycles, photocopying machines, computers, cameras, semiconductors, and tape recorders.

Japan's shipments to the United States of cars, motorcycles, iron and steel products, metalworking machinery, radio receivers, and video tape recorders all fell from what they were in 1981. However, increases in Japan's shipments of office copiers, electric power generators, tools, automobile tires, and cameras more than offset these declines.

Largely as a result of Japan's voluntary restraint of auto shipments to the United States, the quantity of autos shipped to the United States declined, from 1.99 million units in 1980 to 1.88 million units in 1981, and 1.68 million units in 1982, but the value of those shipments rose, from \$9.5 billion in 1981 to \$9.6 billion in 1982. As a result of Japan's effort to maximize returns under the voluntary restraint agreement, a notable shift in the product mix and the unit prices of auto shipments occurred during the year. Larger, more expensive cars increased in volume by 31 percent, and their unit prices rose by over 7 percent. Meanwhile, small car shipments diminished in importance, with volume dropping by 10 percent; unit values for small cars increased by less than 4 percent. ^{1/} Shipments of lightweight trucks fell by over 22 percent in volume and 19 percent in value; unit prices increased approximately 5 percent. Shipments of steel pipes and tubes fell from the previous years levels in terms of both quantity and value.

In terms of global market share, the United States received 46 percent of total Japanese exports of motorcycles, 45 percent of its exports of motor vehicles, 25 percent of its exports of electric machinery and 18 percent of its shipments of iron and steel in 1982.

Major Policy Developments Affecting Trade

Market access measures

In the face of mounting frictions with many of its major trading partners, in 1982 Japan announced the adoption of three packages of measures designed to improve access for foreign goods and services in the Japanese market. ^{2/} Released on January 30, May 28, and December 25, these packages contained the following major elements: (1) unilateral cuts in or

^{1/} See The U.S. Automobile Industry: Monthly Report on Selected Economic Indicators. . ., USITC Publication 1349, February 1983. Annual data for 1982 was reported in the February 1983 issue of this report.

^{2/} In December 1981, Japan adopted a program designed to ease friction with its trading partners, promising action to improve import testing procedures and to ease restrictions on imports, primarily through tariff cuts. The program also included a commitment to show restraint in its shipments of sensitive products to avoid serious disruptions in overseas markets.

acceleration of Tokyo round commitments to lower Japanese duty rates for a number of items; (2) steps to streamline import customs procedures; (3) the creation of an Office of the Trade Ombudsman (OTO) to provide centralized handling of trade-related complaints within the Japanese Government; (4) the establishment of a system of business consultants to advise potential exporters to Japan; and (5) the start of a program at the Japan Fair Trade Commission (similar to the U.S. Federal Trade Commission) to monitor the distribution of imported goods in order to ensure that distribution channels do not serve as a bottleneck to imports. 1/

Japan also committed itself to make the drafting of product standards more transparent or open to public scrutiny, and to ease the burdens placed on foreigners by the regulatory agencies that administer these standards. Industry standards in Japan are generally developed in committees consisting of industry and Government representatives. Foreigners will now be allowed to participate in these committees, upon specific request. So far, Americans have participated in standards drafting committees under the Electrical Appliance Law and the Consumer Product Safety Law. However, there are no clear criteria for determining which foreigners will be allowed to participate in standards setting, and Japanese trade associations maintain wide discretion to deny participation by foreigners. Furthermore, Japan has refused to provide U.S. manufacturers with information on exactly what standards drafting activities are planned or underway, thus limiting their ability to participate in the standards-setting process.

Along with announcing specific remedial actions, the Japanese Government began a public relations "offensive" in May designed to educate Americans about the Japanese market and to counter rising resentment and fear of Japanese exports to the United States. 2/ Also in May, then Prime Minister Suzuki appealed to Japanese consumers and businessmen to welcome foreign goods.

Some of the Japanese market access measures announced in 1982 were taken in response to U.S. requests contained in a 14-point list given to Japanese Foreign Minister Sakarauchi during his trip to Washington in early March 1982. 3/ This list was an update of a list presented to Japan in

1/ On Jan. 13, 1983, the Government of Japan announced another package of trade liberalizing measures. The most important element of this package was a commitment to review and revise Japan's national certification systems so as to remove the discriminatory effects of the use of different certification procedures for foreign goods. [Generally, the Japanese Government does not grant "type approval" to foreign products. As a result, roughly 60 percent of U.S. manufactured exports to Japan are subject to "on the dock" inspection to determine whether they have met Japanese standards, often involving the inspection of each individual item at port.] The Government of Japan also announced that it would improve import testing procedures for 16 items subject to Japanese standards. Another important element of the January 13 package was the commitment to expand the number of retail outlets that are allowed to sell foreign cigarettes so that by Mar. 31, 1983 retailers in all major cities except Tokyo and Osaka will be allowed to sell foreign cigarettes. Essentially, this move speeded up the pace of retail outlet expansion from the dates committed to in the May 28, 1982, package.

2/ For instance, the OTO placed a two-page ad in the June 7 issue of Business Week.

3/ Although the focus of this analysis is on the effects of these actions on the United States, the market access measures will be applied on a most-favored-nation basis. They are not, however, bound in the GATT.

December 1981. The United States requested trade liberalization for (1) oranges and fruit juices, (2) beef, (3) herring and other fish, (4) leather, (5) soda ash, (6) paper and pulp, (7) tobacco, (8) plywood, (9) cherries, (10) papayas, (11) wild rice, and (12) services. The United States also sought access to Japanese Government supported R. & D. projects in (13) computers and (14) semiconductors.

In June, USTR Brock requested that representatives of the U.S. Government and the Government of Japan meet on a regular basis to resolve any difficulties in implementing the commitments made in the May 28 package. As a result, a working subgroup of the U.S.-Japan Trade Subcommittee met three times, in August, September, and November of 1982.

At the high level trade negotiations of the U.S.-Japan Trade Subcommittee in December, the United States asked Japan to take further steps to open its market to American goods, requesting concrete responses to specific demands before the start of the new year. Specifically, the United States requested reductions or elimination of duties on computers and peripherals, computer parts, heavy electrical machinery, medical and diagnostic instruments, automotive tires, catalytic agents, steel, cosmetics, drugs, televisions, refined copper, manufactured tobacco, leather, plywood and veneer products, paper, agricultural products, chocolate confectionary, seafood, alcoholic beverages, and farm equipment.

Tariffs.--Although tariffs will be lowered on over 1600 products as of April 1, 1983, few of the duty reductions contained in the packages are of major interest to the United States. This is either because the reductions are marginal or the items are of little export value to the United States. However, the tariff cuts on a few items--manufactured tobacco, paper products, magnetic tape, and chocolate confectionary products may be quite significant to U.S. exporters. U.S. exports of these items totaled approximately \$245 million, or about 1.3 percent of total U.S. exports to Japan, in 1981.

Tobacco has been a persistent problem in U.S.-Japan trade. In Japan, tariff rates are high, quantitative restrictions are in effect, purchasing is controlled by a government monopoly, and retail distribution of foreign tobacco products is limited. In the December 25 proposal, Japan announced that tariffs on cigarettes, cigars, and cheroots were to be reduced from 35 to 20 percent ad valorem; on pipe tobacco, from 60 to 35 percent; and on other manufactured tobacco (primarily snuff and chewing tobacco) from 7 to 4 percent. These products are imported for commercial purposes by the Japan Tobacco and Salt Corp. (JTS), a Government monopoly. 1/ The number of retail outlets allowed to carry foreign cigarettes was expanded in the May 28 package. 2/

1/ In the case of cigarettes, JTS--the Government's tobacco monopoly--imposed a surcharge and increased the retail margins on both domestic and imported cigarettes, as of May 1, 1983. Also, the Japanese Government deferred application of the lower duty rates from Apr. 1 to May 1 to coincide with the imposition of the new charges. When taken together with the tariff reductions, this move will have the effect of narrowing the price differential between domestic and foreign cigarettes while keeping the price of American cigarettes at virtually the same (high) level.

2/ The timetable for that expansion was stepped up in the Jan. 13, 1983 package.

Tariff reductions on agricultural products were generally small and cover items of marginal export interest to the United States. Tariffs were not cut on a number of products of interest to the United States, including a wide variety of agricultural products, computers, computer parts, forest products, alcoholic beverages, farm machinery, and auto parts.

Import procedures.--Of greater potential importance were the measures Japan will take to liberalize some of its import procedures. Approximately 40 percent of Japan's imports are subject to import approval by one or more Japanese Government agencies prior to clearance by Japanese Customs. These agencies-- such as the Ministry of Health and Welfare, the Ministry of Transportation, and the Ministry of Agriculture, Forestry, and Fisheries (MAFF)--generally require either import notification or product approval. In April 1982, Japanese Customs adopted five measures aimed at simplifying customs procedures. The new rules (1) limit the special documentation that a customs official can demand over and above invoice and certificate of origin; (2) establish a mechanism for the exchange of "classification information cards" between Japanese customs officials at different ports of entry to insure uniform application of the tariff schedule; (3) reduce the number of days that customs is allowed to take to clear cargo; (4) provide for an "after-permit examination," which enables goods to enter before duties are assessed; and (5) provide for a system to streamline the physical examination of goods. In the May 28 package, the Government of Japan said it would improve the customs handling of two categories of imports in particular: fresh food and pharmaceuticals.

Fresh food importers will be allowed to submit import reports to the MHW before the products reach port. Essentially, this would speed-up the procedure for approval once the goods arrive in Japan, by cutting the time that goods must wait in port for MHW clearance. No steps in the import procedure are eliminated, and acceptance of the import notification does not necessarily mean that the products will be admitted at port by MHW.

The pharmaceutical measure eliminates the need for an importer to file an import report with MHW for each separate shipment of pharmaceuticals or cosmetics. Under the new procedure, Japanese Customs will simply confirm the import dealer's license. This improvement only applies to products which do not require approval under the Pharmaceutical Affairs Law. 1/

The other changes in customs procedures proposed by Japan would streamline approval for repeat shipments and establish a classification center in Tokyo similar to the system of customs classification specialists at U.S. Customs in New York City. This change may help to alleviate problems of inconsistent classification faced by U.S. exports to Japan. Unlike U.S. Customs, which issues a classification ruling based on a sample which is then used by customs agents nationwide, Japanese customs officials make classification decisions on an individual basis. This sometimes leads to arbitrary customs rulings and excessive paperwork.

1/ On Jan. 13, 1983 the Japanese Government decided to simplify the procedures for the transfer of import approvals for pharmaceutical products from one company to another, effective April 1983.

United States-Japan Bilateral Trade Issues

Over the past five years, the United States and Japan have developed a new institutional framework for bilateral trade consultations and negotiations. Following is a list of the current bilateral trade forums:

(1) The Trade Facilitation Committee was established in 1977 with the objective of resolving specific problems U.S. firms were having in gaining access to the Japanese market, either because of Government policies or private sector practices. The bilateral panel is staffed by the U.S. Department of Commerce and the Japanese Ministry of International Trade and Industry (MITI).

(2) In 1979, the U.S.-Japan Bilateral Forest Products Committee was formed to consult on problems involving trade in logs and wood products.

(3) In 1981, the U.S.-Japan Trade Subcommittee was established. The Subcommittee, meets at the subcabinet level about every 6 months and reviews broad-ranging trade policy issues. It is jointly chaired by the two countries. In 1982, the U.S. side was chaired by Deputy United States Trade Representative David MacDonald and on the Japanese side by Hiromuo Fukada, Director-General of the Ministry of Foreign Affairs Economics Bureau.

(4) In 1982, the U.S.-Japan Ad Hoc Study Group on Petrochemicals was set up to examine the factors affecting chemical production and trade.

(5) The U.S.-Japan Work Group on High Technology, whose objectives include reducing or eliminating distortions to trade in high-technology products, was set up in 1982.

(6) The Tobacco Study Group was formed in 1982 to examine U.S. problems in access to Japan's market for tobacco. It met for the first time in October 1982.

(7) U.S.-Japan Study Group on Beef and Citrus, formed in 1982 to discuss Japan's quotas on these items, met once in October 1982.

Discussions of particular bilateral problems may be held in any of these forums, as agreed upon by the United States and Japan. In the following sections are brief descriptions of developments in bilateral trade and investment issues with Japan in 1982.

Customs procedures

The United States has long complained about the procedures necessary to enter and gain approval for imports in Japan. U.S. problems with Japanese Customs include the lack of a mechanism to appeal decisions by Customs and regulatory agencies, inconsistent customs classifications, and the failure to make known the forms that are legally required for import entry.

Roughly 40 percent of Japanese imports, and 60 percent of U.S. manufactured exports to Japan, must be cleared by other agencies before Customs can process them. In the United States, roughly 37 percent of U.S. imports are subject to regulation and laws enforced by agencies other than Customs. The difference is that authority for enforcing these laws and regulations at the border is delegated to the U.S. Customs Service, thereby facilitating cargo entry.

The United States has asked Japan to change its pre-Customs import procedures, providing more authority to Japanese Customs officials, in order to cut the time required to obtain approval for import shipments. The United States would also like Japan to change its methods for determining whether imports meet Japanese standards and other requirements. A substantial portion of U.S. exports to Japan must undergo individual inspection and testing before they can be cleared by Customs, even if the items are repeat shipments and have been tested before. For instance, Japan conducts "on the dock" inspections for every American car shipped there to determine whether they meet safety and emission standards. 1/

The United States has also asked Japan to (1) narrow the range of goods subject to pre-import procedures by other Government of Japan ministries; (2) allow general import approval by other agencies, and (3) allow the release of goods even if there are problems with the requirements of other agencies so long as the importer agrees to recall the products if the problems are not resolved.

Japan has expressed concern that these changes would result in the weakening of enforcement of various laws designed to protect public health and safety. The United States has pointed out that it also has many laws that are designed to safeguard the public. Although U.S. import procedures normally do not unduly delay goods at port, the United States feels these laws have not been compromised.

The market access package of May 28 made improvements in Japan's Customs procedures. The specifics of the changes are discussed in the "market access measures" section above. The United States is seeking further improvement in Japanese import procedures and will continue to press for these changes in bilateral talks.

Standards and Certification issues

The United States has a number of complaints about Japanese standards and certification. Specifically, the United States is concerned about (1) access to Japanese certification systems; (2) input during the development of standards; (3) lack of approval for additives generally recognized as safe worldwide; and (4) acceptance of test data generated in the United States.

The United States also complains that many Japanese standards are framed in terms of design specifications rather than performance characteristics. The United States believes that this contravenes Japan's obligations under the

1/ In March 1983, the Government of Japan announced that it planned to simplify the procedures for inspecting foreign-made automobiles, giving foreigners the same access to "type certification" that is available to Japanese companies. In other words, a particular type of car (e.g., a 1983 Ford Mustang) would be inspected, and if it met all Japanese standards, that "type" would be certified, and thus not subject to individual inspection on the dock. The change requires foreign companies to submit a prototype for inspection up to 6 months in advance of the first shipment to Japan. Otherwise, they will have to undergo individual inspection at port.

Standards Code and under the 1979 "Strauss-Ushiba Agreement." 1/

Access to certification systems.---The Government of Japan has been under intense pressure from its trading partners to change the procedures it uses to certify that foreign products conform to Japanese standards. Under Japanese law, imports are generally not certified under the more favorable procedures applied to domestically produced goods. 2/ Among the products of interest to the United States that are affected by these discriminatory certification systems are sporting goods, chemicals, natural gas, consumer electric appliances, and automobiles.

Japanese manufacturers are usually allowed to "self-certify" that their products meet Government standards. Self-certification involves having the manufacturing facility registered by the Japanese Government after the following three requirements are satisfied: (1) on-site factory inspection is conducted by Government officials; (2) the Government grants "type approvals" to the products produced there; and, (3) agreement is reached with the manufacturer on liability insurance in case the product is defective. Thereafter, the manufacturer is given ownership of certification marks for the products produced there, and he can affix them to the products at the factory. Certain products, such as automobiles, do not qualify for self-certification, however.

In those cases, the Government grants "type approval," meaning that a prototype of a particular item--such as a 1983 model Toyota Corolla car--is fully tested and inspected by the appropriate Japanese regulatory agency. If the prototype meets all applicable standards, that "type" (of car, for example) is certified. Under the "type approval" system, the 1984 model Toyota Corolla car would undergo the same inspections required of the 1983 model car; under "self-certification," all cars produced in a registered factory could be certified as being in compliance with Japanese standards.

The Japanese Government does not grant "type approval" to foreign products, nor does it allow foreign manufacturers to "self-certify" that their products meet Japanese standards. The Japanese Government explains that it cannot inspect foreign manufacturing facilities or be sure that the foreign producer will be liable for faulty products, and thus cannot allow foreign manufacturers to self-certify their products. As a result, roughly 60 percent

1/ In the 1979 Joint Statement on Standards, Testing and Certification procedures, the so-called Strauss-Ushiba agreement, the United States and Japan agreed on a number of points, including: (1) mutual acceptance of test data; (2) use of open procedures for developing new standards; (3) upon request, provision of information on all relevant standards, testing procedures, and testing methods; (4) expeditious approval of minor changes in a product's specifications when the original product has already been approved; and, (5) developing standards in term of product performance rather than design.

2/ In its Jan. 13, 1983, market access package, the Government of Japan committed itself to review and revise its national certification systems to remove the discriminatory effects of the use of different certification procedures for foreign goods. The Government also announced that it would improve import testing procedures for certain items subject to Japanese standards.

of U.S. manufactured exports to Japan are subject to "on the dock" inspection to determine whether they have met Japanese standards. This procedure often involves the inspection of each individual item at port.

Another U.S. complaint is that foreign manufacturers cannot apply directly to Japanese testing organizations or responsible government agencies for product approval. Because of Japanese product liability laws, they must submit an application through a Japanese import sales agent, who is legally responsible for any liability if the imported product is defective. Because the sales agent is given certification rights, when a foreign manufacturer changes its sales agent, the new sales agent must re-apply for product approval, which could take a year or more.

On May 26, the United States requested consultations with Japan under Article 14.1 of the Standards Code on the issue of discriminatory treatment of U.S. athletic equipment by Japanese sporting goods associations that set industry standards for such equipment. The specific products that are affected by these certification requirements are aluminum bats, tennis balls, inflatable balls, and gymnasium equipment. After a year of discussions, the U.S. softball bat suppliers were finally allowed access to the Japan Softball League (JSBB) certification system in 1982. The JSBB, however, failed to change its standard for aluminum's softball bats which requires the use of an aluminum alloy not used by U.S. bat manufacturers. The United States has complained that this standard is based on design, rather than performance criteria and thus violates the spirit of the Standards Code. Without receiving certification of approval from the JSBB, U.S. bats cannot be used in official games and are not afforded the commercial advantage that goes along with carrying the JSBB mark.

The United States and Japan held bilateral discussions on this issue under the auspices of the Standards Code throughout 1982. As of yearend, the two sides appeared ready to resolve this problem with respect to all metal bats.

Development of Standards.—Japanese Government Ministries usually develop industry standards in consultation with private industry. Often, a private association, such as a trade association, will be charged with drafting specifications for a product to be standardized. Because these organizations are private, they may choose not to allow foreigners to participate. The draft specifications are then submitted to an official advisory committee to the Government, whose membership is not open to foreigners.

The United States is concerned that U.S. producers may not be allowed to participate in crucial standards-making decisions in Japan, and thus may be effectively prevented from entering the market. In the May 28 market access package, the Government of Japan agreed to examine, on a case-by-case basis, requests from U.S. interests to participate in the standards-drafting activities of private organizations in Japan. However, Japan refused a U.S. request to provide U.S. suppliers with information on exactly what standards-drafting activities are planned or are underway. Such information is necessary before U.S. suppliers can request to participate in standards-drafting committees.

Lack of approval for additives.--Unlike the United States and most other countries where the Government issues lists of food additives generally accepted as safe for human consumption and a comparable list of products banned, the Japanese only have a "positive list" for approved additives. Foods containing additives not on the so-called positive list may not be imported into Japan. A specific additive can be used only for a specified purpose and in a prescribed amount. The cosmetic industry faces similar problems. The list of formally approved cosmetic ingredients has about 450 substances on it. This is the only list available to foreign manufacturers. However, hundreds of other substances have been informally approved by the Ministry of Health and Welfare for use by Japanese cosmetic companies. In response to U.S. requests for access to these lists, the Government of Japan developed a comprehensive list of all previously used cosmetic ingredients in the summer of 1982 and provided it to the U.S. Government.

Acceptance of U.S. test data.--The United States has long been concerned about complaints from U.S. exporters that they are required to repeat tests on products in Japan that were already done in the United States and that their requests that Japan accept U.S. test data are rejected without consideration. However, Japanese Ministries have been increasingly willing to accept U.S. test data since 1980, when the the Standards Code was adopted. The United States believes significant improvements have been made in this area.

Agriculture

Japan is the largest foreign market for U.S. agricultural products, and the United States is Japan's most important supplier. The United States supplies Japan with over 90 percent of its corn and soybeans and nearly two-thirds of its wheat (see table 22). Agriculture is the largest category of U.S. exports to Japan, accounting for nearly a third of U.S. shipments in 1982. Nevertheless, trade has been restricted through Japanese quotas on imports on 22 agricultural and marine items, including beef and citrus products.

Japan uses price supports and import restrictions to protect its agricultural sector. This has the effect of forcing Japanese consumers to pay very high prices for food--more than double world prices for many commodities. Fears about the security of food supplies, the political influence of Japanese farmers, a desire to preserve the rural family and village, and other factors, make the prospects for completely removing Japan's import restrictions in agriculture particularly bleak. ^{1/}

^{1/} For a variety of reasons, the Japanese Government discouraged the consolidation of farms--which average less than 3 acres--during the 1950s, a step now viewed as a prerequisite for increasing Japan's agricultural efficiency. In an effort to spur agricultural production during the period of rapid growth (the 1960s) the Government heavily subsidized rice production. Later, in efforts to diversify the agricultural sector, the Government tried to shift production from rice to such items as fruits (e.g., oranges), beef, and dairy products. For a more detailed treatment, see Emery Castle, Kenzo Henmi, and Sally Skillings, U.S.-Japanese Agricultural Trade Relations, Resources for the Future, Washington, D.C., 1982.

Table 22.—Major U.S. agricultural exports to Japan, 1980-82

Item	1980	1981	1982
	Quantity (metric tons)		
Corn <u>1</u> /-----	11,823,221	11,829,387	11,435,991
Grain sorghum <u>1</u> /-----	3,779,643	2,904,463	1,869,976
Soybeans <u>1</u> /-----	4,032,867	4,001,380	4,067,582
Soybean meal-----	245,505	82,135	48,687
Alfalfa meal and cubes-----	374,069	313,420	424,812
Dried beet pulp-----	492,989	404,387	336,351
Wheat-----	3,330,762	3,364,301	3,345,458
Cotton <u>2</u> /-----	309,522	279,627	339,320
Beef and veal <u>3</u> /-----	33,463	42,879	52,362
Beef and veal offals <u>3</u> /-----	28,568	32,188	31,503
Pork <u>3</u> /-----	27,563	39,808	30,238
Poultry <u>3</u> /-----	43,145	64,818	54,716
Whole cattle hides-----	<u>4</u> / 7,440,937	<u>4</u> /7,495,175	<u>4</u> / 6,443,988
Lemons-----	101,638	116,846	107,281
Grapefruit-----	128,993	159,366	139,792
Oranges-----	70,797	76,821	83,010
Frozen vegetables-----	77,530	83,000	71,515
Almonds-----	9,596	9,598	13,330
Tobacco-----	37,256	53,063	50,041
	Value (1,000 of dollars)		
Corn <u>1</u> /-----	1,624,657	1,781,403	1,274,090
Grain sorghum <u>1</u> /-----	496,101	408,774	205,498
Soybeans <u>1</u> /-----	1,105,238	1,137,878	970,044
Soybean meal-----	65,161	22,832	10,507
Alfalfa meal and cubes-----	47,961	40,027	55,293
Dried beet pulp-----	67,977	63,537	49,422
Wheat-----	596,183	615,025	563,648
Cotton <u>2</u> /-----	525,934	503,565	500,605
Beef and veal <u>3</u> /-----	137,320	157,856	232,396
Beef and veal offals <u>3</u> /-----	84,135	99,645	96,992
Pork <u>3</u> /-----	95,248	143,166	111,400
Poultry <u>3</u> /-----	53,455	81,461	67,639
Whole cattle hides-----	250,834	255,121	207,170
Lemons-----	63,351	66,293	69,050
Grapefruit-----	45,806	59,104	47,340
Oranges-----	27,803	44,449	51,300
Frozen vegetables-----	45,616	56,986	53,851
Almonds-----	41,275	37,476	36,967
Tobacco-----	197,159	301,698	309,920
Total-----	\$6,110,657	\$6,562,294	\$5,547,189

1/ Excludes seed.

2/ Excludes linters.

3/ Fresh, chilled or frozen.

4/ Quantity in number of pieces.

Faced with a record bilateral merchandise trade deficit with Japan, a boom in U.S. agricultural harvests, and falling U.S. farm incomes, the United States continued in 1982 to pressure Japan to liberalize its import restrictions on agriculture. The United States has consistently sought removal of quotas on agricultural products, particularly those on beef and citrus.

The United States and Japan held special bilateral consultations on Japan's import restrictions on a number of agricultural and fisheries products in Washington on April 12-13, 1982. The United States has taken the position that these restrictions are inconsistent with the GATT, since Japan has not obtained a waiver from its GATT obligations and since the restrictions were not "grandfathered" upon its accession. Japan believes that some of its restrictions are legal under the GATT, citing Articles XI, XVII, and XX. ^{1/}

Elimination of quotas on beef and citrus products was the United States' top priority agricultural issue with Japan in 1982. During the Tokyo round, the United States and Japan agreed on the staged expansion of beef and citrus quotas through March 31, 1984. Japan agreed to increase, by yearend 1983, its import quotas on high-quality beef by 14,000 metric tons, and on fresh oranges and orange juice by 17,000 metric tons. The MTN agreement also provided for further beef and citrus negotiations in the spring of 1983.

During 1981, the United States asked for an acceleration of the timetable for negotiations on expanding the quotas, requesting that discussions begin no later than October 1982. As a result, the United States and Japan met in Honolulu on October 20 and 21, 1982. At that time the U.S. side demanded complete elimination of the quotas on beef and citrus by 1984. When Japan rejected this demand, the U.S. delegation elected to cut the talks short, saying they would return to the bargaining table when Japan was ready to agree to a timetable for the elimination of these quotas.

Following are some facts about the Japanese market for beef and citrus (world wide data are currently only available through 1981).

Beef.--In 1981, Japanese producers supplied about 74 percent of the beef consumed in Japan; domestic consumption was 470,000 metric tons. Australia supplied 71 percent of Japanese imports and 19 percent of domestic consumption of beef; the United States supplied 22 percent of imports and 6 percent of domestic consumption. The unit price of U.S. beef exports to Japan was \$4,201 per metric ton--roughly \$1.91 a pound--in 1981. Nevertheless, the price of a sirloin steak in Japan is about four times what it is in the United States.

Each year in March, Japan's Ministry of Agriculture, Forestry and Fisheries establishes upper and lower stabilization prices for beef carcasses. When wholesale beef carcass prices drop below the lower stabilization price, the Livestock Industry Promotion Council (LIPC), a quasi-governmental corporation, buys and stores beef. When wholesale beef carcass prices exceed the upper stabilization price, the LIPC releases beef bought up at support prices plus imported beef held in its custody. The LIPC

^{1/} In early 1983, the United States initiated a complaint under article XXIII of the GATT against 13 categories of Japanese restrictions on imports of agricultural and fisheries products. The complaint focused primarily on Japan's agricultural import quotas. 178

establishes minimum floor prices for imported beef. Japan also levies a 25 percent ad valorem tariff on imports for beef. However, this usually leaves the cost of imported beef below the cost of domestic beef. Because of the price floors, however, imported beef is sold to Japanese consumers at prices substantially higher than those paid by the LIPC for imported beef.

Citrus.--Domestic production accounted for 98 percent of Japanese consumption of oranges in 1981. Imports of oranges amounted to 75,000 metric tons, or 2 percent of domestic consumption, of which 99.7 percent came from the United States. In 1981, the unit price of U.S. orange exports to Japan was \$618 per metric ton, or about 28 cents per pound.

Japan has two kinds of quotas on oranges: general and seasonal. The seasonal quota is designed to be counterseasonal, providing an added quota amount (over the general amount) for imports during the period of low availability of Japanese oranges, June-August. Tariffs on oranges are high and also seasonally adjusted: lower during the period of low supply of Japanese oranges--June-November--at 20 percent; and higher during the period of abundant domestic supply--December-May--at 40 percent. Tariffs on citrus juices range from 22.5 to 30 percent.

Tobacco

Japan has a number of barriers to imported tobacco, including high tariffs, quotas, and controls on advertising, marketing, and distribution by the Government's tobacco monopoly, the Japan Tobacco and Salt Public Corporation. As a result of these restrictions, U.S. cigarettes in Japan are priced 55 percent higher than comparable Japanese brands, even though their price (before tariffs) is about equal to Japanese brands. The U.S. share of the Japanese cigarette market is still only slightly over 1 percent. These barriers are particularly onerous because the U.S. industry believes that the Japanese market has significant export potential. They base this belief on two factors: (1) U.S. cigarettes have performed extremely well in other major Asian markets, and (2) Japanese cigarettes are a very similar blend to American cigarettes.

Under the terms of a November 1980 U.S.-Japan Agreement on Tobacco, JTS agreed to increase the number of retail outlets allowed to sell imported tobacco products from 14,000 to 20,000. However, that number represented just 8 percent of Japan's 248,000 retail outlets for tobacco. The agreement also resulted in a reduction in Japan's tariff on cigarettes from 90 to 35 percent, as well as a commitment to keep the price differential between Japanese and American brands below 100 yen.

In the May 28 package, the Japanese Government said it would allow all tobacco retailers to handle imported products. This measure was to be implemented in stages through fiscal year 1985. In fiscal years 1982 and 1983, the number of retailers handling imported tobacco products will be increased from 20,000 to 70,000. The timetable for this expansion was stepped up in the January 13, 1983, market access package. It also said that limits on advertising expenditures would be expanded to meet market situations. In the December 25 market access package, tariffs on manufactured tobacco products were lowered.

Forest products

The Japanese market for U.S. forest products is large--about \$2 billion in 1982. U.S. industry representatives believe, however, that the market could grow to \$3 billion within a few years if Japan would remove some of its import restrictions and reduce its tariffs. Japan is the largest market for U.S. solid wood products, accounting for \$1.3 billion, or 43 percent of all U.S. exports of solid wood products, in 1981. U.S. problems with Japan in forest products include (1) tariffs, (2) standards, and (3) import distribution.

Although the United States exports substantial quantities of logs to Japan, it has been unable to sell substantial quantities of finished wood products, such as lumber and plywood. The principal barriers to these exports are high tariffs--15 to 20 percent on panel products (plywood, veneer, particle board) and 10 percent on lumber.

Another problem involves Japanese standards, particularly those for structural plywood. After extensive bilateral discussions, the United States and Japan made substantial progress toward resolving this problem in 1982. However, two issues were still unsettled at yearend: agreement on standards governing knothole size and "white pocket," a speckling in the plywood surface caused by fungus. At issue is agreement on how the presence of "white pocket" affects the performance of structural plywood. 1/

U.S. industry is also concerned that the formation of an import consortium by the Japanese lumber industry--rumored to be taking place in 1982--will have a restrictive effect on imports. Such a consortium, organized to allow members to exchange market information more efficiently, is the first step in the legal process required to form an import cartel. Government-sanctioned import cartels in Japan are permitted to regulate prices and import quantities. U.S. trade negotiators have expressed their concern about the import consortium.

Leather

Japan maintains a number of barriers to imports of leather, including high tariffs--ranging from 15 to 20 percent, and quotas. In addition, Japan maintains an elaborate import license allocation system to ensure that only the approved amount of imported leather is allowed to enter Japan during any given year. The leather quota and license allocation system virtually prevent U.S. suppliers from selling directly to fabricators. Part of Japan's rationale for the import restrictions is its desire to protect a minority group in Japan that is engaged in tanning and the manufacture of leather items.

In 1977, the U.S. leather industry association, the U.S. Tanners's Council, filed a petition under Section 301 of the Trade Act of 1974, claiming that the Japanese restrictions unreasonably restrict U.S. exports of leather. They argued that Japan's quota is not legal under the GATT and that its tariffs are excessive. Following a series of inconclusive bilateral discussions, the United States requested the formation of a GATT panel under Article 23.

1/ In early 1983, Japan proposed plywood standards that addressed "white pocket" and were acceptable to the U.S. industry association, the American Plywood Association. The new standards were reported to the GATT Standards Code, and will be implemented by mid-1983.

As a result of this move, in 1979, the United States and Japan concluded a 3-year understanding on leather, which provided for the establishment of new quotas for finished leather and wet blue hides. Under the agreement, a 22.5 million square feet quota for U.S. exporters was established during the first year of the agreement, April 1, 1979, to March 31, 1980. The quota was to increase by 10 percent in each of the following 2 years. Japan also committed itself to provide the U.S. Government with the names of license holders; to assist in the smooth administration of the quota system; and, to facilitate the full utilization of the quotas.

However, in the first year of the agreement, U.S. leather exporters only filled 17 percent of the U.S. quota and in the second year, 33 percent. Actual shipments have increased from about 5.4 million square feet in the year before the agreement to about 6.0 million square feet in calendar year 1981.

U.S. producers explain their failure to fill quotas by saying that Japan's high tariffs make it extremely difficult for them to compete in Japan and that distribution channels in Japan act to limit U.S. shipments. U.S. tanners complain that they cannot sell their leather directly to fabricators because the fabricators cannot obtain import licenses. Some U.S. tanners have alleged that only members of importers/wholesalers associations get quota allocations for leather. Japan claims that U.S. producers have not made sufficient efforts to penetrate the market and complain that the quality of U.S. leather is poor.

Japan allocates its global quotas on leather in one of two ways: (1) to firms with a previous history of such importation (based on import records); or (2) to end users or firms which represent them, based on their estimated import needs. In 1979, supplemental quotas were established for countries, including the United States, that supply rawhides to Japan.

The bilateral understanding on leather expired on March 31, 1982. The United States felt that it was largely ineffective in increasing access for U.S. leather exports to the Japanese market. At Japanese request, negotiations were opened on a new agreement in March 1982. At that time, the U.S. side pressed the Japanese for elimination of the tariff on leather.

Although the Japanese were willing to eliminate the tariff and quantitative restrictions on wet blue hide imports, they refused to eliminate the tariff or expand U.S. quota allocations for finished leather. During a subsequent series of negotiations in September, the Japanese offered to improve the allocation of import licenses, but repeated its refusal to liberalize other import controls on finished leather. The United States felt that these proposals were unacceptable, terminated the negotiations, and informed Japan of its intention to reopen its 1978 GATT case.

On November 9, the United States formally requested bilateral consultations with Japan on leather under article 23 of the GATT. The United States and Japan held consultations in Geneva on December 14 and 15, but no agreement was reached. Consultations were to resume in early 1983.

Automobiles

Following an unsuccessful escape clause case brought by the United Autoworkers and the Ford Motor Co. in late 1980, and various Congressional proposals to limit imports of Japanese autos, the United States and Japan held urgent bilateral discussions in 1981 in an effort to solve the auto problem.

The result of those negotiations was a commitment by Japan to restrain unilaterally its shipments of autos to the United States for 2 years, beginning April 1, 1981. The level of Japan's auto shipments was set at 1.68 million units in the first year; in the second, Japan was to limit its shipments to 1.68 million units plus 16.5 percent of any increase in the U.S. market for autos; and in the third year, Japan was to monitor shipments to avoid surges in exports to the United States. In early 1982, Japan announced that it would limit its shipments in the second year of the program to the previous year's level of 1.68 million units; in early 1983, Japan made the same commitment.

As a result of these restraints, U.S. auto imports from Japan dropped from 1.99 million units in 1980 to 1.88 million units in 1981 and 1.68 million units in 1982, decreases of 5.5 and 10.6 percent, respectively. Unfortunately, U.S. demand for autos fell by an even greater margin in both 1981 and 1982, allowing Japanese producers to capture a larger share of the U.S. market while keeping within the agreed quantitative limits. In 1982, the Japanese share of the U.S. auto market was about 25 percent.

Japanese producers also changed the mix of products sold to the American market, shifting from low-priced cars to higher priced, higher value added, and higher profit cars. The agreement has served to cushion U.S. producers to some extent by restraining imports and raising average prices. However, it may have also intensified competition in the high end of the market, cutting into U.S.-auto makers profitability through lost market share and price competition.

High technology trade

The United States and Japan are the world's two leading high technology producers and the two largest markets for high technology goods. ^{1/} As Japan has continued to progress in such areas as computers, semiconductors, biotechnology, fiber optics, and robotics, competition between the two countries has become intense in the U.S. and world markets. In recent years, Japan has made significant inroads in the U.S. market in such areas as semiconductors and machine tools. Meanwhile, many U.S. high-technology firms have been unable to penetrate the Japanese market. Some have complained that their market disappears when a comparable Japanese product is introduced.

Several U.S. industry groups have pointed to Japan's industrial policies as being a major cause for the decline in competitive position for U.S. high-technology firms. ^{2/} By developing products in an insulated home market

^{1/} For the purposes of this section, high-technology industries are defined as industries producing commodities or services based on the rapid application of innovations derived from research.

^{2/} For instance, the Semiconductor Industry Association (SIA) credits Japanese Government policies for the remarkable success of Japanese semiconductor manufacturers, citing in particular the joint development of the 64K random access memory chip by Japanese Government researchers and six Japanese firms. Subsequently, SIA says, those firms made a rapid advance into the U.S. market, prices for 64K chips collapsed, U.S. firms market position deteriorated while profits declined. At the same time, SIA claimed, U.S. companies were prevented from entering the Japanese market. See The Effect^{182f} of Japanese Government Targeting on World Semiconductor Competition, SIA, 1983.

and marketing them abroad at prices that ensure rapid increases in market share, they claim, the Japanese are able to take over a substantial portion of the U.S. and world markets for these important products.

The Japanese retort that loans provided by the Japan Development Bank to high-technology firms are small and involve an interest rate of subsidy of only about 1 percent. Furthermore, they point out that U.S. companies did not have sufficient capacity to meet market demand for some of the emerging high-technology products, including semiconductors, providing an opening for foreign suppliers. 1/

In order to defuse mounting tensions in the high-technology area, the United States and Japan formed a high-technology work group in April 1982, charged with suggesting ways (1) to foster free trade in high-technology goods and services and (2) to promote free flows of investment between the two nations. Specifically, the group was to look at cooperative research and development, import practices, and market access. The group met in July, August, September, and October 1982 and ultimately drew up a list of policy recommendations for the U.S. and Japanese Governments. At yearend, those recommendations were still under consideration by the two governments. 2/

Government procurement

On December 18, 1980, the United States and Japan reached agreement on including Japan's government-run telecommunications monopoly, Nippon Telegraph and Telephone (NTT), under the MTN Government Procurement agreement. Japan agreed to allow U.S. firms to compete on an equal basis with Japanese firms to supply NTT with telecommunications equipment. If by the end of a 3-year trial period, ending December 31, 1983, the United States felt that NTT had not met the terms of the agreement--allowing fair opportunities for U.S. telecommunications suppliers--the MTN Government Procurement Agreement between the United States and Japan could be terminated, making it more difficult for Japanese firms to bid on U.S. Government contracts.

To date, NTT's purchases from U.S. suppliers have been quite small in value terms and limited to low-technology, low-volume purchases. Only a few contracts for high-technology items have been opened to foreign bidders, and none of these has resulted in major high-technology purchases from U.S. firms. As of September 1982, NTT's foreign purchases under the Agreement totaled less than 1 percent of its total purchases.

During the negotiations that led to the agreement, Japan projected that NTT would open bidding to foreign suppliers on equipment worth 6 billion SDRs during the first 3 years of the agreement. In fact, as of yearend 1982, NTT had only opened up 1.4 billion SDRs worth of equipment purchases to foreign

1/ For instance, the Japanese semiconductor industry claims that Japan Development Bank loans represent only a small share of the total investment by the industry, and the interest cost savings are in the range of 1 percent annually. Furthermore, they charge that U.S. companies were simply not ready to meet market demand for 64K RAMs in 1981, thus forcing American computer manufacturers to turn to imported products in order to maintain their technological leadership. See statement of the Electronic Industries Association of Japan before the House Ways and Means Committee Subcommittee on Trade, Mar. 10, 1983.

2/ The recommendations were adopted by the two countries in March 1983.

bidders. During the negotiations, the United States estimated that in the United States 15 billion SDRs worth of purchases would be opened to foreigners. In fact, the United States has opened more than 20 billion SDRs to foreign makers.

U.S. industry representatives have blamed the low value of purchases on NTT's failure to open its major high technology purchases to foreigners, and the small volume and low value of the low-technology purchases. NTT claims that it has been scrupulous in meeting its technical obligations under the agreement. It explains the low value of purchases on the failure of U.S. companies to bid for the projects.

NTT generally designs the products it uses, then asks companies to manufacture them using its specifications. Some U.S. firms claim that the products are generally not commercially viable and that it is difficult to make profits when the quantity procured is so small. Therefore, they have held back from manufacturing products to NTT's specifications.

Japan's industrial policies

The United States recognizes the legitimacy of foreign government policies designed to produce a climate of economic growth and political stability. International organizations, such as the OECD, recognize the usefulness of policies that are intended to ease the movement of resources from low to high growth sectors and those designed to cushion the impact of changed external conditions, such as trade adjustment assistance. When those policies have adverse effects on the commercial interests of another country, for instance, by promoting exports or limiting imports, their legitimacy is called into question. During 1982, Japanese industrial policies, particularly those relating to high-technology industries and to structurally depressed industries, received greater attention in the United States. Some labor unions and corporations suggested that these policies may have adverse consequences on U.S. industries.

This concern was fueled by a petition filed in May by Houdaille Industries, an American producer of numerically controlled machine tools, seeking the denial of investment tax credits for companies that purchase Japanese machine tools. Citing a previously unused provision of the Revenue Act of 1971, the company charged that the Japanese Government discriminated against the United States by tolerating an international cartel. Under section 103 of the Revenue Act of 1971, the President is authorized to deny eligibility for the 10-percent investment tax credit if he finds that a foreign government "engages in discriminatory or other acts (including tolerance of international cartel) or policies unjustifiably restricting U.S. commerce."

The Houdaille case focused on the actions of the Japanese Government in creating and monitoring a cartel in the machine tool industry since the early 1950s. The cartel was formed in response to three successive industry promotion laws. In its petition, Houdaille claimed that MITI used administrative guidance to weed out companies with small market share, increase specialization, and increase the technological level of Japanese machine tools. The Japanese government was charged with providing the members of the cartel with special tax benefits, concessionary loans, R. & D. subsidies, and grants. ^{1/}

184

^{1/} In April 1983, the President decided not to give Houdaille import relief based on the allegations in its petition.

In Japan, general exemptions from the Antimonopoly Law of 1947 permit the creation of cartels in specific instances. Specific exemptions are allowed for the formation of two kinds of cartels: (1) depressed industry and (2) rationalization. According to its 1981 report to the OECD, Japan had over 400 authorized cartels, as of March 21, 1980, not including structurally depressed industry cartels.

Producers or their trade associations are permitted to form depression cartels when there is an extreme disequilibrium of supply and demand for a particular product. Rationalization cartels involve concerted activities by producers when they are found necessary by the Government to advance technology, improve the quality of goods, reduce costs, increase efficiency, or for other rationalization purposes.

Industrial policy toward the high technology industries.---A major economic policy objective of Japan is the encouragement of knowledge-intensive, high-value-added industries. This policy goal was adopted in light of the diminishing competitiveness of Japanese labor vis-a-vis that in developing countries and the restricted growth for its major industrial products, such as steel, machinery and equipment, and automobiles. To meet the general goal of moving its industrial structure to higher value-added products, the Japanese Government provides support designed to supplement private efforts, including tax incentives, generally moderate cash grants, organization of research and development cooperatives, and concessionary loans. 1/ Japan argues that it does not (now) impose import restrictions or give export incentives to meet its industrial policy goals, and thus does not infringe on the rights of its trading partners.

In a 1982 report, the Cabinet Council on Commerce and Trade claimed that the U.S. lead in many high-technology sectors was declining. 2/ Meanwhile, high technology industries, including the semiconductor, machine tool, and computer industries, were increasingly vocal in blaming their declining competitiveness on concerted efforts by the Japanese to penetrate high technology markets.

In response to these concerns, the U.S. Government began to work with Japan to alleviate problems in the high-technology area, forming the U.S.-Japan high-technology work group described in the previous section and asking Japan to begin a dialogue on industrial policies, discussed below.

Industrial policy toward the structurally depressed industries.---Under the "Temporary Law for Stabilization of Depressed Industries," passed in 1978, Japanese industries meeting specific conditions--substantial capacity underutilization, high unemployment, and low profitability--can be designated by the Government as "structurally depressed" upon the application of at least two-thirds of the firms in the industry. 3/ When an industry has been so

1/ It should be noted that these methods have been used at different times to achieve various economic policy objectives, for example, to rebuild industries after the war.

2/ See "Assessment of U.S. competitiveness in high technology industries," U.S. Department of Commerce, International Trade Administration, 1983.

3/ Japan has a long history of countercyclical cartel arrangements. In 1925, legislation was passed which authorized such cartels and in 1931, the Government was authorized to compel all firms in an industry to become members of cartels if two-thirds of the firms in the industry requested to form a cartel. See Richard E. Caves and Masu Uekusa, Industrial Organization in Japan, The Brookings Institution, Washington, D.C., 1976, p. 49.

designated, the Government Ministry with responsibility for that sector sets in motion a plan to eliminate excess capacity, oversees new investments, and is empowered to "guide" firms into new lines of business. A government fund provides loan guarantees and tax credits to help member firms regain competitiveness and to underwrite restructuring. The Ministry of International Trade and Industry is empowered to set prices for the affected firms. The firms in the industry may also organize depression cartels. Members of the designated depressed industry are exempted from antitrust laws in all areas except mergers and joint ventures.

The purpose of the depressed industries law, which was to be operative for 5 years, is to spread throughout the industry the burdens of adjustment to changed market conditions, such as those experienced in many of Japan's basic materials industries in the wake of the oil shocks of the 1970s. Production is to be streamlined and improved through coordinated capacity cuts and targeted investment. Six industries were initially designated as structurally depressed in the law: (1) aluminum smelting, (2) synthetic fibers, (3) paper and paperboard, (4) fertilizers, (5) electronic furnace steelmaking, and (6) shipbuilding. In 1982, petrochemicals was designated as a depressed industry. Only one industry--shipbuilding--has become strong enough in the intervening period not to be considered for redesignation under new depressed industry legislation passed by the Diet in April 1983.

U.S. trade officials have criticized the "depressed industry" law, noting that in most of these industries American firms enjoy a competitive advantage. However, formal trade restrictions are not part of the restructuring measures provided for under the law. ^{1/}

Other potential problems with the law for the U.S. point of view include the fact that although two-thirds of the firms in the industry must apply in order to be designated as "structurally depressed," all the firms in the industry are not compelled to join in the restructuring effort. Therefore, some firms may enjoy the benefits of a cartel without the obligation to reduce capacity. This can lead to the situation, as witnessed in electronic furnace steelmaking, where one firm--the largest in the industry--refused to join the cartel and has now doubled its production levels. The combination of firms may also have important effects on the structure of international competition. For instance, the recent merger of three Japanese paper producers has resulted in the formation of the world's largest producer of paper and paperboard.

United States' response.--The United States is concerned about industrial policies that have the effect of reducing access to foreign markets or that give the affected firms significant advantages in the world market. However, much more must be learned about specific foreign industrial policies and their effects on U.S. trade and economic interests.

In order to formulate appropriate policies, in late 1982 U.S. trade policymakers began to explore various foreign industry promotion efforts and to grapple with the issues these policies raise. In early 1983, the United States asked Japan to begin a dialogue on industrial policy in order (1) to

^{1/} In one depressed industry--aluminum smelting--U.S. producers have consistently increased their shipments of aluminum ingot to Japan, nearly tripling shipments from 1980 to 1981. U.S. shipments to Japan of unwrought 186 aluminum rose by 48 percent, in terms of quantity, from 1981 to 1982.

understand the specifics of Japan's programs to foster high-technology industries and to cushion declining industries; and, (2) to discuss the possible implications of those actions.

Investment

The United States and Japan represent the two largest sources of investment capital in the world. The United States would like to see greater two-way investment between Japan and the United States because it believes that (1) higher levels of U.S. investment in Japan would provide U.S. firms with greater access to Japanese markets and distribution channels; and, (2) greater investment by Japan in the United States would provide jobs in this country, improve overall productivity, and have a moderating effect on the U.S. bilateral trade deficit with Japan.

Foreign investment in Japan has been sharply limited by the Japanese Government in the postwar period. Recently, many restrictions have been removed. However, U.S. investment in Japan is still low in comparison with U.S. investments in other countries, accounting for only 3 percent of total U.S. foreign direct investment. Following World War II, Japan enacted legislation that subjected foreign direct investment to case-by-case Government screening and approval. Amendments to Japan's foreign investment laws replaced this screening process with a notification requirement, and reduced the number of sectors where foreign investment is restricted to four--mining, petroleum, leather and leather products, and agriculture, forestry, and fisheries. Foreign investment in eleven designated firms is also prohibited. In principle, investment outside of these areas is free from Government interference. However, Japan has reserved its right to limit individual investments for national security or economic reasons (although it has never done so.)

Beyond formal restrictions, foreign investments in the form of acquisitions of existing Japanese companies are virtually impossible because Japanese law requires the unanimous consent of the directors of the firm to be taken over. Unanimous consent is hard to obtain since the directors are often life-long employees of the firm.

Until recently, Japan has not invested heavily in the United States. However, in fiscal 1981 (ending March 1982) new Japanese investment in the United States rose by over 50 percent from previous years levels, topping a record set in fiscal 1980. Over one-fourth of new Japanese foreign investment--\$2.3 billion--was directed to the American affiliates of Japanese companies. Well over half of total Japanese direct investment in the United States (new investment plus prior investments) is in trade and commercial activities, rather than in manufacturing. One-sixth of Japanese direct investment in the United States (new investment plus prior investments) was in manufacturing.

In order to provide a more positive environment for investment and to increase investment flows, the United States is advocating a joint effort by the two countries to identify the remaining barriers to investment in Japan and to explore ways, both formal and informal, to remove these barriers. The Office of the Trade Ombudsman, established in the January 13 market access package, may help resolve specific investment complaints.

Changes in Japan's financial system

The Japanese financial system has undergone substantial liberalization since the late 1970s, resulting in part from the switch to floating exchange rates and from foreign pressure on Japan to internationalize its capital markets. The system has also changed in response to changed domestic conditions, such as large budget deficits, slower growth, and the growing tendency of Japanese companies to finance most of their new investments through retained earnings and depreciation.

Because Japan's savings rate is high, the country has a structural propensity to export capital. The United States has pressed Japan to open its financial system to foreigners in the belief that this would improve U.S. companies ability to raise funds in Japan and would boost the role of the yen as a medium for global exchange. Specifically, the United States has asked Japan to (1) create a more market-determined financial system; (2) allow unrestricted and timely access to yen financing; and (3) eliminate controls on capital flows into and out of Japan.

Prior to 1980, Japanese financial authorities kept Japanese interest rates below market clearing levels by influencing the allocation of credit, maintaining interest rate ceilings (similar to Regulation Q in the United States), and exercising control over banks' access to funds. In 1979, Japan removed controls on interest rates for key short-term instruments: call money, certificates of deposit (CDs), commercial bills, and gensaki transactions (bond repurchase agreements). Certain controls are still in effect such as ceilings on deposits, and waiting periods for bond issues.

New bank rules.-- Japan's new bank law, which went into effect in April of 1982, provides for equal treatment of all banks, domestic and foreign. Now foreign banks can solicit deposits, issue certificates of deposit, establish additional branches, participate in official export/import programs, and acquire Japanese banks as long as there is mutual consent.

Under the new law, foreign banks, will be allowed to sell Japanese government bonds beginning in April 1983. All (domestic and foreign) securities firms will now be allowed to offer a general bond account, similar to cash management accounts in the United States. Accounts which offer combined services-- trust funds, loans, and credit cards-- can also be offered in Japan for the first time.

Bonds.-- Until recently, yen-- or Samurai-- bond flotations were limited to large entities, such as foreign governments and international organizations. Japan has made several changes in this area. In 1982, three U.S. firms were allowed to float bonds in Japan without being subjected to established procedures which normally only allow the flotation of secured debts. As of January 1, 1983, new Japanese rules permit any foreign borrower with an AAA rating to issue bonds in Japan. The maximum waiting period for floating an issue has been shortened from one year to one quarter, and the limit on one foreign issue per quarter has been eliminated.

Securities.-- Foreign securities firms in Japan have traditionally been restricted in their activities. In 1982, a number of these restrictions were eased and many Japanese regulations were changed, effectively giving foreign securities firms national treatment by the autumn of 1982. For example,

previously, foreign firms could not manage or underwrite issues in Japan. However, a U.S. securities firm recently co-managed a public issue. In the past, foreign securities firms could not arrange private placements in Japan; under the new rules, two U.S. securities firms recently participated in major transactions. Foreign securities firms could not buy seats on the Japanese stock exchange. However, the Tokyo Stock Exchange recently changed its rules to permit membership by foreign firms.

Syndicated loans.--Access to syndicated loans has also been limited. In 1982, the Ministry of Finance loosened administrative guidance regarding eligible borrowers. Previously, only the most creditworthy companies had been allowed to raise funds in the Japanese market, and by designating a \$50 million minimum, borrowing was restricted to major loans. That minimum has now been lowered and the list of qualified borrowers expanded, thus opening the market to smaller firms.

Capital flows.--Since the late seventies, Japan has significantly liberalized capital controls. The "Amended Foreign Exchange and Foreign Trade Control Law" of 1980 allowed Japanese residents to hold unlimited foreign currency deposits. As a result, both inward and outward flows of capital have surged.

Japan still maintains some control on capital flows through administrative guidance. ^{1/} In the past two years, the Government has used administrative guidance to limit foreign access to yen financing. These limits may have been aimed at limiting capital outflows in order to stem downward pressure on the yen. (See section on yen/dollar exchange rate below).

Japanese domestic capital began flowing out of the country heavily in 1981; the outflow of capital doubled from 1980 to 1981, totaling \$22 billion in 1981. In 1982, the trend toward heavy capital outflows accelerated. These massive outflows of capital reflected pent-up Japanese demand for foreign investments and high real rates of return on foreign investments, especially dollar instruments. Japan experienced a record deficit in its capital account of \$15 billion in 1982, more than double the deficit experienced in 1981, when it stood at \$6.5 billion. The capital account deficit was also more than double Japan's surplus on current account of \$6.9 billion in 1982. As a result, the yen was under constant pressure of depreciation during the year.

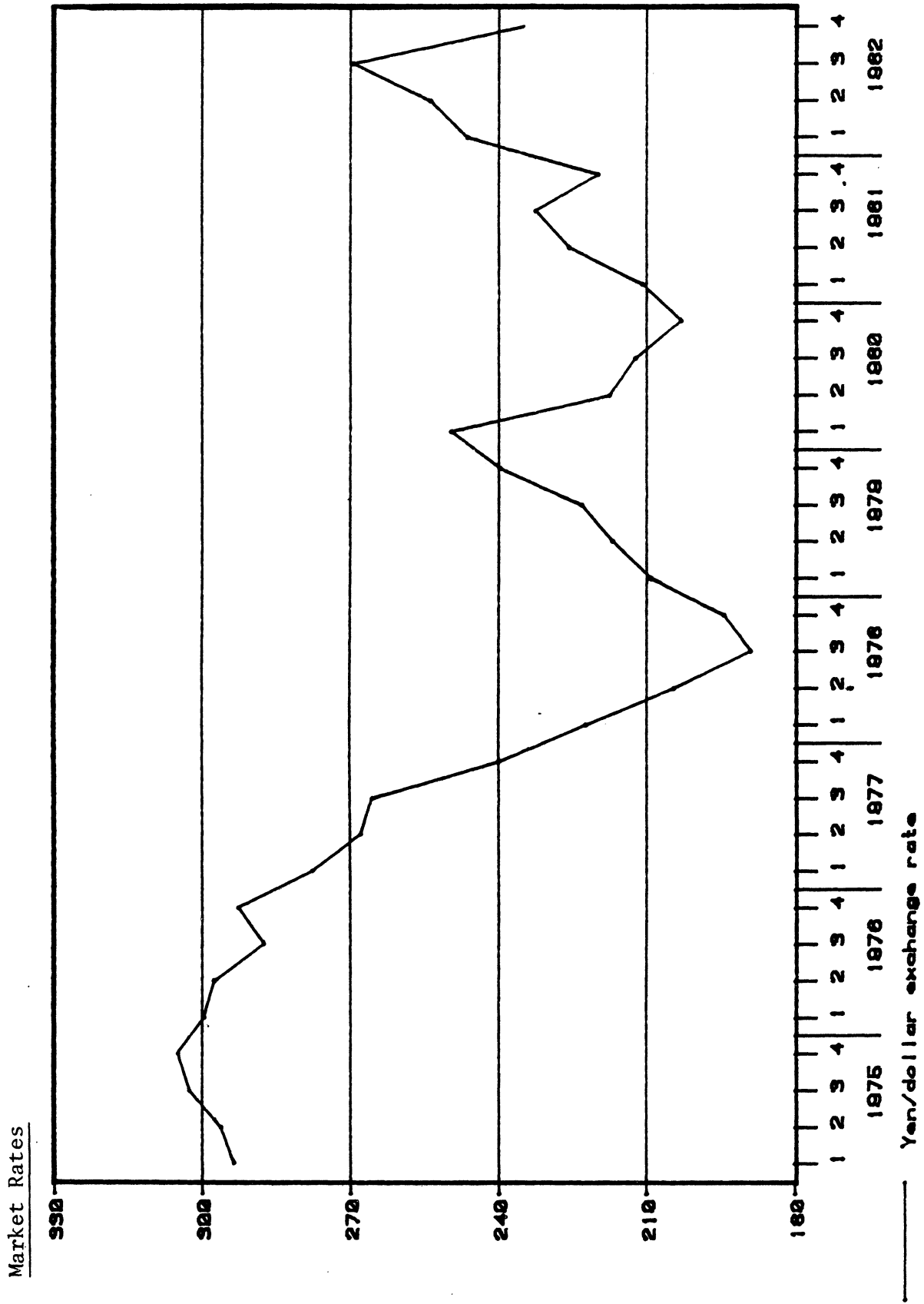
The liberalization of Japanese financial markets is still a major policy goal of the United States. The United States will continue to seek unrestricted and timely foreign access to yen financing and to encourage Japan to eliminate capital controls, despite the fact that massive outflows of capital from Japan were a major factor behind yen weakness in both 1981 and 1982.

The yen/dollar exchange rate

From the second half of 1980 to the present, the dollar has appreciated against most major currencies, including the Japanese yen and the German mark. The dollar has appreciated by about 22 percent relative to the yen since the beginning of 1981 (see Figure 5 and Table 23).

^{1/} For the purposes of this report, administrative guidance refers to the process whereby government officials issue guidance either written or oral to industries and firms over which they have regulatory authority.

Figure 5.-- Yen/dollar exchange rate by quarters, 1975-82



Source: International Financial Statistics, various issues

Table 23.--Yen/dollar exchange rate by quarters, 1975-82

Year	I	II	III	IV
1975-	293.80	296.35	302.70	305.15
1976-	299.70	297.40	287.45	292.80
1977-	277.50	267.70	265.45	240.00
1978-	222.40	204.70	189.15	194.60
1979-	209.30	217.00	223.30	239.70
1980-	249.70	217.60	212.20	203.00
1981-	211.00	225.80	232.70	219.90
1982-	246.50	254.00	269.50	235.00

Source: International Monetary Fund, International Financial Statistics.

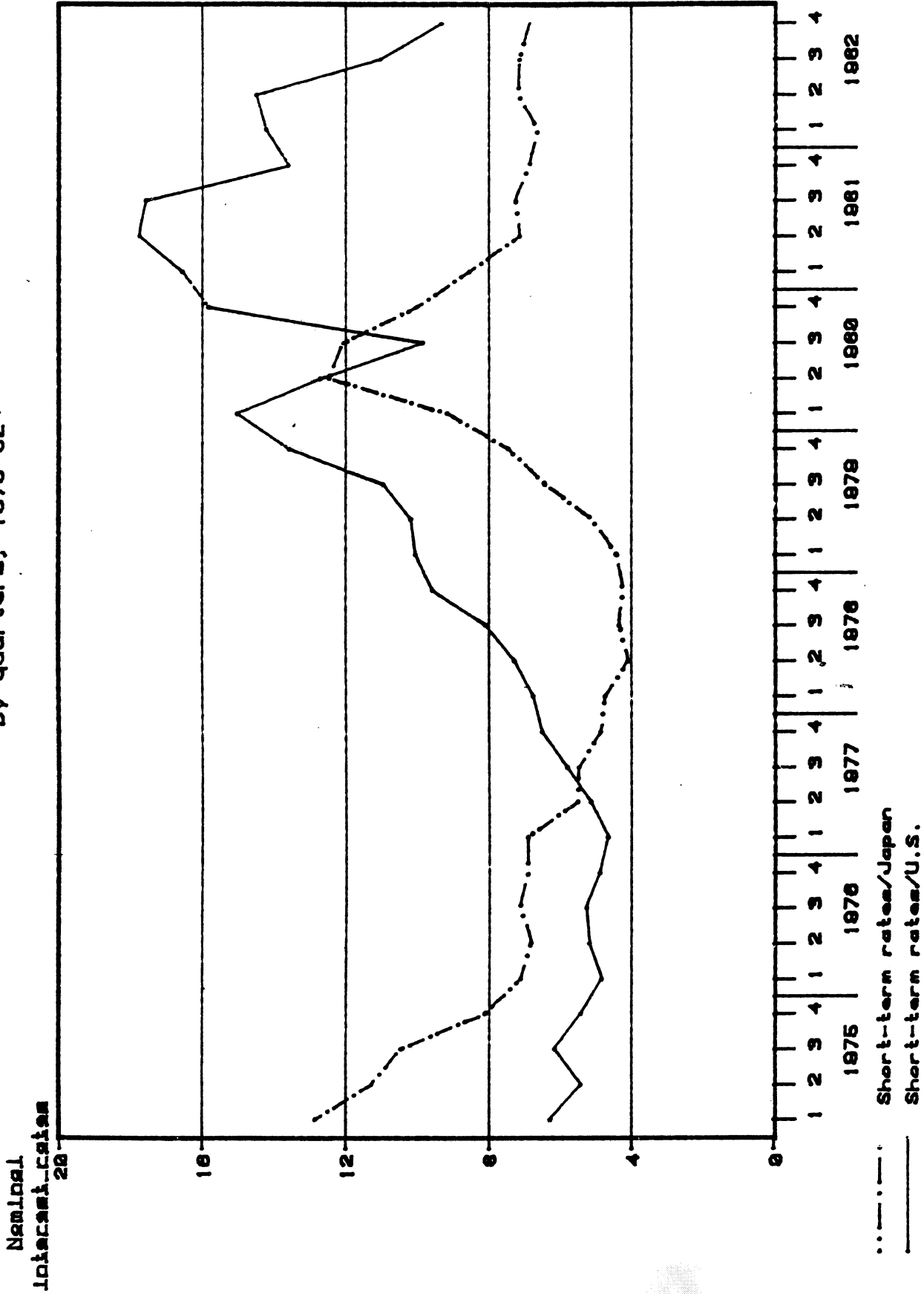
During much of 1982, the depreciation of the yen relative to the dollar has exacerbated trade tensions by increasing the competitiveness of Japanese goods in the American market, dulling the price competitiveness of American goods in foreign markets, and weakening the U.S. trade balance with the world and with Japan. Some economists believed that the yen-dollar exchange rate was misaligned and needed correction; in light of the generally strong performance of the Japanese economy in 1982 and its favorable long-term prospects, some felt that the yen was "undervalued" relative to the dollar. However, many economists viewed this as a "dollar problem," because extremely high nominal and real interest rates in the United States have attracted foreign investors to dollar instruments. Several major business groups in the United States and some economists pointed to the alleged misalignment of the dollar vis-a-vis the yen as the most important reason for the swelling bilateral trade deficit with Japan and the generally poor performance of U.S. companies in third-country markets over the past 2 years.

The yen was under virtually constant downward pressure in 1982 because external performance was weaker than most forecasters had predicted and because capital outflows were extremely large. Some of the more important factors that affected the yen-dollar exchange rate in 1982 are discussed in the following sections.

U.S. interest rates.-- In 1979, just prior to the easing of capital controls in Japan, the U.S. Government adopted restrictive monetary policies in an effort to curb inflationary pressures. These policies had the effect of raising nominal and real interest rates in the United States to extremely high levels, thus attracting many international investors to U.S. investments because of the more favorable real rate of return on U.S. instruments. This rising demand for dollar instruments tended to bid up their value. Figure 6 and table 24 compare short-term nominal interest rates in the United States and Japan from 1975 to 1982.

Limits on Japan's exports.-- In the wake of a deep and prolonged global recession and structural difficulties, many countries, including the United States and the European Community, have increasingly resorted to protection of domestic industries from foreign products. Japan has been forced to limit its shipments to most major markets in such products as textiles, televisions, machine tools, automobiles, and steel. In 1982, the European Community adopted a strategy on Japan, which included efforts to pressure Japan to limit its exports to the EC and institution of a GATT Article XXIII case against

Figure 6. -- Short-term interest rates in Japan and the United States, by quarters, 1975-82.



Source: International Financial Statistics, various issues

Table 24.—Short-term interest rates in Japan and the United States, by quarters, 1975-82

Year	I	II	III	IV
Short-term interest rates in Japan				
1975	12.86	11.27	10.45	8.10
1976	7.09	6.80	7.13	6.88
1977	6.90	5.51	5.46	4.85
1978	4.74	4.10	4.36	4.23
1979	4.43	5.12	6.43	7.46
1980	9.18	12.47	12.06	10.01
1981	8.52	7.12	7.25	6.85
1982	6.61	7.17	7.12	6.84
Short-term interest rates in the United States				
1975	6.30	5.42	6.16	5.41
1976	4.83	5.20	5.28	4.88
1977	4.66	5.16	5.82	6.51
1978	6.76	7.28	8.10	9.58
1979	10.07	10.18	10.95	13.58
1980	15.05	12.69	9.84	15.85
1981	16.57	17.78	17.58	13.59
1982	14.23	14.51	11.01	9.29

Source: International Monetary Fund, International Financial Statistics.

Japan. In addition, the U.S. Congress was considering a number of bills in 1982 that would limit Japan's imports, notably the so-called local content bill. Limits on imports from Japan are intended to alleviate problems for particular industries, however, they can have a depressing effect on the value of the yen. This is because import restrictions generally reduce demand for the currency of the affected country (since foreign exchange to purchase these goods is no longer necessary), thus lowering the currency's value.

Mexico

The Economic Situation in 1982

In 1982, Mexico suffered a series of economic shocks that caused a massive upheaval in its economy. Because the central bank lacked resources to support consistently the peso, the value of the peso plunged 73 percent against the U.S. dollar on foreign exchange markets. Despite attempts to control prices, the consumer price index increased by close to 100 percent during the year. Declining export prices of oil, coupled with high interest rates on foreign loans, resulted in Mexico's inability to pay off the loans. ^{1/} Consequently, Mexico was forced to seek emergency loans from

^{1/} At the beginning of 1982, Mexico's total foreign debt (public and private) was more than \$70 billion. At the end of 1982, total foreign debt was more than \$80 billion.

foreign central banks, and to postpone repayment of debts owed foreign commercial banks. In addition, Mexico was forced to agree to austere economic measures to obtain a \$4 billion loan from the International Monetary Fund (IMF). In an effort to deal with the lack of foreign exchange, the threat of default, and the plunging peso, the Mexican Government nationalized all Mexican-owned banks and established a system of exchange controls. As a condition of the loan agreement, Mexico sharply reduced Government spending.

After 4 years in which Mexico experienced a real rate of economic growth of about 8 percent per year, Mexico saw an end to its growth in 1982; Mexico's growth rate is expected to be negative in 1983. Economic growth had been sustained by growing earnings from oil exports, increased Government spending and investment, and increased investment by the private sector (domestic and foreign). Government deficits had been easily financed by borrowing from foreign commercial banks. As long as the world demand for oil was strong and its dollar prices continued to rise, foreign bankers had buoyant expectations about the Mexican economy.

Sharp increases in oil export prices and oil export revenues seemed to insulate Mexico from external recessions. In mid-1981, however, the global recession caused the world demand for oil to decline. The decline in demand led to an international wave of price cutting that continued in 1982. The global recession affected adversely not only Mexico's earnings from oil exports, but also its earnings from tourism. The extension of the recession to Mexico aggravated a flight of capital from Mexico in what then-President Lopez Portillo called a "devaluation psychosis." ^{1/} Much of the transferred capital was invested in real estate in the United States.

Government reaction to economic crisis

During the first 6 weeks of 1982, the peso-dollar rate of exchange averaged about 26.5 to 1. As future events proved, this rate was made possible by support for the peso on foreign exchange markets by the Bank of Mexico. On February 17, the Bank of Mexico announced that it was temporarily withdrawing from foreign exchange markets. The Bank's Director General blamed this action on the world recession, high interest rates on Mexico's foreign debts, reduced oil-export earnings, and strong efforts to control inflation in the industrialized nations. Before the end of the month, the rate of exchange fell to 47.0 pesos per dollar, or by 43.6 percent.

^{1/} Largely because of growing disparities between the rates of inflation in Mexico and the United States, and support for the peso in foreign exchange markets by the Bank of Mexico, the peso had become overvalued (in terms of the peso-dollar exchange rate). Belief that the peso was over valued caused apprehension among holders of peso and foreign-currency-denominated bank deposits. Lacking faith in the future of the peso, many of these asset holders moved assets to safer havens abroad.

The Government mandated wage increases of between 10 and 30 percent (depending on the wage bracket) to compensate for the increase in the rate of inflation, 1/ stimulated by the February peso float. Minimum wages, whose percentage increases often have been a pace setter for percentage increases in other wage scales already had been increased by 34 percent in January. It had been expected that the wage increases would be between 10 and 15 percent.

In conjunction with the peso float, the Government announced that the peso would continue to be freely convertible into other currencies, and that dollar deposits in Mexico's financial institutions would not be frozen.

In mid-March, in order to adjust to peso depreciation and try to restrain inflation, the Government announced a 12-point program of policies and measures, the Economic Policy Adjustment Program. Some of these points were (1) a 3-percent reduction in Government spending; 2/ (2) the imposition of price controls on 47 basic consumer products; (3) authorization of fiscal incentives, totaling 35 billion pesos, to promote production and consumption of basic goods; (4) reduced import duties on 1,500 mass-consumption goods, raw materials, and capital goods; (5) Government absorption of up to 42 percent of companies' losses in currency-exchange operations, along with the provision of special facilities for firms that experienced liquidity problems because of the peso float; and (6) expansion of credit for "priority" firms if they have reached and maintained certain goals of the Government.

In late April, the Secretary of Finance and Public Credit, Jesus Silva Herzog, announced a 17-point austerity program. Among the stated actions (1) the Government would reduce the ratio of the public sector deficit to gross national product by 3 percentage points from the ratio of 9.5 percent experienced in 1981 to 6.5 percent in 1982; (2) the Government would complement spending reductions by increasing Government income by 150 billion pesos through price and tax increases; (3) the maximum amount by which the public sector foreign debt could be increased in 1982 would be \$11 billion; (4) public sector imports would be reduced by \$3 billion; (5) the Bank of Mexico would guarantee private firms ready access to dollar financing when needed; and (5) when conditions warranted, the Bank of Mexico would reenter the foreign exchange markets to stabilize the rates of exchange of the peso and to prevent it from becoming overvalued.

Early in June, the Bank of Mexico returned to the foreign exchange markets. In announcing the resumption of intervention, the Secretary of Finance and Public Credit indicated that the Government would not establish a fixed exchange rate; it anticipated enough slippage ". . . to maintain a balanced exchange rate."

1/ In March 1982, the CPI was 5.4 percent higher than in February 1982, and 13.1 percent higher than in December 1981. Hence, for persons in lower wage brackets, this wage increase was made in anticipation of continued increases in the CPI rather than to offset increases in the CPI that occurred in January-March 1982.

2/ Even with this reduction, the projected budget expenditure was 26.8 percent higher than for the previous fiscal year.

In spite of the Mexican Government's efforts to implement its austerity program, confidence in the peso declined, and capital flight continued. 1/ Then, on August 5, Silva Herzog announced that the Bank of Mexico was withdrawing support for the peso again. This was the second time in less than 6 months that a major peso float occurred. The peso rate fell from 48 to 90 per dollar on the free market within a few days. The Government established a preferential rate of slightly more than 49 pesos per dollar to be used in meeting the dollar costs of purchasing essential goods and services. Leaders in the private sector voiced concerns that the Bank of Mexico would give preferential treatment to State run companies in the allocation of subsidized dollars.

On September 1, President Lopez Portillo nationalized all Mexican-owned private banks and imposed strict exchange controls. The Government established two official exchange rates--(1) a rate of 50 pesos per U.S. dollar applicable to payments for indispensable imports, and (2) a rate of 70 pesos per dollar for other purposes. 2/

Mexico's expropriation of privately owned banks was restricted to those of Mexican ownership. 3/ These banks owned or controlled many nonbanking corporations that were segments of various industries. Consequently, nationalization of the banks raised the issues of compensation of the former owners, and the timing and extent of divestiture of the stock of the nonbanking companies. 4/

At yearend, the Mexican Government announced that price subsidies and controls on 2,500 goods would end, and that subsidies and controls on 2,200 other items would be reduced. Only 300 articles of basic consumption remained under strict price controls. The Government also announced that, effective January 1, 1983, minimum wages would be increased by 25 percent. 5/

1/ The government did not "apply the brakes" too vigorously, because doing so would have greatly disrupted social and economic programs to which it had a strong commitment. Consequently, inflation worsened. The competitive gains that otherwise could have benefitted nonoil exports (because of peso depreciation) were erased.

2/ Previously, Mexico had prided itself on having maintained free convertibility of the peso. That status had encouraged foreign investment in Mexico and had facilitated the international payment of interest and dividends. The Government closed the banks on Sept. 1 and reopened them on Sept. 6. Mexico then had a system of exchange controls for the first time in its history. Before the imposition of controls, the free market price of dollars had gone as high as 130 pesos. Because of a persistent dollar shortage, the free-market rate has gone even higher since then.

3/ As of Sept. 1, 1982, the First National City Bank (Citibank), headquartered in New York, was the only foreign bank that had branch offices in Mexico. Many other foreign-headquartered banking companies had representative offices there.

4/ In late December, the Mexican Government announced that it planned to sell 34 percent of the stock of the recently nationalized banks to Federal, State, and local government agencies, and to the private sector. However no shares would be sold until the Federal Government had decided how to compensate the former owners of the banks. The announcement also indicated that the Government would keep 66 percent ownership of the 57 nationalized banks, and that it would reorganize them into 6 or 8 institutions.

5/ In Mexico, minimum wages are differentiated on the basis of area or region of the country.

Foreign credit and loan assistance

In mid-August, a series of actions was taken to further Mexico's international liquidity. The Bank of Mexico activated its \$700 million currency-swap line with the Federal Reserve Bank of New York. ^{1/} In other components of a foreign aid package, (1) the U.S. Government made an advance payment of \$1 billion for increased shipments of Mexican oil to the U.S. Strategic Petroleum Reserve, (2) the U.S. Commodity Credit Corporation gave Mexico a \$1 billion line of credit to purchase U.S. agricultural products, and (3) 11 western central banks extended a line of credit of \$1.85 billion to the Mexican Government. Of this latter amount, \$925 million was provided by the U.S. Federal Reserve; \$175 million, by the Bank of Spain; and \$750 million (total), by the central banks of the United Kingdom, France, West Germany, Italy, Switzerland, the Netherlands, Sweden, Canada, and Japan. The central banks agreed to make these loans in order to help Mexico meet certain foreign debt obligations until a longer term arrangement could be negotiated with the International Monetary Fund. Mexico also sought to delay repaying \$10 billion in principal on maturing loans from several hundred foreign commercial banks.

The Government of Mexico also began negotiations with the IMF during the summer of 1982 to obtain a line of credit of about \$4 billion. Reaching an agreement was vital to Mexico's obtaining a short-term moratorium on its repayment of loans from hundreds of commercial banks, because the agreement would be evidence of Mexico's credit-worthiness. The Mexico-IMF negotiations were successful. The IMF Board of Directors approved Mexico's loan application, effective December 23, 1982. Following these negotiations, the Bank for International Settlements made additional disbursements under its \$1.85 billion loan agreement with Mexico. The remainder of the financial rescue package consisted of loans amounting to \$2 billion from official sources, such as the World Bank and the Inter-American Development Bank, and \$5 billion from private commercial banks.

The agreement with the IMF obliges Mexico to---

1. Reduce the ratio of its budget deficit to gross domestic product, from 16.5 percent in 1982 to 8.5 percent in 1984, and to 3.5 percent in 1985.
2. Limit the growth of net external borrowing in 1983 to \$5 billion (compared with \$20 billion in 1981). Relate changes in such net borrowing in 1984 and 1985 to changes in GDP.
3. Increase prices of Government-provided goods and services.
4. Phase out Government export subsidies and the system of import licensing.
5. Improve its tax collection system.

197

Officials of intergovernmental and commercial lending institutions consider it essential that financial rescue agreements require borrowers to correct the conditions that led (or contributed substantially) to their

^{1/} The "swap line" is a line of credit.

problems. Because of the enormous exposure of these lending institutions to countries with shaky economies, the combination of rescue operations and borrowers' corrective actions is considered necessary to prevent the international financial system from collapsing. At the end of 1982, as previously indicated, Mexico's foreign debt was more than \$80 billion. About 75 percent was accounted for by the public sector.

International Economic Performance

Balance of payments

Mexico has had annual current account deficits for more than 10 years. Mexico's balance on current account was the equivalent of -\$4.9 billion in 1979, -\$6.8 billion in 1980, -\$11.7 billion in 1981, and -\$2.7 billion in 1982. The balance on capital account was \$4.5 billion in 1979, \$9.8 billion in 1980, and \$18.2 billion in 1981. Mexico's international reserves (gold, silver, foreign exchange, and reserve position in the IMF) at yearend amounted to \$3.1 billion in 1979, \$4.0 billion in 1980, \$5.0 billion in 1981, and \$1.8 billion in 1982.

Merchandise trade with major trading partners

Mexico's merchandise exports amounted to \$15.3 billion in 1980, \$18.9 billion in 1981, and \$21.2 billion in 1982. Its merchandise imports were valued at \$18.1 billion in 1980, \$23.1 billion in 1981, and \$13.4 billion in 1982. There were trade deficits of \$2.8 billion in 1980 and \$4.2 billion in 1981. Reversing a trend of many years, Mexico had a trade surplus of \$7.8 billion in 1982. (See table 25). This surplus was the result of sharply reduced imports. The reduction in imports was attributable to an acute shortage of hard currencies, and to the economic recession that persisted in Mexico throughout the year.

In 1982, Mexico's exports to industrialized countries (developed countries with market economies) amounted to \$18.1 billion; imports, to \$12.4 billion; and its trade surplus with such countries, to \$5.7 billion. Table 26 indicates the importance of crude petroleum exports to Mexico's economy. The United States continued to be Mexico's leading trading partner. In 1982, the United States accounted for 65.6 percent of Mexico's exports to industrialized countries, and for 56.2 percent of Mexico's total imports. The United States was the source of 72.1 percent of Mexico's imports from industrialized countries, and for 66.7 percent of Mexico's total exports. The European Community (EC) accounted for only 11.3 percent of Mexico's exports even though it embraces a bloc of countries. Also in 1982, the EC was the source of 12.8 percent of Mexico's imports.

It is doubtful that Mexico will be able to increase further its exports of crude oil in 1983 without restricting domestic consumption of petroleum products. Like the Government as a whole, Petroleos Mexicanos (Pemex) has an austerity program. Pemex's program has forced it to cancel or postpone various expansion projects to permit it to sustain output in fields that are already in production.

Table 25.—Mexico's trade and trade balances, by selected trading partners, 1980-82

(In millions of U.S. dollars)			
Trading partner	1980	1981	1/ 1982
Exports			
Industrialized countries:			
Canada-----	116	2/ 66	579
Japan-----	671	1,157	1,241
United States-----	10,072	2/ 10,716	11,887
European Community-----	1,133	2/ 1,644	2,385
Other-----	1,292	2/ 1,993	2,005
Subtotal-----	13,284	2/ 15,576	18,097
Developing countries:			
Oil-exporting countries 1/-----	124	2/ 91	74
Other-----	1,713	2/ 2,988	2,866
Subtotal-----	1,837	2/ 3,079	2,946
Nonmarket economy countries:			
China-----	93	170	82
U.S.S.R-----	3	4	8
Other-----	92	65	36
Subtotal-----	188	239	126
Total-----	15,309	2/ 18,894	21,163
Imports			
Industrialized countries:			
Canada-----	352	445	329
Japan-----	988	1,204	676
United States-----	11,979	15,397	8,921
European Community-----	2,556	3,029	1,717
Other-----	813	1,084	732
Subtotal-----	16,688	21,159	12,375
Developing countries:			
Oil-exporting countries 1/-----	54	53	34
Other-----	1,015	2/ 1,599	774
Subtotal-----	1,069	2/ 1,652	808
Nonmarket economy countries:			
China-----	66	115	55
U.S.S.R-----	12	16	9
Other-----	299	181	199 125
Subtotal-----	377	312	189
Total-----	18,134	23,123	13,372

See footnote at end of table.

Table 25.--Mexico's trade and trade balances, by selected trading partners, 1980-82--Continued

(In millions of U.S. dollars)

Trading partner	1980	1981	<u>1/</u> 1982
	Trade balance		
Industrialized countries:			
Canada	-236	-379	250
Japan	-317	-47	565
United States	-1,907	-4,681	2,966
European Community	-1,423	-1,385	668
Other	479	909	1,273
Subtotal	-3,404	<u>2/</u> -5,583	5,722
Developing countries:			
Oil-exporting countries <u>1/</u>	70	38	40
Other	698	1,389	2,092
Subtotal	768	1,427	2,132
Nonmarket economy countries:			
China	27	55	27
U.S.S.R.	-9	-12	-1
Other	-207	-116	-89
Subtotal	-189	-73	-63
Total	-2,825	<u>2/</u> -4,229	7,791

1/ Data for 1982 are preliminary.

2/ Revised.

3/ The country groupings used in this table follow the designations employed in Direction of Trade Statistics, published by the International Monetary Fund (IMF). Although Mexico is the source of over half of the crude petroleum imported by the United States, it is not included among the countries designated "oil-exporting countries" by the IMF. Such countries are: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: International Monetary Fund, Direction of Trade.

Table 26.--Mexico: Total exports and exports of crude oil, value and share of total, 1975-82

Year	Total exports	Exports of crude oil	
		Value	Percent of total
	Billion pesos	Billion pesos	
1975	36.30	5.44	15.0
1976	53.52	8.40	15.7
1977	102.05	22.31	21.9
1978	135.65	40.66	30.0
1979	204.86	86.43	42.2
1980	357.52	214.43	60.0
1981	474.34	325.54	68.6
1982	<u>1/</u> 1,231.83	<u>1/</u> 912.53	<u>1/</u> 74.1

1/ Values are annualized data based on actual exports during January-September 1982. The crude oil share is based on data for January-September.

Source: Compiled from data published by the IMF in International Financial Statistics.

Mexico's trade with the United States 1/

U.S. exports to Mexico were valued at \$14.9 billion in 1980, increased to \$17.4 billion in 1981, and then declined sharply to \$11.0 billion in 1982. U.S. imports from Mexico increased from \$12.5 billion in 1980 to \$13.7 billion in 1981, and to \$15.5 billion in 1982. The United States had a bilateral merchandise trade surplus with Mexico of \$2.4 billion in 1980 and \$3.7 billion in 1981, and a deficit of \$4.5 billion in 1982.

Mexico's severe shortage of dollars and its recession caused the sharp decline in U.S. exports to Mexico in 1982. 2/ Increased U.S. imports from Mexico reflected increased imports of crude petroleum and related products. In 1982, increased imports of these products accounted for more than 90 percent of the increase in total U.S. imports from Mexico.

U.S. trade with Mexico by major product classifications is shown in table 27. In 1982, leading U.S. exports to Mexico included parts of motor vehicles, motor fuel, fuel oils, certain construction and mining machinery, certain electronic components, electrical apparatus, sunflower seed, and grain sorghum. (See appendix table B-8.) Exports of refined petroleum products increased from \$30 million in 1981 to \$796 million in 1982. The increase is attributable to (1) Pemex's closing some refineries because of problems in refining heavy Mayan crude, (2) Pemex's decision to delay construction of more refineries, and (3) excess U.S. refining capacity relative to current domestic needs.

1/ The data in this section are official U.S. trade statistics as compiled by the Department of Commerce.

2/ Early in 1982, when advocating aid to Mexico and other countries because of their importance as export markets, U.S. Secretary of the Treasury Donald Regan said that the decline in net U.S. exports to Mexico translates into an estimated loss of up to 250,000 U.S. jobs.

Leading U.S. imports from Mexico in 1982 included crude petroleum; natural gas, shellfish other than clams, crabs, or oysters; metal coins; gold or silver bullion, dore, and precipitates; coffee; certain television apparatus and parts; certain finished and semifinished components and parts for motor vehicles; and apparatus for making or breaking electrical circuits. (See appendix table B-7.)

An important share of U.S. imports from Mexico consists of articles entered under items 806.30 and 807.00 of the Tariff Schedules of the United States (TSUS), which provide for duty-free treatment of U.S.-origin components or processing incorporated in imported products. The duty is levied only on the value added abroad. ^{1/}

The combined value of U.S. imports from Mexico, entered under items 806.30 and 807.00, was \$2,342 million in 1980, \$2,709 million in 1981, and \$2,855 million in 1982, as indicated in table 28.

Table 28.--Mexico: U.S. imports entered under TSUS items 806.30 and 807.00, 1980-82

(In millions of U.S. dollars)				
Item	1980	1981	1982	
Imports under 806.30:				
Dutiable-----	20	15	9	
Nondutiable-----	45	38	25	
Total-----	65	54	34	
Imports under 807.00:				
Dutiable-----	1,135	1,256	1,382	
Nondutiable-----	1,142	1,399	1,439	
Total-----	2,277	2,656	2,820	
Total, items 806.30 and 807.00:				
Dutiable-----	1,155	1,272	1,391	
Nondutiable-----	1,186	1,438	1,464	
Total-----	2,342	2,709	2,855	

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

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

^{1/} Item 806.30 of the TSUS applies to nonprecious metal articles (1) made or processed in the United States, (2) exported for more processing abroad, and then (3) returned to the United States for further processing. Item 807.00 applies to articles that are assembled abroad in whole or in part of U.S.-made components, and then imported into the United States. The existence of these provisions in the U.S. tariff has stimulated the establishment of Mexican in-bond plants ("maquiladoras"), chiefly in the Mexican border regions, which generally are owned by wholly owned subsidiaries of U.S. corporations. The maquiladoras pay no import duties on shipments into the plants and no export duties on outbound shipments.

For an in-depth statistical treatment of imports under these TSUS items, and for information on the related history of customs administration, see the U.S. International Trade Commission's report, Imports under items 806.30 and 807.00 of the Tariff Schedules of the United States, 1977-80 (Publication No. 1170, July 1981).

Mexico continued to be a beneficiary country under the U.S. Generalized System of Preferences. In 1982, 7.1 percent of all GSP duty-free imports were of Mexican origin, compared with 7.7 percent in 1981. In 1982, GSP duty-free imports from Mexico were valued at \$599 million, compared with \$634 million in 1981. In both years, Mexico was the fourth leading GSP beneficiary in terms of total value of GSP imports.

As a result of the addition of new products to the GSP, effective March 31, 1982, Mexico became eligible for duty-free treatment of products whose 1981 imports from Mexico totaled \$15.1 million. 1/ If Mexico had not exceeded the competitive need limits in that year, it would have been GSP-eligible for additional new products whose 1981 imports from Mexico totaled \$212.3 million.

On the basis of its exceeding the competitive need limits, Mexico lost GSP treatment on 39 other items whose 1981 imports from Mexico totaled \$1.2 billion. Through exercise of the so-called *de minimis* waiver, products, whose 1981 imports from Mexico were valued at \$7.9 million, remained eligible for GSP treatment. 2/ Otherwise, they would have been denied eligibility because they had exceeded the competitive need limits.

Under the President's discretionary authority, Mexico was graduated from the GSP on five TSUS items under which 1981 imports from Mexico totaled \$84.4 million. 3/ The items were 147.98 (fresh mangoes, entering November 1-April 30); 522.21 (fluorspar containing over 97 percent by weight of calcium fluoride), 532.31 (ceramic tiles, except floor and wall, including roofing tiles); 652.84 (springs and leaves for springs for motor vehicle suspension); and 683.15 (storage batteries and parts, n.e.s.).

Major policy developments affecting trade

Adoption of exchange controls, multiple exchange rates, and nationalization of banks

The adoption of exchange controls and nationalization of the banks, in early September 1982, gave the Mexican Government the tools with which to curb the outflow of foreign exchange and to ration dollars and other hard currencies. However, foreign exchange assets were already so badly depleted, that even with exchange rationing, it was impossible for the private sector to finance both high-priority imports and the repayment of outstanding foreign debt.

1/ Among the products added to the GSP, of benefit to Mexico, were lettuce, fresh or chilled, not reduced in size, if entered during November 1 to May 31; luggage, handbags, and flat goods of textile materials other than cotton; blinds, shutters, curtains, screens, and shades of unspun fibrous vegetable material, with or without their hardware.

2/ Among the products, on which the *de minimis* waiver was exercised, were organic zinc salts, n.s.p.f.; concrete floor and wall tiles; and harness and saddlery hardware, whether or not coated or plated with precious metal.

3/ For a discussion of "graduation" and other bases for changes in GSP eligibility, see the section on GSP in ch. 5 of this report.

The Government established new official exchange rates on September 1, 1982. A rate of 50 pesos per dollar was set for payment for indispensable imports, and 70 pesos per dollar applied for other transactions. At that time, the free-market rate was about 130 pesos per dollar. On December 20, the new de la Madrid administration depreciated the controlled rates. ^{1/} A "special" controlled rate of 70 pesos per dollar was to be used in connection with repayment of a limited amount of foreign currency debt. The principal ("ordinary") controlled rate, initially 95 pesos per dollar, was applicable to essential imports and other debt repayments. Government policy was to let the latter rate depreciate 50 percent over a 12-month period, with the expectation that, eventually it will be merged with the free-market rate for the vast majority of Mexico's dollar requirements.

As a result of the extreme shortage of foreign exchange, the National Foreign Investment Commission in mid-October (toward the close of the Lopez Portillo administration) issued General Resolutions Nos. 18 and 19, which deal with repatriation of earnings and the repayment of private-sector debt.

Resolution No. 18 provides that companies requesting authority to make dividend payments abroad must establish that the ratio of repatriated profits to foreign investment participation not exceed 15 percent. Resolution No. 19 was issued because virtually all Mexican companies were unable to obtain foreign exchange to service foreign debt. This resolution permits the creation of special Mexican bank accounts, where Mexican companies can deposit pesos equivalent to their foreign debt (at the "ordinary" controlled rate) in the names of their foreign creditors. The conversions to dollars are to be made when dollars become available. As an alternative, Resolution No. 19 permits the foreign creditors to convert the debt into capital stock in the Mexican companies.

At the time of the issuance of Resolution No. 19, it was not clear whether foreign ownership would be limited to minority participation. However, after his inauguration, President de la Madrid's administration made it clear that majority foreign ownership would be permissible.

As previously indicated, the nationalized banks owned or controlled many nonbanking corporations. The Government planned to sell 34 percent of the banks' capital stock, but by yearend, it had not yet decided how to compensate the former owners of the banks.

Regulation of imports and exports

In order to ration scarce resources of foreign exchange, to soften the impact of peso depreciation on prices of essential imports, and to support domestic production and employment, the Mexican Government announced new regulations on imports, exports, and foreign exchange.

In late December 1981, the Government had announced a 2-year extension of the requirements to obtain licenses on international transactions for 834 BTN import classifications and for 365 export classifications.

^{1/} The Mexican Constitution limits the President to one term. In 1981, incumbent President Lopez Portillo had informed party leaders and the public that he wanted the Party of Revolutionary Institutions to select Miguel ~~de~~ la Madrid Hurtado as its Presidential candidate. De la Madrid received the party's endorsement, was elected with 74 percent of the vote on July 4, 1982, and was inaugurated on Dec. 1.

Following the peso float of mid-February 1982, the Government of Mexico, as part of a package of measures to adjust to the exchange-rate situation, announced on March 4 tariff reductions of 10 to 20 percent on 1,518 of its approximately 8,000 import classifications. This list of classifications encompassed basic foods, inputs for basic industries, and capital goods for use in priority sectors for the economic development of Mexico. Although inflation persisted, prices to Mexican consumers probably were lower than they would have been in the absence of tariff reductions.

On September 17, following the peso float of early August 1982, Mexico announced that imports of "essential" goods, which covered 3,376 products, were eligible for foreign exchange at the "preferred" rate of 50 pesos per dollar, and that 4,600 "non-essential" products were eligible for exchange at the "ordinary" rate of 70 pesos per dollar. However, for some time following that announcement, Mexican importers were unable to obtain foreign exchange or prior import permits (PIP's) for nonessential imports. In 1981, imports of goods covered by the nonessential categories had accounted for about 40 percent of Mexico's imports.

As inventories of materials and spare parts imported from foreign sources became exhausted and could not be replaced, production in many plants halted, and workers were laid off. Some estimates placed increased unemployment (not counting underemployment) at 1 million by yearend.

In 1982, General Motors, for example, closed two assembly plants and laid off 1,500 workers. Chrysler reportedly laid off 2,400 workers. Ford reduced its Mexican operations. Businessmen claimed that the principal cause of declines in automobile production and employment was Government regulations that greatly restricted imports of components.

Other industries that were hard hit included the pharmaceutical and related industries, heavily dependent on imports for some of their raw material requirements. Major shortages of soap and toothpaste occurred, and they persisted.

As of late 1982, PIP's were required even when a Mexican company (1) was accustomed to importing intermediate goods for use in the production of articles that were exported, and (2) legally held foreign exchange abroad. For roughly 2 years prior to the development of the oil glut, Mexico had liberalized its import restrictions, and ultimately expected that PIP's would be required for only 700 of its approximately 8,000 tariff categories.

Austerity under President de la Madrid

The new President of Mexico recognized the need for austerity. Mexico's \$4 billion loan agreement with the IMF (discussed earlier in the report) required considerable belt tightening. Although the agreement had not yet gone into effect at the time of his inauguration, de la Madrid was thoroughly versed in its contents.

In his inaugural address on December 1, 1982, President de la Madrid proposed "economic realism." He expressed some of the following policies in general terms:

1. Much slower growth in public spending.
2. Continuation of high priority investment projects, with others to be halted or slowed.

3. Phasing out subsidization in pricing public services and products of state-owned enterprises, coupled with increased taxes to boost government revenues.
4. Closer scrutiny in the expenditure of public funds.

U.S.-Mexico Bilateral Trade Issues

Laws governing U.S.-Mexican trade

Mexico is not a member of the GATT, although the United States grants most-favored-nation (MFN) treatment to imports from Mexico and Mexico reciprocates in its customs treatment of imports from the United States. The legal basis for the United States extending MFN treatment to non-GATT members is section 351 of the Tariff Act of 1930, which initially granted such treatment to all countries. 1/

Finally, Mexico is not a signatory to the GATT Subsidies Code and is not entitled to an injury test in countervailing duty investigations by the U.S. International Trade Commission. The United States does not have any international obligations to provide Mexico the benefits of an injury test in countervailing duty investigations.

Since the inception of the U.S. Generalized System of Preferences (GSP), the United States has been granting GSP duty-free treatment to eligible imports from Mexico.

The United States and Mexico have sectoral trade agreements on textiles, certain agricultural products, natural gas and oil, but they do not have a bilateral agreement as broad in scope as those that the United States has negotiated multilaterally in the GATT. The U.S.-Mexico agreements, cited above, do not include tariff concessions, although under the U.S. Generalized System of Preferences the United States has granting GSP duty-free treatment eligible imports from Mexico.

The Joint Commission on Commerce and Trade

The United States and Mexico consult on and negotiate trade and trade-related issues within the framework of the Joint Commission on Commerce and Trade (JCCT). The JCCT was established in 1981, and it is headed by the U.S. Secretary of Commerce, the United States Trade Representative, and the Secretary of Commerce of Mexico. The JCCT, has a Technical Secretariat and sectoral study or working groups. The working groups consider issues related to electronics (chiefly computers), automotive products, petrochemicals, and industrial property rights.

1/ The granting of MFN treatment to products of Communist countries, however, was prohibited by the Trade Agreements Extension Act of 1951. (In subsequent legislation, the President was given authority to restore MFN treatment to certain Communist countries.) Mexico's entitlement has never been affected by restrictions on the granting of MFN treatment.

The Technical Secretariat meets on a wide range of issues. It considers reports submitted by the sectoral study groups, and it also discusses issues that are outside of the work programs of the study groups.

At meetings of the Technical Secretariat and of the study groups, each delegation expresses its Government's concern about various programs and practices of the other Government. Then, each delegation explains the rationale behind the programs. Among other things, the delegations discuss both pending and existing legislation.

The principal issues on the agenda during 1982 are discussed below.

U.S. countervailing duty investigations of Mexican products.---The United States, as a signatory to the GATT Agreement on Subsidies and Countervailing Measures, and in conformity with section 701 of the Tariff Act of 1930, uses a material-injury test in countervailing duty investigations of imported products originating in countries that have signed the agreement (also known as the Subsidies Code). Mexico wants the United States to apply a material injury test in connection with any countervailing duty (CVD) investigation of Mexican products. In order for Mexico to obtain such a test, it would be necessary for Mexico to become a signatory to the GATT Subsidies Code, or enter into a bilateral agreement with the United States that contained mutual obligations that were substantially equivalent to obligations under the GATT Subsidies Code.

In 1982, the United States and Mexico drafted the text of a subsidies agreement, but final agreement had not been reached by yearend. The proposed agreement would have a 3-year term and would provide safeguards for the interests of both signatories.

The Mexican export subsidy programs of concern to the United States are a tax rebate system (CEDI), a program for subsidized interest rates (FOMEX), and preferential pricing of inputs of goods and services used in the production of goods for export.

In 1982, there was an upsurge the number of CVD investigations undertaken by the United States, and Mexican products were the subject of several of them. The Mexican case that received the most attention was the toy balloons case.

On June 17, 1981, the U.S. Department of Commerce had announced that it was refusing to institute a CVD investigation on toy balloons and playballs from Mexico, because the petitioner had not offered any allegations concerning injury. After the petitioner, National Latex Products Co., had filed a complaint with the U.S. Court of International Trade, the Commerce Department and the petitioner entered into an agreement that resulted in dismissal of the complaint and acceptance of a new petition on June 1, 1982, at which time Commerce indicated that Mexico was not entitled to an injury test because it was not a signatory to the GATT Subsidies Code. Commerce also indicated that there were ". . . no 'international obligations' within the meaning of Section 303(a)(2) of the act which require such a determination for nondutiable

merchandise from Mexico." 1/ Commerce made a final affirmative determination on December 29, 1982.

Commerce made two other final affirmative CVD determinations on Mexican products in 1982--ceramic wall tile (a review case); litharge, and red lead and lead stabilizers. Because of written assurances from Mexican producers that they would not take part in subsidies programs, Commerce suspended two other CVD cases on pectin and polypropylene film. Five CVD investigations of Mexican products were pending at yearend-- yarn of polypropylene fiber, certain iron castings, anhydrous and aqua ammonia, fresh asparagus, and carbon black.

Graduation of certain Mexican products from the U.S. GSP.-- Mexico is among a group of advanced developing countries that have been "graduated" from the GSP (i.e., removed from eligibility for duty-free treatment under the President's discretionary authority) on certain TSUS items. The President graduated Mexico on four TSUS items in 1982. Many United States policymakers feel that the benefits of GSP treatment have been too concentrated among the more advanced developing countries and that graduating the advanced developing countries can improve the competitive position of exports from the relatively poorer developing countries in U.S. markets. Mexico contends that its level of development does not qualify it as a developed economy and that its products should not be graduated.

Automotive issues.--Among the topics that the JCCT's Automotive Sector Group discussed in 1982 were competitive conditions and probable developments in the global automobile industry, the composition and volume of automotive trade between the United States and Mexico, U.S. and Mexican automotive trade policies, and the nature and extent of auto sector investment in the two countries.

The automotive issues include Mexico's trade-related controls, in the form of so-called content requirements, that are embodied in Mexico's automotive decrees. The first such decree was issued in 1962. It was amended in 1972 and 1977. From the beginning, the Mexican Government's aims have been to promote domestic automotive production, provide jobs, and balance foreign exchange expenditures for imported components and subassemblies, interest, royalties, and so forth, with foreign exchange earnings through exports.

The 1977 decree prescribed local content requirements that were scheduled to be increased in stages. In 1982, the local content requirement for automobiles was scheduled to increase from 50 to 75 percent, and that for trucks, from 65 to 85 percent. 2/ Because the automobile manufacturers had considerable lead time in which to phase in increased Mexican content, they came close to meeting the prescribed increased levels in 1982.

1/ Commerce was quoting sec. 303(a)(2) of the Tariff Act of 1930. Sec. 303 provides an injury test for duty-free items from countries for which a determination of injury is required by international obligations of the United States. Although Mexico had enjoyed GSP treatment on toy balloons (and was later "graduated"), duty-free GSP treatment alone would not have entitled these products an injury test, because the requisite "international obligation" between Mexico and the United States does not exist.

2/ For details of the 1977 automotive decree see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 175 and 176.

The Mexican automotive decree, coupled with U.S. auto workers' concern over U.S. auto producers' plans to import more than 1 million engines per year from Mexico, contributed to support for local-content legislation in the U.S. Congress. Although this legislation passed the House of Representatives in 1982, the Senate did not act on the measure.

The Reagan administration, which is opposed to the legislation on local-content requirements on automobiles in the United States and wants Mexico to phase out its content requirements, believes that a long-term objective should be the promotion of further integration of the automotive sectors of the United States and Mexico. In discussions in the JCCT, the United States has suggested that Mexico foster growth in those areas of its auto industry that hold a potential for comparative advantage in trade. The United States has also urged that Mexico lower its trade restrictions in this sector.

Mexico's Computer Industry Development Programs.—At meetings of the JCCT's Electronics Sector Study Group, topics discussed included the historical development of the electronics industries in both countries, technological trends, and Mexican local content requirements for computers. Taking into account the future growth of Mexican demand for computers, national economic development goals, and its technological capabilities, the U.S. members of the study group are of the view that computer software production is more appropriate for Mexico than is hardware production.

Under its Computer Industry Development Program, computer manufacturers must negotiate local-content agreements with Mexico's Secretariat of Patrimony and Industrial Development. 1/ These agreements provide for the use of Mexican-made components and establish ratios between producers' import quotas and their production in Mexico. For importers/distributors, there are prescribed ratios of their import quotas to their sales of Mexican-made products. 2/ Firms producing mainframes and minicomputers may be 100 percent foreign owned if they use a high proportion of Mexican-made components. However, producers of small business and personal computers must be of majority Mexican ownership.

By early 1982, about 45 companies had applied for permits to make computers and peripheral equipment in Mexico. In addition to stressing the need to use a high proportion of local components, the Mexican Government urged these applicants to promote exports. U.S.-owned producers of mainframes and minicomputers in Mexico have been unable to buy sophisticated parts of Mexican origin. They are, however, able to obtain simple components and material of Mexican origin.

Transborder Trucking

For the second consecutive year, the United States in 1982 raised the issue of its concern about the lack of reciprocal treatment for U.S. truckers by Mexico. The Mexican Constitution of 1917 prohibits the entry of foreign

1/ Mexico's Computer Industrial Development Program aims to foster the development of a domestic computer manufacturing industry by the use of local content requirements. These requirements not only promote employment in Mexico, but they also foster the transfer of technology.

2/ For details of these Mexican content requirements, see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 176 and 177. ²¹⁰

trucks unless they have Mexican drivers. A Mexican Government decree, issued in 1955, however, permits U.S. truck drivers to drive their trucks a distance of 24 kilometers into Mexico, but the decree is administered by local officials. Consequently, it is not administered uniformly, because some officials do not permit U.S. trucks drivers to operate in Mexico. Mexican trucks operate on U.S. highways without any special restrictions. In some instances, Mexican trucks, after making deliveries to southern California, have continued to Oregon and Washington State to pick up goods for delivery to Mexican destinations.

A recently enacted U.S. law may reduce, without prohibiting, the entry of Mexican-operated trucks into the United States. Section 406 of the Surface Transportation Assistance Act of 1982 requires that motor carriers from continuous countries, operating in the United States, provide proof of minimum financial responsibility. 1/ Mexican (and Canadian) truckers must carry evidence of insurance by an insurance carrier acceptable to the United States, and the evidence must be in the motor vehicle at the time of entry into the United States. The enactment of this legislation has not been followed by Mexico's relaxing its restrictions on U.S. trucking.

U.S. sales of stockpile silver 2/ --Historically, Mexico has been the world's leading silver producer and exporter. At the February 1982 meeting of the Technical Secretariat of the JCCT, the Mexican delegation expressed concern about possible future sales of silver from the U.S. National Defense Stockpile of Strategic and Critical Materials. The U.S. Federal Emergency Management Agency believes that the United States does not need to have a stockpile of silver. The U.S. delegation indicated that no silver sales from the stockpile had occurred since December 1981, and further indicated that Mexico's concerns would be made known to the appropriate U.S. officials.

Mexico's concern stems from a belief that resumption of sales would have a destabilizing effect, and would have a depressing impact on silver prices.

Petrochemicals.- In the JCCT, the United States has raised the issue of alleged Mexican subsidies on energy inputs. Mexican private sector petrochemical producers buy petrochemical materials from the State-owned petroleum producer, Pemex, for use in making nylon fibers, polyester filaments, synthetic rubber, and other products. Like other energy consumers in Mexico, the private sector petrochemical producers have been buying energy at prices that are lower than the prices that Pemex charges for its exports.

1/ Even before the enactment of this legislation, U.S. truckers were required to have proof of financial responsibility.

2/ U.S. Public Law 97-35 gave the General Services Administration (GSA) authority to sell about 60.6 million troy ounces of silver. The silver would have to be disposed of gradually in order to avoid market disruption.

During October-December 1981, GSA sold 2.0 million troy ounces of silver in a series of weekly auctions. These were the only sales in that year, and there have been no further sales since that time. In accordance with P.L. 97-114, enacted on Dec. 29, 1981, no sales of stockpile silver shall occur again unless the President and Congress give their approval.

P.L. 97-377, enacted on Dec. 21, 1982 (which includes defense appropriations), stipulates that annual sales of stockpile silver must not exceed a quantity equivalent to 10 percent of U.S. production in the previous year. In effect, the annual limitation is between 3.0 million and 4.0 million troy ounces. The stockpile contains 137.5 million troy ounces of fine silver.

By Mexican law, Pemex has sole control over petroleum from wellhead to refinery. When Pemex has been unable to supply certain petrochemical materials to the downstream producers, it has imported them for resale to those producers, generally at a discount. On November 1, 1982, the Government decreed that, if Pemex could not supply them, the downstream producers could themselves import the raw materials used in their operations.

Industrial property rights.--Within the JCCT, the U.S. delegation has raised the issue of adequate protection of the U.S. citizens' ownership of patents, trademarks, and copyrights. Moreover, a considerable amount of technology has been transferred to Mexican companies through technical licensing agreements. The United States does not want the trade secrets contained in these agreements to be revealed once the agreements have expired.

Because of these interests, the United States and Mexico agreed to establish the JCCT Working Group on Industrial Property Rights. At meetings of this group in 1982, discussions centered on Mexico's law on the control and registration of the transfer of technology and the use and exploitation of patents and trademarks.

Members of the working party discussed the law's possible effect on foreign investment, particularly in industries producing pharmaceuticals, agriculture chemicals, and computer software. The delegations agreed to have, on a future agenda, comparisons of certain laws, including a comparison between Mexican legislation and the United States law on patents and the United States trade secrets law.

United States-Mexico Trade Agreements

Renewal of agricultural purchase agreement

The United States supplies the bulk of Mexican imports of agricultural products. In order to help sustain a large volume of trade, CONASUPO, the Mexican Government's basic commodities agency, and the U.S. Department of Agriculture have been signing 1-year agreements in which Mexico indicates its intention to purchase certain tonnages of commodities. The U.S. Department of Agriculture helps inform U.S. companies of marketing opportunities for products covered by the agreements. Exports of the products are handled by the private sector.

The agreement for 1982 provided for 4.6 million metric tons of agricultural products. In 1982, Mexico had reduced grain harvests and its food self-sufficiency program was canceled. 1/ In recognition of Mexico's need for increased imports of agricultural products, the agreement for 1983 provides for between 6.2 million and 9.5 million metric tons of agricultural products. These products consist of No. 2 corn, sorghum, soybeans, soybean meal, wheat, cotton seed, dried milk, tallow, shell eggs, sunflower seed, and crude vegetable oil.

1/ Mexico's food self sufficiency program had been called Sistema Alimentario Mexicano. Under the program, there had been large subsidies and credits directed to the agricultural sector, but the results were disappointing. In his first month in office (December 1982), President de la Madrid determined to reduce Government spending, canceled the program indefinitely. 212

Textiles 1/

In late December 1981, the United States and Mexico extended their bilateral textile agreement from January 1, 1982, through December 31, 1985. The agreement is entitled the Bilateral Cotton, Wool and Man-Made Fiber Textile Agreement of February 26, 1979.

In addition to extending the agreement, the two governments agreed to the establishment of restraint levels for U.S. imports for consumption of certain Mexican articles during the calendar year 1982, shown in the following tabulation:

<u>Description</u>	<u>Level of restraint</u>
Women's, girls' and infants' cotton coats (category 335).	39,302 dozen.
Men's and boys' cotton trousers (categories 347 and 348).	645,139 dozen, of which not more than 387,084 dozen shall be in either category.
Woven blouses of man-made fibers (category 641).	324,909 dozen.

Oil and gas

Since August 1981, Pemex and the U.S. Government have had an agreement for the purchase of Mexican crude oil for the U.S. Strategic Petroleum Reserve. The original agreement provided that the U.S. Government would purchase 200,000 barrels of crude oil per day from Pemex during September 1-December 31, 1981, and 50,000 barrels per day during January 1, 1982-July 31, 1986. During the term of the agreement, Pemex was to supply a total of 110 million barrels of crude oil to the U.S. Government.

In 1982, as one of the measures taken to alleviate Mexico's foreign exchange crisis, the United States agreed to buy 110,000 barrels per day in addition to the 50,000 barrels per day specified in the original agreement. The United States prepaid 1.0 billion dollars' worth of oil. Pemex agreed to supply crude oil at prices no higher than Pemex's lowest prices. When the mutual commitments were made, Pemex's base export prices were \$25.00 per barrel for Maya (heavy) grade crude oil and \$32.50 per barrel for Isthmus (light) grade crude oil.

Regarding natural gas the United States and Mexico have an agreement (announced in September 1979) that provided a framework for Pemex's sale of 300 million cubic feet of natural gas per day to U.S. purchasers. The agreement provided a base price of \$3.625 per million Btu's, subject to possible quarterly changes according to a formula to be contained in purchase

1/ All bilateral textile agreements to which the United States is a party embody the principles of the Multifiber Arrangement. For a discussion of these agreements, see ch. 5 of this report.

contracts. 1/ Pemex and Border Gas, Inc., a consortium of six U.S. pipeline companies, signed a contract in October 1979 to implement the terms of the agreement.

After a series of price increases, the price became \$4.94 per million Btu's on April 1, 1981. No further price changes occurred until May 1, 1983, when the price was reduced to \$4.40. This was the first price reduction since the contract went into effect.

Nonmarket Economy Countries

Overall Economic Performance and Trade With the United States

The economic performance of the nonmarket economy countries in 1982 was a study in contrasts. Although some sectors of their economies, notably agricultural production, improved compared with output levels in 1981, the Soviet Union and Eastern European NME's 2/ were adversely affected by both internal and external factors. A pattern of economic deterioration that has characterized most countries in the region since the mid-1970's forced Government planners to continue their austerity programs during 1982. As a result, the economic growth of the U.S.S.R. and its debt-ridden Eastern European allies was severely limited, and actual output was generally well below Government-targeted levels. On the other hand, China's economy grew considerably more rapidly than either its leaders had projected or Western analysts had expected. Its strong economic performance appears to attest to the success of recent market-oriented economic reforms that have combined central planning with a number of measures to promote private incentive.

After increasing almost 12 percent in 1981, trade between the United States and the NME's declined 12.9 percent in 1982, to \$9.8 billion. U.S. exports fell 17.2 percent, and imports showed a decrease of 3.1 percent. As a result, the positive balance that the United States has traditionally commanded in its trade with NME's shrank from \$4.5 billion in 1981 to \$3.2 billion (table 29). Most of the decline in the surplus was attributable to trade with China. U.S. exports to China decreased 19 percent as imports from China increased 21 percent, reducing the U.S. surplus with China by \$1.1 billion. China accounted for 45 percent of all U.S. exports to the NME's in 1982 and 68 percent of all imports from them.

Two-way trade between the United States and China decreased slightly in 1982, but the decline in the trade turnover with Eastern Europe accounted for most of the overall decline in the value of U.S.-NME trade. The loss in trade from decreases in both exports to Eastern Europe and imports from this group of countries was \$1.3 billion.

Unlike exports to China, those to the Soviet Union increased in 1982; it was the first full year following the revocation of the U.S. embargo on sales of grain and phosphates to the U.S.S.R. in April 1981. The Soviet share of U.S. exports to the NME's was 40 percent, but its share of total imports from them was only 7 percent.

1/ The contract has an escalation clause that permits price changes if there are changes in the prices of a "basket" (variety) of crude oils. The May 1, 1983, price reduction apparently was a delayed response to declines in the prices of crude oil.

2/ Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

Table 29.--U.S. exports, imports, and trade balances with selected NME trading partners, 1980-82
(In millions of U.S. dollars)

Country/region	Exports			Imports			Trade balance		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
China	3,749	3,599	2,905	1,039	1,830	2,216	2,710	1,769	689
U.S.S.R.	1,510	2,339	2,589	431	357	229	1,079	1,981	2,360
Eastern Europe:									
Poland	710	681	293	415	360	213	295	321	80
Hungary	79	78	68	104	128	133	-25	-50	-65
East Germany	477	296	223	43	45	52	434	251	171
Czechoslovakia	185	82	84	61	67	62	124	15	22
Romania	720	504	223	311	559	339	410	-56	-116
Bulgaria	161	258	106	23	26	25	138	232	81
Subtotal	2,333	1,898	996	957	1,185	824	1,376	713	173
Total	7,592	7,835	6,490	2,427	3,372	3,268	5,165	4,463	3,222

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

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

China

China owed its healthy economic performance in 1982 to both a revival of its heavy industry, including energy production, and a record harvest of grains and other crops. The increase in industrial output stemmed largely from a shift in economic policy. After sharply curtailing expenditures for investment in 1980 and 1981 and reassessing plans for modernization, China's leaders resumed a number of major capital construction projects in 1982. The record output reported for grains and other farm products partly reflected better weather conditions than in 1981, but was to a large extent attributable to the continuation and success of China's agricultural reform program, usually referred to as the agricultural responsibility system. The principal feature of the program was the transfer of decisionmaking about what crops to grow and how much to produce from central planners to the peasant families or family groups. This movement was accompanied by a series of increases in the procurement prices paid by the Government for farm products and the payment of premiums in addition to the basic procurement price for above-quota production. Since the introduction of the new agricultural policies in the late 1970's, annual farm output has reached record or near-record levels; output in 1982 is estimated to have surpassed the yield in any previous year.

China enjoyed a surplus in its merchandise trade balance with other countries for the second consecutive year; the surplus in 1982 reached an alltime high, owing mainly to a cutback in imports (table 30). The decline in imports apparently reflected a policy of conserving foreign exchange in anticipation of the huge outlays that will be required to modernize China's economy. Its imports from the United States were also significantly affected by its lower import requirements for agricultural products.

U.S. exports to China decreased from \$3.6 billion in 1981 to \$2.9 billion in 1982, whereas imports from China increased from \$1.8 billion to \$2.2 billion. The result was a slight decline in two-way trade in 1982 to \$5.1 billion from the record high of \$5.4 billion in 1981. Agricultural commodities accounted for two-thirds of the loss in U.S. sales to China. For the second consecutive year, shipments of cotton and soybeans fell sharply, and the trend was accelerated by a small decrease in wheat exports in 1982. Among nonagricultural exports, manmade fibers and yarns showed the largest decline. The rise in imports was led by significant gains in U.S. purchases of petroleum (both crude oil and refined products) and clothing from China. Petroleum and apparel items together accounted for 53 percent of all U.S. imports from China in 1982.

U.S.S.R.

The economic situation in the U.S.S.R. in 1982 was probably less critical than that in most Eastern European NME's, owing to the size and overall strength of the Soviet economy. In recent years, however, large military expenditures appear to have reduced the ability of the Soviet Union to provide for a high level of investment. The growth of industrial output continued to slow in 1982, and shortages of food and other consumer goods were also reported. The surplus in Soviet trade with the non-Communist countries was mainly due to a sharp increase in exports of petroleum, including refined products, to developed countries. Aggregate imports from non-Communist countries decreased slightly, owing to an overall decline in purchases from developing countries.

Two-way trade between the United States and U.S.S.R. increased only slightly in 1982 to \$2.8 billion. Exports to the Soviet Union continued to climb from their low level during the U.S. grain embargo, 1/ reaching \$2.6 billion; imports from the U.S.S.R. decreased for the third consecutive year and amounted to just \$229 million. Despite some improvement in Soviet agriculture in 1982 after 3 years of decline, this sector of the economy remained the major problem. The U.S. share of Soviet grain-import requirements was 11.3 million metric tons of corn and wheat, amounting to \$1.6 billion, or 63 percent of all U.S. exports to the U.S.S.R. in 1982. Export sanctions prohibiting the shipment to the Soviet Union of any technically advanced equipment that required a validated license were imposed by President Reagan in December 1981. 2/ They were not revoked until November 1982, but their effect on overall U.S.-U.S.S.R. trade in 1982 appears to have been minimal. In the absence of significant shipments of Soviet gold bullion to the United States since 1979, imports have been small and have continued to decline.

Eastern Europe

In most of the Eastern European NME's, the economic situation in 1982 was such that deliberate efforts were required to curtail growth rates. The credit squeeze instituted by Western bankers, governments, and suppliers in the aftermath of the Polish and Romanian hard-currency payments crisis forced the countries of Eastern Europe to increase their austerity measures and sharply reduce Western imports. Imports of consumer goods were cut, lowering living standards, but central planners in these countries, undoubtedly influenced by the social unrest in Poland, made the most severe cutbacks in imports of capital goods. Their efforts to increase exports and earn the hard currency to minimize the reductions in investment and consumption were thwarted by the worldwide recession. An overall surplus in the merchandise trade of the Eastern European NME's with non-Communist countries was the result of a leveling off in exports in 1982 in conjunction with a steep decline in imports.

The total value of U.S. trade with Eastern Europe in 1982 was only \$1.8 billion, 41 percent less than its 1981 level. U.S. exports to these countries decreased by 48 percent to \$996 million, at least partly reflecting their lack of credit and the measures taken to reduce hard-currency purchases. Imports from the region declined by 30 percent to \$824 million. The resultant U.S. surplus of \$173 million was \$540 million less than its trade balance with the Eastern European NME's in 1981 and \$1.2 billion less than in 1980. Before 1981, the United States traditionally maintained a substantial positive balance in its trade with these countries. Among the six NME's of the area, Poland accounted for 45 percent of the reduction in the U.S. surplus in 1982.

Grain normally accounts for between one-half and three-quarters of all U.S. exports to Eastern Europe, but shipments of U.S. corn and wheat to the area declined steeply in 1982, accounting for only 31 percent of total exports. Shipments of soybean oilcake and meal, another leading export item, decreased in value to 30 percent of their 1981 level. Probably the main

1/ Only a partial embargo was in effect on grain exports from January 1980 to April 1981 because the United States continued to meet its commitment under the 5-year grain pact with the U.S.S.R. See the section below on the extension of the U.S.-Soviet grain agreement.

2/ See the section below on U.S. sanctions and East-West policy coordination.

reason for the decline in U.S. exports was a record grain output in Eastern Europe in 1982, together with adjustments made in the number of livestock to reduce feed demand. Exports of machinery and transportation and communications equipment to the region also declined, reflecting Eastern European efforts to reduce their purchases of capital goods. However, the exports of Western European countries were much more affected than were U.S. exports by the reduction of Eastern European growth rates in response to the credit squeeze that began in mid-1981. U.S. imports from Poland and Romania fell more steeply than those from other countries in the area; nevertheless, Poland and Romania together accounted for two-thirds of all U.S. imports from Eastern Europe in 1982.

Developments in 1982 in Trade Relations With the NME's

Title IV of the Trade Act of 1974 defines the framework of U.S. trade relations with most NME's. 1/ Section 402 of title IV prohibits the extension of most-favored-nation (MFN), tariff treatment to the products of any NME that denies or severely restricts emigration by its citizens, but gives the President the authority to waive this prohibition if he determines that granting MFN status to an NME will promote freedom of emigration. 2/ Since the enactment of the Trade Act of 1974, MFN status was extended under the waiver provision to Romania in 1975, to Hungary in 1978, and to China in 1980. The products of the U.S.S.R., East Germany, Czechoslovakia, and Bulgaria remain subject to discriminatory tariff treatment as set forth in column 2 of the Tariff Schedules of the United States. Section 402 also prohibits those countries that have not been extended MFN status under the waiver provision from participating in any U.S. Government program that extends credits, credit guarantees, or investment guarantees.

Section 404 of title IV permits the President to extend nondiscriminatory treatment to the products of an NME previously denied such treatment upon entering into a bilateral commercial agreement with that country. 3/ Conversely, he may at any time suspend or withdraw any such extension of MFN status, thus making all products of the country dutiable at column 2 tariff rates. His authority to enter into a commercial agreement, for a period of no more than 3 years, is defined in section 405 of this title.

1/ Title IV defines trade relations with countries that were not receiving nondiscriminatory treatment on the date of the enactment of the act. Its provisions apply to all NME's covered in this report except Poland. Nondiscriminatory tariff treatment of imports from Poland--the application of the rates set forth in col. 1 of the Tariff Schedules of the United States--was suspended following World War II, but was restored in 1960. It was again suspended on Nov. 1, 1982.

2/ After an NME has initially been granted MFN status, its continuation is subject to the President's recommendation to the Congress that the waiver be extended for successive 12-month periods. During each annual review period, either the Senate or the House of Representatives can adopt a resolution disapproving the extension of the President's general waiver authority or any waiver in effect for a specific country. If no such resolution is adopted during the 60 days following the previous 12-month extension, the waiver authority and the waivers under review will be extended automatically. 219

3/ The President has the authority to extend MFN status to a country without congressional approval, but Congress must approve the bilateral commercial agreement before MFN treatment can become effective.

State control of their economies gives NME's the potential to disrupt the markets of U.S. industries through sudden, large-scale shifts in trade with the United States. To protect a domestic industry against a rapid increase in imports of a directly competitive product from a Communist country, section 406 of title IV provides for import relief. 1/

China

Negotiations on a new textile agreement

Negotiations to renew the first 3-year United States-China agreement on trade in textiles, scheduled to expire on December 31, 1982, began in August. With imports of Chinese apparel and fabrics increasing rapidly and production and employment in the domestic textile industry already reduced by the U.S. recession, the stage was set for a difficult series of talks. U.S. producers wanted to curtail China's exports to the U.S. market or, at the least, narrowly limit further increases. The Chinese wanted a substantial upward revision in the annual rates of growth permitted for items subject to restraint under the agreement.

In 1978, when the United States began its efforts to bring Chinese textile imports into the U.S. textile program of bilateral agreements, 2/ China's share of U.S. textile and apparel imports (in terms of quantity) was only 3.5 percent. By 1980, China had become the world's largest textile producer and the fifth largest supplier of textile products to the U.S. market, following Hong Kong, Taiwan, the Republic of Korea, and Japan. By 1981, the quantity of imports from China surpassed that from Japan. In 1982, China accounted for 11.3 percent of all U.S. imports of apparel and other textile products. 3/

Only eight categories of Chinese apparel were placed under mutually acceptable quantitative limits when the United States-China textile agreement was signed in September 1980, 4/ but the agreement permitted the United States

1/ To make an affirmative determination in its investigations of such petitions for relief, the U.S. International Trade Commission must find that the increase in imports, whether absolute or relative, is a significant cause of material injury or threat of material injury to a domestic industry. Section 406 also directs the Commission to recommend a specific import restriction to remedy or prevent the market disruption.

2/ The legal basis for the current U.S. system of bilateral textile agreements are set forth in sec. 204 of the Agricultural Adjustment Act of 1956. This Act authorizes the President to negotiate agreements limiting imports of textiles, and to issue regulations to carry out these agreements. Under this authority, the United States has entered into the Multifiber Arrangement (MFA), an international agreement that provides for the orderly growth of textile trade, as well as a number of bilateral agreements. China is not a signatory to the MFA, but the MFA provides for the restriction of textile imports from nonparties in certain circumstances, and the United States-China agreement was modeled on the bilateral agreements the United States has negotiated under the MFA. For a more detailed discussion of the MFA, see OTAP, 33d Report, 1981, USITC Publication 1308, pp. 20-27. 220

3/ The shares (in terms of quantity) of the three leading exporters of textile products to the United States in 1982 were Taiwan, 15.8 percent; Hong Kong, 14.2 percent; and the Republic of Korea, 12.9 percent.

4/ The quotas were made retroactive to Jan. 1, 1980.

to restrict additional categories if the increase in imports of an item from China was found to be disrupting or threatening to disrupt the U.S. market. A "call to consultation" could be issued and, using a formula in the agreement, a 12-month limitation on the quantity of a textile product imported from China could be automatically imposed by the United States if mutual agreement on the level of trade was not reached during the 90-day consultation period. During the life of the agreement, the consultation mechanism was invoked to restrict imports from China in another 19 categories of apparel and 1 fabric category. This brought to 28 the total number of product groups in which the quantity of imports was controlled under mutually acceptable or formula limits. ^{1/} Quotas were imposed on 14 categories of apparel imports from China in 1982 alone.

Despite strong pressure from the domestic textile industry to reduce imports from China, the United States began negotiations on a new agreement by offering China an annual rate of growth in categories subject to specific limits which (though well below the increases permitted under the old agreement) was less restrictive than the settlements reached in 1982 with Hong Kong, Taiwan, and the Republic of Korea. On the other hand, China began negotiations by demanding growth rates for its textile products under quota that exceeded the annual rates of increase established under the first agreement. After three rounds of negotiations, the two parties had made almost no progress toward reaching a compromise when the agreement expired at yearend. ^{2/}

Lifting of U.S. embargo on furskins from China

After completing the steps required by title IV of the Trade Act of 1974 to normalize economic relations with China in 1980, both the administration and Congress began a review of other U.S. laws that, because of their discriminatory provisions, could hamper the further development of bilateral trade. One such legislative provision prohibited the importation of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furskins that are the product of China or the U.S.S.R. The embargo was initially authorized by section 11 of the Trade Agreements Extension Act of 1951 and imposed in the same year by Presidential proclamation. It has since appeared as a headnote in the Tariff Schedules of the United States Annotated (TSUSA). ^{3/} A provision to lift the prohibition on such imports from China was included in an omnibus tariff, trade, and customs bill that was passed by Congress on December 22, 1982; it was signed into law (Public Law 97-446) by President Reagan on January 12, 1983. The ban on imports of these products from the Soviet Union remains in effect.

^{1/} In a few cases, only one import limit applies to two of the categories of cotton, manmade-fiber, or woolen textile products used by the United States to monitor import shipments and administer the bilateral agreements program on trade in textiles. A total of 25 specific limits applied to the 28 categories of textile products from China that were restricted as of yearend 1982.

^{2/} Sec. 204 of the Agricultural Act of 1956, which authorizes the United States to restrict textile imports from nonmembers to the MFA, formed the basis for the imposition of quotas on Chinese textiles once the bilateral agreement had expired. On Jan. 13, 1983, after a fourth unsuccessful round of negotiations, the United States imposed unilateral import quotas on 32 categories of Chinese textiles, adding 4 apparel items to the 28 products previously restricted under the agreement. The quotas will apply for a 12-month period, retroactive to Jan. 1, 1983, or until an agreement on the level of trade in each category can be reached. 221

^{3/} Headnote 4, subpt. B, pt. 5, schedule 1.

GATT observer status

China was granted observer status at the GATT ministerial held in November 1982. The head of the Chinese delegation attending the meetings stated that China had not yet decided whether to rejoin GATT, but was studying the question "positively" and viewed participation in the ministerial as part of the process of assessing membership. One issue delaying the decision is whether China will negotiate a new protocol of accession or assume the seat vacated by Taiwan.

China became a charter member of the GATT, IMF, and World Bank when these organizations were formed after World War II and before the founding of the People's Republic of China. Following the Communist revolution and formation of two governments, Taiwan continued to maintain seats in the IMF and World Bank. When China requested membership in 1980, the position taken by the officials of both institutions, which have a joint directorship, was that "China" had remained a member since 1946; Taiwan's credentials were revoked in 1980, and China was recognized as the official representative of "China" in the IMF and World Bank. Although Taiwan withdrew from the GATT in 1950, China maintains that this action was taken illegally, i.e., by a government that was not legally empowered to represent China.

Regardless of the procedure followed to become a member, China would be expected to first engage in talks with the Contracting Parties to the GATT to negotiate the commitments it must make in return for membership.

Bilateral agreements between China and third countries

China renewed a long-term grain agreement with Canada in 1982. The new agreement, extending from August 1982 to August 1985, calls for China to purchase from 10.5 million to 12.5 million metric tons of wheat over the 3-year period, or roughly 3.5 million to 4.2 million metric tons annually. This represents an increase over the commitment made under the previous agreement between China and Canada, which called for the purchase of 2.8 million to 3.5 million metric tons of wheat annually.

Under the 4-year United States-China grain agreement, which will remain in effect through December 31, 1984, the Chinese have a commitment to purchase 6 million to 8 million metric tons of wheat and corn annually, or approximately twice the quantity of grain they have pledged to purchase under the new agreement with Canada. China also has agreements in effect with Australia, Argentina, and France, for a total annual grain-import commitment of 12.5 million to 16.5 million metric tons.

China concluded a bilateral investment treaty with Sweden in 1982, the first agreement of this type for China. It is actively negotiating investment treaties with West Germany, Switzerland, and Japan. At the third annual meeting of the United States-China Joint Economic Committee, held in December 1982, both parties agreed to begin negotiations on an investment treaty. The bilateral discussions were scheduled to begin in June 1983.

U.S.S.R.

U.S. sanctions and East-West policy coordination

Most of the sanctions against the U.S.S.R. announced by President Reagan on December 29, 1981, remained in effect throughout 1982. In response to Soviet complicity in the imposition of martial law in Poland, the President suspended the issuance of all U.S.-validated licenses, either new or renewals, for the export of electronic equipment, computers, and other high-technology goods to the Soviet Union. In addition, the list of oil and gas equipment requiring validated licenses for export to the U.S.S.R. was expanded to include U.S.-produced equipment relating to construction of the Siberian-European gas pipeline, and the issuance of all such licenses was suspended. The other sanctions imposed in December 1981 were the suspension of negotiations on a new United States-U.S.S.R. maritime agreement (scheduled to expire on Dec. 31, 1981), postponement of negotiations on a new long-term bilateral grain agreement (under a 1-year extension scheduled to expire on Sept. 30, 1982), suspension of Soviet civil aviation service to the United States, and postponement of the renewal of any expiring United States-U.S.S.R. exchange agreements.

On June 22, 1982, President Reagan extended his prohibition on shipments of oil and gas equipment and technology to the U.S.S.R. to include equipment produced abroad by subsidiaries and foreign licensees of U.S. companies. In effect, the amended controls expanded the scope of the ban on such exports to the Soviet Union to include not only equipment produced by U.S. companies abroad, but also equipment produced by foreign companies using U.S. technology under licensing agreements. Both the action taken in December 1981 and the extension of the ban in June 1982 were principally directed at slowing or stopping the construction of the natural gas pipeline from the Urengoi gasfields in Western Siberia to Europe, which is being built with substantial European technical and financial assistance. The Reagan administration was particularly concerned that U.S. allies in Europe would become overly dependent on the U.S.S.R. for their energy supplies.

On November 13, 1982, the United States revoked the sanctions involving exports of oil and gas equipment to the Soviet Union. Items initially made subject to export licensing in December 1981 (turbines, compressors, and pipeline valves) were removed from the control list; the processing of validated license applications to export technology relating to oil and gas equipment and the more technically advanced goods (those normally on the control list) was resumed on a case-by-case basis; and the extended ban imposed in June 1982 was lifted. President Reagan explained that his reason for taking this action was "a substantial agreement [between the United States and its allies] on a plan of action with regard to the economic policy toward the Soviet Union." 1/ The President noted that the purpose of coordinating policies was "not to engage in trade arrangements that contribute to the military or strategic advantage of the U.S.S.R. or serve to preferentially aid the heavily subsidized Soviet economy." 2/ He concurrently announced that the processing of applications for licenses to export other controlled goods and technology to the U.S.S.R. would be resumed.

1/ Radio address by President Reagan, Nov. 13, 1982.

2/ Ibid.

Increase in restrictions on loans to the U.S.S.R.

Title IV of the Trade Act of 1974 prohibits the extension of export credits to an NME subject to discriminatory tariff treatment. Although this prohibition precluded the possibility of sanctions or other direct action by the United States to restrict credits to the Soviet Union, the Reagan administration urged U.S. allies to limit the amount of their loans and end all credit subsidies to the U.S.S.R. These objectives were partially realized under a newly revised Arrangement on Guidelines for Officially Supported Export Credits that was adopted by the OECD, effective July 6, 1982. The Soviet Union was one of eight countries moved from the "intermediate" classification to the "relatively rich" classification, making it subject to the highest minimum rates of interest and the shortest maximum maturities that the Government-sponsored credit agencies of participating OECD member countries can extend to borrowing countries. ^{1/}

The minimum rates to be charged on loans to the "relatively rich" countries were increased in 1982, placing an added restraint on the extension of loans to the Soviet Union. The minimum rate specified for loans with maturities of more than 5 years was increased from 11 percent (the old rate for "intermediate" countries) to 12.4 percent; the rate for 2- to 5-year loans to the U.S.S.R. was raised from 10.6 to 12.15 percent. The rates designated in the OECD credit guidelines have been revised upward several times in recent years, but the 1982 Arrangement was the first one to include a clause prohibiting derogation from the specified minimum rates. Loans extended by countries in Western Europe to the U.S.S.R. to support construction of the Urengoi pipeline have been made at rates as low as 7.75 percent.

Extension of U.S.-U.S.S.R. grain agreement

Through September 30, 1982, U.S. grain sales to the Soviet Union were governed by a 1-year extension of the 5-year bilateral grain agreement originally scheduled to expire on September 30, 1981. President Reagan authorized the extension when negotiations on a new long-term pact were not successfully concluded following the lifting of the partial U.S. embargo on exports of grain to the U.S.S.R. in April 1981. Prospects for reaching a long-term agreement were then indefinitely delayed when the President ordered the postponement of such negotiations as one of the sanctions he imposed against the Soviet Union in December 1981. ^{1/} On July 30, 1982, with the sanctions still in effect, he authorized a second 1-year extension of the old 5-year agreement, to run through September 30, 1983.

The terms of the original 5-year agreement were continued under both extensions. The Soviets are committed to buy at least 6 million metric tons of U.S. grain in each October 1-September 30 agreement year; the United States is committed to make available at least 8 million metric tons of grain in each agreement year for shipment to the U.S.S.R., and may offer more. During the period of the embargo (January 1980-April 1981), the United States met this commitment, shipping 8 million metric tons of wheat and corn to the Soviet

^{1/} Two other NME's, Czechoslovakia and East Germany, were also transferred into the "relatively rich" category under the new Arrangement. For a description of the criteria applied to determine the reclassification of borrowing countries and a list of all such countries by classification, see the section on the arrangement on export credits in ch. 3 of this report.

^{2/} See the above section on U.S. sanctions and East-West policy coordination.

Union in each of the 1979-80 and 1980-81 agreement years. At a meeting of the two parties held in September 1981, the United States offered to sell an additional 15 million metric tons of grain to the U.S.S.R., raising the quantity the Soviets could buy during the first 1-year extension of the agreement to 23 million metric tons. The actual purchases made by them were far below this level, amounting to only 13.9 million tons during the agreement year, October 1, 1981, through September 30, 1982. Again, as the agreement entered into its second 1-year extension, the United States invited the U.S.S.R. to purchase a total of 23 million metric tons of grain during the period from October 1, 1982, through September 30, 1983. As of the end of 1982, the Soviets had contracted for only 6.2 million metric tons, which is approximately the minimum quantity they are committed to buy during the current agreement year. 1/

Bilateral agreements between the U.S.S.R. and third countries

Since early 1980, when President Carter imposed an embargo on grain and other agricultural exports to the U.S.S.R., the Soviets have looked increasingly to other suppliers to meet their import requirements. The long-term grain purchase agreements, for the years 1981 through 1985, that the Soviet Union concluded with Argentina and Canada had the most significant effect on U.S. farmers in terms of lost sales. However, the pact with Argentina also included a provision for the purchase of 0.5 million metric tons of soybeans annually, and another such agreement was concluded with Brazil in 1982. The 4-year agreement (1982-86) between the U.S.S.R. and Brazil calls for the Soviets to buy 0.5 million metric tons of soybeans, 0.4 million metric tons of soybean meal, and 40,000 tons of soybean oil annually.

Before the embargo was imposed, the United States was the predominate supplier of soybeans to the Soviet market. In 1979, shipments of U.S. soybeans to the U.S.S.R. reached 1.8 million metric tons, valued at \$489.3 million. The embargo halted such exports to the Soviet Union in early 1980, but even after it was lifted in April 1981, the Soviets did not make any purchases of soybeans from the United States until late that year. Shipments in 1982, part of which represented deliveries against orders the Soviets had placed in the last quarter of 1981, amounted to only 649,000 metric tons, valued at \$171 million. The United States has sold no soybean meal and only a small amount of soybean oil to the U.S.S.R. since the embargo was lifted.

Other developments

Suspension of Polish MFN status

The application of MFN tariff treatment to products imported from Poland was indefinitely suspended effective November 1, 1982. The immediate event leading to the suspension was the Polish Government's banning of the Solidarity trade union on October 8, but the officially stated basis for this

1/ When the Soviets placed no orders for U.S. grain in the first quarter of 1983, President Reagan was persuaded, according to administration officials, that his refusal to discuss a new long-term grain agreement was discouraging the U.S.S.R. from buying additional wheat and corn during the current agreement year. On Apr. 7, 1983, he notified the Soviets that the United States was willing to negotiate a new pact. They accepted the offer to negotiate on May 17, 1983. (The New York Times, May 18, 1983, p. D1.)

action was Poland's failure to fulfill its import commitments under the terms of its membership in the GATT. When Poland joined the GATT in 1967, the Polish protocol of accession provided that, in exchange for the privileges of GATT membership, it would undertake to increase the value of its imports from other GATT members by 7 percent each year. In October, the United States notified the GATT that Poland had not been able to fulfill its import commitments since at least 1978, that bilateral consultations with Poland had not led to a satisfactory solution, and that, as provided for in the protocol of accession, the United States was suspending "the application to Poland of such concessions or other obligations under the General Agreement as the United States considered necessary." ^{1/} As a result of the suspension, U.S. imports from Poland became subject to the discriminatory rates of duty in column 2 of the Tariff Schedules of the United States.

The first U.S. sanctions against Poland's martial-law regime had been imposed in December 1981 and remained in effect at the end of 1982. These sanctions included a ban on extending U.S. Government credits to Poland, the prohibition of negotiations to reschedule payments on previous U.S. Government loans and loan guarantees extended to Poland, the suspension of Polish fishing rights in U.S. waters, and the suspension of its civil aviation privileges in U.S. airspace. President Reagan also prohibited the reinstatement of Poland's reinsurance credit line with Eximbank, which the bank had suspended in November 1981 when Poland fell behind in its payments to U.S. suppliers.

Continuation of MFN status for Romania, Hungary, and China

On June 2, 1982, as required by title IV of the Trade Act of 1974, the President sent a message to the Congress making his recommendation on the continuance of the waivers extending MFN status to Romania, Hungary, and China. In his message, he noted that both Hungary and China had shown progress in the past 12 months in making their emigration policies more liberal. However, his statement on continuing the waiver in effect for Romania was conditional. Since emigration from Romania to the United States had increased during the past year, he recommended that the waiver be continued in effect for another 12 months, but he also warned that the continuance of MFN status for Romania would be in jeopardy in 1983 unless its formal emigration procedures are improved and the rate of emigration of Jews from Romania to Israel increases. During the 60-day congressional review period that followed the President's recommendation, opposition to continuing MFN treatment for Romania even in 1982 was expressed at the congressional hearings and in separate statements made by members of the Congress. Nonetheless, when neither the House nor the Senate had passed a resolution disapproving the continuation of the waiver for Romania by the August 31, 1982, deadline, the waivers for all three countries were continued in effect for another year.

Status of Tokyo round MTN agreement signatures and acceptances by NME's during 1982

The agreements resulting from the Tokyo round of Multilateral Trade Negotiations were the Geneva 1979 protocol containing the tariff cuts, the framework agreement, a set of agreements or codes that limits the use of nontariff measures to restrict trade, and an agreement to create a more open

²²⁶
^{1/} GATT, GATT Activities in 1982 (Geneva 1983), p. 74. For a discussion of the action taken by the GATT Council with regard to this matter, see chap. 2 above.

market for trade in civil aircraft. The nontariff measures covered by the Tokyo round agreements are antidumping provisions, import licensing, customs valuation, technical barriers to trade (standards), subsidies and countervailing duties, Government procurement, and meat and dairy products. 1/

Five NME's participated in the Tokyo round MTN: Romania, Poland, Hungary, Czechoslovakia, and Bulgaria. All except Bulgaria are Contracting Parties to the GATT and signed the Geneva 1979 protocol agreement. The other agreements or codes accepted by one or more NME's as of December 31, 1982, are shown in the following tabulation: 2/

Agreement	Romania	Poland	Hungary	Czecho- slovakia	Bulgaria
Antidumping	Accepted	Accepted	Accepted	Accepted	
Import licensing	do		do	do	
Customs valuation	do		do		
Standards	do		do	Accepted	
Meat	do	Accepted	do		Accepted
Dairy	do	do	do		Do.
Civil aircraft	do				

During 1982, Poland accepted the Meat and Dairy Arrangements, and Czechoslovakia accepted the Standards Code, which is designed to eliminate unnecessary obstacles to trade that may be created by technical regulations, testing procedures, and certification systems. No NME has accepted the Subsidies and Countervailing Duties Code or the Government Procurement Code.

U.S. International Trade Commission actions affecting NME's

During 1982, the products of three NME's were the subject of investigations by the U.S. International Trade Commission. Three of the investigations were based on petitions filed under the market-disruption provision in section 406 of the Trade Act of 1974. The remaining actions were taken under the antidumping provision in section 733(a) of the Tariff Act of 1930.

In the market-disruption cases, the products in question were certain items of ceramic kitchenware and tableware from China, canned mushrooms from China, and montan wax from East Germany. The Commission made a negative determination in each of these investigations, having found that market disruption did not exist as a result of the increase in imports from the NME. 3/

1/ For a discussion of the agreements on nontariff measures, see ch. 2 of this report.

2/ GATT, GATT Activities in 1982 (Geneva, 1983), pp. 86 and 87. See also ch. 2 of this report for a complete list of countries and the Codes they have accepted.

3/ The vote was evenly divided in the investigation on canned mushrooms from China. Such findings give the President the option of accepting either an affirmative or a negative decision as the determination of the Commission. President Reagan accepted the determination of the Commissioners who found no market disruption.

Following the market-disruption investigation, the U.S. canned mushroom industry filed an antidumping petition, alleging that mushrooms from China were being sold in the United States at less than fair value, thereby injuring or threatening to injure the domestic industry. An affirmative preliminary finding was made by the Commission in this case. Preliminary antidumping investigations were also conducted by the Commission during 1982 on the question of injury to a domestic injury by imports of greige polyester/cotton printcloth from China, cotton shop towels from China, and hot-rolled carbon steel plate from Romania. Affirmative findings were reached by the Commission in the two investigations on textile products from China, and final investigations were to be instituted by the Commission if the Department of Commerce made affirmative findings on the question of sales at less than fair value. The Commission also made an affirmative preliminary finding in its investigation of imports of hot-rolled carbon steel plate from Romania. A final investigation on the question of injury was instituted, but was suspended when the Romanian Government corporation exporting hot-rolled carbon steel plate to the United States agreed to revise its prices to eliminate sales at less than fair value. 1/

1/ See ch. 5 of this report for a discussion of the antidumping provision and a complete list of the investigations conducted by the Commission in 1982.

ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

This chapter reviews activities related to the administration of U.S. trade laws during 1982. Sections are included on U.S. actions under provisions for import relief (safeguard actions, adjustment assistance, and market disruption), relief from unfair trade practices (dumping, subsidies, unfair practices in import trade, and certain practices of foreign governments and instrumentalities), and administration of other import programs, including the United States-Canadian automotive agreement and the Generalized System of Preferences.

U.S. Actions Under Provisions for Import Relief

Safeguard Actions under Sections 201 and 203, Trade Act of 1974

In 1982, the Commission made one determination under section 201 and one under section 203. 1/ On August 31, 1982, the Commission unanimously made a finding that increased imports were a substantial cause of serious injury, or threat thereof, to the domestic industry in investigation No. TA-201-46, on tubeless-tire valves. At yearend, two section 201 cases were pending, investigation No. TA-201-47, on heavyweight motorcycles, and engines and power train subassemblies therefor, and investigation No. TA-201-48, on stainless and alloy tool steel.

The Commission completed one investigation under section 203, investigation No. TA-203-13, on certain mushrooms. 1/ On April 7, 1982, the Commission determined that termination of import relief for canned mushrooms broiled in butter or in butter sauce would have an adverse economic effect on the domestic industry concerned. At the time of the Commission's determination, import relief was scheduled to expire on October 31, 1983. The Commission's determination was not followed by changes in the terms of import relief.

1/ Sec. 201 of the Trade Act of 1974 specifies the procedures and conditions under which the U.S. International Trade Commission conducts investigations "to determine whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article." Secs. 202 and 203 provide for Presidential action after affirmative Commission findings under sec. 201. Sec. 203 also provides for Commission investigations "as to the probable economic effect on the industry concerned of the extension, reduction, or termination of the import relief provided pursuant to this section."

The criteria for import relief set forth in sec. 201 of the Trade Act of 1974 are based on art. XIX of the General Agreement on Tariffs and Trade (GATT), an international agreement to which the United States is a signatory. Art. XIX of the GATT is referred to as the escape clause because it permits a country to "escape" temporarily from its obligations under the GATT with respect to a product when increased imports of that product are causing or threatening to cause serious injury to domestic producers of a like or directly competitive product. Commission investigations under sec. 201 provide a basis for the President to invoke art. XIX.

Orderly Marketing Agreements and Negotiated Export Restraints

For several years, the United States has negotiated bilateral orderly marketing agreements (OMA's) with the governments of supplying countries, in which the latter agreed to limit their exports of certain products. Such agreements have been used in lieu of unilaterally imposed increased tariff rates or quotas on imports into the United States. Under the OMA's, the exporting countries not only restrict their exports (subject to U.S. monitoring), but they also forgo seeking compensation or retaliation against U.S. exports. During all or part of 1982, OMA's were in effect for color television receivers and textiles.

All OMA's have been negotiated in accordance with U.S. legislation. The legal authorities include section 203 of the Trade Act of 1974 and section 204 of the Agricultural Act of 1956.

Color television receivers

Following the Commission's investigation No. TA-203-6, OMA's for color television receivers originating in Taiwan and the Republic of Korea had been extended by negotiations for 2 years from June 30, 1980. As they were not eligible for further extension, both OMA's expired on June 30, 1982. For the period July 1, 1981-June 30, 1982, exports of complete television receivers from Taiwan had an export-restraint level of 425,000 units; those from Korea, 575,000 units.

Textiles 2/

Under the authority of section 204 of the Agricultural Act of 1956, the President has directed that bilateral agreements be negotiated with foreign governments to limit their exports of textiles and textile products to the United States. 3/ In negotiating these agreements, the provisions of the Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement (MFA)) are taken into account. 4/

1/ By Proclamation No. 4904 of February 27, 1982, the President had terminated the increased rates of duty currently in effect on imports of certain mushrooms now provided for in item 922.55 of the Tariff Schedules of the United States and retained the increased rates of duty on imports of other mushrooms provided for in that item.

2/ For more detail on the nature and implementation of the textile agreements, see OTAP, 31st Report, 1979, and OTAP, 32d Report, 1980.

3/ 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.

4/ The text of the MFA is reproduced in vol. 2 (Statistical Appendix and Supporting Documents), pp. A-2 to A-18, of The Multifiber Arrangement, 1973 to 1980, USITC Publication 1131, March 1981. The final draft of the First Protocol Extending the Arrangement Regarding International Trade in Textiles is on pp. A-19 to A-21. (The Second Protocol did not take effect until Jan. 1, 1982.)

In 1982, the United States monitored compliance with bilateral textile agreements with 25 countries. 1/ Seven agreements contained aggregate limits on textile exports to the United States, in addition to having limits on specific categories or groups of categories. Other agreements provided limits on specific categories, but no aggregate limit. All the agreements in effect provide for consultations to remedy or prevent market disruption. In some of the agreements, consultation is called for when U.S. imports in certain categories reach or approach specified quantities. Bilateral textile agreements in effect in 1982 are listed in table 31.

In 1982, the United States and the People's Republic of China were unsuccessful in negotiating a new textile agreement. Consequently, the old one expired on December 31, 1982. The principal issues in the negotiations were (1) the number of categories for which the United States would set limits, (2) rates of growth to be provided for these limits, and (3) rules for imposing new quotas and for consultations. In the absence of a new agreement, the United States imposed limits, in a broad range of categories, on imports of Chinese textiles and apparel, effective January 1, 1983.

Also in 1982, Indonesia joined the list of countries with which the United States has bilateral textile agreements. The agreement went into effect on July 1, 1982; it is scheduled to expire on June 30, 1983.

Adjustment Assistance

As originally enacted, title II of the Trade Act of 1974 provided for adjustment assistance for workers, firms, industries, and communities adversely affected by increased imports. Trade adjustment assistance to communities was ended in 1981. Adjustment assistance to workers is administered by the Department of Labor; adjustment assistance to firms and industries is administered by the Department of Commerce. 2/

1/ The bilateral textile agreements negotiated by the United States cover articles of cotton, wool, and manmade fibers. Articles wholly of, or in chief value and in chief weight of, silk or a vegetable fiber other than cotton are not subject to the provisions of these agreements or the MFA. Exports of certain handloomed or traditional folklore handicraft products, if properly certified, are not limited.

The Office of Textiles, U.S. Department of Commerce, has the responsibility of monitoring the agreements. In so doing, it acts on behalf of the interagency Committee for the Implementation of Textile Agreements (CITA). CITA is chaired by a voting representative from the Department of Commerce. Other voting members are from the Departments of State, the Treasury, and Labor. Two agencies, the Office of the United States Trade Representative and the Department of Agriculture, have nonvoting membership. CITA receives advice from the Textile/Apparel Import Steering Group, which is from the private sector.

2/ In assisting workers, the Department of Labor provides cash benefits (basic assistance) and funding for job search, relocation, and training. In assisting firms, the Department of Commerce provides technical assistance (help in engineering, production methods, financial management, marketing, and so forth) and financial assistance (loan guarantees and direct loans). Commerce's aid to industries aims to (1) improve the ability of the industries' firms to compete in their home markets and (2) stimulate U.S. exports of trade-affected products.

Table 31.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1982

Source	Period	Fibers included in the agreement	Aggregate limits
			<u>Million equivalent square yards</u>
Brazil-----	Apr. 1, 1982- Mar. 31, 1983.	Cotton and man- made fibers. <u>1/</u>	171.1
China-----	1982-----	Cotton, wool, manmade fibers.	<u>2/</u>
Colombia-----	July 1, 1982- June 30, 1983.:	-----do-----	<u>2/</u>
Costa Rica-----	1982-----	-----do-----	<u>2/</u>
Dominican Rep.-----	June 1, 1982- May 31, 1983.:	-----do-----	<u>2/</u>
Egypt-----	1982	Cotton-----	<u>2/</u>
Haiti-----	March 1, 1982- Feb. 28, 1983	Cotton, wool, man- made fibers.	<u>2/</u>
Hong Kong-----	1982-----	-----do-----	<u>2/</u>
India-----	-----do-----	-----do-----	244.1
Indonesia-----	July 1, 1982- June 30, 1983.:	-----do-----	<u>3/</u>
Japan-----	1982-----	-----do-----	<u>2/</u>
Republic of Korea-----	-----do-----	Cotton, wool, man- made fibers, down.	<u>2/</u>
Macau-----	-----do-----	Cotton, wool, man- made fibers.	48.7
Malaysia-----	-----do-----	-----do-----	<u>2/</u>
Mauritius-----	Oct. 1, 1982 Sept. 30, 1983.:	-----do-----	<u>2/</u>
Mexico-----	1982-----	-----do-----	<u>2/</u>
Pakistan-----	Jan. 1, 1982- Dec. 31, 1983.:	Cotton-----	201.2
Philippines-----	1982-----	Cotton, wool, man- made fibers.	287.1
Poland-----	-----do-----	-----do-----	57.2
Romania-----	Apr. 1, 1982- Mar. 31, 1983.:	Wool and manmade fibers.	<u>2/</u>
Singapore-----	1982-----	Cotton, wool, man- made fibers.	295.6
Sri Lanka-----	May 1, 1982- Apr. 30, 1983.:	-----do-----	<u>2/</u>
Taiwan-----	1982-----	-----do-----	<u>2/</u>
Thailand-----	-----do-----	-----do-----	<u>2/</u>
Yugoslavia-----	-----do-----	Wool and manmade fibers.	<u>3/</u>

1/ Although there are limits applicable to cotton categories only, there are also consultation levels for manmade fiber categories.

2/ No aggregate limit. There are limits on certain categories only, as well as provision for consultation.

3/ Limits on 2 categories only.

In the fiscal year ending September 30, 1982, on the basis of petitions for eligibility to apply for trade adjustment assistance, the Department of Labor instituted 809 investigations directly affecting 122,899 workers. The results of investigations completed or terminated in fiscal 1982 (including those instituted in the previous year) were as follows:

<u>Item</u>	<u>Number of investigations or petitions</u>	<u>Number of workers</u>
Complete certifications-----	227	17,721
Partial certifications-----	16	2,380
Petitions denied <u>1/</u> -----	1,258	136,499
Petitions terminated or withdrawn-----	<u>60</u>	<u>1,637</u>
Total-----	1,561	158,237

1/ Denials were based on lack of import impact.

During the fiscal year, the Department of Labor spent almost \$103 million for basic trade adjustment assistance. The provision of "nonbasic" assistance was as follows:

<u>Item</u>	<u>Number of workers</u>	<u>Expenditure</u>
Job search-----	697	\$182,438
Relocation allowances-----	662	843,889
Training-----	8,309	4,738,436

The Department of Commerce certified 195 firms as eligible to apply for trade adjustment assistance during the fiscal year. The leading industry groups in which these firms were classified were as follows:

<u>Industry group</u>	<u>Number of firms</u>
Apparel-----	57
Metal products-----	20
Machinery and equipment-----	16
Sporting goods-----	11
Textiles-----	9
Wood products-----	7
Transportation equipment-----	7
Gift wear-----	7
Communications equipment (antennas, loudspeakers)-----	6
Other-----	55

In the same period, the Department of Commerce authorized financial assistance in the amount of \$19.3 million to 12 firms. This assistance consisted of \$16.8 million in loan guarantees and \$2.5 million in direct loans.

Commerce continued to fund technical assistance provided by 11 Trade Adjustment Assistance Centers (TAAC's). The TAAC's were and are operated by non-Federal, nonprofit organizations. During fiscal year 1982, the TAAC's (1) assisted 248 firms in preparing their applications for certification for trade adjustment assistance, (2) helped 213 certified firms formulate their recovery plans, and (3) assisted 62 firms (which had received financial and/or technical assistance) in implementing their recovery plans.

During the fiscal year, five industry associations or groups, representing producers of loudspeakers, shrimp, sporting goods, apparel and textiles, and footwear, received a total of \$3,344,000 in trade adjustment assistance. Generally, the industry associations engaged the services of consulting firms, and the Commerce Department provided most of the funds. In order to help finance export promotion activities on behalf of the industries producing textiles, apparel, and footwear, the Office of Trade Adjustment Assistance channeled funds to other offices within the Department.

Market Disruption

Section 406 of the Trade Act of 1974 provides for investigations by the U.S. International Trade Commission to determine whether imports of an article originating in a Communist country are causing market disruption with respect to an article produced by a domestic industry. 1/

In 1982 the Commission completed three section 406 investigations. It made negative determinations in investigation No. TA-406-7, on unrefined montan wax from East Germany, and investigation No. TA-406-8, on certain ceramic kitchenware and tableware from the People's Republic of China.

The Commission was evenly divided in investigation No. TA-406-9, on canned mushrooms from the People's Republic of China. 2/ On November 29, 1982, the President determined that market disruption did not exist. However, he directed the United States Trade Representative to monitor imports of canned mushrooms from the People's Republic of China.

U.S. Actions on Unfair Trade

U.S. law provides remedies for U.S. producers against unfair trade actions, including (1) dumping, (2) subsidies, (3) unfair practices in import trade, and (4) certain trade practices of foreign governments that burden or restrict U.S. commerce.

1/ If the Commission makes an affirmative determination, it must also recommend to the President a remedy for the existing or threatened market disruption. The remedy is directed only at the imports that are the source of the market disruption.

A sec. 406 investigation can be based on a request by the President or the United States Trade Representative, or by the other requesters or petitioners enumerated in sec. 201(a)(1). If the President takes action following an affirmative Commission determination in a sec. 406 case, he has essentially the same options for import relief as those provided in secs. 202 and 203 of the Trade Act. An important option available to the President is the negotiation of an orderly marketing agreement.

If the President requests the Commission to conduct a sec. 406 investigation, and if he finds that emergency action is necessary, he may take action under secs. 202 and 203 as if the Commission had already made an affirmative determination. However, on the day on which the Commission submits its determination to him, the President's emergency action shall no longer apply if the determination is negative. 234

2/ Under the Trade Act of 1974, the President had the option of accepting either the affirmative or the negative determination as the Commission's determination.

In 1982, under section 731 of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979, the U.S. Department of Commerce completed seven final antidumping investigations on the issue of sales at less than fair value. Under the same section, the Commission completed 62 preliminary and 3 final antidumping investigations on the issue of material injury or threat thereof.

Under section 701 of the Tariff Act of 1930, as amended by the 1979 act, the Commission completed 111 preliminary and 13 final countervailing duty investigations. The U.S. Department of Commerce imposed countervailing duties on 35 products from 11 countries.

The Commission completed or terminated 15 investigations under section 337 of the Tariff Act of 1930. These investigations were based on allegations of patent infringement by imported articles, or allegations of other unfair trade practices.

A number of petitions alleging unfair or unreasonable trade practices of foreign governments were considered by the interdepartmental Section 301 Committee during the year. 1/

Antidumping Investigations

Investigations under section 731, Tariff Act of 1930 2/

In 1982, the Commission completed or terminated 61 preliminary investigations as to whether there was a reasonable indication of actual or threatened material injury to an industry, or retardation of the establishment of an industry, attributable to the complained-of imports. The results of these cases are shown in table 32. The Commission also made 7 final determinations.

The Commission made 42 affirmative determinations and 19 negative determinations in its preliminary investigations. This count includes investigation No. 731-TA-87, on certain seamless steel pipes and tubes from Japan, in which the Commission made a negative determination with respect to seamless alloy steel pressure pipes and tubes, and an affirmative determination with respect to the other pipes and tubes investigated.

1/ Sec. 301 of the Trade Act of 1974 covers U.S. responses to (1) unreasonable and/or discriminatory burdens on U.S. commerce; (2) foreign subsidies (or other incentives) on exports that substantially reduce sales of competitive U.S. products in the United States or foreign markets; and (3) a foreign country's or instrumentality's imposing unjustifiable or unreasonable restriction on access to supplies of food, raw materials, or advanced products, the effect of which is to burden or restrict U.S. commerce.

2/ Sec. 731 provides for the imposition of antidumping duties if the "administering authority" (the U.S. Department of Commerce) finds that foreign merchandise is being, or is likely to be, sold in the United States at less than fair value, and the Commission determines that a domestic industry is materially injured, or threatened with material injury, or the establishment of a domestic industry is materially retarded by reason of the less-than-fair-value (LTFV) imports. Fair value is the adjusted foreign (home) market value if the value is based on commercial considerations²³⁵ and if the subject article is being sold in commercially significant quantities in the country of origin. If it is not practical to compute "foreign market value," other measures of value (such as constructed value) are used.

Table 32.--Preliminary antidumping investigations completed or terminated by the Commission in 1982

Investigation No.	Article and source	Commission determination 1/
731-TA-51-----	Hot-rolled carbon steel plate from Romania	Reasonable indication.
731-TA-52-----	Sheet piling from Canada	Do.
731-TA-53-----	Hot-rolled carbon steel plate from Belgium	Do.
731-TA-54-----	Hot-rolled carbon steel plate from France	No reasonable indication.
731-TA-55-----	Hot-rolled carbon steel plate from Italy	Do.
731-TA-56-----	Hot-rolled carbon steel plate from Luxembourg	Do.
731-TA-57-----	Hot-rolled carbon steel plate from the Netherlands.	Do.
731-TA-58-----	Hot-rolled carbon steel plate from Romania	Reasonable indication.
731-TA-59-----	Hot-rolled carbon steel plate from the United Kingdom.	Do.
731-TA-60-----	Hot-rolled carbon steel plate from West Germany.	Do.
731-TA-61-----	Hot-rolled carbon steel sheet and strip from Belgium.	Do.
731-TA-62-----	Hot-rolled carbon steel sheet and strip from France.	Do.
731-TA-63-----	Hot-rolled carbon steel sheet and strip from Italy.	Do.
731-TA-64-----	Hot-rolled carbon steel sheet and strip from Luxembourg.	No reasonable indication.
731-TA-65-----	Hot-rolled carbon steel sheet and strip from the Netherlands.	Reasonable indication.
731-TA-66-----	Hot-rolled carbon steel sheet and strip from the United Kingdom.	Terminated.
731-TA-67-----	Hot-rolled carbon steel sheet and strip from West Germany.	Reasonable indication.
731-TA-68-----	Cold-rolled carbon steel sheet and strip from Belgium.	No reasonable indication.
731-TA-69-----	Cold-rolled carbon steel sheet and strip from France.	Reasonable indication.
731-TA-70-----	Cold-rolled carbon steel sheet and strip from Italy.	Reasonable indication.
731-TA-71-----	Cold-rolled carbon steel sheet and strip from Luxembourg.	No reasonable indication.
731-TA-72-----	Cold-rolled carbon steel sheet and strip from the Netherlands.	Reasonable indication.
731-TA-73-----	Cold-rolled carbon steel sheet and strip from the United Kingdom.	No reasonable indication.
731-TA-74-----	Cold-rolled carbon steel sheet and strip from West Germany.	Reasonable indication.
731-TA-75-----	Galvanized carbon steel sheet from Belgium	No reasonable indication.

See footnotes at end of table.

Table 32.--Preliminary antidumping investigations completed by the Commission in 1982--Continued

Investigation No.	Article and source	Commission determination 1/
731-TA-76	Galvanized carbon steel sheet from France	No reasonable indication.
731-TA-77	Galvanized carbon steel sheet from Italy	Do.
731-TA-78	Galvanized carbon steel sheet from Luxembourg	Do.
731-TA-79	Galvanized carbon steel sheet from the Netherlands.	Do.
731-TA-80	Galvanized carbon steel sheet from the United Kingdom.	Do.
731-TA-81	Galvanized carbon steel sheet from West Germany.	Do.
731-TA-82	Carbon steel structural shapes from Belgium	Reasonable indication.
731-TA-83	Carbon steel structural shapes from France	Do.
731-TA-84	Carbon steel structural shapes from Luxembourg.	Do.
731-TA-85	Carbon steel structural shapes from the United Kingdom.	Do.
731-TA-86	Carbon steel structural shapes from West Germany.	Do.
731-TA-87	Certain seamless steel pipes and tubes from Japan.	Do. 2/
731-TA-88	Carbon steel wire rod from Venezuela	Do.
731-TA-89	Prestressed concrete steel wire strand from the United Kingdom.	Do.
731-TA-90	Chlorine from Canada	No reasonable indication.
731-TA-91	Sodium nitrate from Chile	Reasonable indication.
731-TA-92	Stainless steel sheet and strip from West Germany.	Do.
731-TA-93	Frozen french-fried potatoes from Canada	No reasonable indication.
731-TA-94	Bicycle tires and tubes from Taiwan	Reasonable indication.
731-TA-95	Stainless steel sheet and strip from France	Do.
731-TA-96	Nitrocellulose from France	Do.
731-TA-100	Certain tool steels from the Federal Republic of Germany.	Do.
731-TA-101	Greige polyester/cotton printcloth from the People's Republic of China.	Do.
731-TA-102	Certain radio paging and alerting devices from Japan.	Do.
731-TA-103	Shop towels of cotton from the People's Republic of China.	Do.
731-TA-104	Steel rails from the Federal Republic of Germany. 3/	Do.
731-TA-105	Steel rails from France 3/	Do.
731-TA-106	Steel rails from the United Kingdom 3/	Do.

See footnotes at end of table.

Table 32.--Preliminary antidumping investigations completed by the Commission in 1982--Continued

Investigation No.	Article	Commission determination ^{1/}
731-TA-107	Melamine from Brazil	No reasonable indication.
731-TA-108	Portland hydraulic cement from Australia	Reasonable indication.
731-TA-109	Portland hydraulic cement from Japan	Do.
731-TA-110	Bicycles from Korea	Do.
731-TA-111	Bicycles from Taiwan	Reasonable indication.
731-TA-112	Steel wire rope from Korea	Do.
731-TA-113	Carbon steel wire rod from Brazil	Do.
731-TA-114	Carbon steel wire rod from Trinidad and Tobago.	Do.
731-TA-115	Canned mushrooms from the People's Republic of China.	Do.

^{1/} The term "reasonable indication" refers to a finding that there is a reasonable indication or threat of injury. "No reasonable indication" refers to a finding that there is no reasonable indication or threat of injury.

^{2/} No reasonable indication for seamless alloy pressure pipes and tubes.

^{3/} These investigations were based on resubmission of a petition.

Previously, the petitioner had withdrawn the petition for an investigation on steel rails from the Federal Republic of Germany, France, and the United Kingdom. Therefore, Commerce and the Commission terminated investigations Nos. 731-TA-97, 98, and 99.

At the close of 1982, two preliminary investigations, on carton-closing staples and nonautomatic carton-closing staple machines from Sweden (investigations Nos. 731-TA-116 and 731-TA-117, respectively), were pending. On January 25, 1983, the Commission found a reasonable indication of injury in each case.

The Commission made 10 final antidumping determinations in 1982, eight in the affirmative and two in the negative. The determinations were as follows:

Affirmative determinations

Investigation No. 731-TA-3, on sugars and sirups from Canada ^{1/}

Investigation No. 731-TA-44, on sorbitol from France

Investigation No. 731-TA-45, on certain steel wire nails from Japan

Investigation No. 731-TA-46, on certain steel wire nails from Korea

Investigation No. 731-TA-47, on certain steel wire nails from Yugoslavia

Investigation No. 731-TA-49, on fireplace mesh panels from Taiwan

Investigation No. 731-TA-50, on stainless clad steel plate from Japan

Investigation No. 731-TA-48, on certain amplifier assemblies and parts thereof from Japan

238

^{1/} This result was a redetermination.

Negative determinations

Investigation No. 731-TA-42, on motorcycle batteries from Taiwan
 Investigation No. 731-TA-89, on prestressed concrete steel wire
 strand from the United Kingdom

As a result of the petitioners' withdrawing their petition for antidumping and countervailing duty investigations on certain carbon steel products, the Department of Commerce and the Commission terminated the investigations based on that petition. The withdrawal of the petition was related to an arrangement between the United States and the European Coal and Steel Community to restrict the Community's exports of certain carbon steel products to the United States. 1/ The investigations that the Commission terminated were Nos. 731-TA-53 (Final), 731-TA-59 (Final) through 731-TA-63 (Final), 731-TA-67 (Final), 731-TA-69 (Final), 731-TA-70 (Final), 731-TA-74 (Final), 731-TA-82 (Final), 731-TA-83 (Final), 731-TA-85 (Final), and 731-TA-86 (Final).

In 1982, the Department of Commerce took antidumping actions as follows:

Final affirmative determinations	9
Suspension agreements	2
Petitions withdrawn (all of which were "steel" cases)	16
Terminated because of negative determinations of the International Trade Commission	21

At yearend, 17 cases were pending.

Investigations under section 751, Tariff Act of 1930 2/

In 1982, the Commission completed two reviews of antidumping orders. In both investigations, the Commission made affirmative determinations. Consequently, the antidumping orders remained in effect.

In investigation No. 751-TA-5, the Commission determined that, if the antidumping order on salmon gill fish netting of manmade fibers from Japan were to be modified or revoked, the subject imports would materially retard the establishment of an industry in the United States.

In investigation No. 751-TA-6, the Commission determined that the antidumping order on birch three-ply door skins from Japan could not be revoked without the subject imports' materially injuring an industry in the United States.

1/ For details, see the section on the European Community in ch. 4 of this report.

2/ The Trade Agreements Act of 1979 amended the Tariff Act of 1930 to establish, under sec. 751 (19 U.S.C. 1675), a statutory procedure for the review of outstanding antidumping and countervailing duty determinations. Under sec. 751, whenever the Commission receives information concerning, or a request for a review of, an outstanding countervailing duty or antidumping duty determination which shows changed circumstances sufficient to warrant such a review, the Commission conducts one. In the absence of good cause, the Commission may not conduct a review less than 24 months after publication of notice of the original determination.

Trigger Price Mechanism

The Trigger-Price Mechanism (TPM) has enabled the Department of Commerce to monitor the prices of imported steel mill products in such a way as to be alerted to possible sales at less than fair value, or at unfairly subsidized prices. 1/ On January 11, 1982, in response to seven domestic steel producers' filing antidumping and/or countervailing duty petitions covering many steel mill products from nine countries, Commerce suspended the TPM.

On April 20 and 21, 1982, Commerce published notices that it would resume TPM-monitoring of imports of stainless steel round wire and round stainless steel drawn bars in sizes under 0.703 inches in diameter. 2/ The monitoring was to apply to those products that were (1) exported after April 14, 1982, and not subject to a binding fixed-price contract entered into before that date, or (2) exported after May 29, 1982. Commerce's decision did not affect other products covered under the suspended TPM. The notices indicated that the trigger prices for the named products would remain in effect until October 1, 1982.

Effective October 1, 1982, Commerce reduced base trigger prices for the fourth quarter of 1982 for the above-mentioned stainless steel round wire products by an average of 10.3 percent. Changes in extra prices in various grades ranged from a reduction of 21 percent to an increase of 69 percent. Ocean freight charges increased by an average of 5.7 percent. The interest component declined. 3/

On November 26, 1982, Commerce announced that, for the first quarter of 1983, base prices and extras would decline by an average of 1.6 percent from their fourth quarter of 1982 levels, and that they would apply to the aforementioned wire and bar products exported to the United States on and after January 1, 1983. The announcement indicated that the reductions in base prices and extras were due to depreciation of the yen relative to the dollar, and that the depreciation was partially offset by an increase in the cost of fuel. In estimating Japanese production costs for the first quarter of 1983, Commerce used a rate of exchange of 232 yen to the dollar (the average during

1/ On the basis of a decision of the U.S. District Court for the District of Columbia in Civil Action No. 18-0421 (Davis Walker v. Blumenthal), rendered on May 25, 1978, the Secretary of Commerce has legal authority to establish trigger prices for any article that is within the reach of the antidumping provisions of U.S. trade laws. At the time of the court's decision, the Secretary of the Treasury was responsible for the administration of both the antidumping and the countervailing duty provisions of U.S. trade laws. However, under the authority of the Reorganization Act of 1977 and the Trade Agreements Act of 1979, the President issued Executive Order No. 12188, which, among other things, transferred certain antidumping and countervailing duty responsibilities to the Secretary of Commerce. The transfer took effect on Jan. 2, 1980. For more details about the TPM, see OTAP, 33d Report, 1981.

2/ The first notice, containing product descriptions and trigger prices, was published in the Federal Register of Apr. 20, 1982 (47 F.R.-16820). The second notice, published in the Federal Register of Apr. 21, 1982, contains corrections (47 F.R., 17102).

3/ For details on trigger prices for the fourth quarter of 1982, see 47 F.R. 38709, Sept. 2, 1982.

November 1979-October 1982), compared with the rate of 228 yen to the dollar that was used for the estimate for the fourth quarter of 1982. 1/

Although Commerce considered the TPM to be suspended with respect to imports of carbon steel products, it continued to monitor the prices of carbon steel wire nails imported from Japan. This activity was based on a memorandum of understanding dated August 11, 1981, wherein Japanese nail manufacturers gave assurances that sales below trigger prices ended on or about March 5, 1981, and that, for the period August 11, 1981-August 10, 1983, all sales of the subject nails to the United States would be at or above trigger prices. 2/ The Japanese manufacturers agreed to continue to provide TPM-type cost data, through the Japanese Ministry of International Trade and Industry, even if the TPM was terminated or suspended before the expiration of their commitment.

Commerce also continued to audit documents of importers engaged in related-party transactions to find whether there were attempts to frustrate the effectiveness of the TPM.

Countervailing duty investigations

The countervailing duty law is set forth in sections 303 and 701-707 of the Tariff Act of 1930 (19 U.S.C. 1303 and 1671-1671f). It provides for the levying of special duties to countervail (offset) subsidies provided by foreign governments on products imported into the United States.

Procedurally, the countervailing duty law is similar to the antidumping law in many respects. The Commerce Department determines whether there is a subsidy, and the Commission, when an injury test is required, conducts preliminary and final injury investigations using the same criteria. 3/

The number of countervailing duty investigations increased substantially in 1982. In 1981, the Commission made preliminary findings in three cases and a final determination in one case. In 1982, the Commission made preliminary findings in 111 cases and final determinations in 13 cases.

1/ For details on trigger prices for the first quarter of 1983 see 47 F.R. 53432, Nov. 26, 1982. In 47 F.R. 57310, Commerce announced two corrections to its announcement of trigger prices for stainless steel round wire products for the first quarter of 1983.

2/ Commerce announces the prices with which it compares the prices of the imports from Japan as "monitoring prices for carbon steel wire nails from Japan." The monitoring prices are changed quarterly if there are sufficient changes in the cost elements that constitute those prices.

3/ The Commission conducts preliminary and final injury investigations under the countervailing duty laws when the imports are from a country that has signed the Subsidies Code (or has undertaken similar obligations) or when the imports enter the United States free of duty. Most of the major free-world trading nations have signed the Code. With respect to dutiable imports from those countries which have not signed the Subsidies Code or undertaken similar obligations, countervailing duties may be imposed following a positive finding by the Department of Commerce under section 303 of the Tariff Act of 1930 without a Commission injury investigation.

Investigations under section 701, Tariff Act of 1930

During 1982, the Commission completed 63 preliminary investigations under section 701 in which it determined that there was a reasonable indication that an industry in the United States was being materially injured or threatened with material injury by reason of imports of articles that were the subject of countervailing duty investigations by the United States Department of Commerce. These investigations were therefore continued at the Department of Commerce. The Commission found no reasonable indication of material injury in 49 preliminary investigations completed in 1982. The investigations are listed in table 33.

Table 34 shows Commerce Department activities involving countervailing duty actions in 1982. Countervailing duty orders in effect on December 31, 1982, are shown in table 35.

The Department of Commerce issued preliminary determinations that there was a reasonable basis to believe or suspect that benefits which constituted a subsidy had been granted to manufacturers, producers, or exporters of a number of the products considered in the preliminary investigations in which the Commission had found a reasonable indication of material injury. The Commission made final determinations by yearend in 13 of these cases. Of these, 8 were affirmative and 5 were negative, as shown in the tabulation below:

Investigation No.	Article and source	Commission determination
701-TA-148 1/---	Carbon steel wire rod from Belgium.	Negative.
701-TA-150 1/----	Carbon steel wire rod from France.	Affirmative.
701-TA-153-----	Prestressed concrete steel wire strand from France.	Negative.
701-TA-155-----	Hot-rolled carbon steel plate from Spain.	Affirmative.
701-TA-157-----	Cold-rolled carbon steel sheet from Spain.	Affirmative.
701-TA-158-----	Galvanized carbon steel sheet from Spain.	Affirmative.
701-TA-159-----	Carbon steel angles, shapes, and sections from Spain.	Affirmative.
701-TA-160-----	Hot-rolled carbon steel bar from Spain.	Affirmative.
701-TA-162-----	Cold-formed carbon steel bar from Spain.	Affirmative.
701-TA-164-----	Prestressed concrete steel wire strand from Spain.	Negative.
701-TA-176-----	Hot-rolled stainless steel bar from Spain.	Negative.
701-TA-177-----	Cold-formed stainless steel bar from Spain.	Negative.
701-TA-178-----	Stainless steel wire rod from Spain	Affirmative.

1/ This investigation was terminated on Nov. 3, 1982, soon after the Commission made its finding.

Table 33.—Preliminary countervailing duty investigations completed or terminated by the Commission in 1982

Investigation No.	Article and source	Commission determination 1/
701-TA-80	Lamb meat from New Zealand	Injury.
701-TA-83 2/	Hot-rolled carbon steel plate from Belgium.	Do.
701-TA-84 2/	Hot-rolled carbon steel plate from Brazil.	Do.
701-TA-85	Hot-rolled carbon steel sheet from France.	Do.
701-TA-86	Hot-rolled carbon steel plate from Belgium.	Do.
701-TA-87	Hot-rolled carbon steel plate from Brazil.	Do.
701-TA-88	Hot-rolled carbon steel plate from France.	No injury.
701-TA-89	Hot-rolled carbon steel plate from Italy.	Do.
701-TA-90	Hot-rolled carbon steel plate from Luxembourg.	Do.
701-TA-91	Hot-rolled carbon steel plate from the Netherlands.	Do.
701-TA-92	Hot-rolled carbon steel plate from the United Kingdom.	Injury.
701-TA-93	Hot-rolled carbon steel plate from West Germany.	Do.
701-TA-94	Hot-rolled carbon steel sheet and strip from Belgium.	Do.
701-TA-95	Hot-rolled carbon steel sheet and strip from Brazil.	No injury.
701-TA-96	Hot-rolled carbon steel sheet and strip from France.	Injury.
701-TA-97	Hot-rolled carbon steel sheet and strip from Italy.	Do.
701-TA-98	Hot-rolled carbon steel sheet and strip from Luxembourg.	No injury.
701-TA-99	Hot-rolled carbon steel sheet and strip from the Netherlands.	Injury.
701-TA-100	Hot-rolled carbon steel sheet and strip from the United Kingdom.	No injury.
701-TA-101	Hot-rolled carbon steel sheet and strip from West Germany.	Injury.
701-TA-102	Cold-rolled carbon steel sheet and strip from Belgium.	No injury.
701-TA-103	Cold-rolled carbon steel sheet and strip from Brazil.	Do.
701-TA-104	Cold-rolled carbon steel sheet and strip from France.	Injury.
701-TA-105	Cold-rolled carbon steel sheet and strip from Italy.	Do.

See footnotes at end of table.

Table 33.--Preliminary countervailing duty investigations completed or terminated by the Commission in 1982--Continued

Investigation No.	Article and source	Commission determination 1/
701-TA-106	Cold-rolled carbon steel sheet and strip from Luxembourg.	No injury.
701-TA-107	Cold-rolled carbon steel sheet and strip from the Netherlands.	Injury.
701-TA-108	Cold-rolled carbon steel sheet and strip from the United Kingdom.	No injury.
701-TA-109	Cold-rolled carbon steel sheet and strip from West Germany	Injury.
701-TA-110	Galvanized carbon steel sheet from Belgium.	No injury.
701-TA-111	Galvanized carbon steel sheet from France.	Do.
701-TA-112	Galvanized carbon steel sheet from Italy.	Do.
701-TA-113	Galvanized carbon steel sheet from Luxembourg.	Do.
701-TA-114	Galvanized carbon steel sheet from the Netherlands.	Do.
701-TA-115	Galvanized carbon steel sheet from the United Kingdom.	Do.
701-TA-116	Galvanized carbon steel sheet from West Germany.	Do.
701-TA-117	Carbon steel structural shapes from Belgium.	Injury.
701-TA-118	Carbon steel structural shapes from Brazil.	No injury.
701-TA-119	Carbon steel structural shapes from France.	Injury.
701-TA-120	Carbon steel structural shapes from Italy.	<u>3/</u>
701-TA-121	Carbon steel structural shapes from Luxembourg.	Injury.
701-TA-122	Carbon steel structural shapes from the Netherlands.	<u>3/</u>
701-TA-123	Carbon steel structural shapes from the United Kingdom.	Injury.
701-TA-124	Carbon steel structural shapes from West Germany.	Do.
701-TA-125	Hot-rolled carbon steel bar from Belgium.	No injury.
701-TA-126	Hot-rolled carbon steel bar from Brazil.	Do.
701-TA-127	Hot-rolled carbon steel bar from France.	Do.
701-TA-128	Hot-rolled carbon steel bar from the United Kingdom.	Injury.
701-TA-129	Hot-rolled carbon steel bar from West Germany.	No injury.
701-TA-130	Hot-rolled alloy steel bar from France.	Do.

See footnotes at end of table.

Table 33.--Preliminary countervailing duty investigations completed or terminated by the Commission in 1982--Continued

Investigation No.	Article and source	Commission determination 1/
701-TA-131	Hot-rolled alloy steel bar from Italy.	Injury.
701-TA-132	Hot-rolled alloy steel bar from the United Kingdom.	Do.
701-TA-133	Hot-rolled alloy steel bar from West Germany.	Do.
701-TA-134	Cold-formed carbon steel bar from Belgium.	Do.
701-TA-135	Cold-formed carbon steel bar from Brazil.	Do.
701-TA-136	Cold-formed carbon steel bar from France.	Do.
701-TA-137	Cold-formed carbon steel bar from Italy.	Do.
701-TA-138	Cold-formed carbon steel bar from the United Kingdom.	Injury.
701-TA-139	Cold-formed carbon steel bar from West Germany.	No injury.
701-TA-140	Cold-formed alloy steel bar from Belgium.	Do.
701-TA-141	Cold-formed alloy steel bar from France.	Do.
701-TA-142	Cold-formed alloy steel bar from Italy.	Do.
701-TA-143	Cold-formed alloy steel bar from the United Kingdom.	Do.
701-TA-144	Cold-formed alloy steel bar from West Germany.	Do.
701-TA-145	Certain steel wire nails from Korea.	Injury.
701-TA-146	Hot-rolled carbon steel bar from Italy.	No injury.
701-TA-147	Hot-rolled carbon steel bar from Luxembourg.	Do.
701-TA-148	Carbon steel wire rod from Belgium.	Injury.
701-TA-149	Carbon steel wire rod from Brazil.	Do.
701-TA-150	Carbon steel wire rod from France.	Do.
701-TA-151	Certain nuts, bolts, and screws from Japan.	3/
701-TA-152	Prestressed concrete steel wire strand from Brazil.	Injury.
701-TA-153	Prestressed concrete steel wire strand from France.	Do.

See footnotes at end of table.

Table 33.--Preliminary countervailing duty investigations completed or terminated by the Commission in 1982--Continued

Investigation No.	Article and source	Commission determination 1/
701-TA-154	Hot-rolled stainless steel bar, cold-formed stainless steel bar, and stainless steel wire rod from Spain.	4/
701-TA-155	Hot-rolled carbon steel plate from Spain.	Injury.
701-TA-156	Hot-rolled carbon steel sheet from Spain.	No injury.
701-TA-157	Cold-rolled carbon steel sheet from Spain.	Injury.
701-TA-158	Galvanized carbon steel sheet from Spain.	Do.
701-TA-159	Carbon steel angles, shapes, and sections from Spain.	Do.
701-TA-160	Hot-rolled carbon steel bar from Spain.	Do.
701-TA-161	Hot-rolled alloy steel bar from Spain.	No injury.
701-TA-162	Cold-formed carbon steel bar from Spain.	Injury.
701-TA-163	Cold-formed alloy steel bar from Spain.	No injury.
701-TA-165	Welded carbon steel pipes and tubes from Brazil.	Injury.
701-TA-166	Welded carbon steel pipes and tubes from France.	Do.
701-TA-167	Welded carbon steel pipes and tubes from Italy.	No injury.
701-TA-168	Welded carbon steel pipes and tubes from Korea.	Injury.
701-TA-169	Welded carbon steel pipes and tubes from West Germany.	Do.
701-TA-170	Hot-rolled carbon steel plate from Korea.	Do.
701-TA-171	Hot-rolled carbon steel sheet from Korea.	Do.
701-TA-172	Cold-rolled carbon steel sheet from Korea.	No injury.
701-TA-173	Galvanized carbon steel sheet from Korea.	Injury.
701-TA-174	Certain commuter airplanes from France.	No injury.
701-TA-175	Certain commuter airplanes from Italy.	Do.
701-TA-176	Hot-rolled stainless steel bar from Spain.	Injury.
701-TA-177	Cold-formed stainless steel bar from Spain.	Do.
701-TA-178	Stainless steel wire rod from Spain.	Do.

See footnotes at end of table.

Table 33.--Preliminary countervailing duty investigations completed or terminated by the Commission in 1982- Continued

Investigation No.	Article and source	Commission determination ^{1/}
701-TA-179	Hot-rolled stainless steel bar from Brazil.	Injury.
701-TA-180	Cold-formed stainless steel bar from Brazil.	Do.
701-TA-181	Stainless steel wire rod from Brazil.	Do.
701-TA-182	Certain imported subway cars and parts thereof from Canada.	Do.
701-TA-184	Frozen concentrated orange juice from Brazil.	Do.
701-TA-185	Fireplace mesh panels from Taiwan.	Do.
701-TA-186	Steel rails from the European Community.	<u>3/</u>
701-TA-187	Certain tool steel from Brazil.	Injury.
701-TA-188	Certain commuter airplanes from Brazil.	No injury.
701-TA-189	Steel rails from the European Community.	<u>3/</u>
701-TA-190	Nitrocellulose from France	Injury
701-TA-191	Steel rails from West Germany	Do.
701-TA-192	Steel rails from France	Do.
701-TA-193	Steel rails from the United Kingdom.	Do.
701-TA-194	Steel rails from Luxembourg	Do.
701-TA-195	Stainless steel sheet and strip from the United Kingdom.	Do.
701-TA-196	Stainless steel plate from the United Kingdom.	Do.
701-TA-197	Softwood lumber from Canada	Do.
701-TA-198	Softwood shakes and shingles from Canada.	Do.
701-TA-199	Softwood fence from Canada	Do.
701-TA-200	Automated fare collection equipment and parts thereof from France.	No injury

^{1/} The term "injury" refers to a finding that there is a reasonable indication of threat of injury. "No injury" refers to a finding that there is no reasonable indication or threat of injury.

^{2/} Investigation terminated by the U.S. Department of Commerce when U.S. steel producers filed new petitions that listed the products covered by this investigation. A new investigation on the products was begun after the petitions were examined by the Commerce Department.

^{3/} Terminated before preliminary finding. Replaced by investigations Nos. 701-TA-191, 701-TA-192, 701-TA-193, and 701-TA-194.

^{4/} On June 1, 1981, the Commission replaced investigation No. 701-TA-154 with investigations Nos. 701-TA-176, 701-TA-177, and 701-TA-178.

Twenty-two countervailing duty investigations involving steel products from EC countries were terminated by the U.S. Department of Commerce before the Commission was due to issue findings. Commerce terminated the investigations after U.S. steel manufacturers withdrew their petitions following the conclusion of a United States-European Community agreement limiting imports of European steel into the United States. 1/ In 16 of the cases, the Commission had already voted when the investigations were suspended. 2/

Investigations under section 104 of the Trade Agreements Act of 1979 (review of countervailing duty orders)

The Commission completed four investigations in 1982 under section 104 of the Trade Agreements Act of 1979 to determine whether a domestic industry would be materially injured or threatened with material injury, or whether the establishment of a domestic industry would be materially retarded, by reason of imports subject to outstanding countervailing duty orders if the orders were revoked. The Commission made negative determinations in three of the cases, enabling the Commerce Department to revoke the order on the products involved. In one case, the Commission made an affirmative determination, resulting in the continuation of the orders on the product in question.

The three cases that resulted in negative determinations involved barley from France (investigation No. 104-TAA-6), molasses from France (investigation No. 104-TAA-8), and certain dairy products from the European Community (investigation No. 104-TAA-10). The Commission made an affirmative determination on sugar from the European Community (investigation No. 104-TAA-7). One case, Michelin X-radial steel belted tires from Canada (investigation No. 104-TAA-9), was terminated on June 7, 1982, and Commerce revoked the countervailing duty order on the tires. 3/ At yearend, five section 104 investigations were pending: float glass from Belgium and Italy (investigation Nos. 104-TAA-11 and 104-TAA-12), rayon staple fiber from Sweden (investigation No. 104-TAA-13), bicycle tires and tubes from Korea and Taiwan (investigation Nos. 104-TAA-14 and 104-TAA-15).

1/ For more information, see ch. 4 of this report, section on the European Community.

2/ Ibid.

3/ The Commission terminated this investigation after the Rubber Manufacturers Association (petitioners in the case) withdrew their petition.

Table 34.--Countervailing duty actions undertaken or continued by the U.S.
Department of Commerce during 1982

Country	Product	Initiation date	Final outcome
Argentina	Woolen garments	1/	8-4-82 - Definitive duty.
	Carbon steel wire rod	3-4-82	9-27-82 - Suspension agreement.
Australia	Wool	10-18-82	12-29-82 - Terminated. 2/
	Sugar content of certain article	1/	12-1-82 - Definitive duty.
Belgium	Steel structurals	2-1-82	10-21-82 - Case withdrawn.
	Steel plate	do	Do.
	Hot-rolled carbon steel bar	do	2-18-82 - No injury.
	Cold-rolled carbon steel bar	do	Do.
	Cold-formed alloy steel bar	do	Do.
	Hot-rolled steel sheet and strip	do	10-21-82 - Case withdrawn.
	Cold-rolled steel sheet and strip	do	2-18-82 - No injury.
	Galvanized steel sheet	do	Do.
	Carbon steel wire rod	3-1-82	11-3-82 - Case withdrawn.
	Certain steel products 3/	3-18-82	10-21-82 - Case withdrawn.
Brazil	Float glass	1/	7-29-82 - Definitive duty.
	Steel structurals	2-1-82	2-18-82 - No injury.
	Carbon steel plate	do	9-7-82 - Suspension agreement.
	Hot-rolled carbon steel bar	do	2-18-82 - No injury.
	Cold-rolled carbon steel bar	do	Do.
	Hot-rolled steel sheet and strip	do	Do.
	Cold-rolled steel sheet and strip	do	Do.
	Carbon steel wire rod	do	9-27-82 - Suspension agreement.
	Prestressed concrete steel wire	3-30-82	10-22-82 - Suspension agreement.
	Scissors and shears	1/	6-10-82 - Definitive duty.
	Cotton yarn	1/	3-9-82 - Definitive duty.
	Small-diameter welded steel pipe and tube	6-3-82	12-27-82 - Suspension agreement.
	Certain stainless steel products 4/-	7-13-82	
	Concentrated frozen orange juice	8-2-82	
	Tool steel	8-24-82	
	Turboprop aircraft	9-10-82	10-6-82 - No injury.
Canada	Radial tires	1/	7-8-82 - Undertakings.
	Railcars	7-14-82	
	Softwood lumber	11-3-82	

See footnotes at end of table.

Table 34—Countervailing duty actions undertaken or continued by the U.S.
Department of Commerce during 1982—Continued

Country	Product	Initiation date	Final outcome
Colombia	Leather wearing apparel	1/9-1-82	5/
	Flowers	1/	6/
	Cordage	1/	3-30-82 - Revocation.
	Barley	1/	7-8-82 - Undertakings.
	Molasses	1/	10-21-82 - Case withdrawn.
	Steel structurals	2-1-82	2-18-82 - No injury.
	Steel plate	do	Do.
	Hot-rolled carbon steel bar	do	Do.
	Hot-rolled alloy steel bar	do	Do.
	Cold-formed carbon steel bar	do	Do.
Cuba	Hot-rolled steel sheet and strip	do	10-21-82 - Case withdrawn.
	Cold-rolled steel sheet and strip	do	Do.
	Carbon steel wire rod	3-1-82	Do.
	Prestressed concrete steel wire and tube	3-24-82	12-15-82 - No injury.
	Large diameter welded steel pipe	6-3-82	10-21-82 - Case withdrawn.
	Steel rails	9-29-82	Do.
	Industrial cellulose	10-4-82	12-30-82 - Negative preliminary findings.
	Fare collection equipment	11-10-82	
	Footwear	1/	2-23-82 - Definitive duty.
	Industrial fasteners	1/	1-15-82 - Definitive duty.
Italy	Compressors	1/	2-17-82 - Revocation.
	Float glass	1/	2-3-82 - Definitive duty.
	Refrigerators	1/	2-4-82 - Revocation.
	Transmission towers	1/	2-5-82 - Revocation.
	Ski-lifts	1/	1-11-82 - Revocation.
	Hot-rolled alloy steel bars	2-1-82	10-21-82 - Case withdrawn.
	Hot-rolled steel sheet and strip	do	Do.
	Steel pipe and tube	5-27-82	Do.

See footnotes at end of table.

Table 34--Countervailing duty actions undertaken or continued by the U.S.
Department of Commerce during 1982--Continued

Country	Product	Initiation date	Final Outcome
Japan	Chains	1/	12-24-82 - Definitive duty.
	Certain steel wire nails	2-8-82	9-8-82 - No subsidy.
	Steel pipe and tube	5-27-82	12-27-82 - Definitive duty.
	Carbon steel structural shapes	2-1-82	10-21-82 - Case withdrawn.
Luxembourg	Steel rails	9-29-82	Do.
	Ceramic wall tile	1/	5-10-82 - Definitive duty.
Mexico	Litharge, red lead	7-12-82	12-6-82 - Definitive duty.
	Pectin	do	12-7-82 - Suspended.
	Polypropylene film	do	12-9-82 - Suspended.
	Yarns of polypropylene fiber	9-21-82	
	Certain iron castings	9-30-82	
	Ammonia	11-26-82	
	Asparagus	11-30-82	
	Carbon black	12-3-82	
	Hot-rolled steel sheet and strip	2-1-82	10-21-82 - Case withdrawn.
	Cold-rolled steel sheet and strip	do	Do.
New Zealand	Lamb meat	1/	1-12-82 - Terminated.
	Cotton yarn	7-6-82	
South Africa	Cotton sateen/sheeting	do	
	Prestressed concrete steel strand	1-25-82	5-21-82 - Suspended.
	Steel structurals	2-1-82	9-7-82 - Definitive duty.
	Steel plate	do	Do.
	Hot-rolled carbon steel bar	do	Do.
	Hot-rolled alloy steel bar	do	Do.
	Cold-rolled carbon steel bar	do	Do.
	Hot-rolled steel sheet	do	Do.
	Cold-rolled steel sheet	do	Do.
	Galvanized steel sheet	do	Do.
	Carbon steel wire rod	do	Do.
	Reformed steel bar	6-7-82	9-27-82 - Definitive duty.
	Steel wire rope	7-2-82	10-28-82 - Definitive duty.
Welded steel pipe and tube	10-29-82	12-1-82 - Suspension agreement.	
Galvanized steel wire	12-14-82		

See footnotes at end of the table.

Table 34—Countervailing duty actions undertaken or continued by the U.S.
Department of Commerce during 1982—Continued

Country	Product	Initiation date	Final outcome
Spain	Ampicillin	1/	8-5-82 - Definitive duty.
	Amoxicillin	1/	Do.
	Chains	1/	5-24-82 - Definitive duty.
	Oleoresins	1/	3-19-82 - Definitive duty.
	Vitamin K	1/	6-28-82 - Definitive duty.
	Prestressed concrete steel wire		
	strand	1-25-82	9-1-82 - No injury.
	Potassium permanganate	do	8-2-82 - Case withdrawn.
	Certain stainless steel products 7/-	3-10-82	12-23-82 - No subsidy. 8/
	Stainless steel PC strand	4-14-82 9/	
	Steel structurals	do	11-15-82 - Definitive duty.
	Steel plate	do	Do.
	Hot-rolled carbon steel bar	do	Do.
	Hot-rolled alloy steel bar	do	Do.
	Cold-rolled carbon steel bar	do	Do.
	Cold-formed alloy steel bar	do	Do.
	Hot-rolled steel sheet	do	6-10-82 - No injury.
Cold-rolled steel sheet	do	11-15-82 - Definitive duty.	
Galvanized steel sheet	do	Do.	
Taiwan	Fireplace mesh panels	8-18-82	12-23-82 - Preliminary negative determination.
United Kingdom	Steel structurals		
	Steel plate	2-1-82	10-21-82 - Case withdrawn.
	Hot-rolled carbon steel bar	do	Do.
	Hot-rolled alloy steel bar	do	Do.
	Cold-rolled carbon steel bar	do	2-18-82 - No injury.
	Cold-formed alloy steel bar	do	10-21-82 - Case withdrawn.
	Hot-rolled steel sheet	do	2-18-82 - No injury.
	Cold-rolled steel sheet	do	Do.
	Galvanized steel sheet	do	Do.
	Steel rails	9-29-82	10-21-82 - Case withdrawn.
Stainless steel 10/	11-2-82		

See footnotes at end of table.

Table 34.--Countervailing duty actions undertaken or continued by the U.S.
Department of Commerce during 1982--Continued

Country	Product	Initiation date	Final outcome
Uruguay	Leather wearing apparel	1/	7-18-82 - Order. 11/
West Germany	Steel structurals	2-1-82	10-21-82 - Case withdrawn.
	Steel plate	do	Do.
	Hot-rolled carbon steel bar	do	2-18-82 - No injury.
	Hot-rolled alloy steel bar	do	Do.
	Cold-rolled carbon steel bar	do	Do.
	Cold-formed alloy steel bar	do	Do.
	Hot-rolled steel sheet	do	10-21-82 - Case withdrawn.
	Cold-rolled steel sheet	do	Do.
	Galvanized steel sheet	do	2-18-82 - No injury.
	Welded steel pipe and tube	6-3-82	10-21-82 - Case withdrawn.
	Steel rails	9-29-82	Do.
	1/ Review of past countervailing duty action.	6/ No shipments due to embargo.	
	2/ Duty free only.	7/ Cold-formed bars, wire rod, and hot-rolled bars.	
	3/ Hot-rolled plate and hot-rolled sheet and strip.	8/ Definitive duty for wire rod, 11-15-82.	
	4/ Hot-rolled bar, cold-rolled bar, and wire rod.	9/ First initiated 2-1-82; reinitiated 4-14-82.	
	5/ In suspension agreement.	10/ Sheet, strip, and plate.	
		11/ Suspension agreement terminated and definitive duties applied.	

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

Table 35.--Countervailing duty orders in effect on Dec. 31, 1982

Commodity	Country	Review dates
Ferroalloys	Spain	1-2-81
		1-2-82
		1-2-83
		1-2-84
Float glass	Italy	1-7-82
		1-7-83
		1-7-84
Bicycle tires and tubes	Korea	1-12-82
		1-12-83
		1-12-84
Nonrubber footwear	Argentina	1-17-81
		1-17-82
		1-17-83
		1-17-84
Chains	Spain	1-24-83
		1-24-84
Float glass	Belgium	2-5-83
Scissors and shears	Brazil	2-11-82
		2-11-83
Bicycle tires and tubes	Taiwan	2-17-83
Oleoresins	Spain	2-28-82
		2-28-83
Ferrochrome	South Africa	3-11-83
Cotton yarn	Brazil	3-15-82
		3-15-83
Castor oil	do	3-16-82
		3-16-83
Ampicillin trihydrate	Spain	3-22-82
		3-22-83
Sugar content of articles	Australia	3-24-82
		3-24-83
Pig iron	Brazil	4-4-81
		4-4-82
		4-4-83
Unwrought zinc	Spain	4-8-81
		4-8-82
		4-8-83
Oleoresins	India	4-9-81
		4-9-82
		4-9-83
Leather apparel	Mexico	4-10-82
		4-10-83
Certain fasteners	Japan	5-6-82
		5-6-83
Ceramic tile	Mexico	5-10-83
Tomato products	Greece	5-12-82
		5-12-83
Viscose rayon staple fiber	Sweden	5-15-82
		5-15-83
Dairy products	EC	(Waived)

Table 35.--Countervailing duty orders in effect on Dec. 31, 1982--Continued

Commodity	Country	Review dates
Leather apparel	Uruguay	7-17-83
Certain fasteners	India	7-21-82
		7-21-83
Amoxicillin trihydrate	Spain	7-27-82
		7-27-83
Sugar	EC	7-31-82
		7-31-83
Cordage	Cuba	8-19-83
Chains	Japan	8-24-83
Roses	Israel	9-4-81
		9-4-82
		9-4-83
Certain steel products	South Africa	9-8-81
Nonrubber footwear	Brazil	9-12-81
		9-12-82
		9-12-83
Wire rod	South Africa	9-27-83
Butter	Australia	10-5-81
		10-5-82
		10-5-83
Iron metal castings	India	10-16-81
		10-16-82
		10-16-83
Bottled green olives	Spain	10-25-81
		10-25-82
		10-25-83
Nonrubber footwear	do	10-25-81
		10-25-82
		10-25-83
Leather shoes and uppers	India	10-26-82
		10-26-83
Rebars	South Africa	10-28-83
Vitamin K	Spain	11-16-82
		11-16-83
Woolen garments	Argentina	11-16-82
		11-16-83
Float glass	West Germany	12-27-83
Do	United Kingdom	12-27-83

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

Unfair Practices in Import Trade: Section 337

Section 337 of the Tariff Act of 1930 provides that the Commission conduct investigations to determine whether unfair methods of competition exist in the importation of articles into the United States, or in their sale. 1/

In 1982, the Commission found a violation in four section 337 investigations and no violation in three investigations. In addition, the Commission terminated eight cases on the basis of settlement agreements between the parties, and one case on the basis of complainants' motion. In connection with each settlement agreement proposed by the parties, the Commission gave an opportunity for public comment before deciding whether to accept or reject the agreement. At yearend, 19 investigations were in progress and one (certain plastic-capped decorative emblems) was in a suspended status because of litigation.

1/ Sec. 337 of the Tariff Act of 1930 (19 U.S.C. 1337) declares unlawful unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States. If the Commission finds a violation of sec. 337, it can issue an order excluding the subject imports from entry into the United States or order the violating parties to cease and desist from the unlawful practices. The Commission can also issue temporary orders during the pendency of an investigation. The Commission does not issue such orders when there are overriding public-interest considerations, and the President may disapprove an order within 60 days of issuance for "policy reasons."

Sec. 337 investigations are usually instituted on the basis of a formal complaint, although the Commission can institute an investigation on its own initiative. Most sec. 337 complaints contain allegations of patent infringement. A patent provides a patent holder with the right to exclude others from making, using, or selling the patented product, process, or design for a 17-year period. An exclusion order banning imports of articles which infringe the patent for the duration of the 17-year period is often the remedy recommended in patent infringement cases. Some sec. 337 proceedings involve allegations of trademarks or copyright infringement, passing off, and antitrust violations. Unfair practices which involve dumping or foreign government subsidies must be pursued under the antidumping and countervailing duty provisions of the Tariff Act, not under sec. 337.

The Commission normally completes sec. 337 investigations within 12 months of publication of notice of the institution of the investigation. The Commission may take 18 months in cases declared to be "more complicated," but rarely does. The hearings are formal courtlike proceedings conducted before an administrative law judge in accord with the Administrative Procedure Act, 5 U.S.C. 551 et seq. Following the hearing, the administrative law judge transmits to the Commission a recommended determination based on the record. The Commissioners make the final determination after reviewing the record and the recommended determination. If the Commissioners find a violation, they must then determine the appropriate remedy, the amount of any bond to be collected during the period the order is pending before the President, and whether public-interest considerations preclude the issuance of an exclusion or cease and desist order. Persons found to be violating a Commission order can be made subject to civil penalties of up to \$10,000 per day.

There was one case in which the President disapproved the Commission's affirmative determination. In investigation No. 337-TA-99, on certain molded-in sandwich panel inserts and methods for their installation, the Commission initially issued (1) an exclusion order against the patent-infringing imported product, (2) a cease and desist order against the importer, and (3) three cease and desist orders against the customers (one each) of the importer. The President disapproved the Commission's remedy because of its scope. Consequently, the Commission modified its remedy to limit it to an exclusion order against the product and a cease and desist order against the importer. The President did not disapprove the modified remedy.

On January 15, 1982, the Commission revoked its exclusion order against certain steel rod treating apparatus and components thereof. (In connection with investigation No. 337-TA-97, the Commission had made a determination of patent violation and had issued an exclusion order on December 10, 1981). Also on January 15, 1982, the Commission reopened the investigation as to remedy, bonding, and the public interest, and it issued an order permitting entry under bond. The Commission took these actions, because the patent relied on by the complainant had been found to be invalid by the U.S. District Court of the District of South Carolina. The case has been appealed and is still in litigation.

Table 36 shows the results of cases that were completed in 1982; Table 37 lists the cases that were pending at yearend.

Table 36.--Investigations under sec. 337 of the Tariff Act of 1930 completed by the Commission in 1982

Investigation No.	Article	Commission determination or other action
337-TA-95	Certain surface grinding machines and literature for the promotion thereof.	Terminated based on settlement agreements and consent orders.
337-TA-96	Certain modular pushbutton switches and components thereof.	Terminated based on settlement agreements.
337-TA-99	Certain molded-in sandwich panel inserts and methods for their installation.	Violation.
337-TA-100	Certain thermal conductivity sensing gem testers and components thereof.	Terminated on the basis of a settlement agreement.
337-TA-101	Certain hot air corn poppers	Do.
337-TA-103	Certain stabilized hull units and components thereof and sonar units utilizing said stabilized hull units.	No violation.
337-TA-105	Certain coin-operated audiovisual games and components thereof.	Violation.

Table 36.-- Investigations under sec. 337 of the Tariff Act of 1930 completed by the Commission in 1982--Continued

Investigation No.	Article	Commission determination or other action
337-TA-107-----	Certain ultrafiltration membrane systems and components thereof including ultrafiltration membranes.	Terminated on the basis of a complainants' motion.
337-TA-108-----	Certain vacuum bottles and components thereof.	No violation.
337-TA-109-----	Certain multi-sequential coded radio pagers.	Terminated on the basis of a settlement agreement.
337-TA-110-----	Certain methods for extruding plastic tubing.	Violation.
337-TA-111-----	Certain vacuum cleaner brush rollers	Terminated on the basis of a settlement agreements.
337-TA-112-----	Certain cube puzzles	Violation.
337-TA-115-----	Certain power woodworking tools, parts, accessories, and special purpose tools	Terminated based on settlement agreements.
337-TA-119-----	Certain high precision solenoids and components thereof	Do.
337-TA-122-----	Certain miniature, battery-operated, all-terrain, wheeled vehicles	No violation.

Table 37.-- Investigations under sec. 337 of the Tariff Act of 1930, pending before the Commission on Dec. 31, 1982

Investigation No.	Article	Final Commission decision due
337-TA-104-----	Certain card data imprinters and components thereof	<u>1</u> /
337-TA-113-----	Certain log splitting pivoted level axes	1-6-83
337-TA-114-----	Certain miniature plug-in blade fuses	1-13-83
337-TA-116-----	Certain drill point screws for drywall construction	3-3-83
337-TA-117-----	Certain automotive visors	3-4-83
337-TA-118-----	Certain sneakers with fabric uppers and rubber soles	3-9-83
337-TA-120-----	Certain silica-coated lead chromate pigments	4-21-83
337-TA-121-----	Certain plastic-capped decorative emblems	<u>2</u> /

258

See footnote at end of table.

Table 37.--Investigations under sec. 337 of the Tariff Act of 1930, pending before the Commission on Dec. 31, 1982--Continued

Investigation No.	Article	Final Commission decision due
337-TA-123	Certain CT scanner and gamma camera medical diagnostic imaging apparatus	6-13-83
337-TA-124	Certain textile spinning frames and automatic doffers therefor.	8-4-83
337-TA-125	Certain grooved wooden handle kitchen utensils and gadgets.	8-11-83
337-TA-126	Certain handbags, luggage, and brief cases.	8-18-83
337-TA-127	Certain amino acid formulations	8-20-83
337-TA-128	Certain cupric hydroxide formulated fungicides and cupric hydroxide preparations used in the formulation thereof.	8-23-83
337-TA-129	Certain limited-charge cell culture microcarriers.	8-25-83
337-TA-130	Certain braiding machines	9-29-83
337-TA-131	Certain variable character display devices.	Do.
337-TA-132	Certain hand-operated, gas-operated welding, cutting, and heating equipment and components thereof.	10-6-83
337-TA-133	Certain vertical milling machines and parts, attachments and accessories thereto.	11-17-83
337-TA-134	Certain treadmill joggers	12-2-83
337-TA-135	Certain direction-reversing musical crib toys.	12-29-83

1/ Terminated on January 5, 1983.

2/ The Commission suspended this investigation on Dec. 10, 1982, because of patent litigation.

As of December 31, 1982, there were 27 outstanding exclusion orders based on violations of section 337, all but five of which involved patent violations. Table 38 lists the investigations that preceded the issuance of the orders.

Table 38.--Outstanding exclusion orders as of Dec. 31, 1982

Investigation No.	Article	U.S. patent No.	Date patent expires
337-TA-2	Convertible game tables and components thereof.	3,711,099	1-16-90
337-TA-5	Chain door locks	3,275,364	9-27-83
		3,395,556	8-6-85
337-TA-24	Certain exercising devices	3,743,280	7-3-90 ²⁵⁹
337-TA-30	Certain display devices for photographs and the like.	3,774,332	11-27-90

Table 38.- Outstanding exclusion orders as of Dec. 31, 1982--Continued

Investigation No.	Article	U.S. patent No.	Date patent expires
337-TA-35	Certain molded golf balls	3,313,545	4-11-84
337-TA-37	Certain skateboards and platforms therefor.	3,565,454	2-23-88
337-TA-39	Certain luggage products	Des.242,181	11-2-90
337-TA-42	Certain electric slow cookers.	3,881,090	4-29-92
337-TA-44	Certain roller units	4,024,600	5-24-94
337-TA-47	Certain flexible foam sandals.	3,978,596	9-7-93
337-TA-54	Certain multicellular plastic film.	3,416,984	12-17-85
337-TA-55	Certain novelty glasses	Nonpatent	-
337-TA-56	Certain thermometer sheath packages.	3,552,558 3,847,280	1-5-88 1-5-88
337-TA-59	Pump top insulated containers.	4,113,147	9-25-95
337-TA-62	Certain rotary scraping tools.	3,958,294	5-25-93
337-TA-69	Certain airtight cast- iron stoves.	Nonpatent	-
337-TA-74	Certain rotatable photograph and card display units and components thereof.	3,791,059	2-12-91
337-TA-82A	Certain headboxes and papermaking machine forming sections for the continuous production of paper, and components thereof.	3,607,625 reissued as 28,269 3,923,593	12-10-91 12-2-92
337-TA-83	Certain adjustable window shades and components thereof.	4,006,770	2-7-94
337-TA-87	Certain coin-operated audiovisual games and components thereof.	Nonpatent	-
337-TA-88	Certain spring assemblies and components thereof, and methods for their manufacture.	3,782,708 3,866,287	1-19-91 2-19-92
337-TA-90	Certain airless paint spray pumps and components thereof.	3,254,845 3,367,270	6-7-83 2-6-84
337-TA-99	Certain molded-in sandwich panel inserts and methods for their installation.	3,271,498 3,392,225	9-6-83 7-9-85

Table 38.- Outstanding exclusion orders as of Dec. 31, 1982--Continued

Investigation No.	Article	U.S. patent No.	Date patent expires
337-TA-105	Certain coin-operated audio-visual games and components thereof.	Nonpatent	-
337-TA-110	Certain methods for extruding plastic tubing .	Re. 26,991 Re. 28,959 Re. 29,208	5-17-84 12-2-87 9-6-84
337-TA-112	Certain cube puzzles <u>1/</u>	Nonpatent	-

1/ The Commission issued its exclusion order on December 30, 1982. As of December 31, 1982, the order was pending Presidential review. The exclusion order became effective early in 1983.

Certain Practices of Foreign Governments and Instrumentalities:

Section 301 of the Trade Act of 1974

Section 301 of the Trade Act of 1974, as amended by the Trade Agreements Act of 1979, gives the President his principal authority and means to enforce U.S. rights under any trade agreement, including various nontariff agreements to which the United States is a party. 1/

1/ Sec. 301 directs the President to take all appropriate and feasible steps to obtain the elimination of certain trade practices of foreign governments and instrumentalities whenever he determines that such practices are unjustifiable, unreasonable, or discriminatory, and burden or restrict U.S. commerce. Within this context, "commerce" includes services related to international trade, regardless of whether such services are related to specific products. If his attempts to eliminate such practices are unsuccessful, the President is empowered to (1) deny the offending country or instrumentality the benefits of trade agreement concessions and (2) impose duties, fees, or other import restrictions on the products or services of the foreign entity.

An interdepartmental Section 301 Committee conducts investigations (including hearings if requested), usually on the basis of petitions alleging sec. 301 violations. If the United States Trade Representative accepts the petition, the statute directs that he consult with the foreign country or instrumentality involved. In the case of a dispute between contracting parties to the GATT, the GATT is used as a forum for attempts to settle a dispute. On many occasions the United States has relied on the GATT Code on Subsidies and Countervailing Duties, which is formally known as the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade. Art. XXIII also includes procedures that may be used if a contracting party believes that a benefit accruing to it is being nullified or impaired by another contracting party. The statute provides a number of procedures to be followed by the USTR. It also imposes time limits on the actions he takes.

A summary of cases that were completed or terminated in 1982 or were pending at yearend follows.

301-6, Wheat flour (EC)

Petition received: December 1, 1975.

Issue: EC payment of export subsidies to wheat flour millers.

Status: Originally filed on December 1, 1975, alleging violations by the EC of GATT article XVI:3 in using export subsidies to gain an inequitable share of the world export trade in wheat flour. The Subsidies Code dispute settlement process was initiated on September 21, 1981.

301-11, Citrus products (EC)

Petition received: November 12, 1976.

Issue: EC's preferential rates of duty on fresh citrus fruits and orange and grapefruit juices from certain Mediterranean countries.

Status: The petition was initially filed with USTR on November 12, 1976, alleging that the EC's preferential import duties on fresh citrus fruits and orange and grapefruit juice from certain Mediterranean countries were having an adverse effect on U.S. citrus producers. Public hearings were held on January 25, 1977. In the course of the MTN, a duty reduction was obtained on fresh grapefruit only. Following the MTN, the United States and the EC engaged in GATT Article XXII:1 consultations regarding the EC's Mediterranean preferences without resolution of the problem. Subsequent to these formal consultations, the United States and the EC engaged in a number of informal consultations again without resolution of the problem. On March 17, 1982, the United States requested formal GATT article XXIII:1 consultations. These consultations were ineffective in resolving the dispute. In an attempt to avert the formation of a panel to arbitrate the dispute, the Director General of the GATT offered his services in attempting to negotiate a settlement to the dispute. His efforts proved unsuccessful, and the GATT Council, on November 2, 1982, established a panel under GATT article XXIII:2 to hear the U.S. complaint. A number of delegations supported the proposition that a working party as opposed to a panel review the matter. The United States objected to this initiative, principally because working parties have traditionally been ineffective in redressing disputes between contracting parties. At the end of 1982, the Council was attempting to establish acceptable terms of reference for its review. (The case is also described in chap. 2 of this report).

301-22, Sugar (EC)

Petition received: August 20, 1981.

Issue: Allegation of EC violations of GATT article XVI and the GATT Subsidies Code in using export subsidies on sugar to capture more than an equitable share of the world export trade to third-country markets. The petition further argued that EC-subsidized exports depressed the world price of sugar which in turn, depressed the U.S. domestic price of sugar thereby injuring the U.S. industry.

Status: The investigation was initiated on October 5, 1981, and a public hearing was held on November 4, 1981. Subsidies Code article XII consultations were held with the EC on February 16, 1982, and the conciliation procedures were completed on April 30, 1982. On June 28, 1982, the President directed the USTR to continue bilateral deliberations with the EC and to support international efforts to resolve the matter in the GATT and in the International Sugar Organization. The President also instructed the USTR to continue the dispute settlement process within the Subsidies Code if these efforts failed. International efforts to resolve the dispute were still going on at the end of the year, and the United States had not requested a panel under the Subsidies Code. (The case is also described in chap. 2 of this report).

301-23, Poultry (EC)

Petition received: September 17, 1981.

Issue: Allegation of EC violations of GATT article XVI and the GATT Subsidies Code in using export subsidies on poultry which result in displacement of U.S. poultry exports to third-country markets (the Middle East).

Status: The investigation was initiated on October 28, 1981. Consultations were held with the EC under Subsidies Code article XII on February 16, 1982. During these consultations, the EC alleged that it was meeting the competition from subsidized Brazilian exports of poultry to the Middle East and therefore it was not in violation of the Code. Subsequently, the United States began an examination of Brazilian practices with respect to its exports of poultry. On July 12, 1982, the President directed the USTR to expeditiously conclude his examination of the relationship of subsidized Brazilian exports of poultry to the problems of U.S. poultry exporters and to then seek a resolution of the problem, using Code dispute settlement provisions if necessary. In August 1982, the United States held informal consultations with Brazil to obtain more information about Brazilian subsidy practices relating to the production and export of poultry, and to seek the cooperation of Brazil in obtaining greater discipline in the use of export subsidies on the part of Brazil and the EC. Following this meeting, the Brazilians indicated that they were not interested in pursuing a trilateral solution to the problem. As a consequence, the United States requested Subsidies Code article XII consultations with Brazil in September 1982.

301-24, Cattle hides (Argentina)

Petition received: October 9, 1981.

Issue: Argentina's not reducing its tax on exports of cattle hides to the extent called for in the United States-Argentina Cattle Hide-Leather Agreement. The petition further alleged that unreasonable restrictions on commerce were being imposed by Argentina's export controls on hides.

Status: The investigation was instituted on November 24, 1981. Bilateral²⁶³ consultations with Argentina were held on February 23 and April 15, 1982. The Agreement was terminated on October 30, 1982. (For more details, see ch. 3 of this report.)

301-25, Pasta (EC)

Petition received: October 16, 1981.

Issue: Allegation of EC violations of GATT article XVI and the Subsidies Code in using export subsidies on pasta to displace sales of U.S.-produced pasta in the United States.

Status: The investigation was initiated on November 30, 1981, and consultations were requested with the EC under article XII of the Subsidies Code. The EC refused to consult, so the United States requested conciliation on March 3, 1982. On April 7, 1982, a panel was formed. On July 21, 1982, the President directed the USTR to pursue the dispute settlement provisions of the Subsidies Code. Both parties to the dispute met with the panel in July and again in October 1982 to respond to the questions of the panelists. The matter was pending before the panel at the end of the year.

301-26, Canned peaches, canned pears, and raisins (EC)

Petition received: October 29, 1981.

Issue: Allegation of EC violations of GATT article XVI in granting production subsidies on EC member states' canned peaches, canned pears, and raisins, which displace the sales of non-EC products within the EC and thereby impair tariff bindings on these products.

Status: The investigation was initiated on December 10, 1981. Consultations with the EC were held on February 25, 1982, under GATT article XXIII:1. These consultations failed to resolve the dispute and consequently the United States requested that a panel be formed under GATT article XXIII:2 on March 31, 1982. Further consultations were held with the EC on April 29, 1982. In August 1982, the President directed the USTR to expeditiously pursue the GATT dispute settlement procedures in resolving this complaint. In September and again in October 1982, both parties met with the panel to respond to questions of the panelists. The matter was pending before the panel at the end of the year. (This case is also described in chap. 2 of this report).

301-27, Certain stainless steel (Austria)301-28, Certain stainless steel (France)301-29, Certain stainless steel (Italy)301-30, Certain stainless steel (Sweden)301-31, Certain stainless steel (United Kingdom)301-33, Certain stainless steel (Belgium)

Petition naming the above countries, plus Brazil, received: December 2, 1981. Improved petition filed on January 12, 1982. New petition concerning only Belgium filed on June 23, 1982, providing new information.

Issue: Production subsidies for the specialty steel industries of the countries named above in violation of articles VIII and XI of the Subsidies Code.

Status: The investigation was initiated on February 26, 1982, with respect to allegations against Austria, France, Italy, Sweden, and the United Kingdom. The public hearing was held on April 14, 1982. The investigation with respect to allegations against Belgium was initiated on August 9, 1982. On November 16, 1982, after receiving a recommendation from the Office of the USTR, the President announced his agreement with allegations of the petitioners. In order to eliminate the harmful effects of the complained-of practices, the President directed the USTR to (1) request the U.S. International Trade Commission to conduct an expedited investigation under section 201 of the Trade Act of 1974 with regard to the five specialty steel products subject to the 301 investigations; (2) initiate multilateral and/or bilateral discussions aimed at the elimination of all trade-distorting practices in the specialty steel sector; and (3) monitor imports of specialty steel products subject to the 201 investigation. As of December 31, 1982, formal multilateral or bilateral discussions had not yet been held.

301-32, Subway cars (Canada)

Petition received: June 3, 1982.

Issue: Allegation that Canada has provided subsidized financing on a contract for the sale of subway cars to the New York City Metropolitan Transit Authority in violation of the GATT Subsidies Code.

Status: The investigation was initiated on July 19, 1982. Consultations were held. Later, however, the petition was withdrawn. (For more details, see the section on Canada in ch. 4 of this report.)

301-34, Front-end wheel loaders (Canada)

Petition received: September 13, 1982.

Issue: Duty remission program.

Status: Canada has duty remission programs that are intended to encourage companies to rationalize their production by concentrating their resources on a limited number of product lines. The United States contends that the subject program operates as a production subsidy, can reduce Canadian imports of certain categories of loaders from the United States, and can impair the benefit of tariff concessions granted to the United States in the Tokyo round of the MTN. Bilateral consultations were held with Canada on December 21, 1982. Further action is contemplated.

301-35, Footwear (Brazil)

301-36, Footwear (Japan)

301-37, Footwear (Korea)

301-38, Footwear (Taiwan)

Petition naming the above countries, plus the European Communities, France, Italy, the United Kingdom, and Spain received: October 25, 1982.

Issues: Restrictive trade practices of the countries named above, causing a diversion of non-rubber footwear exports to the U.S. market; and denial of access by U.S. exports of such footwear in foreign markets. The alleged restrictive practices include quantitative restrictions, restrictive licensing, bilateral restraining agreements, excessive tariffs, and subsidies.

Status: On December 8, 1982, the USTR initiated an investigation with respect to Brazil, Japan, Korea, and Taiwan. The USTR decided not to initiate investigations against the other countries named in the petition.

Other Import Administration

This section covers actions under section 603 of the Trade Act of 1974; section 22 of the Agricultural Adjustment Act; the Meat Act of 1964, as amended; and section 232 of the Trade Expansion Act of 1962.

Under section 232, the Secretary of Commerce, with input from other departments and agencies, gives the President information and advice on whether specified imports threaten to impair the national security.

Section 603, Trade Act of 1974

Among other things, section 603 permits the Commission to conduct preliminary investigations. From time to time, the Commission has conducted section 603 investigations in order to determine whether there was a basis for instituting a section 337 (unfair import practices) investigation.

On January 4, 1982, the Commission instituted investigation No. 603-TA-7, on airtight cast-iron stoves. The Commission had been monitoring the market for airtight cast-iron stoves following the issuance of (1) exclusion orders and cease and desist orders as a result of investigation No. 337-TA-69, and (2) consent orders as a result of investigation No. 337-TA-106. The unfair acts had consisted of (1) deception of consumers by passing off imported copies as domestic stoves, (2) engaging in false and misleading advertising to further the deception, and (3) infringing the common-law trademark protection of the companies whose stoves were being copied.

In connection with its monitoring activities, the Commission instituted investigation 603-TA-7 to develop information as to whether these orders were being violated by previous respondents, and whether there were new violators. On May 13, 1982, the Commission announced (1) termination of the case on the grounds that further investigatory activity was not necessary at that time, and (2) that it would continue to monitor the subject market and enforce the orders issued in the cited section 337 cases.

On February 11, 1982, the Commission instituted investigation No. 603-TA-8, on stainless steel shears. The purpose was to determine whether there was a need to institute a section 337 investigation on the questions of (1) whether there was false and deceptive advertising of certain imported shears and (2) whether a foreign manufacturer and its related U.S. importer were engaged in "trade libel, product disparagement, and tortious interference with contractual relations." The Commission determined that there was no need for a section 337 investigation. In publishing notice of termination of the Section 603 case, on June 7, 1982, the Commission indicated that the public interest would be fully safeguarded.

Section 22 of the Agricultural Adjustment Act

At the request of the President, the Commission conducts investigations under section 22 to determine the impact of imports on programs of the Department of Agriculture. 1/

In 1982, the Commission completed two section 22 investigations. In investigation No. 22-44, on casein, mixtures in chief value of casein, and lactalbumin, the Commission found that these products were not being imported in such quantities as to impair the Department of Agriculture's price-support program for milk. Therefore, the President decided to take no further action on the imports.

On January 15, 1982, in response to a directive from the President, the Commission instituted investigation No. 22-45 to determine whether sugars, sirups, and molasses 2/ were being or were practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the Department of Agriculture's price-support program for sugar cane and sugar beets.

1/ Sec. 22 of the Agricultural Adjustment Act calls for the Secretary of Agriculture to alert the President when he believes agricultural commodities are being or are practically certain to be imported into the United States in such quantities as to render or tend to render ineffective, or materially interfere with, U.S. Department of Agriculture (USDA) programs, including price-support programs, or substantially reduce the amount of any product processed from a product covered by a USDA program.

If the President agrees with the Secretary of Agriculture, he directs the Commission to conduct an investigation and develop a report, including findings and recommendations, for his consideration. Following receipt of the Commission's report, the President may impose quotas or duties (not to exceed 50 percent of the imported product's value) to protect the program. In cases in which the Secretary of Agriculture determines that an emergency exists, the President may take action before the Commission investigation and report, and such emergency action continues in effect pending the Commission's eventual report and recommendation.

2/ Provided for in items 155.20 and 155.30 of the Tariff Schedules of the United States (TSUS).

Before and after the Commission instituted the investigation, the President issued emergency proclamations, Nos. 4887 and 4888 on December 23, 1981, and Nos. 4940 and 4941 on May 5, 1982, imposing import fees and quotas and increasing rates of duty.

On June 8, 1982, the Commission made an affirmative determination, and recommended that the President--

- (1) maintain the current fee system set forth in Proclamation No. 4940;
- (2) maintain the duties set forth in Proclamation No. 4888;
- (3) maintain the quota system set forth in Proclamation No. 4941 until such time as duties and fees, which are preferred to a restrictive quota, are once again adequate to protect the price-support program; and
- (4) establish guidelines for the orderly transition between reliance on a quota and reliance on duties and fees.

At the end of 1982, the President had not indicated what response he wished to make to the Commission's recommendation. However, his emergency actions were still in effect.

As a result of section 22 actions taken in other years, import quotas were still in effect on the following products as of December 31, 1982:

Milk or cream, fluid or frozen, fresh or sour, containing over 5.5 percent, but not over 45 percent by weight of butterfat
 Condensed or evaporated milk
 Most cheeses made from cow's milk
 Butter and butter oil
 Powdered milk
 Frozen cream
 Ice cream
 Chocolate containing over 5.5 percent by weight of butterfat (except articles for consumption at retail as candy or confection)
 Chocolate crumb
 Certain articles containing malted milk and articles, n.s.p.f., of milk or cream.
 Certain edible preparations containing butterfat
 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.
 Sugars, sirups, and molasses derived from sugar cane or sugar beets

Meat Import Act of 1964, as Amended

Under the Meat Import Act of 1964, the Department of Agriculture monitors imports and U.S. production of certain meats, and assists the President in protecting the domestic producers' share of the U.S. meat market. 1/

In late 1981, the U.S. Department of Agriculture estimated that, in calendar year 1982, imports of quota meat would amount to 1.21 billion pounds, a quantity that was 90 million pounds below the "trigger" level (1.30 billion pounds for 1982) requiring imposition of quantitative limitations. Although no quotas were imposed under the authority of the act by December 31, 1982, voluntary restraint agreements were negotiated in late October, when U.S. imports of beef from Australia and New Zealand were unusually high because drought in those countries was leading to distress cattle slaughter. In 1982, imports of quota meat amounted to 1.32 billion pounds, about 20 million pounds above the trigger level and 110 million pounds above the estimate of the USDA.

On December 30, 1982, USDA estimated that imports of quota meat would amount to 1.22 billion pounds in 1983, about 80 million pounds below the trigger level.

1/ In order to protect domestic meat producers' share of the U.S. meat market, the Meat Import Act of 1964 provides that the aggregate imports of specified meats entered in any calendar year after 1964 should not exceed a base quantity which is adjusted annually to assure that imports do not exceed 7 percent of domestic commercial production.

The Meat Import Act of 1979 amends the 1964 act and became effective on Jan. 1, 1980. The amending legislation allows for a countercyclical adjustment of the base level, raising the level of imports permitted when domestic production declines and reducing it when production increases. 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 1980, the annual import quota shall be the base quota multiplied by the product of two fractions. The numerator of the first fraction is calculated by estimating the domestic commercial production of the specified meat articles for the year for which the import quota may be proclaimed, and by calculating a 3-year average that includes the estimated production for that year and the production of the 2 immediately preceding years. The denominator of the first fraction is the average annual domestic production of such meat in 1968-77. The second of the two fractions is countercyclical. Its numerator is a 5-year average that includes the estimated per capita domestic production of cow beef, for the year in which an import quota may be proclaimed, and such production in the 4 immediately preceding years. The denominator is the average of the estimated per capita domestic production of cow beef in the subject year and such production in the immediately preceding year.

Since the bulk of imported meat is of the kind used in producing manufactured meat products, the new act has a greater effect on the prices of manufactured meats than on those of table cuts. It establishes a minimum permissible access level on imports, 1.25 billion pounds, and modifies the President's authority to increase or suspend the quotas if the countercyclical fraction has a quotient of less than 1. In this case, the President may only suspend quotas if a national emergency exists requiring their suspension for security reasons, or if a natural disaster, disease, or major market disruption upsets domestic supplies. The 1979 act broadened the product coverage of the Meat Import Act of 1964 to include prepared or preserved meats and fresh, chilled, or frozen lamb meat.

U.S. Actions in Connection With National Security: Section
232 of the Trade Expansion Act of 1962 1/

For the purposes of section 232 of the Trade Expansion Act of 1962, Commerce's investigating arm is the Office of Industrial Resource Administration (OIRA). In 1982, OIRA completed three investigations, on (1) petroleum; (2) glass-lined chemical processing equipment; and (3) ferrochromium, ferromanganese, and ferrosilicon. At yearend, OIRA's investigation of nuts, bolts, and large screws was pending. 2/

On March 10, 1982, under his section 232 authority, the President issued Proclamation No. 4907, announcing that the Secretaries of Commerce and Energy had advised him that imports of petroleum were continuing to pose a threat to the national security. He indicated that these Secretaries, in conjunction with the Secretaries of State, Defense, and the Treasury, no longer considered Libya to be a reliable supplier of U.S. energy needs. Moreover, Libyan policy and action, aided by proceeds from the exportation of oil to the United States, were declared to be adverse to the national security of the United States. 3/

Accordingly, in Proclamation No. 4907, the President amended Proclamation No. 3279 (the basic proclamation on oil imports) to place an embargo on imports of crude oil produced in Libya. In a previous amendment to Proclamation No. 3279 (through Proclamation No. 4702), issued in November 1979, the President had announced an embargo on imports of crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar produced in Iran. 4/

On March 18, 1982, OIRA made a negative determination in its investigation of glass-lined chemical processing equipment.

1/ Sec. 232 of the Trade Expansion Act of 1962 directs the Secretary of Commerce, upon request or upon his own motion, to immediately initiate an investigation to determine the effects of imports of the subject article on the national security. If, following his investigation, the Secretary determines that the subject article is being imported in such quantities or under such circumstances as to threaten to impair the national security, he must promptly so advise the President. Unless the President disagrees, he must take whatever action, for any duration, he considers necessary to regulate the imports and their derivatives so that the said imports will not threaten to impair the national security. In the course of his investigation, the Secretary receives information and advice from various Federal departments and agencies.

2/ On March 31, 1982, OIRA announced that it was instituting a section 232 investigation of nuts, bolts, and large screws. It made a negative determination on February 11, 1983.

3/ During 1982, for supply reasons, OIRA continued to regulate U.S. exports of crude and refined petroleum. Its authority is currently based on the Export Administration Act of 1979. The United States has been controlling such exports since the onset of the Arab oil embargo of the winter of 1973-74.

4/ There were still-earlier findings, in 1959 and 1975, that oil imports were threatening to impair the national security, and the President took action to control the imports. When the 1975 investigation was in progress, the Department of Defense indicated that the United States must meet its essential energy requirements "from secure sources not subject to military, economic or political interdiction" 270

On December 3, 1982, Commerce issued a press release in connection with its investigation on ferrochromium, ferromanganese, and ferrosilicon. The press release did not announce the Department's advice to the President, because it was (and is) confidential. However, the announcement indicated that the President was taking steps to upgrade the manganese and chromium ores in the National Defense Stockpile to improve stockpile readiness, and that the increased level of activity in processing the ores was also in the interest of defense readiness. The press release also indicated that the President was instructing an interagency committee to consider removing ferrochromium, ferromanganese, and ferrosilicon alloys from the list of articles eligible for GSP duty-free treatment. 1/

The Generalized System of Preferences

The U.S. Generalized System of Preferences 2/ is a temporary tariff preferences scheme 3/ designed to offer the products of developing countries a price advantage over other imports in U.S. markets. Nonreciprocal duty-free treatment for designated articles is intended to help beneficiary developing countries become more competitive in international markets and to diversify their economic structures away from production of primary goods. The U.S. GSP scheme is administered by the United States Trade Representative.

In the product review that was completed in the spring of 1982, the President "graduated" 43 countries with respect to items representing an estimated \$651 million in otherwise eligible imports. Among the graduated items were flat goods from Korea, artificial flowers from Hong Kong, and solid state radio receivers from Taiwan and Korea.

In the same review, 48 products, representing imports amounting to \$760 billion in 1981, were added to the list of GSP eligible items. The five leading beneficiary countries, Taiwan, Korea, Hong Kong, Mexico, and Brazil, were not eligible to receive GSP treatment on some of the new items.

1/ This removal occurred effective Apr. 1, 1983.

2/ The list of items eligible for (GSP) duty free treatment is subject to an annual review by the interagency Trade Policy Staff Committee, chaired by a representative of the United States Trade Representative. In the review, products may be added to or deleted from the list of eligible articles; also, certain beneficiary countries may be excluded from or reinstated to eligibility for GSP treatment on the basis of "competitive need" limits, or by the President's discretionary authority to "graduate" countries for particular products. Graduation is recognition that a beneficiary country does not currently need GSP treatment for particular products in order to be competitive. There are two competitive need limits. The first limit, expressed in dollars, changes yearly to reflect the growth of United States gross national product. In 1982 the dollar limit was \$53.3 million. The other limit is 50 percent of the appraised value of total imports. Each limit is applicable to each GSP-eligible article from a beneficiary country. The so-called "competitive need" provisions of the GSP law establish dollar and import-share limits on the amount of any item that can be imported duty-free in any year for any single country. The U.S. International Trade Commission advises the President as to the probable economic effect of the removal of duty on the domestic industry and on consumers. For a more detailed discussion of the U.S. and foreign GSP schemes, see OTAP, 32d Report, 1980, pp. 226ff.

3/ The U.S. GSP scheme was established under the Trade Act of 1974 for a period of 10 years. The program's current authorization extends until Jan. 4, 1985.

In the 1982 product review, products accounting for about \$6.8 billion in imports were removed from GSP eligibility through competitive need exclusions and "graduation." Consequently, the affected imports were subject to MFN rates of duty after March 31, 1982. The above-named five leading beneficiaries accounted for almost 85 percent of the competitive-need exclusions.

In 1982, 140 countries and territories were eligible for GSP tariff treatment on approximately 3,000 items. The United States imported products worth \$8.3 billion duty free under this system from GSP beneficiaries in 1982—approximately equal to the value of such imports in 1981. Still, GSP imports accounted for only 3 percent of total U.S. imports in the year—about the same share as they have accounted for since the program's inception in 1976.

As a group, the five leading beneficiary countries together accounted for over 65 percent of GSP imports in 1982. (See also figure 7 for leading-country shares). Singapore, Israel, India, Yugoslavia, and Argentina supplied another 16 percent of all imports under GSP in that year. All told, the top 10 suppliers accounted for 81 percent of all imports under GSP. The 10 countries that supplied the highest value of GSP imports in 1982 are also shown in table 39.

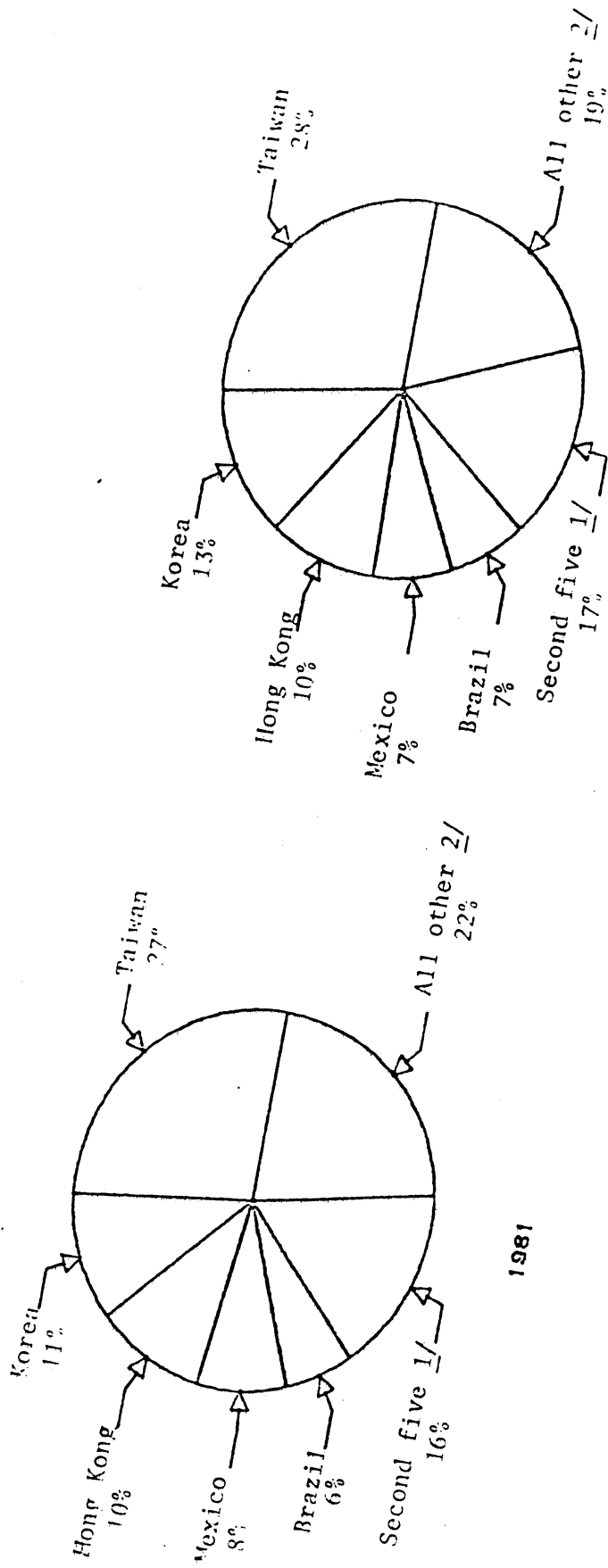
Table 39.—U.S. imports under GSP from the 10 leading sources, 1982

Rank	Source	U.S. imports of of GSP-eligible articles (1)	GSP imports (2)	Ratio of (2)-(1): (3)	Ratio of (2) to total GSP imports (4)
		1,000 dollars		Percent	
1	Taiwan	4,279,908	2,333,388	54.5	28.1
2	Republic of Korea	1,719,655	1,089,232	63.3	13.1
3	Hong Kong	2,473,050	794,891	32.1	9.6
4	Mexico	2,950,344	599,495	20.3	7.2
5	Brazil	828,795	563,875	68.0	6.8
6	Singapore	794,677	429,379	54.0	5.2
7	Israel	449,860	407,197	90.5	4.9
8	India	227,033	187,535	82.6	2.3
9	Yugoslavia	188,302	179,479	95.3	2.2
10	Argentina	329,086	173,224	52.6	2.1
	Total,				
	top 10	14,240,710	6,757,695	47.5	81.5

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

Among other things, table 39 indicates that, in 1982, GSP imports from Taiwan were valued at \$2.3 billion, equivalent to 28.1 percent of all GSP imports. Taiwan's share was more than twice as large as that of the second-leading supplier of GSP imports, Korea. Among the 10 leading suppliers, the ratio of GSP duty-free imports to imports of GSP-eligible articles ranges from 20.3 percent for Mexico to 95.3 percent for Yugoslavia.

Figure 7. Relative shares of U.S. GSP duty-free imports from GSP beneficiaries, by country, 1981 and 1982



1/ Singapore, Israel, India, Yugoslavia, and Argentina.
 2/ All other GSP beneficiary countries.

Source: Based on official statistics of the U.S. Department of Commerce.

The data reported in table 40 indicate that, in 1982, advanced beneficiary countries (ABC's) (as defined in footnote 1 of that table), supplied 84 percent of U.S. imports that received duty-free treatment under GSP. 1/ GSP-duty-free imports from the ABCs had a value of almost \$7.0 billion. 2/ Middle-income beneficiaries accounted for 12 percent, or almost \$1.0 billion, and low-income beneficiaries, for 4 percent, or \$352 million, of duty-free GSP imports in 1982 (figure 8). The ABCs actually increased their share of the total GSP duty-free imports supplied (by 4 percentage points over the previous year), despite graduations and despite competitive need exclusions.

As shown in table 41, sugar derived from sugar cane or sugar beets, provided for in TSUS item 155.20 3/, was by far the leading GSP-eligible import, and it also accounted for the largest GSP-duty-free value. The principal beneficiary was Honduras. Other important GSP-duty-free imports, and their leading supplier, included certain electrical switches and parts, non-folding chairs of wood other than teak, certain jewelry and parts, valued over 20 cents per dozen, hand-held citizens band radios, and certain articles of unalloyed iron or steel, from Taiwan; inedible molasses, provided for in TSUS item 155.40 4/, from the Dominican Republic; certain toy animals from Korea; and tape recorders and parts from Singapore.

1/ The ABCs also supplied 85 percent of the imports of GSP-eligible articles.

2/ Compared with \$6.7 billion in 1981.

3/ TSUS item 155.20 provides for edible sugars, sirups, and molasses, but the imports consist predominantly or exclusively of sugar.

4/ TSUS item 155.40 provides for inedible sugars, sirups, and molasses, but the imports consist predominantly or exclusively of molasses.

Table 40.--U.S. imports for consumption from GSP beneficiary countries, by development status 1/, 1982

Item	Advanced GSP beneficiaries	Middle income GSP beneficiaries	Low income GSP beneficiaries	Total, all beneficiary countries	Total, all countries
Total imports-----thousand dollars	56,691,723	12,499,131	9,114,339	78,305,194	242,339,988
GSP eligible-----do	14,888,762	2,032,758	522,303	11,443,824	17,443,824
Duty free under GSP-----do	6,954,278	989,039	352,256	8,295,574	8,295,574
Competitive need exclusions-----do	5,853,085	602,222	55,115	6,510,423	6,510,423
Other-----do	2,081,397	441,497	114,931	2,637,836	2,637,836
Noneligible imports-----do	41,802,961	10,466,372	8,592,036	60,861,369	224,896,163
Ratio of:					
GSP-eligible imports to total imports-----percent	26	16	6	22	7
GSP duty-free imports to GSP eligible imports-----percent	47	49	67	48	48
Competitive-need exclusions to GSP-eligible imports-----percent	39	30	11	37	37
Other imports to GSP-eligible imports-----percent	14	22	22	15	15
GSP-duty free to total imports-----percent	12	8	4	11	3
Country group share of total GSP duty-free imports	84	12	4	100	2/
Country group share of total competitive-need exclusions	90	9	1	100	2/

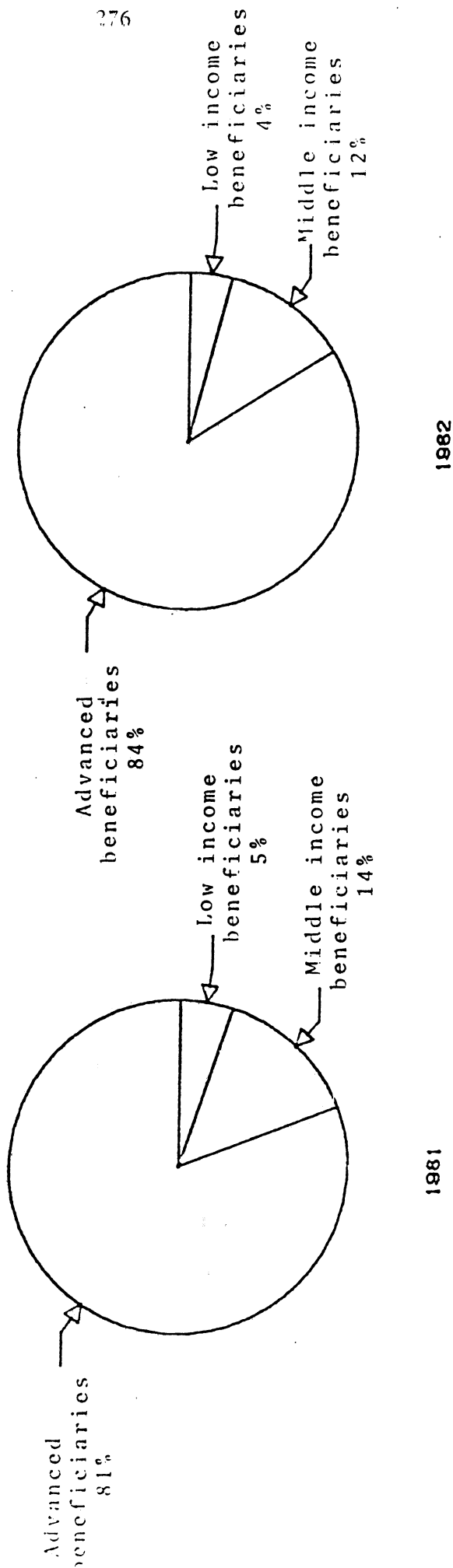
1/ For the purpose of this table, those countries having gross national product per capita in 1979 over \$1,405 were classified as "advanced GSP beneficiaries"; those with per capita gross national product of less than \$1,405 and more than \$345 in 1979 were classified as "middle income GSP beneficiaries"; and those with gross national product per capita of \$345 or less in 1979 were classified as "low income GSP beneficiaries."

2/ Not applicable.

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

Note.--Customs-value basis.

Figure 8.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries, by development levels, 1981 and 1982



Source: Based on official statistics of U.S. Department of Commerce.

Table 41.—U.S. Imports for consumption of the top 50 GSP-eligible articles, by TSUS items and by leading duty-free sources, 1982

TSUS item No.	Description	Leading GSP duty-free source	Total imports	GSP-eligible imports	GSP-eligible share of total		GSP duty free		GSP duty-free share of eligible imports	Competitive-need exclusions	Other GSP-eligible imports
					Percent	dollars	Percent	dollars			
155.20	Sugar, Sirup, molasses principal crystalline or dry amorphous form	Thailand	797,970	724,164	90	264,992	36	392,842	66,330		
676.52	Office machine parts n.e.s.	Singapore	1,807,971	651,145	36	132,468	20	308,445	210,232		
734.20	Game machines including coin and disc operated and parts	Philippines	954,657	617,412	64	5,691	-	585,074	26,647		
685.90	Switchboards panels, etc for make connections breaking circuits	Taiwan	1,162,394	417,690	35	152,488	36	187,908	77,294		
678.50	Machines, n.s.p.f. and parts	Singapore	1,435,854	357,144	24	37,600	10	253,025	66,519		
685.24	Solid state radio receivers, n.e.s.	Malaysia	586,182	328,192	55	9,055	2	315,289	3,847		
685.29	Hand-held citizens (CB) radio transceivers	Taiwan	615,878	307,853	49	148,613	48	11,246	147,994		
660.48	Piston-type engines other than compression-ignition for automobiles including fans and blowers, and parts, n.s.p.f., whether operated by hand or any kind of power	Brazil	480,261	307,154	63	130,206	42	176,736	211		
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning	Taiwan	398,257	307,107	77	50,936	16	254,193	1,978		
612.06	Unwrought copper, n.e.s.	do	1,716,693	296,679	17	63,872	21	229,886	2,920		
737.95	Toys and parts, n.s.p.f., not having a spring mechanism and not kites	Zaire	398,017	283,213	71	31,915	11	245,007	6,291		
682.60	Generator, motor generator converters, etc, electrical, n.e.s.	Republic of Korea	336,254	278,198	82	81,039	29	181,883	15,276		
685.40	Tape recorders and dictation and transcribing machines, and parts thereof	Taiwan	573,724	254,617	44	74,256	29	144,169	36,191		
618.02	Unwrought aluminum, nes, other than alloys of aluminum	Singapore	1,681,752	201,807	11	88,535	43	39,953	73,318		
		Venezuela	470,067	198,372	42	7,857	3	155,525	34,990		

Table 41.—U.S. imports for consumption of the top 50 GSP-eligible articles, by TSUS items and by leading duty-free sources, 1982—Continued

TSUS item No.	Description	Leading GSP duty-free source	Total imports	GSP- eligible imports	GSP- share of total	—1,000—		GSP duty- free share of eligible imports	Competitive- need exclusions	Other GSP- eligible imports
						—dollars—	—Percent—			
			—1,000 dollars—		—Percent—	—1,000—	—Percent—	—1,000 dollars—		
687.70	Transistors	Singapore	259,662	196,919	75	20,115	10			176,804
684.70	Microphones, loudspeaker, head phones etc. and parts	Hong Kong	474,507	185,952	39	11,998	6	145,973		27,980
727.35	Furniture, wood n.s.p.f.	Yugoslavia	411,258	169,555	41	80,566	47	84,394		4,594
688.12	Ignition wiring sets and wiring: sets for transportation	Taiwan	163,571	153,161	93	20,284	13	130,885		1,992
612.03	Unwrought black copper, blister copper, and anode copper	Chile	154,645	147,534	95	127,136	86	7,428		12,970
688.15	Insulated electrical conductors: with fittings n.e.s.	Taiwan	195,852	139,908	71	24,565	17	94,550		20,792
772.51	Pneumatic tires, n.e.s.	Israel	1,140,358	129,264	11	45,029	34	81,641		2,594
727.29	Non-folding chairs of wood other than teak	Yugoslavia	160,199	125,454	78	123,279	98			2,175
774.55	Articles n.s.p.f., of rubber or plastic	Taiwan	394,628	125,364	31	96,096	76	10,739		18,529
684.62	Telephonic apparatus and instruments and parts	Hong Kong	461,316	122,384	26	90,061	73			32,323
121.61	Bovine leather, not fancy and in the rough	Brazil	162,622	121,099	74	9,770	8	72,649		38,679
737.40	Toy animals etc., n.s.p.f., not having a spring mechanism	Republic of Korea	125,904	120,722	95	115,381	95			5,342
684.48	Other electric appliances, n.s.p.f.	Taiwan	155,289	119,421	76	23,687	19	85,435		10,298
685.70	Electrical sound or visual signaling apparatus and parts	Hong Kong	218,412	115,125	52	58,284	50			56,841
687.72	Diodes and rectifiers	Taiwan	174,155	113,797	65	27,999	24			85,798

Table 41.—U.S. imports for consumption of the top 50 GSP-eligible articles, by TSUS items and by leading duty-free sources, 1982—Continued

TSUS item No.	Description	Leading GSP duty-free source	Total imports	GSP- eligible imports	GSP- eligible share of total	GSP duty free	GSP duty- free share of eligible imports	Competitive- need exclusions	Other GSP- eligible imports
737.30	Stuffed toy animals, valued over \$.10 per inch of height	Taiwan	85,591	78,542	91	27,749	35	47,230	3,563
708.45	Eyeglasses, goggles, etc., except frames etc., over \$2.50 per dozen	do	134,971	76,731	56	73,600	95	-	3,131
137.63	Tomatoes, fresh, chilled, or frozen entered Nov. 15 to last day Feb.	Dominican Republic	74,157	74,128	99	3	-	5,873	68,252
712.49	Electrical measuring etc devices n.s.p.f. and parts thereof	Republic of Korea	596,522	73,906	12	32,876	44	-	41,030
696.10	Yachts, or pleasure boats valued over \$15,000 each	Hong Kong	120,334	73,288	60	17,385	23	55,183	720
107.48	Corned beef in airtight containers	Argentina	73,693	73,237	99	33,595	45	38,838	804

APPENDICES

APPENDIX A

GATT MINISTERIAL DECLARATION

1. The Contracting Parties to the General Agreement on Tariffs and Trade have met at Ministerial level on 24-29 November 1982. They recognize that the multilateral trading system, of which the General Agreement is the legal foundation, is seriously endangered. In the current crisis of the world economy, to which the lack of convergence in national economic policies has contributed, protectionist pressures on governments have multiplied, disregard of GATT disciplines has increased and certain shortcomings in the functioning of the GATT system have been accentuated. Conscious of the role of the GATT system in furthering economic well-being and an unprecedented expansion of world trade, and convinced of the lasting validity of the basic principles and objectives of the General Agreement in a world of increasing economic interdependence, the Contracting Parties are resolved to overcome these threats to the system.

2. The deep and prolonged crisis of the world economy has severely depressed levels of production and trade. In many countries growth rates are low or negative; there is growing unemployment and a climate of uncertainty, exacerbated by persistent inflation, high rates of interest and volatile exchange rates, which seriously inhibit investment and structural adjustment and intensify protectionist pressures. Many countries, and particularly developing countries, now face critical difficulties created by the combination of uncertain and limited access to export markets, declining external demand, a sharp fall in commodity prices and the high cost of borrowing. The import capacity of developing countries, which is essential to their economic growth and development, is being impaired and is no longer serving as a dynamic factor sustaining the exports of the developed world. Acute problems of debt servicing threaten the stability of the financial system.

3. In the field of trade, the responses of governments to the challenges of the crisis have too often been inadequate and inward-looking. Import restrictions have increased and a growing proportion of them have for various reasons been applied outside GATT disciplines, thus undermining the multilateral trading system. Trade patterns have also been adversely affected by certain forms of economic assistance for production and exports and by some restrictive trade measures applied for non-economic purposes. In the depressed economic circumstances these measures, together with continuing pressures for further protective action, have contributed to further delays in necessary structural adjustment, increased economic uncertainty and discouraged productive investment.

4. The results of the Tokyo Round, including in particular the implementation on schedule of the tariff reductions, have provided some impetus to the functioning of the trading system. However, despite the strength and resilience which it has shown, the stresses on the system, which are reflected in the growing number and intensity of disputes between contracting parties, many of which remain unresolved, have made more pronounced certain shortcomings in its functioning. Existing strains²⁸³ have been aggravated by differences of perception regarding the balance of rights and obligations under the GATT, the way in which these rights and obligations have been implemented and the extent to which the interests of different contracting parties have been met by the GATT. There are also concerns over

the manner in which rights are being pursued as well as the manner in which obligations are being fulfilled. Disagreements persist over the interpretation of some important provisions and over their application. Disciplines governing the restriction of trade through safeguard measures are inadequate; there is widespread dissatisfaction with the application of GATT rules and the degree of liberalization in relation to agricultural trade, even though such trade has continued to expand; trade in textiles and clothing continues to be treated under an Arrangement which is a major derogation from the General Agreement - a matter of critical importance to developing countries in particular. Such differences and imbalances are particularly detrimental to the stability of the international trading system when they concern access to the markets of major trading countries or when, through the use of export subsidies, competition among major suppliers is distorted.

5. The Contracting Parties recognize that the interdependence of national economies means that no country can solve its trade problems in isolation and also that solutions would be greatly facilitated by parallel efforts in the financial and monetary fields. In this light, they commit themselves to reduce trade frictions, overcome protectionist pressures, avoid using export subsidies inconsistent with Article XVI of the GATT and promote the liberalization and expansion of trade. They are therefore determined to create, through concerted action, a renewed consensus in support of the GATT system, so as to restore and reinforce confidence in its capacity to provide a stable predictable trading environment and respond to new challenges.

6. The Contracting Parties have accordingly decided:

- to reaffirm their commitment to abide by their GATT obligations and to support and improve the GATT trading system, so that it may contribute vigorously to the further liberalization and expansion of trade based on mutual commitment, mutual advantage and overall reciprocity, and the most-favored-nation clause;
- to preserve, in the operation and functioning of GATT instruments, the unity and consistency of the GATT system; and
- to ensure the GATT provides a continuing forum for negotiation and consultation, in which an appropriate balance of rights and obligations can be assured for all contracting parties and the rules and procedures of the system are effectively and fairly applied, on the basis of agreed interpretations, for the economic development and benefit of all.

7. In drawing up the work programme and priorities for the 1980's, the contracting parties undertake, individually and jointly;

- (i) to make determined efforts to ensure that trade policies and measures are consistent with GATT principles and rules and to resist protectionist pressures in the formulation and implementation of national trade policy and in proposing legislation; and also to refrain from taking or maintaining any measures inconsistent with GATT and to make determined efforts to avoid measures which would limit or distort international trade;

- (ii) to give fullest consideration, in the application of measures falling within the GATT framework, and in the general exercise of their GATT rights, to the trading interests of other contracting parties and the shared objective of trade liberalization and expansion;
- (iii) to abstain from taking restrictive trade measures, for reasons of a non-economic character, not consistent with the General Agreement;
- (iv) (a) to ensure the effective implementation of GATT rules and provisions and specifically those concerning the developing countries, thereby furthering the dynamic role of developing countries in international trade;
- (b) to ensure special treatment for the least-developed countries, in the context of differential and more favourable treatment for developing countries, in order to ameliorate the grave economic situation of these countries;
- (v) to bring agriculture more fully into the multilateral trading system by improving the effectiveness of GATT rules, provisions and disciplines and through their common interpretation; to seek to improve terms of access to markets; and to bring export competition under greater discipline. To this end a major two-year work programme shall be undertaken.
- (vi) to bring into effect expeditiously a comprehensive understanding on safeguards to be based on the principles of the General Agreement;
- (vii) to ensure increased transparency of trade measures and the effective resolution of disputes through improvements in the operation of the pertinent procedures, supported by a determination to comply with rulings and respect recommendations;
- (viii) to examine ways and means of, and to pursue measures aimed at, liberalizing trade in textiles and clothing, including the eventual application of the General Agreement, after the expiry of the 1981 Protocol extending the Arrangement Regarding International Trade in Textiles, it being understood that in the interim the parties to the Arrangement shall adhere strictly to its rules;
- (ix) to give continuing consideration to changes in the trading environment so as to ensure that the GATT is responsive to these changes.

SAFEGUARDS

The Contracting Parties decide:

1. That, having regard to the objectives and disciplines of the General Agreement, there is need for an improved and more efficient safeguard system which provides for greater predictability and clarity and also greater security and equity for both importing and exporting countries, so as to 285 preserve the results of trade liberalization and avoid the proliferation of restrictive measures; and

2. That to this end, effect should be given to a comprehensive understanding to be based on the principles of the General Agreement which would contain, inter alia, following elements:

- (i) Transparency;
- (ii) Coverage;
- (iii) Objective criteria for action including the concept of serious injury or threat thereof;
- (iv) Temporary nature, degressivity and structural adjustments;
- (v) Compensation and retaliation; and
- (vi) Notification, consultation, multilateral surveillance and dispute settlement with particular reference to the role and functions of the Safeguards Committee.

3. That such an understanding should be drawn up by the Council for adoption by the Contracting Parties not later than their 1983 Session.

GATT RULES AND ACTIVITIES RELATING TO DEVELOPING COUNTRIES

The Contracting Parties:

1. Instruct the Committee on Trade and Development bearing in mind particularly the special responsibility of the developed contracting parties in this regard, to consult on a regular basis with contracting parties individually or collectively, as appropriate to examine how individual contracting parties have responded to the requirements of Part IV.
2. Urge contracting parties to implement more effectively Part IV and the Decision of 28 November 1979 regarding "differential and more favourable treatment, reciprocity and fuller participation of developing countries":
3. Urge contracting parties to work towards further improvement of GSP or MFN treatment for products of particular export interest to least-developed countries, and the elimination or reduction of non-tariff measures affecting such products;
4. Agree to strengthen the technical cooperation programme of GATT;
5. Instruct the Committee on Trade and Development to carry out an examination of the prospects for increasing trade between developed and developing countries and the possibilities in GATT for facilitating this objective;

To this effect, the Contracting Parties are also taking the decisions annexed and decide to review the action taken in these areas at their 1984 Session. 286

DISPUTE SETTLEMENT PROCEDURES

The Contracting Parties:

Agree that the Understanding on Notification, Consultation, Surveillance, and Dispute Settlement negotiated during the Tokyo Round (hereinafter referred to as the "Understanding") provides the essential framework or procedures for the settlement of disputes among contracting parties and that no major change is required in this framework, but that there is scope for more effective use of the existing mechanism and for specific improvements in procedures to this end;

And agree further that:

- (i) With reference to paragraph 8 of the Understanding, if a dispute is not resolved through consultations, any party to a dispute may, with the agreement of the other party, seek the good offices of the Director-General or of an individual or group of persons nominated by the Director-General. This conciliatory process would be carried out expeditiously, and the Director-General would inform the Council of the outcome of the conciliatory process. Conciliation proceedings, and in particular positions taken by the parties to the dispute during conciliation, shall be confidential, without prejudice to the rights of either party in any further proceedings under Article XXIII:2. It remain open at any time during any conciliatory process for either party to the dispute to refer the matter to Contracting Parties.
- (ii) In order to ensure more effective compliance with the provisions of paragraphs 11 and 12 of the Understanding, the Director-General shall inform the Council of any case in which it has not been found possible to meet the time limits for the establishment of a panel.
- (iii) With reference to paragraph 13 of the Understanding, contracting parties will co-operate effectively with the Director-General in making suitably qualified experts available to serve on panels. Where experts are not drawn from Geneva, any expenses, including travel and subsistence allowance, shall be met from the GATT budget.
- (iv) The secretaries of GATT has the responsibility of assisting the panel, especially on the legal, historical and procedural aspects of the matters dealt with.
- (v) The terms of reference of a panel should be formulated so as to permit a clear finding with respect to any contravention of GATT provisions and/or on the question of nullification and impairment of benefits. In terms of paragraph 16 of the Understanding, and after reviewing the facts of the case, the applicability of GATT provisions and the arguments advanced, the panel should come to such a finding. Where a finding establishing a contravention of GATT provisions or nullification and impairment is made, the panel should make such suggestions as appropriate for dealing with the matter as would assist the Contracting Parties in making recommendations²⁸⁷ to the contracting parties which they consider to be concerned, or give a ruling on the matter, as appropriate.

- (vi) Panels would aim to deliver their findings without undue delay, as provided in paragraph 20 of the Understanding. If a complete report cannot be made within the period foreseen in that paragraph, panels would be expected to so advise the Council and the report should be submitted as soon as possible thereafter.
- (vii) Reports of panels should be given prompt consideration by the Contracting Parties. Where a decision on the findings contained in a report calls for a ruling or recommendation by the Council, the Council may allow the contracting party concerned a reasonable specified time to indicate what action it proposes to take with a view of to a satisfactory settlement of the matter, before making any recommendation or ruling on the basis of the report.
- (viii) The recommendation or ruling made by the Contracting Parties shall be aimed at achieving a satisfactory settlement of the matter in accordance with GATT obligations. In furtherance of the provisions of paragraph 22 of the Understanding the Council shall periodically review the action taken pursuant to such recommendations. The contracting party to which such a recommendation has been addressed, shall report within a reasonable specified period on action taken or on its reasons for not implementing the recommendation or ruling by the Contracting Parties. The contracting party bringing the case may also ask the Contracting Parties to make suitable efforts with a view to finding an appropriate solution as provided in paragraph 22 of the Understanding.
- (ix) The further action taken by the Contracting Parties in the above circumstances might include a recommendation for compensatory adjustment with respect to other products or authorization for the suspension of such concessions or other obligations as foreseen in Article XXIII:2, as the Contracting Parties may determine to be appropriate in the circumstances.
- (x) The Parties to a dispute would fully participate in the consideration of the matter by the Contracting parties under paragraph (vii) above, including the consideration of any rulings or recommendations the Contracting Parties might make pursuant to Article XXIII:2 of the General Agreement, and their views would be fully recorded. They would likewise participate and have their views recorded in the considerations of the further actions provided for under paragraphs (viii) and (ix) above. The Contracting Parties reaffirmed that consensus will continue to be the traditional method of resolving disputes; however, they agreed that obstruction in the process of dispute settlement shall be avoided. 1/ It is understood that the decisions in this process cannot add to or diminish the rights and obligations provided in the General Agreement.

TRADE IN AGRICULTURE

With the purpose of accelerating the achievement of the objectives of the General Agreement, including Part IV, and recognizing that there is an 288

1/ This does not prejudice the provisions on decision making in the General Agreement.

urgent need to find lasting solutions to the problems of trade in agricultural products, the Contracting Parties decide:

1. That the following matters be examined, in the light of the objectives, principles and relevant provisions of the General Agreement and also taking into account the effects of national agricultural policies, with the purpose of making appropriate recommendations. The examination shall cover all measures affecting trade, market access and competition and supply in agricultural products, including subsidies and other forms of assistance.

- (i) Trade measures affecting market access and supplies, with a view to achieving greater liberalization in the trade of agricultural products, with respect to tariffs and non-tariff measures, on a basis of overall reciprocity and mutual advantage under the General Agreement.
- (ii) The operation of the General Agreement as regards subsidies affecting agriculture, especially export subsidies, with a view to examining its effectiveness. in the light of actual experience, in promoting the objectiveness of the General Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties. Other forms of export assistance will be included in this examination.
- (iii) Trade measures affecting agriculture maintained under exceptions or derogations without prejudice to the rights or contracting parties under the General Agreement.

2. That in carrying out the tasks enumerated above, full account shall be taken of the need for a balance of rights and obligations under the GATT, and of the special needs of developing countries in the light of the GATT provisions providing for differential and more favourable treatment for such contracting parties. Full account shall also be taken of specific characteristics and problems in agriculture, of the scope for improving the operation of GATT rules, provisions and disciplines and agreed interpretations of its provisions.

3. That for the purposes of carrying out this work, an improved and unified system of notifications shall be introduced so as to ensure full transparency.

4. That a Committee on Trade in Agriculture shall be established, open to all contracting parties, for the purpose of carrying out the tasks enumerated above and of making recommendations with a view to achieving greater liberalization in the trade of agricultural products. The Committee will report periodically on the results achieved and make appropriate recommendations to the Council and the Contracting Parties for consideration not later than their 1984 Session.

TROPICAL PRODUCTS

The Contracting Parties decide to carry out, on the basis of the work programme pursued by the Committee on Trade and Development, consultations and appropriate negotiations aimed at further liberalization of trade in tropical products, including in their processed and semi-processed forms, and to review the progress achieved in eliminating or reducing existing obstacles to trade in tropical products at their 1984 Session.

QUANTITATIVE RESTRICTIONS AND OTHER NON-TARIFF MEASURES

The Contracting Parties decide:

1. To review, in a group created for the purpose, existing quantitative restrictions and other non-tariff measures, the grounds on which these are maintained, and their conformity with the provisions of the General Agreement, so as to achieve the elimination of quantitative restrictions which are not in conformity with the General Agreement or their being brought into conformity with the General Agreement, and also to achieve progress in liberalizing other quantitative restrictions and non-tariff measures, adequate attention being given to the need for action on quantitative restrictions and other measures affecting products of particular export interest to developing countries; and
2. That the group should make progress reports to the Council and that its complete report containing its findings and conclusions should be available for consideration by the Contracting Parties at their 1984 Session.

TARIFFS

The Contracting Parties decide:

1. That prompt attention should be given to the problems of escalation of tariffs on products with increased processing with a view to effective action towards the elimination or reduction of such escalation where it inhibits international trade, taking into account the concerns relating to exports of developing countries; and agree
2. That wide acceptance of a common system for classifying products for tariff and statistical purposes would facilitate world trade and therefore recommend prompt action towards the introduction of such a system. They take note of the ongoing work to this end in the Custom Co-operation Council. They further agree that, if such a system is introduced, the general level of benefits provided by GATT concessions must be maintained, that existing concessions should normally remain unchanged and that any negotiations that may prove necessary should be initiated promptly so as to avoid any undue delay in the implementation of a system. They also agree that technical support shall be provided by the GATT secretariat to developing contracting parties in order to fully assist their participation in such a process.

MTN AGREEMENTS AND ARRANGEMENTS

The Contracting Parties decide to review the operation of the MFN Agreements and Arrangements, taking into account reports from the Committees or Council concerned, with a view to determining what action if any is called for, in terms of their decision of November 1979. The Contracting Parties further agree that, for this purpose, the review should focus on the adequacy and effectiveness of these Agreements and Arrangements and the obstacles to the acceptance of these Agreements and Arrangements by interested parties.

STRUCTURAL ADJUSTMENT AND TRADE POLICY

The Contracting Parties decide to continue the work on structural adjustment and trade policy in order to focus on the interaction between structural adjustment and the fulfillment of the objectives of the General Agreement, and to review the results of this work at their 1983 Session.

TRADE IN COUNTERFEIT GOODS

The Contracting Parties instruct the Council to examine the question of counterfeit goods with a view to determining the appropriateness of joint action in the GATT framework on the trade aspects of commercial counterfeiting and, if such joint action is found to be appropriate, the modalities for such action, having full regard to the competence of other international organizations. For the purposes of such examination, Contracting Parties request the Director-General to hold consultations with the Director-General of WIPO in order to clarify the legal and institutional aspects involved.

EXPORT OF DOMESTICALLY PROHIBITED GOODS

The Contracting Parties decide that contracting parties shall, to the maximum extent feasible, notify GATT of any goods produced and exported by them by banned by their national authorities for sale on their domestic markets on grounds of human health and safety. At their 1984 Session, the Contracting Parties will consider in the light of experience gained with this notification procedure, the need for study of problems relevant to the GATT in relation to exports of domestically prohibited goods and of any action that may be appropriate to deal with such problems.

EXPORT CREDITS FOR CAPITAL GOODS

The Contracting Parties:

1. Are aware that official export credit provisions on capital goods which apply to developing countries may pose problems for the expansion of imports into these countries consistent with their trade and development needs;
2. Therefore recommend that contracting parties, members of those international arrangements concerning official export credit matters, when reviewing or revising their various international undertakings, give special

attention to relevant credit provisions, including specific terms and conditions, in order to facilitate the expansion of developing countries' imports of capital goods consistent with their trade and development needs; and

3. Request the Director-General of the GATT to consult with the contracting parties concerned and report to the 39th Session.

TEXTILES AND CLOTHING

The Contracting Parties decide:

1. To carry out on a priority basis a study of:
 - (i) the importance of textiles and clothing in world trade and particularly for the trade prospects of developing countries;
 - (ii) the impact on economic activity and prospects of countries participating in textiles trade, of the existing systems of restraints and restrictions relating to textiles and clothing, principally the MFA;
 - (iii) consequences for economic and trade prospects in these countries of phasing out on the basis of the provisions of the General Agreement, or of the continued maintenance, of the restraints and restrictions applied under the existing textile and clothing regimes, principally the MFA; and
2. To examine expeditiously, taking into account the results of such a study, modalities of further trade liberalization in textiles and clothing including the possibilities for bringing about the full application of GATT provisions to this sector of trade.
3. This work should be completed for consideration by the Contracting Parties at their 1984 Session.

PROBLEMS OF TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

The Contracting Parties decide:

1. That problems relating to trade in the following natural resource products including in their semi-processed and processed forms, falling under the competence of the General Agreement relating to tariffs, non-tariff measures and other factors affecting trade, should be examined with a view to recommending possible solutions:

- (a) Non-ferrous metals and minerals
- (b) Forestry products
- (c) Fish and fisheries products

2. That for this purpose the Council should decide, for each of these three items, the terms of reference, time frame and procedures.

EXCHANGE RATE FLUCTUATIONS AND THEIR EFFECT ON TRADE

The Contracting Parties decide

To request the Director-General to consult the Managing Director of the International Monetary Fund on the possibility of a study of the effects of erratic fluctuations in exchange rates on international trade, to report to the Council on the results of these consultations and to forward any such study to the Council so that it may consider any implications for the General Agreement.

DUAL PRICING AND RULES OF ORIGIN

The Contracting Parties decide:

To request the Council to make arrangements for studies of dual-pricing practices and rules of origin; and

To consider what further action may be necessary with regard to these matters when the results of these studies are available.

SERVICES

The Contracting Parties decide:

1. To recommend to each contracting party with an interest in services of different types to undertake, as far as it is able, national examination of the issues in this sector.
2. To invite contracting parties to exchange information on such matters among themselves, inter alia through international organizations such as GATT. The compilation and distribution of such information should be based on as uniform a format as possible.
3. To review the results of these examinations, along with the information and comments provided by relevant international organizations, at their 1984 Session and to consider whether any multilateral action in these matters is appropriate and desirable.

ANNEX

GATT RULES AND ACTIVITIES RELATING TO DEVELOPING COUNTRIES

The Contracting Parties:

1. Decide, in order to improve the review and surveillance procedures in regard to the implementation of Part IV, that:
 - (a) the Committee on Trade and Development, bearing in mind particularly the special responsibility of the developed contracting parties in this regard, shall adopt a programme of consultations with

contracting parties individually or collectively, as appropriate, to examine how individual contracting parties have responded to the requirements of Part IV;

- (b) each such consultation shall be based on information supplied by the contracting party or parties in question and additional factual material prepared by the secretariat;
- (c) the Committee on Trade and Development shall also examine other aspects of existing procedures for reviewing the implementation of Part IV and for dealing with problems relating to the application of its provisions, and prepare guidelines for their improvement.

2. Invite the Committee on Trade and Development to review the operation of the Enabling Clause as provided for in its paragraph 9, with a view to its more effective implementation, inter alia, with respect to objectivity and transparency of modifications to GSP schemes and the operation of consultative provisions relating to differential and more favourable treatment for developing countries;

3. Invite contracting parties to pursue action as follows towards facilitating trade of least-developed countries and reducing tariff and non-tariff obstacles to their exports:

- (a) further improve GSP or mfn treatment for products of particular export interest to least-developed countries, with the objective of providing fullest possible duty-free access to such products;
- (b) use, upon request and where feasible, of more flexible requirements for rules of origin for products of particular export interest to least-developed countries;
- (c) eliminate or reduce non-tariff measures affecting products of particular export interest to least-developed countries;
- (d) facilitate the participation of least-developed countries in MTN Agreements and Arrangements;
- (e) strengthen the technical assistance facilities of the GATT secretariat targeted to the special requirements of least-developed countries;
- (f) strengthen trade promotion activities, through the ITC and other initiatives, such as by encouraging the establishment of import promotion offices in importing countries;
- (g) give more emphasis to the discussion and examination of policy issues of interest to least-developed countries in the context of further efforts to liberalize trade.

4. Decide to strengthen the Technical Co-operation programme of the GATT with a view to facilitating the more effective participation of developing countries in the GATT trading system: 294

- (a) by responding to increasing requests for seminars and other technical assistance activities;
 - (b) by permitting increased participation in the GATT Commercial Policy Courses, and the inclusion in the training programme of a regular course in the Spanish language;
 - (c) by encouraging, in the context of this programme, appropriate contributions from individual contracting parties.
5. Invite contracting parties individually to grant new voluntary contributions or provide other forms of assistance to the ITC.

APPENDIX B. STATISTICAL TABLES

Table B-1.—Leading items imported from EEC, by TSUS items, 1980, 1981, 1982

TSUS Item no.:	Description	1980	1981	1982
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more	\$1,961,024,451	\$5,301,679,755	\$5,554,553,162
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1000, and other miscellaneous vehicles	4,585,913,651	3,667,102,275	4,222,999,592
800.00	United States goods returned	736,847,427	1,017,613,638	1,231,109,829
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	641,894,336	818,936,119	601,288,769
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft	483,766,530	682,959,428	587,727,807
475.25	Motor fuel, including gasoline and jet fuel	180,363,207	426,805,999	586,151,337
167.30	Still wine from grapes, not over 14 percent alcohol, in containers not over 1 gallon	480,275,768	505,061,315	531,826,941
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	642,863,664	533,881,825	490,061,175
607.83	Plates and sheets of iron and steel, not alloy, not coated or plated with metal and not clad, pickled and cold rolled	239,064,203	367,037,778	398,713,038
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys	313,523,838	324,397,661	396,609,578
169.19	Irish and scotch whiskey in containers each holding not over 1 gallon	1/ 353,177,913	389,249,466	359,715,764
660.73	Parts for internal combustion engines, certified for use in civil aircraft	218,044,266	253,251,651	354,362,927
520.32	Diamonds not over 1/2 carat, cut, not set, suitable for jewelry	232,855,418	340,502,105	353,850,201
765.03	Paintings, pastels, drawings and sketches, executed wholly by hand, original or not	259,663,015	278,075,108	352,151,025
692.34	Tractors suitable for agricultural use and parts thereof	595,433,573	474,980,268	347,296,813
520.33	Diamonds over 1/2 carat, cut, not set, suitable for jewelry	266,569,550	383,217,154	325,393,889
740.13	Necklaces and chains, n.e.s., almost wholly of gold	2/ 240,096,312	2/ 240,096,312	321,623,767
694.67	Parts of aircraft necessary, not civil aircraft and spacecraft	69,951,231	233,415,138	315,697,286
694.62	Aircraft and spacecraft parts, necessary, certified for use in civil aircraft	240,674,182	287,270,709	306,983,674
610.39	Steel a.p.i. oil well casing and steel pipes and tubes of rectangular cross section, not threaded or advanced, not alloyed	48,357,959	420,455,051	305,911,769
	Total	12,550,264,182	16,945,988,755	17,944,028,343
	Total, U.S. imports from EEC	36,409,234,849	41,459,394,814	42,300,203,699

1/ Prior to March 30, 1980, this item was classified under the now-deleted item 168.69.

2/ Prior to March 31, 1981, this item was classified under the now-deleted and more comprehensive item 740.10.

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

Table B-2.--Leading items exported to EEC, by Schedule B items, 1980, 1981, 1982

SCH B Item No	Description	1980	1981	1982
175.41	Soybeans, other than seed for planting	\$2,649,371,440	\$2,817,818,797	\$2,801,549,245
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	1,735,119,002	2,357,099,079	2,362,094,127
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism	1,716,006,626	1,934,655,812	2,016,435,709
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof	1,821,861,507	1,830,351,414	1,958,155,434
694.65	Parts, for aircraft and spacecraft	1,219,623,133	1,505,193,756	1,499,847,468
660.54	Parts of compression-ignition piston-type engines, and non-piston type engines	965,074,657	1,195,435,916	1,241,734,310
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	34,886	310,217,940	922,404,160
184.52	Vegetable oil cake and oil-cake meal, other than linseed	896,633,129	859,223,070	910,751,989
664.05	Excavating, levelling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts	661,631,479	776,612,092	877,205,949
130.34	Corn or maize, not donated for relief or charity	1,385,217,998	1,185,048,006	787,536,840
694.40	Airplanes	2,586,158,348	2,116,491,993	783,230,110
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for paper making	753,652,060	804,677,844	698,948,990
184.80	Other animal feeds and ingredients therefor, n.s.p.f.	703,172,082	651,743,736	624,221,866
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystals, related electronic crystal components, and parts	736,679,008	600,100,915	611,022,220
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof	473,714,996	495,052,616	494,171,256
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed	472,257,937	442,268,460	440,280,043
692.29	Parts of motor vehicles, not elsewhere specified	372,956,920	411,024,571	430,118,403
433.10	Chemical mixtures and preparations, n.e.s.	424,749,274	423,739,653	415,457,411
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, and parts thereof	418,712,874	414,089,141	401,537,596
676.27	Digital machines comprising in one housing the central processing unit and input and output capability	492,150,477	456,083,930	379,125,791
	Total	20,484,777,833	21,586,928,741	20,655,828,917
	Total, U.S. exports to EEC	53,085,566,271	50,625,620,166	45,723,221,575

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

Table B-3.—Leading items imported from Canada, by TSUS items, 1980, 1981, 1982

TSUS Item no.	Description	1980	1981	1982
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles, a.p.t.a.	\$3,814,655,722	\$4,276,685,765	\$5,810,454,314
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof	4,130,745,316	4,514,668,659	4,830,882,625
252.65	Standard newsprint paper	2,578,687,024	2,807,548,756	2,730,255,334
692.03	Trucks valued at \$1000 or more each, a.p.t.a.	1,330,989,386	1,894,519,215	2,589,481,631
692.33	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined, a.p.t.a.	1,361,157,226	1,573,579,388	1,825,754,016
800.00	United States goods returned	1,190,070,416	1,463,033,283	1,561,941,142
605.20	Gold or silver bullion, dore, and precipitates	1,832,679,230	1,635,647,092	1,393,490,473
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing under 25 degrees a.p.i.	986,081,400	1,204,026,182	1,391,011,818
250.02	Wood pulp; rag pulp; and other pulps derived from cellulose fibrous materials and suitable for papermaking	1,610,494,139	1,654,192,493	1,386,688,202
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils* testing 25 degrees a.p.i. or more	1,496,465,371	1,299,476,502	1,256,328,929
202.03	Spruce lumber	1,067,488,496	1,047,202,112	1,034,181,449
660.49	Piston-type engines other than compression-ignition engines for automobiles (including trucks and buses), a.p.t.a.	272,739,231	486,917,201	632,363,740
480.50	Potassium chloride or muriate of potash	587,563,443	677,416,706	514,602,817
601.24	Iron ore, including manganese containing not over 10 percent by weight of manganese, and the dross or residuum from burnt pyrites	581,758,572	707,974,220	360,352,350
772.51	Pneumatic tires, n.e.s.	218,695,200	253,272,157	350,372,169
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	138,566,900	274,555,088	347,075,446
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	243,063,016	294,278,289	328,777,541
692.21	Automobile truck and motor bus chassis and bodies, a.p.t.a.	392,668,335	323,449,759	327,267,563
666.00	Agricultural and horticultural machinery and parts	612,918,002	482,469,778	310,459,473
422.50	Uranium oxide	203,168,419	138,974,269	281,745,863
	Total	24,650,654,844	27,009,886,914	29,263,486,895
	Total, U.S. imports from Canada	40,871,070,358	45,776,018,449	46,328,510,447

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

Table B-4.--Leading item, exported to Canada, by Schedule B items, 1980, 1981, 1982

SCH B Item No	Description	1980	1981	1982
692.29	Parts of motor vehicles, not elsewhere specified	\$3,179,639,945	\$3,812,638,059	\$4,080,389,059
692.10	On-the-highway, four-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles	3,066,292,172	3,177,619,576	2,353,905,475
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	905,350,930	1,017,849,005	1,074,300,164
818.90	General merchandise valued \$500 or less, except shipments requiring a validated export license	865,161,692	988,069,274	770,288,297
660.48	Piston-type internal combustion engines, other than compression- ignition engines	727,524,294	789,060,856	769,307,632
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	778,992,142	622,297,456	573,230,124
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism	408,794,102	504,272,774	548,900,311
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof	403,896,839	515,212,478	547,567,152
666.00	Agricultural and horticultural machinery, and parts	554,360,593	643,329,040	477,702,473
605.20	Gold or silver bullion, dore, and gold or silver precipitates	1,016,192,856	693,043,157	475,049,322
664.05	Excavating, levelling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts	745,877,367	639,590,186	463,270,798
692.05	Automobile trucks, except truck tractors	412,095,462	470,576,284	386,039,739
692.33	Tractors suitable for agricultural use	337,348,564	507,969,355	343,373,839
694.40	Airplanes	438,401,581	708,992,765	341,771,494
660.41	Compression-ignition piston-type engines (diesel)	280,816,413	341,604,070	324,629,919
660.54	Parts of compression-ignition piston-type engines, and non-piston type engines	324,593,647	388,083,609	317,075,263
660.52	Parts of piston-type engines, other than compression-ignition engines	203,438,336	286,594,348	279,824,773
694.65	Parts, for aircraft and spacecraft	259,974,494	243,020,488	263,386,378
605.70	Precious-metal sweepings and other precious-metal waste and scrap	547,283,991	375,376,902	260,249,766
692.38	Parts of tractors, except for automobile truck and off-the-highway platform tractors	292,245,769	326,973,738	259,861,802
	Total	15,748,281,189	17,052,173,420	14,910,123,780
	Total, U.S. exports to Canada	33,968,216,429	38,133,519,083	32,415,256,756

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

Table B-5.—Leading items imported from Japan, by TSUS items, 1980, 1981, 1982

TSUS Item no.:	Description	1980	1981	1982
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1000, and other miscellaneous vehicles	\$8,364,355,570	\$9,680,507,307	\$9,902,683,001
692.02	Trucks valued at \$1000 or more each	375,725,789	1,811,976,913	1,480,349,293
685.40	Tape recorders and dictation and transcribing machines, and parts thereof	892,271,208	1,485,474,266	1,444,040,672
692.50	Motorcycles	1,038,948,430	1,215,644,230	1,028,516,057
676.30	Office machines, n.s.p.f.	454,857,363	740,285,634	877,526,162
676.52	Office machine parts, n.e.s.	226,181,882	402,518,793	677,667,563
678.50	Machines, not specially provided for, and parts thereof	426,945,376	599,128,465	624,870,293
610.42	Steel a.p.i. oil well casing and steel pipes and tubes of rectangular cross section, threaded or advanced, not alloyed	345,661,235	602,430,792	588,706,138
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	349,735,438	457,280,217	509,646,969
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter	336,235,644	523,135,537	479,326,883
610.49	Iron or steel pipes and tubes, not suitable for use in the manufacture of ball or roller bearings, not alloyed, not hollow bars	202,249,731	433,632,431	448,973,882
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystals, parts	1/ 293,678,218	1/ 268,455,261	423,868,191
653.52	Other heating or cooking apparatus, non-electric, of base metal	54,111,140	156,998,816	405,780,454
722.16	Photographic cameras, other than fixed-focus, over \$10 each, lens not over 50 percent of value	377,384,178	437,134,932	403,130,994
772.51	Pneumatic tires, n.e.s.	263,959,386	358,607,746	359,290,721
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	252,084,564	394,563,391	333,338,198
674.35	Metal-working machine tools, n.e.s.	328,317,830	428,697,315	319,721,816
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, or making connections to or in circuits	227,477,150	280,862,579	317,454,129
608.13	Sheets of iron and steel, n.s.p.f., not alloy, coated or plated with metal valued over 10 cents per lb	387,773,019	360,384,626	313,724,474
685.19	Other television apparatus and parts thereof, n.s.p.f.	138,533,720	263,365,009	307,443,673
	Total	15,336,486,871	20,901,084,260	21,246,059,563
	Total, U.S. imports from Japan	30,698,299,285	37,471,371,420	37,421,593,684

1/ Prior to January 1, 1982, this item was classified under the now-deleted and more comprehensive item 687.75. Prior to March 31, 1981, it was classified under the now-deleted and more comprehensive item 687.58.

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

Table B-6.--Leading items exported to Japan, by Schedule B items, 1980, 1981, 1982

SCH B Item No	Description	1980	1981	1982
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	\$1,396,934,718	\$1,569,612,634	\$1,635,447,329
130.34	Corn or maize, not donated for relief or charity	1,632,411,126	1,791,960,538	1,290,168,998
175.41	Soybeans, other than seed for planting	1,105,237,961	1,137,877,555	970,043,753
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared	1,300,813,102	831,638,793	837,617,714
130.65	Wheat	596,182,862	615,025,196	563,648,466
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches	513,885,570	497,101,484	494,846,026
694.65	Parts, for aircraft and spacecraft	403,432,532	486,850,644	467,804,737
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism	257,750,694	331,197,024	404,732,474
694.40	Airplanes	677,932,277	776,299,774	379,715,559
110.46	Fish, fresh, chilled, or frozen, whole or eviscerated, but not otherwise prepared or preserved, and live eels	154,946,972	300,415,139	375,067,705
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	1,195,354	70,776,696	367,107,718
618.03	Unwrought aluminum, other than alloys of aluminum	408,915,160	310,100,250	347,132,418
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof	312,150,996	329,378,628	326,978,069
422.55	Uranium compounds, excluding uranium oxide, and thorium compounds	1,636	136,433,183	324,603,818
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed	194,871,044	297,762,124	306,632,940
475.15	Natural gas, methane, ethane, propane, butane, and mixtures thereof	218,912,257	329,062,845	293,464,568
664.05	Excavating, levelling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts	107,753,856	195,036,104	284,271,717
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for paper making	336,068,041	303,035,143	269,870,198
678.50	Machines not specially provided for, and parts thereof	152,310,645	220,295,085	260,568,222
106.10	Beef and veal, carcasses and primal cuts, excluding offal, fresh, chilled, or frozen	131,084,738	155,839,244	229,568,251
	Total	9,902,791,541	10,685,698,103	10,429,290,680
	Total, U.S. exports to Japan	20,469,069,848	21,332,896,606	20,366,769,776

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

Table 3-7.—Leading items imported from Mexico, 1980, 1981, 1982

TSUS Item no.	Description	1980	1981	1982
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more	\$4,572,047,818	\$3,942,203,860	\$4,648,429,176
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing under 25 degrees a.p.i.	1,422,646,458	2,239,568,321	3,148,687,205
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof	551,554,761	652,447,857	610,721,486
114.45	Shellfish other than clams, crabs, or oysters	338,370,320	316,132,983	396,110,140
653.22	Metal coins	196,436,446	423,269,989	373,060,484
800.00	United States goods returned	245,281,348	279,457,410	306,311,504
605.20	Gold or silver bullion, dore, and precipitates	267,693,948	209,478,689	273,577,733
160.10	Coffee, crude, roasted or ground	302,445,674	245,866,189	264,407,534
685.15	Main printed circuit boards with specified components for color TV's, except tuners or convergence assemblies	229,594,355	265,988,039	231,293,267
685.19	Other television apparatus and parts thereof, n.s.p.f.	106,861,967	142,767,930	197,023,802
660.48	Piston-type engines other than compression-ignition for automobiles (including trucks and buses)	34,118,887	63,843,725	196,085,153
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	149,841,379	157,465,632	190,556,291
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, or making connections to or in circuits	145,672,800	189,888,092	187,908,393
688.12	Ignition wiring sets and wiring sets for transportation equipment	75,451,256	131,013,413	130,885,373
676.52	Office machine parts, n.e.s.	72,847,399	100,438,383	128,142,477
685.16	Main printed circuit boards for color television receivers, except tuners or convergence assemblies, n.e.s.	78,691,052	110,626,601	124,690,350
100.45	Cattle not less than 200 lbs but under 700 lbs	88,021,969	68,133,297	114,771,909
682.60	Cattle not less than 200 lbs but under 700 lbs	81,526,096	98,840,527	100,018,356
137.60	Tomatoes, fresh or chilled, entered Mar. 1 to July 14 and Sept. 1 to Nov. 14, inclusive, not reduced in size	82,471,207	177,023,905	97,451,349
999.95	Under \$251 formal and informal entries estimated	80,906,300	107,984,100	97,164,368
	Total	9,122,481,440	9,922,438,942	11,817,296,350
	Total, U.S. imports from Mexico	12,497,653,066	13,703,637,079	15,488,039,550

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

Table B-8.—Leading items exported to Mexico, by Schedule B items, 1980, 1981, 1982

SCH B Item No	Description	1980	1981	1982
692.29	Parts of motor vehicles, not elsewhere specified			
475.25	Motor fuel	\$962,866,564	\$1,333,901,840	\$792,270,217
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	19,263,419	25,394,090	482,032,916
664.05	Excavating, levelling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts	3,097,854	4,485,877	314,121,838
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystals, related electronic crystal components, and parts	349,369,322	427,613,101	230,125,806
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, and parts thereof	227,375,101	242,458,686	207,285,890
175.51	Sunflower seed	236,437,364	306,183,875	205,620,342
130.40	Grain sorghum	94,547,250	102,739,939	189,404,841
685.20	Television apparatus, and parts thereof	331,239,356	339,745,150	179,642,586
660.54	Parts of compression-ignition piston-type engines, and non-piston type engines	175,463,444	211,738,931	173,279,599
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism	281,408,604	237,011,081	162,723,458
256.71	Other paper and paperboard, cut to size or shape; other articles of pulp, papier-mache, paper, or paperboard, n.e.s.	132,955,540	154,675,258	130,802,970
818.90	General merchandise valued \$500 or less, except shipments requiring a validated export license	16,709,965	67,086,283	118,550,091
682.60	Generators, motor-generators, rotating converters, rectifiers and rectifying apparatus, coils, inductors, lamp ballasts, and parts thereof	239,548,944	293,490,459	115,207,339
475.67	Mixtures of hydrocarbons n.s.p.f., wholly of petroleum, shale oil, natural gas, containing by weight not over 50 percent of any single compound	106,956,562	155,582,603	114,697,152
674.35	Metal-removing (metalcutting) and metal-forming machine tools	116,058,700	117,412,364	114,008,646
401.01	Benzene, toluene, xylenes, cumene, naphthalene, and other specified hydrocarbons	94,463,161	156,638,270	106,705,232
444.16	Polyethylene resins	103,217,207	144,736,926	101,892,340
678.50	Machines not specially provided for, and parts thereof	135,442,857	140,663,300	101,366,920
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for paper making	108,346,899	144,787,678	98,292,934
	Total	114,567,151	92,010,083	90,735,468
	Total, U.S. exports to Mexico	3,849,335,264	4,698,355,794	4,028,766,585
		14,881,433,243	17,353,054,111	11,025,835,956

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

APPENDIX C

Annex to the Subsidies Code

ILLUSTRATIVE LIST OF EXPORT SUBSIDIES

- (a) The provision by governments of direct subsidies to a firm or an industry contingent upon export performance.
- (b) Currency retention schemes or any similar practices which involve a bonus on exports.
- (c) Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.
- (d) The delivery by governments or their agencies of imported or domestic products or services for use in the production of exported goods, on terms or conditions more favourable than for delivery of like or directly competitive products or services for use in the production of goods for domestic consumption, if (in the case of products) such terms or conditions are more favourable than those commercially available on world markets to their exporters.
- (e) The full or partial exemption, remission, or deferral specially related to exports, of direct taxes 1/ or social welfare charges paid or payable by industrial or commercial enterprises. 2/
- (f) The allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are charged.
- (g) The exemption or remission in respect of the production and distribution of exported products, of indirect taxes 1/ in excess of those levied in respect of the production and distribution of like products when sold for domestic consumption.
- (h) The exemption, remission or deferral of prior stage cumulative indirect taxes 1/ on goods or services used in the production of exported products in excess of the exemption, remission or deferral of like prior stage cumulative indirect taxes on goods or services used in the production of like products when sold for domestic consumption; provided, however, that prior stage cumulative indirect taxes may be exempted, remitted or deferred on exported products even when not exempted, remitted or deferred on like products when sold for domestic consumption, if the prior stage cumulative indirect taxes are levied on goods that are physically incorporated (making normal allowance for waste) in the exported product. 3/
- (i) The remission or drawback of import charges 1/ in excess of those levied on imported goods that are physically incorporated (making normal allowance for waste) in the exported product; provided, however, that in particular cases a firm may use a quantity of home market goods equal to, and having the same quality and characteristics as, the imported goods as a substitute for them in order to benefit from this provision if the import and the corresponding export operations both occur within a reasonable time period, normally not to exceed two years.
- (j) The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the costs of exported products 4/ or of exchange risk programmes, at premium rates, which are manifestly inadequate to cover the long-term operating costs and losses of the programmes. 5/

(k) The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters of financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.

Provided, however, that if a signatory is a party to an international undertaking on official export credits to which at least twelve original signatories 6/ to this Agreement are parties as of January 1, 1979 (or a successor undertaking which has been adopted by those original signatories), or if in practice a signatory applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.

(1) Any other charge on the public account constituting an export subsidy in the sense of Article XVI of the General Agreement.

Notes

1/ For the purpose of this Agreement: The term "direct taxes" shall mean taxes on wages, profits, interest, rents, royalties, and all other forms of income and taxes on the ownership real property. The term "import charges" shall mean tariffs, duties, and other fiscal charges not elsewhere enumerated in this note that are levied on imports. The term "indirect taxes" shall mean sales, excise, turnover, value added, franchise, stamp, transfer, inventory and equipment taxes, border taxes and all taxes other than direct taxes and import charges;

"Prior stage" indirect taxes are those levied on goods or services used directly or indirectly in making the product;

"Cumulative" indirect taxes are multi-staged taxes levied where there is no mechanism for subsequent crediting of the tax if the goods or services subject to tax at one stage of production are used in a succeeding stage of production;

"Remission" of taxes includes the refund or rebate of taxes.

2/ The signatories recognize that deferral need not amount to an export subsidy where, for example, appropriate interest charges are collected. The signatories further recognize that nothing in this text prejudices the disposition by the CONTRACTING Parties of the specific issues raised in GATT document L/4422.

The signatories reaffirm the principle that prices for goods in transactions between exporting enterprises and foreign buyers under their or under the same control should for tax purposes be the prices which would be charged between independent enterprises acting at arm's length. Any signatory may draw the attention of another signatory to administrative or other practices which may contravene this principle and which result in a significant saving of direct taxes in export transactions. In such circumstances the signatories shall normally attempt to resolve their differences using the facilities of existing bilateral taxes treaties or other specific international mechanisms, without prejudice to the rights and obligations of signatories under the General Agreement, including the right of consultation created in the preceding sentence.

Paragraph (e) is not intended to limit a signatory from taking measures

to avoid the double taxation of foreign source income earned by its enterprises or the enterprises of another signatory.

Where measures incompatible with the provisions of paragraph (e) exist, and where major practical difficulties stand in the way of the signatory concerned bringing such measures promptly into conformity with the Agreement, the signatory concerned shall without prejudice to the rights of other signatories under the General Agreement or this Agreement examine methods of bringing these measures into conformity within a reasonable period of time.

In this connexion the European Economic Community has declared that Ireland intends to withdraw by January 1, 1981 its system of preferential tax measures related to exports, provided for under the Corporation Tax Act of 1976, whilst continuing nevertheless to honour legally binding commitments entered into during the lifetime of this system.

3/ Paragraph (h) does not apply to value-added tax systems and border-tax adjustment in lieu thereof; the problem of the excessive remission of value-added taxes is exclusively covered by paragraph (g).

4/ The signatories agree that nothing in this paragraph shall prejudice or influence the deliberations of the panel established by the GATT Council on June 6, 1978 (C/M/126).

5/ In evaluating the long-term adequacy of premium rates, costs and losses of insurance programmes, in principle only such contracts shall be taken into account that were concluded after the date of entry into force of this Agreement.

6/ An original signatory to this Agreement shall mean any signatory which adheres ad referendum to the Agreement on or before June 30, 1979.

REF.

INDEX

adjustment assistance, 231-234
 advanced developing countries, see newly industrialized countries
 advertising, 89
 aerospace, 88
 Afghanistan,
 agricultural purchase agreement, see Mexico
 agriculture, 6, 12, 13, 15, 18, 20, 21, 22, 23, 24, 25, 77, 78, 79, 95, 127-131
 see also OECD, EC, Mexico and listings for individual commodities
 aid, 91
 graduation, see LDCs
 aircraft, 80, 82, 168
 Algeria, 49, 143
 aluminum, 98, 186
 Angola, 49
 antidumping actions, 14, 85, 94, 152
 see also GATT, U.S. trade law
 apparel, see textiles
 Argentina, 29, 45, 48, 49, 51, 53, 71, 81, 104, 142
 ASEAN (Association of South East Asian Nations), 50
 Australia, 29, 38, 45, 49, 51, 61, 70, 71, 62-64, 142, 148
 Austria, 48, 49, 51, 53, 59, 71, 77
 automatic data processing equipment, see computers
 automobiles, 9, 14, 134, 138, 139-142, 168, 181-182
 automobile parts, 138, 139-142
 Japanese voluntary restrictions on, see Japan
 Automotive Products Trade Act of 1965,
 automotive spring assemblies, 42-43

Bahamas, 49
 Bahrain, 49, 81
 balance of payments, 108
 bananas, 92
 Bangladesh, 49
 banking, 89
 see also investment, services, telecommunications, and transborder
 data flows
 Barbados, 49
 Barre Vt. 149
 beef, 73, 176-179
 corned, 104
 beet sugar, see sugar
 Belgium, 39, 49, 51, 53, 77
 Belize, 49
 Benin, 49
 bilateral agreements, 77, 85, 104-105, 145, 146, 147, 148, 230
 Binational Secretarial Commission, see Mexico
 biotechnology, 88
 bolts, nuts, screws;
 Bombardier Corp., 148, 149, 150
 Border Gas, Inc.,
 Botswana, 49
 Brazil, 25, 32, 39, 45, 49, 51, 52, 53, 81, 88, 142, 143, 149
 Brunei, 81
 buffer stocks, 13, 92, 95, 96, 98, 99, 100, 101
 Bulgaria, 51, 58, 219
 Burma, 49

- Burundi, 49
- butter, see dairy products
- cab chassis, see Japan
- cameras, 168
- Cameroon, 49
- Canada, 7, 8, 14, 29, 40, 42-43, 49, 51, 53, 61, 70, 71, 72, 64-66, 77, 87, 104, 107, 132-155, 144-147, 222
 - Canadian dollar, 6
 - customs valuation legislation, 59
 - Foreign Investment Review Agency, 14, 43, 86, 142, 143, 144-145
 - liquor, 147-148
 - lumber, 133, 153-155
 - National Energy Program, 142, 143
 - onions, 38, 151
 - potatoes, 151-152
 - subway cars, 148-150, 265
 - trucking, 146-147
 - U.S.-Canada automotive trade, 139-142
- canned peaches, canned pears, and raisins, 21, 44-45, 264
- Cape Verde, 49
- Cancun North-South Summit, 90
- casein, see dairy products
- cattle, 104
- Central America, 49
- Chad, 49
- cheese, see dairy products
- chemicals, 165
- Chile, 49, 51, 53, 71
- China, 7, 8, 14, 53, 93, 135, 136, 142, 143, 214, 216, 220-223, 226, 227-228
 - U.S.-China accord on grain, 142
- cigars, 170
- cigaretees, see tobacco
- citrus products, 21, 44, 176-179, 262
- civil aircraft, 71-72
- coal, 138
- cocoa, 100
 - International Cocoa Agreement, 100
- coffee, 13, 96, 97
 - International Coffee Agreement, 13, 95, 96, 100
 - International Coffee Organization (ICO), 86, 97
- Colombia, 45, 49, 53
- Commerical Counterfeiting Code, see GATT, Tokyo Round Agreements, Commercial counterfeiting, 15
- Committee on Antidumping Practices, see GATT, Tokyo Round Agreements, Antidumping Agreement
- Committee on Balance of Payments Restrictions, see GATT
- Committee on Capital Movements and Invisible Transactions (CMIT), see OECD
- Committee on Customs Valuation, see GATT, Tokyo Round Agreements, Agreement on Customs Valuation
- Committee on Government Procurement, see GATT, Tokyo Round Agreements, Agreement on Government Procurement
- Committee on Import Licensing, see GATT, Tokyo Round Agreements, Agreement on Import Licensing
- Committee on Investment and Multinational Enterprises (CIME), see OECD

- Committee on Subsidies and Countervailing Measures, see GATT, Tokyo Round
 Agreements, Agreement on Subsidies and Countervailing Duties
 Committee on Trade and Development, see GATT
 Committee on Trade in Counterfeit Merchandise, see GATT, Tokyo Round
 Agreements, Commercial Counterfeiting
 commodity organizations, 13, 77
 commodity agreements, 13, 92, 95, 99, 100
 see also cocoa, coffee, rubber, sugar, tin, wheat
 commodity prices, 91
 common agricultural policy, see European Community
 Communist countries, see nonmarket economy countries (NME's)
 computers, 14, 59, 88, 138, 168
 construction/engineering, 89
 see also services
 Consultative Group of Eighteen, see GATT
 consumption, 95, 98, 101
 Congo, 49
 copper, 92
 corn-gluten feed, see European Community
 Costa Rica, 105
 cotton, 92
 countervailing duty actions, 14, 53, 94, 150, 152, 154, 155
 see also GATT, U.S. trade law
 Cuba, 49, 81
 currency exchange rates, 80, 85, 92
 Customs Cooperation Council (CCC), 71, 102-104
 Customs Cooperation Council Nomenclature (CCCN) 102
 Cyprus, 49
 Czechoslovakia, 49, 51, 58, 71, 81, 219
- dairy products, 73-74
 data processing and information services, 89
 Davignon Plan, see European Community
 Denmark, 49, 51, 77
 developed countries, 12, 13, 16, 33, 78, 85, 86, 87, 89, 90, 91, 92, 94, 103,
 135, 136, 148
 developing countries, 12, 13, 14, 15, 16, 19, 31, 33-34, 78, 79, 80, 81, 84,
 85, 86, 87, 89, 90-91, 92, 93, 94, 100, 103, 135, 136
 see also least developed countries and newly industrialized countries
 dispute settlement, see GATT
 dollar, 5, 6, 9, 12, 119
 DISC (Domestic International Sales Corporation), 39-40
 Dominica, 49
 Dominican Republic, 45, 49
 dual pricing, 20
 duty remission schemes, see Canada
- Eastern Europe, 14, 99, 214, 218-219
 East Germany, 81, 219, 227
 Egypt, 49, 50, 51, 52, 71, 105
 employment, 77, 78, 82, 84, 86, 144
 escape clause actions, 181
 see also GATT and U.S. trade law
 European Community (EC), 6, 7, 8, 9, 12, 13, 16, 20, 21, 23, 24, 25, 27, 29, 314
 32, 38, 39-41, 44-47, 47-48, 51, 53, 54, 56, 60, 61, 66-67, 70, 71, 75, 80,
 81, 104, 107-132, 135, 136, 145, 160-163

- agricultural issues (U.S.-EC), 127,-131
- budget, 13, 114-115, 118, 144
- common agricultural policy, 13, 48, 118-120, 129
 - agricultural price supports, 118-120
 - agricultural income supports, 118
 - export subsidies, 55, 118, 154
 - surpluses, 118
- corn-gluten feed, 130-131
- Davignon plan, 116
- European Coal and Steel Community (ECSC), 116
- European Commission, 20, 148
- EC common customs tariff, 47
- EC enlargement, 13
- European Monetary System (EMS), 13, 117-118
 - European currency unit (ECU), 117-118
 - exchange rates, 117-118, 120, 134
 - fisheries policy, 15, 120-121
 - Government support of industry, see industry targeting
 - industrial policies, 115-117
 - Lomé Convention, 28-29, 121-122
 - Stabex, 121
 - natural gas pipeline dispute, 132
 - exchange rates, 6, 20
 - relations with Japan, 122-123
 - steel, 9, 124-127
 - Vredeling proposal, 123-124
- export credits, 13, 19, 80, 81, 82, 84, 148, 149, 150
 - Arrangement on Export Credits, see OECD
 - Export Development Corporation (EDC), 148
- Export-Import Bank of the United States (EXIMBANK), 82, 148, 149, 150
- export restraints or quotas, 13, 15, 16, 95, 96, 99
- export subsidies, 13, 21-25, 80
 - see also European Community

- fertilizers, 186
- Fiji, 49, 81
- Finland, 46, 48, 49, 51, 71, 77
- fish, 18, 22
- fisheries, 15, 18, 77, 78
- footwear, 46, 145, 265, 266
- Foreign Investment Review Agency, see Canada
- forest products, 18, 22, 165, 180
 - see also wood, paper, pulp
- France, 39, 49, 51, 53, 77, 133, 148, 149

- Gabon, 49
- Gambia, 49
- GATT, 12, 13, 14-21, 15-24, 27-75, 77, 84, 88, 89, 91, 139, 144, 148, 149, 150
 - accessions, 28, 48-50
 - antidumping actions, 70
 - Article XIX, see safeguards
 - Committee on Antidumping practices, 61-70
 - Committee on Balance of Payments Restrictions, 35-36

- Committee on Subsidies and Countervailing Measures (CSCM), 52-59
- Committee on Tariff Concession, 31-32, 103
- Committee on Trade in Civil Aircraft,
- Committee on Trade and Development, 19, 32, 34, 36
- Consultative Group of 18, 14, 15, 30-31, 36
- Council, 28-30, 42, 45, 46-47
- countervailing duty actions, 53-54, 150
- dispute settlement, 12, 13, 19, 20, 21, 23, 38-39, 54, 86, 144, 148, 149
- membership, 49, 50
- Ministerial, 12, 14-21, 15-24, 34, 37, 78, 85, 86, 88, 89, 146
- Multilateral Trade Negotiations (MTN), 14, 15, 78, 94, 146, 147, 148
- safeguards - article XIX (the escape clause), 74-75
- tariff rate changes - article XXVIII, 103, 104
- Textiles Committee, 32-34
- Tokyo Round Agreements, 13, 32, 35, 50-75, 94, 226-227
 - Agreement on Civil Aircraft, 71-72, 227
 - Agreement on Customs Valuation, 58-60, 227
 - Agreement on Dairy products, 73-74, 227
 - Agreement on Government Procurement (Government Procurement Code), 55-57, 89
 - Agreement on Import Licensing, 70-71, 227
 - Agreement on Meat, 73, 227
 - Agreement on Subsidies and Countervailing Duties (Subsidies Code), 12, 21, 23, 24, 25, 50-55, 80, 89, 148
 - Agreement on Technical Barriers to Trade (Standards Code), 57-58, 89, 227
 - Antidumping Agreement, 60-61, 227
 - Commercial Counterfeiting, 75
 - Safeguards Code, 37-38, 145, 146
- Generalized System of Preferences (GSP), 14, 15, 78, 84, 90, 94, 271-280
 - graduation, 14, 15, 78, 90, 271-272
- General Services Administration, 99
- Germany, Federal Republic of, see West Germany
- Ghana, 35, 49, 143
- Global Negotiations, 90
- gold bullion, 138
- government procurement, see GATT, Agreement on Government Procurement
- grain, 142-143, 220, 222
 - see also wheat
- Greece, 47-48, 49, 52, 52, 77
- Gross National Product (GNP), 3, 81, 83, 93, 107
- groundnuts, see peanuts
- Guinea-Bissau, 49
- Guyana, 47

- Haiti, 49
- hard fibers (sisal, abaca, and coir), 92
- Harmonized System, 31, 102-104
- high technology, 14, 15, 16, 20, 84, 87-88, 182-185
 - see also services, Japan
- Hong Kong, 46, 49, 51, 61, 70, 71
- Hungary, 71, 226
- Iceland, 49, 77, 80
- import licensing, 90
 - see also Mexico

- industry targeting, 184-187
- India, 34, 35, 45, 49, 51, 55, 71
- Indonesia, 33, 49, 50, 85, 99
- industrial fasteners, 145
- industrialized countries, see developed countries
- inflation, 3, 4, 5, 108, 133
- insurance, 89
 - see also services
- interest rates, 4, 5, 80, 81, 82
- International Council for Dairy Products, 81, 83
- International Development Association, 81-83
- International Monetary Fund (IMF), 20, 60, 80, 89, 95
- investment, 13, 15, 16, 20, 77, 86, 87, 144, 145, 187
 - Bilateral Investment Treaties (BIT), 86, 105
 - international investment polices, 87, 94
 - investment incentives, 86, 90
- Ireland, 49, 51, 77, 81
- Israel, 35-36, 49, 51, 81
- Italy, 49, 51, 53, 56, 77, 133
- Ivory Coast, 39, 49

- Jamaica, 49
- Japan, 7, 8, 9, 14, 32, 39, 49, 51, 53, 58, 71, 72, 77, 80, 81, 87, 107, 135, 136, 155-193
 - agriculture, 176-179
 - automobiles, 9, 181-182
 - balance of payments, 158-160
 - beef, 14, 176-179
 - citrus, 14, 176-179
 - current account surplus, 155, 160
 - customs procedures, 14, 169, 172-173
 - exports, 155, 191-193
 - financial system, 188-189
 - forest products, 165, 180
 - government procurement, 56, 183-184
 - GNP, 155
 - high technology trade, 14, 182-185
 - imports, 146, 147, 148, 151, 155, 160, 171
 - income, 158
 - industrial policies, 144, 184, 187
 - inflation, 3, 4, 155-158
 - investment, 10, 15, 144, 147, 187-189
 - Japan-United States Forest Products Group, 172
 - leather understanding with the United States, 180-181
 - market access measures, 14, 168-170, 173
 - merchandise trade surplus, 9, 160-168
 - Nippon Telegraph and Telephone Public Corporation (NTT), 183-184
 - semiconductors, 182
 - standards, 14, 169, 173-176
 - Strauss-Ushiba Agreement, 174
 - Tobacco and Salt Public Corporation, 179
 - tobacco understanding, 170, 179
 - U.S.-Japan trade, 27, 163-168, 181-182
 - U.S.-Japan Trade Facilitation Committee, 172
 - U.S. trade deficit, 164-165
 - voluntary restrictions on automobiles, 182

Work Group on High Technology, 172
yen, 6, 82, 155-156, 189-191

jute, 93

International Jute Agreement, 93

Kampuchea, 49

Kennedy round of the MTN,

Kenya, 49

Kiribati, 49

Korea, Peoples Republic of, 32, 39

Korea, Republic of, 49, 51, 53, 81, 88

Kuwait, 49

leather, bovine, 104, 180-181, 263

Lesotho, 49

liquor, 147, 148

"local content" requirements, see performance requirements

logs, see wood

Lomé Convention, see European Community

lumber, 153, 154, 155

Luxembourg, 49, 51, 77

machine tools, 168

Madagascar, 49

Maine, 151, 152

Malawi, 49

Malaysia, 49, 50, 98 99, 101

Maldives, 49

Mali, 49

Malta, 49

manufacturing clause, 40-41

market access, 88, 89, 90

market disruption, 234

see also Trade Act of 1974, section 406

Mauritania, 49

Mauritius, 49

meat, 73, 92

see also beef and pork

metals, 95, 98

Metropolitan Transit Authority (MTA), 148, 150

Mexico, 135, 136, 142, 143, 146, 147, 193-214

adjustment and austerity, 195-196, 206-207

Bank of Mexico, 194-195

capital flight, 194

content requirements, 209-210

consumer price index, 193-195

dollar deposits, 195

economic growth, 194

exchange controls, 196, 204-206

- foreign central banks, 197
- foreign debt, 193-194
- foreign loans, 193-194, 197
- Government spending, 194-195
- import of exchange shortage on production, 206
- import and export regulation, 195, 205-206
- import licensing,
- in-bond plants, 203
- International Monetary Fund, 104, 197, 206
- merchandise trade, 198-204
- nationalization of banks, partial divestiture, 194, 196, 204
- oil, 193-194, 198, 201
- peso convertibility, 196
- peso-dollar exchange rates, 193-194, 196
- Petroleos Mexicanos (Pemex), 198, 201
- President Jose Lopez Portillo, 194, 196
- President Miguel de la Madrid's fiscal policies, 206-207
- price subsidies, controls, 196
- requirements for credit worthiness, 197
- U.S. Commodity Credit Corporation, 197
- U.S. imports from Mexico under special provisions of U.S. trade laws, 203, 204
- U.S. legal context of trade with Mexico, 207
- U.S.-Mexico Joint Commission on Commerce and Trade, 207-212
- U.S.-Mexico Trade Agreements, 212-214
 - agricultural purchase agreement, 212
 - oil and gas agreements, 213-214
 - textile agreement, 213
- U.S.-Mexico trade issues, 207-212
 - automotive products, 209-210
 - computers, 210
 - countervailing duty investigations, 208-209
 - graduation of Mexican products from U.S. GSP, 209
 - transborder trucking, 210-211
 - U.S. sales of stockpile silver, 211
- U.S. Strategic Petroleum Reserve, 213
- Wages, 195-196
- Michigan, 148, 149
- microelectronics, 88
- Ministerial, see GATT
- mirror-image legislation, see reciprocity
- montan wax, 227
- most-favored-nation treatment (MFN), 14, 29-30, 78, 90, 94, 225-226
- motion picture industry, 89
- motor vehicle parts, see automobiles
- motor vehicles, see automobiles

Mozambique, 49
 Multifibers Arrangement, 94
 Multilateral Trade Negotiations, (MTN), see GATT
 mushrooms, 145, 227

 National Energy Program, see Canada
 national treatment, see investment
 natural gas (butane, ethane, methane, propane), 138
 U.S.-EC pipeline dispute, see EC
 natural rubber, see rubber,
 Netherlands, 39, 49, 51, 53, 77, 100
 newly industrialized countries (NIC's), 16, 78
 New York City, 148, 150
 New Zealand, 49, 51, 52, 71, 77
 Nicaragua, 45, 49
 Niger 49
 Nigeria, 49, 81
 Nippon Telegraph and Telephone Public Corporation (NTT), see Japan
 nongrain feeds, see European Community, corn gluten feed
 NMEs (nonmarket economy countries), 7, 8, 14, 93, 107, 135, 136, 214-228
 nontariff measures or barriers, 15, 18, 37, 78, 93, 94
 North Korea, see Peoples Republic of Korea
 Norway, 34, 49, 51, 71, 77
 nuclear energy equipment, 80, 82

 oil, see petroleum
 orderly marketing agreements (OMAs), 74, 230-231
 Organization for Economic Cooperation and Development (OECD), 13, 36, 133,
 143, 148, 149
 Arrangement on Export Credits, 53, 80-82, 83, 148
 Committee on Economic Policy, 84
 Committee on Capital Movements and Invisible Transactions (CMIT), 87, 90
 Committee on Development Assistance, 96
 Committee on Investment and Multinational Enterprises (CIME), 86, 90
 Committee on Food, Agriculture and Fisheries, 79
 Committee on Science and Technology Policy, (CSTP) 88
 OECD Council Ministerial, 78, 79, 84, 86
 Declaration on International Investment and Multinational Enterprises, 90
 Declaration on Trade Policy, 86
 OECD Trade Committee, 79, 84, 85, 86, 89, 91
 Wallen Compromise, 81
 Organization for Petroleum Exporting Countries (OPEC), 9
 Ottawa Summit, 15

 Pakistan, 49, 51, 52, 55, 71
 Panama, 105
 paper and pulp, see pulp and paper
 Papua New Guinea, 49
 passenger cars, see automobiles
 pasta, 12, 21, 23, 54, 264
 patents, 144
 Peru, 45, 47, 53
 performance requirements, 86, 144
 duty remission scheme, see Canada
 local content requirements, 43, 86
 see also investment

petroleum, 4, 9, 12, 78, 138, 143
 petrochemical products (oil, natural gas, naphtha), 133, 165
 see also European Community
 pharmaceuticals, 88, 165, 171
 Philippines, 35, 45, 49, 50, 51, 71
 photocopy machines, 168
 Poland, 14, 29-30, 49, 51, 73, 143, 225-226
 Portugal, 35, 49, 77, 149
 potatoes, 151, 152
 poultry, 12, 21, 23, 54, 263
 President (U.S.), 94, 104, 146, 147
 processed foods, 23
 Production, 98, 100, 101
 productivity, 77, 144
 Professional Services, 89
 pulp and paper, 18, 170, 186

quantitative restrictions (quotas), 15, 18, 90
 Qatar, 49

recession cartels, see Japan
 restrictive business practices, 147, 153
 Romania, 14, 49, 51, 71, 226, 228
 robotics, 88
 rubber, 13, 100-102
 International Rubber Agreement, 13, 92, 95, 100, 101
 International Rubber Council, 101
 rubber, natural; U.S. National Defense Stockpile, 102
 Rwanda, 49, 51, 58

Safeguards Code, see GATT, Tokyo Round Agreements, Escape Clause
 St. Vincent and the Grenadines, 49
 Sao Tome and Principe, 49
 semiconductors, see also Japan,
 Senegal, 49
 services, 10, 13, 15, 16, 19, 20, 77, 84, 88, 89-90, 145, 146, 147
 see also banking, construction, insurance, telecommunications, transportation
 Seychelles, 49
 shipping, 80, 89
 Siberian gas pipeline project, 147
 Sierra Leone, 47
 silver, 14, 138
 Singapore, 49, 50, 51, 101
 "snapback" provision, see textiles
 softwood lumber, 153, 154
 Solomon Islands, 49
 South Africa, Republic of, 48, 49, 51, 71
 Soviet Union, see U.S.S.R.
 Spain, 32, 49, 50, 51, 52, 53, 77, 81
 Sri Lanka, 49, 101
 Stabex, see European Community, Lomé Convention
 Standards Code, 173-175
 see also GATT, Japan, Agreement on Technical Barriers to Trade
 steel, 9, 27, 124-127, 186, 240-241, 264
 specialty steel, 55, 145
 stainless steel, 264

steel plate, 228
 steel trigger price mechanism (TPM), 240-241
 U.S.-EC agreement on steel, 54, 126-127
 stockpiling, 98, 101, 102
 Strauss-Ushiba Agreement, see Japan
 structural adjustment, 15, 18, 36, 82-84, 185-186
 subsidies, 18, 149, 150, 152, 154, 155
 Subsidies Code, see GATT, Agreement on Subsidies and Countervailing Duties,
 subway cars, see Canada
 sugar, 13, 21, 45-46, 54, 96-97, 262
 International Sugar Agreement, 13, 95, 96, 97
 Suriname, 49
 Swaziland, 49
 Sweden, 47, 51, 55, 71, 77
 Switzerland, 28-29, 32, 38, 39, 49, 51, 53, 71, 77, 80
 synthetic fibers, 95, 186
 Sysmin (system for mineral products), see European Community, Lomé Convention

 Taiwan, 81, 88
 Tanners' Council of America, 10-11
 Tanzania, 49
 tariffs, 15, 18, 19, 20, 78, 90, 94, 102, 103, 170-171
 Tariff Schedules of the United States (TSUS), 102, 104
 tea, 92
 telecommunications equipment, 58, 89
 see also services and transborder data flows
 telecommunications services, 88, 89
 television receivers, 230
 textiles and apparel, 14, 15, 18, 32-34, 230
 textile agreements, 15, 18, 27, 230, 231
 Arrangement Regarding International Trade in Textiles (Multifiber
 Arrangement), 32-34, 230
 bilateral textile agreements, 14, 220, 221
 Thailand, 50, 98, 99
 Thyssen Steel, AG, 149
 tin, 13, 98-99
 International Tin Agreement, 13, 95, 98
 International Tin Council, 98, 99
 Tourist Services, 89
 tobacco, (including manufactured tobacco products), 170-179
 tobacco understanding, see Japan
 Togo, 49
 Tokyo round of the MTN, see GATT
 Tonga, 49
 Trade Agreements Extension Act of 1958, see U.S. trade law
 Trade Policy Committee (TPC),
 transportation, 146
 see also services
 Trigger Price Mechanism (TPM), see steel
 Trinidad and Tobago, 49
 tropical products, 15, 18
 trucks, 138, 141, 146, 147, 168
 Tunisia, 51
 Turkey, 49, 77, 80
 Tuvalu, 49

 United Nations General Assembly, 90, 92
 Uganda, 49

- UNCTAD (U.N. Conference on Trade and Development), 13, 36, 61, 77, 91-94, 97
 Protectionism and structural Adjustment, 91, 93-94
- Common Fund, 92-93
 Integrated Program for Commodities (IPC), 92-93, 100
- unemployment, 3, 12, 107, 132-133
- unfair import practices, see U.S. Trade Law, Tariff Act of 1930, section 337
- United Arab Emirates, 49
- United Kingdom (UK), 29-40, 49, 51, 53, 58, 77, 99
- U.S.S.R., 7, 8, 14, 46-47, 147, 81, 98, 135, 136, 142, 214, 216-218, 219, 223-225
- U.S.-U.S.S.R. grain supply agreement, 14
- United States (U.S.), 3-10, 13, 14, 15, 16, 21, 23, 24, 25, 27, 28, 30, 32, 41, 43, 44-47, 49, 51, 53, 54, 55, 56, 57, 58, 59, 61, 67-69, 71, 75, 77, 82, 86, 87, 88, 89, 90, 92, 93, 94, 95, 96, 98, 99, 100, 102, 104, 132-143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154
- U.S.-Argentina Hides Agreement, 104
- U.S.-Canada automotive agreement (APTA), 139-142
- U.S. Congress, 40-41
- U.S. Customs Service, 102
- U.S. Department of Agriculture, 97
- U.S. Department of Commerce, 14, 54, 87, 97, 150, 152, 154, 155
- U.S. Department of State, 95
- U.S. Department of Treasury, 149, 150
 Secretary of the Treasury, 149, 150
- U.S. International Trade Commission (USITC), 14, 80, 89, 94, 96, 100, 101, 102, 103, 104, 150, 152, 154
- U.S. Interstate Commerce Commission, 146, 147
- U.S.-Japan Trade Facilitation Committee, see Japan
- United States-Japan Trade Subcommittee, see Japan
- U.S.-Mexico Joint Commission on Commerce and Trade, see Mexico
- U.S. Senate, 82, 105
 Committee on Finance, 153
 Subcommittee on Trade of the House Ways and Means Committee, 153
- U.S.-Soviet Maritime Agreement, see U.S.S.R.
- U.S. trade law, 14, 15, 229-280
 see also GATT
- Agricultural Adjustment Act, 220, 267-268, 269
 Section 22, 267-268
- Meet Import Act of 1964, 269
- Tariff Act of 1930, 235-239, 241-261
 Section 337, 14, 256-261
 Section 701, 14, 241-255
 Section 731, 14, 235-239
 Section 751, 14, 239
- Trade Act of 1974, 229, 231-234, 261-267
 Section 201, 15, 229
 Section 202, 15, 231-234
 Section 203, 229
 Section 301, 15, 44, 104, 180, 261, 266
 Section 406, 234
 Section 603, 266-267
 Section 608, 102
- Trade Agreements Act of 1979,
 Section 104, 248

Section 302, 56
Trade Expansion Act of 1962, 270-271
Section 232, 270-271
U.S. Trade Representative (USTR), 104, 147, 149, 150, 152, 271
U.S.-U.S.S.R. grain supply agreement, see U.S.S.R.
Upper Volta, 49
Uruguay, 48, 49, 51, 52, 53

Vehiculos Automotores Mexicanos (VAM), see Mexico
vitamin B12, 41-42
Voluntary Restraint Agreements (VRAs), 15, 74
see also restraints
Vredeling proposal, see European Community

Wallen Compromise, see OECD
Western Europe, see European Community
West Germany, 49, 51, 56, 77, 80, 87, 99, 149
wheat, 23, 99-100, 142, 262
International Wheat Agreement, 95, 99
International Wheat Council, 99
wheat flour, 12, 23, 24, 54, 262
wine, 147, 148
World Intellectual Property Organization, 18, 75

Yemen, Democratic, 49
yen, see Japan
Yugoslavia, 32, 49, 51, 52, 71, 77, 81
Zaire, 49, 51
Zambia, 48, 49, 50
Zimbabwe, 49

