

OPERATION OF THE TRADE AGREEMENTS PROGRAM

35th Report

1983



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

PREFACE

This report is the 35th report to be submitted under section 163(b) of the Trade Act of 1974 and its predecessor legislation. 1/ The period covered in the report is calendar year 1983, although occasionally, to enable the reader to understand developments more fully, events in early 1984 are also mentioned. The report consists of a summary, an introduction, and five chapters. The introduction provides background to the report by briefly covering the world trade situation as well as the economic and trade performance of the United States during 1983. Chapter I treats special topics which highlight developments in the trade agreements sphere during the year. Chapter II concerns activities in the General Agreement on Tariffs and Trade (GATT), the main area of multilateral trade-agreement activities. Such activities outside the GATT are reported in chapter III. Chapter IV discusses bilateral relations between the United States and its major trading partners. The administration of U.S. law, including decisions taken on remedial actions available to U.S. industry and labor, is covered in chapter V.

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 . . ." 2/ 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 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 Tariff Affairs, the Office of Industries, the Office of Data Systems, and the Research Division of the Office of Economics.

1/ 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.

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

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SUMMARY

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES

The U.S. Generalized System of Preferences (GSP), which grants duty-free entry to imports of certain products from eligible developing countries, will expire in January 1985 unless renewal legislation is passed. The administration has submitted a proposal to extend the GSP and to modify it so that benefits to least-developed developing countries (LDDC's) are expanded and benefits to advanced developing countries are reduced unless the advanced developing countries agree to reduce their trade barriers. Senator Heinz (R.--Pa.) has proposed an amendment to the administration proposal that would base eligibility to the GSP on per capita gross national product (GNP). The Heinz amendment would also eliminate the increased benefits to LDDC's and the idea of linking advanced developing countries with reproduction in benefits on U.S. imports trade barriers. If a GSP renewal bill is passed in 1984, it would probably incorporate aspects of both the administration proposal and the Heinz amendment.

The Caribbean Basin Economic Recovery Act (CBERA) became law in August 1983. Although some products were excluded, the Act extends duty-free treatment to most imports from designated beneficiary countries into the United States. By the end of 1983, twenty of the twenty-seven eligible countries had been designated beneficiary countries by the President. Duty-free access to the U.S. market is provided for 12 years. Safeguard procedures under the CBERA will be the same as those currently available under Title II of the Trade Act of 1974.

In late 1981, the United States initiated a bilateral investment treaty (BIT) program designed to facilitate and protect American investment abroad. The prototype treaty guarantees U.S. firms the right to transfer funds and to be free of trade-related performance requirements. It also assures that they will be treated in a nondiscriminatory manner and will have recourse to review the decisions affecting them. By yearend 1983, the United States had signed four such treaties. Those treaties are expected to go to the Senate for confirmation in 1984.

During 1983, the work toward a commercial counterfeiting code proposed in the General Agreement on Tariffs and Trade (GATT) made little headway due, in part, to the reluctance of developing countries to adopt such a code. If adopted, a code is likely to require signatories to enact certain customs rules authorizing the seizure of counterfeit goods. GATT examination and consultations on the cause and effect of international counterfeit trade, national and international laws to combat it, and the reasons, if any, that GATT action is needed should be wrapped up in 1984.

GATT ACTIVITIES DURING 1983

The primary emphasis of the GATT during 1983 was on followup to the work program proposed at the Ministerial level meeting in late 1982. Foremost on this agenda were issues such as trade in counterfeit goods, high-technology products, agricultural products, and preparatory work for a code on safeguards. Work on these issues and on a host of regular activities was carried out by the functional committees. The Committee on Trade in Agriculture was formed this year to tackle problems unique to this sector. The high level of disputes brought before GATT panels kept up the pace common in recent years. Reports were adopted this year on disputes of interest to the United States, notably, the U.S. complaint against spring assemblies imported from Canada and the U.S. complaints against Canada's Foreign Investment Review Act. Agricultural issues will head the list of controversies in 1984, as the panels established in 1983 on the U.S. complaints against European Community (EC) canned fruit subsidies and citrus preferences bring forth their findings.

TRADE AGREEMENTS ACTIVITIES OUTSIDE THE GATT

In 1983 the member countries of the Organization for Economic Cooperation and Development (OECD) recognized the need to "reverse protectionist trends" at their May Ministerial level meeting. This trade statement went beyond commitments of earlier years which called on members to only "avoid protectionist pressures." Most trade-related activities of the OECD this year consisted of implementation of projects initiated at the 1982 Ministerial meeting. The 1982 work program mandated intensification of existing studies and initiation of new projects on such topics as the trade-related aspects of investment, services, high technology, and structural adjustment. Analyses of protectionism, links between economic and trade policies, and means of strengthening multilateral trade agreements and consultation procedures are also underway. One concrete accomplishment of the OECD during the year was the renegotiation of the Arrangement on Export Credits to include semiannual revisions of interest rates so that updating will not be as serious a problem for the arrangement as in the past.

The Sixth United Nations Conference on Trade and Development (UNCTAD) took place in what observers described as "an economic climate in which developed countries found it extremely difficult to resist protectionist pressures and to further liberalize trade regimes." UNCTAD participants addressed a broad range of trade issues, including trade in commodities, structural adjustment, trade preferences for developing countries, and the 1982 GATT Ministerial. The Conference revealed fundamental differences in the issues of the developing countries' obligations to resist protectionism, the definition of protectionist measures, and in the role of GATT in promoting trade liberalization.

The United States continued to play a role in international commodity agreements during the year. It joined the new coffee agreement which entered into force in September, participated in negotiations for a new sugar agreement, and agreed to accept the terms of the jute agreement on a provisional basis. The United States decided not to join the tin and cocoa agreements on grounds that they did not appear economically feasible. 2

Currently, no comprehensive mechanism, system, or institution exists to facilitate international services trade. Instead, services trade is covered by a diverse set of bilateral agreements, multilateral agreements, and codes to liberalize trade. In December 1983, the United States released a report that examines the issues confronting services trade. This report is intended to stimulate broad international discussion of these issues and to present U.S. objectives relating to services trade for any new round of multilateral trade negotiations. In addition, bilateral investment treaties, which partially include services trade, were being negotiated with eleven countries during the year. Also during 1983, letters of agreement that relate to international air travel were concluded between the United States and other countries.

U.S. TRADE RELATIONS WITH MAJOR TRADING PARTNERS IN 1983

Disputes over farm and steel trade plagued U.S.-EC relations during 1983. The United States continued to take exception to the EC's subsidies that support steel firms and enable EC farmers to dislodge surplus produce outside the EC at below-world-market prices. The United States lobbied the EC to keep it from instituting new restrictions on imports of certain U.S. farm products. The U.S. decision to restrict specialty steel imports for 4 years engendered EC retaliation in early 1984 after compensation negotiations broke down. The United States registered a \$1.35 billion merchandise trade deficit with the EC in 1983 after years of surplus trade. The year in trade confirmed recent trends that U.S. imports from the EC are steadily increasing and exports to the EC are declining.

With U.S. exports to and imports from Canada increasing at approximately the same rate in 1983, the approximately \$15 billion deficit in merchandise trade on the part of the United States continued for the second straight year. The deficit with Canada accounted for over one-fourth of the total U.S. merchandise trade deficit in 1983. Despite this deficit, trade relations between the world's largest trading partners improved considerably during 1983, strengthened by nearly \$90 billion in two-way trade. The GATT panel established in 1982 to look into U.S. objections to Canadian attempts to limit foreign investment reported its findings in mid-year. Shortly thereafter, the Canadian Government announced its intention to conduct a comprehensive review of trade policy with a special emphasis on trade with the United States. A decision to explore the possibility of sectoral free-trade areas resulted from this review and was being considered by both countries at yearend.

Despite continued disagreement in several key areas, 1983 was a fairly good year for U.S.-Japanese trade relations. The two countries made slow but steady progress in removing Japan's "red tape" obstacles to trade and fostering cooperation in high-technology industries. Japan took steps to open more of its Government contracts to U.S. suppliers and to make it easier for foreign goods to be cleared by Japanese regulatory agencies. Nevertheless, the U.S. merchandise trade deficit with Japan rose by nearly 15 percent from the 1982 level, and imports in some product categories, including tractors, machine tools, office machines, and computers increased dramatically. U.S. exports to Japan, meanwhile, increased modestly from 1982 levels, with most of the gains being registered in the nonmanufactured goods sector.

In Mexico, 1983 was the first year of a new administration. During the year, the U.S. trade deficit with Mexico, which appeared first in 1982, widened; meanwhile, progress in resolving bilateral commercial issues slowed considerably. Mexico continued to object to the withdrawal of GSP benefits from certain Mexican items. The issue of U.S. countervailing duties being imposed on certain subsidized imports from Mexico also remained unresolved. The number of countervailing duty petitions against Mexico continued to surge in 1983.

The industry policy adopted by the Taiwan Government in 1982 was designed to develop high-tech industries and transform the country from a labor-intensive economy into a capital-intensive economy characterized by high technology and skilled labor. The policy began to take effect in 1983 as Taiwan responded to the world recovery with real GNP growing by 2 percent during the year. Although the United States and Taiwan are stable trading partners, issues such as counterfeit trade and a large and growing U.S. deficit with Taiwan continued to create friction between the two countries. During 1983 the Taiwan Government attempted to address the counterfeit problem by adopting a number of initiatives. At the same time, official trade missions from Taiwan were encouraged to increase purchases from the United States in order to decrease the size of the bilateral trade surplus.

To slow the growth of its foreign debt, Brazil has taken steps to promote its exports and restrict imports. As a result of its trade policies, the United States, which had consistently enjoyed annual trade surpluses with Brazil from 1968 to 1980, had a bilateral trade deficit with Brazil of \$2.4 billion in 1983. During 1983, major trade issues between the United States and Brazil were the application of U.S. countervailing duty laws against Brazilian steel imports, lack of transparency in Brazil's import licensing process, liberalization of Brazil's restrictive trade policies, and modification of Brazil's nationalist computer policy.

The United States is Korea's largest export market, and its economic expansion in 1983 was responsible for 75 percent of Korea's export gains for the year, resulting in a U.S. trade deficit of \$1.8 billion. During the year the Korean Government attempted to liberalize its trade barriers, but the United States remained concerned that such measures as emergency tariffs, tariff quota systems, surveillance monitoring, and import licensing may have lessened the effects of the liberalization. Korea remained concerned that the number of its goods allowed to enter the United States under the Generalized System of Preferences could be reduced.

ADMINISTRATION OF U.S. TRADE LAWS

In 1983, under statutes safeguarding U.S. industries and following affirmative determinations by the U.S. International Trade Commission, the President of the United States provided relief for both heavyweight motorcycles and certain stainless steel and alloy tool steel products. The Commission and the U.S. Department of Commerce continued to have a large caseload of antidumping and countervailing duty investigations. The United States Trade Representative (USTR) proceeded with discussing alleged violations of trade agreements by foreign governments in response to petitions under section 301 of the Trade Act of 1974. Most consultations of the USTR in this area concerned unresolved trade issues with the EC.

The 1983 annual product review conducted by the USTR under the U.S. program of the Generalized System of Preferences resulted in competitive-need exclusions equivalent to \$7.1 billion in imports (based on trade in 1982), "graduations" from duty-free treatment equivalent to \$900 million in imports (based on 1982 trade), and reinstatement of GSP treatment on some products. The value of additions to items eligible for duty-free treatment from beneficiaries was smaller in 1983 than in 1982; by contrast, the value of deletions was larger.

INTRODUCTION

THE GLOBAL PERSPECTIVE

Following a decline in the volume of both world production and trade in 1982, the international economy began to show signs of recovery in 1983. The International Monetary Fund (IMF) reported that world output increased by 2.1 percent during the year, with industrial countries accounting for 2.3 percent and the developing countries, for 0.9 percent. The revival began in North America and appeared to have spread to Europe by yearend. World trade was showing signs of a modest upturn after 2 consecutive years of decline. 1/ The volume of world trade rose by 2 percent in 1983, while the value of such trade declined by 2 percent. 2/

In 1983, the trade of the industrial countries declined slightly, falling to 1.1 percent below the 1982 level. This was the third consecutive annual decline in the value of the foreign trade of the industrial countries and followed a decrease of 1.7 percent in 1981 and of 5.2 percent in 1982. The drop in trade reflected reduced volume as well as reductions in U.S. dollar unit values.

The attention of policymakers continued to be focused on two aims: promoting short-term solutions to the debt problems of certain developing countries and sustaining the recovery in the developed countries. The international debt issue continued to dominate the economic scene during 1983. Although a number of reschedulings and extensions of emergency credit took place, long-term policies to address the problem were not advanced. The tie-in between trade and the ultimate resolution of the debt problem is unmistakable. Only through increased opportunities for trade can any real solution come about. Successful management of the medium-term debt problem and resolution of the longer term problem implies changes in the trade policies of both creditor and debtor countries. "Without a liberal access to the markets of creditor countries for those goods which the debtor countries can produce with comparative advantage, their current international indebtedness cannot be serviced in full, let alone repaid." 3/ Some debtor countries are still in the process of implementing austerity measures and other adjustment strategies. Such measures led to a 9 percent decrease in the level of indebted developing country imports in 1983. The problem of international indebtedness looms as a threat to the economies of recovering industrial countries and affected developing countries alike. Fashioning an adequate response to the problem is the immediate challenge before the international economic community.

Developed countries focused their attention on sustaining stable growth and avoiding any resurgence of inflationary pressure. Particular attention was paid to bringing public sector expenditures under control and to stabilizing exchange rates. The subsequent section discusses the origin of the economic recovery by focusing on developments in the United States in 1983.

1/ Primarily as a result of a strong appreciation of the U.S. dollar, the value of world trade declined in both 1981 and 1982. The volume of world trade declined by 2 percent in 1982; this was only the third time in the postwar period that such a drop has occurred. The 1981 level of world trade was virtually unchanged from that of the year before.

2/ GATT, Press Release, May 25, 1984.

3/ GATT, International Trade 1982/83, p. 14.

THE U.S. ECONOMY AND U.S. TRADE IN 1983

After suffering through a major recession in 1982, the U.S. economy snapped back smartly in 1983. Industrial production increased sharply, while unemployment fell dramatically. The strength of the recovery helped cause a sharp increase in U.S. non-petroleum imports. The combination of higher U.S. imports and lower U.S. exports, partially caused by depressed economic conditions abroad, created a record U.S. merchandise trade deficit. U.S. bilateral deficits increased with almost all countries except petroleum exporting countries.

Economic Performance of the United States

At the end of 1982, most experts predicted that the U.S. economy would perform rather sluggishly in 1983. Although the longest, deepest, postwar recession had ended in November 1982, the prospects for a strong economic recovery in 1983 were not good. Consumer spending and business investment were not expected to increase much, because interest rates were still very high by historical standards, although they were down substantially from early 1982 levels. Exports were not expected to provide much impetus to the economy, because the U.S. dollar was extremely strong in foreign-exchange markets and because many foreign countries were still in the throes of recession.

As 1983 unfolded, however, the U.S. economy performed considerably better than experts had predicted. Although 1983 was expected to be an unusually weak year compared with the first years of previous recoveries, 1983 turned out to be a fairly typical first year of a recovery.

The economy got off to a slow start in 1983, with real GNP increasing at a 2.6-percent annual rate in January-March. Final sales were essentially flat in the quarter, as nearly three-quarters of the total increase in real GNP was added to inventories.

The economy surged ahead in April-June, as real GNP increased at an annual rate of 9.7 percent. The two factors that normally provide much of the impetus early in recoveries--consumption and housing--contributed greatly to the sharp increase in the GNP in April-June. A surge in purchases of durable goods led to the largest quarterly increase in consumer spending in nearly 18 years, and residential construction benefited from the 1982 decline in mortgage rates.

The pace of the recovery slowed only slightly in the third quarter, as real GNP rose at an annual rate of 7.6 percent. Business fixed investment and government purchases increased sharply in July-September.

The pace of recovery slowed somewhat in October-December as real GNP rose at a 4.5-percent annual rate. Consumer spending and capital investment increased sharply, but Government spending and residential construction fell modestly.

From October-December of 1982 to October-December of 1983, real GNP rose by 6.3 percent, slightly less than the 6.4-percent average for six previous post-war recoveries. Real GNP fell by 1.7 percent in 1982 and rose by 1.9 percent in 1981.

Reflecting the strong performance of the U.S. economy in 1983, industrial production increased in every month of the year. At the end of 1983, industrial production was 16.1 percent higher than it was at the end of 1982 and was 1.9 percent above its previous peak of July 1981.

Capacity utilization at factories, mines, and utilities rose in every quarter of 1983. In October-December 1982, capacity utilization was 69.0 percent, but by October-December 1983, capacity utilization was 79.2 percent. This was the highest rate since July-September 1981, when capacity utilization was 80.3 percent.

The unemployment rate, which reached a post-World War II high of 10.7 percent in December 1982, fell throughout most of 1983. The rate fell modestly during the first half of the year and stood at 10.0 percent in June. The unemployment fell more rapidly in the second half of the year and ended the year at 8.2 percent. The decline of 2.5 percentage points in the unemployment rate from December 1982 to December 1983 was the steepest 12-month decline in more than 30 years. From December 1982 to December 1983, nearly 4 million workers were added to the U.S. work force.

Despite the strong showing by the U.S. economy in 1983, inflation, as measured by the most popular indexes, was at its lowest level in years. From December 1982 to December 1983, consumer prices rose by 3.8 percent, the smallest annual increase since 1972, when wage and price controls were in effect. Consumer prices rose by 3.9 percent in 1982 and by 8.9 percent in 1981.

From December 1982 to December 1983, producer prices rose by 0.6 percent, representing the smallest annual increase since 1964. Producer prices rose by 3.5 percent in 1982 and by 7.1 percent in 1981. The GNP deflator rose by 4.1 percent from October-December 1982 to October-December 1983. The GNP deflator rose by 4.4 percent in 1982 and by 8.9 percent in 1981.

The low inflation rate was an important factor in keeping wage increases low in 1983. Many collective bargaining agreements have escalator clauses that directly link wage increases to increases in consumer prices. The average wage rate of production workers rose by 3.9 percent in 1983. The average wage rate increased 6.0 percent in 1982 and 8.3 percent in 1981.

The combination of the Payment-In-Kind (PIK) program and a severe drought across the nation's heartland combined to bring most crop harvests down sharply from the record 1982 levels. Wheat production was down 14 percent, soybean production was down 32 percent, feed grain production was down 47 percent, and corn production was down 51 percent. Despite the sharp declines in agricultural production, crop prices were only about 16 percent higher at the end of 1983 than they had been at the end of 1982.

Compared with interest rates of the previous 3 years, those in 1983 were relatively low and stable. Both short- and long-term interest rates, however, were slightly higher at the end of 1983 than they had been at the end of 1982. The yield on 3-month Treasury bills averaged 9.0 percent in December 1983 compared with 7.9 percent in December 1982. Over the same period, the yield on 30-year Treasury bonds rose from 11.5 to 11.9 percent. The combination of a slightly lower inflation rate and slightly higher interest rates caused real interest rates to increase slightly from December 1982 to December 1983.

Interest rates remained fairly stable through the spring, rose during the summer, and then declined somewhat in the fall before rising at the end of the year. Short-term rates were at their 1983 lows in January, and long-term rates hit their lows for the year in April and May. Both rates hit their peaks for the year in August, when they were about 1.5 percentage points higher than their 1983 lows. The difference of 1.5 percentage points between the highs and lows for interest rates in 1983 was the narrowest such range in years. During 1980-82, short-term interest rates moved over a range that averaged 7 percentage points each year. Over the same period, long-term interest rates moved over a range that averaged 3 percentage points each year.

Real interest rates, which have been at historically high levels for the past 4 years, remained high because of the same factors that keep short- and long-term interest rates high--the large Federal deficit and high inflation expectations.

The large Federal deficit put upward pressure on interest rates in 1983. Federal borrowing amounted to \$212.4 billion in fiscal 1983, \$77.5 billion more than in 1982. The large deficit contributed to the high level of interest rates by increasing the competition between Government and private borrowers for a limited supply of credit.

Inflation expectations contributed to high nominal and real interest rates, particularly long-term rates. If investors expect high inflation, they require that an inflation premium be added to nominal lending rates to compensate them for the possibility of being repaid in dollars with less purchasing power. Investors are apparently reluctant to lower their inflation expectations too rapidly after the long period of inflation that hurt fixed-income investors.

The large Federal deficit also kept inflation expectations high in 1983. Investors feared that the Federal Reserve Board might monetize the government's borrowing, leading to a surge in the money supply. Large increases in the money stock generally result in increased inflation.

The money stock (M1), which consists of currency and demand deposits, grew by 9.0 percent from December 1982 to December 1983. M1 grew at a 14.5-percent annual rate in January-June 1983 because of an accommodative monetary policy that the Fed adopted. The Fed adopted this policy because of uncertainties surrounding the money stock numbers caused by the new money market deposit accounts and the Super NOW accounts.

The sharp increase in the money stock from the last quarter of 1982 caused the Federal Reserve Board to alter its 1983 target growth range for M1 in February 1983. ^{1/} The Federal Reserve Board announced that it intended to let M1 grow by between 4 and 8 percent in 1983. This action was taken because the Board realized that the original range would result "in a much more restrictive monetary policy than had been intended."

At the same time that the M1 growth range was revised in February, the Federal Reserve Board announced that the M1 range would be a monitoring range and would not be a targeting range. Also at that time, the Board announced targeting ranges for the broader M2 and M3 aggregates. This decision represented a significant departure from the past, when M1 was given primary weight in implementing policy.

The Federal Reserve Board revised the M1 growth range again in July 1983 when it became clear that the higher than anticipated level of economic activity required a larger money supply. The Board announced that it intended to let M1 grow at an annual rate of 5 to 9 percent from April-June 1983 to October-December 1983. By making April-June 1983 the base period for future money growth, the Board indicated that it would not take any action to offset the very rapid growth in the money stock in January-March 1983 and that it was willing to let M1 grow at a substantially higher rate in 1983 than it had originally announced. M1 grew at an annual rate of 5.7 percent in July-December 1983.

In 1983, the trade-weighted value of the dollar rose by 5.8 percent; in 1982, it had increased 11.7 percent. ^{2/} Since 1980, the trade-weighted value of the dollar has increased by 33.0 percent. The value of the dollar peaked against most currencies in December and reached alltime highs against the French franc and the Italian lira in that month.

On a bilateral basis, the value of the dollar increased by 26.6 percent against the French franc in 1983, 17.1 percent against the West German deutsche mark, 13.9 percent against the British pound, 2.0 percent against the Japanese yen, and 1.2 percent against the Canadian dollar.

The strength of the dollar against European currencies in 1983 was due largely to the economic malaise in Europe. The unemployment rate in the EC was 10.4 percent in 1983, double its 1979 rate. With real growth expected to average only 2 percent over the next 3 years, the EC's unemployment rate is unlikely to be reduced significantly in the next few years. Confidence in Europe's economic prospects has fallen, and as a result, investors prefer to invest their capital in the United States.

^{1/} In July 1982, the Federal Reserve Board announced that it intended to let M1 grow between 2.5 and 5.5 percent from October-December 1982 to the fourth quarter of 1983.

^{2/} Based on a trade-weighted index of 17 major currencies as reported in International Monetary Fund, International Financial Statistics, March 1984.

Trade Performance of the United States

The U.S. current account 1/ and merchandise trade deficits reached record highs in 1983. The current account deficit was \$40.8 billion in 1983, nearly triple the previous record deficit of \$15.5 billion set in 1978. The current account deficit was \$11.2 billion in 1982, and in 1981, the current account showed a surplus of \$4.6 billion.

Although most of the increase in the current account deficit was caused by the sharp increase in the merchandise trade deficit, a sharp fall in net investment income also contributed to the record current account deficit. Net investment income was \$23.6 billion in 1983, its lowest level since 1978. Net investment income was \$27.3 billion in 1982 and \$33.5 billion in 1981. Lower average interest rates in 1983 were primarily responsible for the decline in investment income.

The merchandise trade deficit was \$62.0 billion in 1983, far surpassing the previous record deficit of \$37.4 billion set in 1982. The 1981 deficit was \$36.0 billion.

Despite a sharp decline in petroleum imports, the value of U.S. imports increased by 5.1 percent in 1983, from \$245.5 billion in 1982 to \$258.0 billion (table 1). The increase in imports was caused primarily by the sharp upturn in the U.S. economy and the strong U.S. dollar. The value of U.S. imports fell by 7.4 percent in 1982.

The value of U.S. exports fell by 5.8 percent in 1983, from \$208.0 billion in 1982 to \$196.0 billion (table 1), the second consecutive annual decline. The decline in the value of exports was primarily the result of the strong U.S. dollar, the economic malaise in Europe, and the debt repayment problems of Latin American countries. The value of U.S. exports fell by 9.2 percent in 1982.

A number of highly indebted Latin American countries have had great difficulty in meeting their debt obligations. They have had to take strong measures to reduce their imports and increase their exports to acquire the foreign exchange they need to pay the interest on their debt. Because trade with these countries accounts for about 14 percent of total U.S. trade, the actions of these countries to increase the size of their trade surpluses has significantly increased the size of the U.S. trade deficit.

1/ The current account includes both merchandise trade and trade in services.

Table 1.--U.S. trade and trade balances, by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Item	1981	1982	1983
Exports			
Industrial countries:			
Canada-----	39,564	33,720	38,244
Japan-----	21,823	20,966	21,894
EC-----	52,362	47,932	44,311
All other-----	16,570	15,215	13,613
Total-----	130,319	117,833	118,062
Developing countries:			
Oil-exporting countries 1/---	21,527	22,857	16,899
Mexico-----	17,788	11,817	9,081
All other-----	51,127	48,720	46,456
Total-----	90,442	83,394	72,436
Nonmarket economy countries:			
China-----	3,602	2,912	2,173
U.S.S.R-----	2,431	2,612	2,002
All other-----	2,267	1,297	1,338
Total-----	8,300	6,821	5,513
Grand total-----	229,061	208,048	196,011
Imports			
Industrial countries:			
Canada-----	46,826	46,791	52,545
Japan-----	39,904	39,931	43,559
EC-----	43,653	44,466	45,879
All other-----	13,014	12,553	12,479
Total-----	143,397	143,741	154,462
Developing countries:			
Oil-exporting countries 1/---	51,789	32,724	26,487
Mexico-----	14,013	15,770	17,018
All other-----	51,663	49,253	56,688
Total-----	117,465	97,747	99,193
Nonmarket economy countries:			
China-----	2,062	2,502	2,476
U.S.S.R-----	376	247	374
All other-----	1,739	1,248	1,459
Total-----	4,177	3,997	4,309
Grand total-----	265,039	245,485	257,964

See footnotes at end of table.

Table 1.--U.S. trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)

Item	1981	1982	1983
Trade balance			
Industrial countries:			
Canada-----	-7,262	-13,071	-14,301
Japan-----	-18,081	-18,965	-21,665
EC-----	8,709	3,466	-1,568
All other-----	3,556	2,662	1,134
Total-----	-13,078	-25,908	-36,400
Developing countries:			
Oil-exporting countries ^{1/} ----	-30,262	-9,867	-9,588
Mexico-----	3,775	-3,953	-7,937
All other-----	-536	-533	-9,232
Total-----	-27,023	-14,353	-26,757
Nonmarket economy countries:			
China-----	1,540	410	-303
U.S.S.R-----	2,055	2,365	1,628
All other-----	528	49	-121
Total-----	4,123	2,824	1,204
Grand total-----	-35,978	-37,437	-61,953

^{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 one-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: Compiled from International Monetary Fund, Direction of Trade Statistics.

The U.S. merchandise trade deficit with Latin American countries rose from \$3.3 billion in 1982 to \$13.9 billion in 1983. In 1981 the United States had a trade surplus of \$7.5 billion with the Latin American countries. Increases in the bilateral trade deficits with Brazil, Mexico, and Venezuela accounted for about 80 percent of the increased U.S. merchandise trade deficit with Latin American countries in 1983.

The U.S. trade deficit with Japan continued to be the largest bilateral U.S. trade deficit with any country. The U.S. trade deficit with Japan reached a record \$21.7 billion in 1983, almost double the 1980 deficit of \$12.2 billion. In 1982 the U.S. trade deficit with Japan was \$19.0 billion.

The U.S. trade deficit with Canada, the largest U.S. trading partner, changed little in 1983. The 1983 deficit of \$14.3 billion was only slightly higher than the 1982 deficit of \$13.1 billion. In 1981, the U.S. deficit with Canada was only \$7.3 billion.

The United States usually has large trade surpluses with the EC. In 1983, however, the United States had a trade deficit of \$1.6 billion with the EC. The United States had surpluses of \$3.5 billion in 1982 and \$8.7 billion in 1981. Lower U.S. exports were primarily responsible for the decline in the U.S. trade surplus with the EC. U.S. exports to the EC fell from \$47.9 billion in 1982 to \$44.3 billion in 1983.

The U.S. trade deficit with oil-exporting countries continued its decline in 1983. The deficit, which was \$40.3 billion in 1980, is now only \$9.1 billion. In 1982 the deficit was \$9.9 billion.

The decline in the U.S. trade balance with oil-exporting countries occurred despite lower U.S. exports. Because oil-exporting countries have experienced lower earnings recently, they have sharply curtailed their imports. As a result, U.S. exports to oil-exporting countries fell from \$22.9 billion in 1982 to \$16.9 billion in 1983.

The value of U.S. imports of petroleum and petroleum products fell by 11.9 percent in 1983, from \$64.7 billion in 1982 to \$57.0 billion. Increased conservation efforts by the United States and lower oil prices were primarily responsible for the fall in the value of oil imports. In 1981 the value of U.S. imports of petroleum and petroleum products was \$80.3 billion.

The value of nonpetroleum imports increased by 12.4 percent in 1983, from \$177.7 billion in 1982 to \$199.8 billion. Imports of machinery and transport equipment rose by 17.4 percent in 1983, from \$72.4 billion in 1982 to \$85.0 billion. In 1981 the value of nonpetroleum imports was \$178.8 billion.

The value of U.S. agricultural exports fell slightly in 1983, from \$37.1 billion in 1982 to \$36.5 billion. Increases in agricultural production in the rest of the world combined with reduced U.S. agricultural production to help limit U.S. agricultural exports. In 1981, the value of U.S. agricultural exports was \$43.7 billion.

The value of U.S. nonagricultural exports fell by 6.2 percent in 1983, from \$170.4 billion in 1982 to \$159.9 billion. In 1981 the value of U.S. nonagricultural exports was \$186.2 billion.

CHAPTER I
SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1983

OVERVIEW

Chapter I of this report contains several brief special sections on trade issues. The topics covered have been selected because they were particularly important in the year or because they provide background information on an increasingly important topic for which a summary may be useful to the recipients of the report. The four special topics highlighted this year include renewal of the General System of Preferences (GSP), the Caribbean Basin Initiative (CBI), bilateral investment treaties, and commercial counterfeiting.

With the expiration of the current GSP program coming up in January 1985, the Congress will try to deal with the question of renewal in 1984. The administration made a proposal this year that would change significantly the concept and operation of the U.S. GSP system. This section compares the administration proposal with the current GSP system and discusses the issues of graduation, reciprocity, and bilateralism raised by the proposal.

A law implementing the key trade provisions of the administration's CBI was passed this year. The provisions of the CBI are reviewed in this section, and CBI's likely trade and economic effects are discussed.

The Bilateral Investment Treaty (BIT) program, under way since 1979, is an ambitious effort by the United States to deal with trade-related investment issues in the absence of near-term prospects for multilateral action in this area. In the near future, the first of the treaties being negotiated under this program may be submitted to the Congress for ratification. This section reviews the origin of the BIT program, the model treaty that has been developed, and the status of the negotiating effort.

Trade in counterfeit products has become increasingly important in recent years, and efforts to control it are underway on multilateral, bilateral, and national levels. This section summarizes the dimensions of the problem and reviews the status of the attempts to conclude trade agreements to bring counterfeiting under control.

GSP RENEWAL

The Generalized System of Preferences is a program of tariff preferences granted by the United States to developing countries to assist their economic development. It is intended to encourage them to diversify and expand their production and exports. The GSP was established under title V of the Trade Act of 1974 and was implemented on January 1, 1976. GSP treatment was

originally extended to about 140 developing countries on approximately 2,700 items out of approximately 7,200 items in the U.S. tariff schedule. The authority for the program expires on January 3, 1985.

The GSP currently allows approximately 3,000 items from eligible developing countries to enter the United States duty free. The value of U.S. imports receiving GSP duty-free treatment grew from \$3.0 billion in 1976 to \$10.8 billion in 1983. GSP imports represented 4.2 percent of total U.S. imports in 1983. Customs duties foregone because of the GSP amounted to \$577.6 million in 1982. 1/

Background

The concept of a generalized system of preferences was first introduced in the United Nations Conference on Trade and Development (UNCTAD) in 1964. Developing countries claimed that their ability to grow and develop economically was being retarded because they were unable to compete on an equal basis with developed countries in the international trading system. The developing countries argued that if they were granted tariff preferences, they could increase their exports, diversify their economies, and thereby decrease their dependence on foreign aid.

By 1970, agreement was reached in UNCTAD on the GSP. As initially conceived, the GSP programs were to be (1) temporary, unilateral grants of tariff preferences by individual developed countries to developing countries; (2) designed to extend benefits to sectors of developing countries that were not competitive internationally; and (3) designed to include safeguards to protect domestic industries in the donor countries that were sensitive to import competition from articles receiving preferential tariff treatment. Within these guidelines, each "donor" country was allowed to establish its own GSP.

In the early 1970's the United States and 19 other developed countries established GSP programs. 2/ Before the various GSP systems were initiated, however, the developed countries obtained a waiver of article I of the General Agreement on Tariffs and Trade (GATT), the most-favored-nation (MFN) clause, which says that trade between Contracting Parties must be conducted on the basis of nondiscrimination.

As a result, a 10-year MFN waiver was granted by the GATT in June 1971. The waiver stated that the GSP systems could be established, but that they must be "generalized, non-discriminatory and non-reciprocal." The waiver was replaced in 1979 with an agreement known as the enabling clause. It provides the legal basis for "special and differential" treatment for developing

1/ The United States collected a total of \$8.7 billion in customs duties in 1982.

2/ Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the EC.

countries. The agreement, which has no expiration date, requires that developing countries accept the principle of graduation, under which such countries lose preferential treatment from developed countries as they become wealthier or more competitive in the world market.

Other Countries' Programs

The GSP programs of the EC, Japan, and the United States together account for about 85 percent of global GSP trade. In 1980, GSP imports under the EC's program totaled \$9.3 billion, or 2.5 percent of total EC imports; GSP imports under the Japanese program totaled \$4.9 billion, or 3.4 percent of total Japanese imports.

Although each GSP program covers a different set of countries and a different set of products, many countries and products are eligible for all the GSP programs. Changes to the programs are implemented individually and are not related to each other. All of the programs include safeguards to protect sensitive domestic industries from imports.

Many GSP programs treat individual developing countries differently, depending on their economic situations. Some programs, including the U.S. program, limit GSP imports of certain products from certain countries if those countries are already competitive in those products. Some programs provide the least developed developing countries (LDDC's) with greater benefits than other developing countries. ^{1/} The present U.S. program has no special provisions for the LDDC's.

The U.S. program is the only one that provides for duty-free entry on all eligible items. Most other programs generally reduce tariffs and accord duty-free treatment to a few selected products.

Some programs allow a certain quantity of imports to enter the country duty free. Once the quotas are filled, MFN duties are levied on imports of the product. The quotas are generally country specific.

In most systems, industrial goods are accorded the most preferential tariff treatment, and agricultural items are subject to slightly higher tariffs. Textiles, leather products, petroleum, and steel are generally considered sensitive in most countries and are excluded from most programs.

All GSP donor countries, except for the United States and Canada, have renewed their programs through 1990 or beyond. Canada is expected to renew its program by July 1984.

Present U.S. program

The U.S. GSP program is administered by the United States Trade Representative (USTR). An interagency committee chaired by the USTR is responsible for advising the President on the key program issues: country eligibility, product coverage, competitive-need exclusions, and discretionary graduation.

^{1/} The term least developed developing countries and its abbreviation, LDDC's, is drawn from par. 3.(d)(i) of the U.S. Tariff Schedules.

Main elements of the present program

Country eligibility

Approximately 140 countries and territories were eligible for the GSP in 1983. Section 502 of the Trade Act of 1974 contains three criteria that the President should use in deciding whether a country should be eligible for duty-free treatment of its products under the GSP: (1) level of economic development of the country; (2) whether other developed countries extend preferential tariff treatment to the country; and (3) the extent to which the country has assured the United States that it will provide equitable and reasonable access for U.S. exports to its markets.

Most developing countries have been designated as eligible for the GSP. Countries may be excluded from the program for a variety of reasons. Communist countries are excluded unless they are members of the GATT and the International Monetary Fund (IMF) and they fulfill certain other conditions. Members of the Organization of Petroleum Exporting Countries (OPEC) are excluded unless they signed a bilateral trade agreement with the United States before January 3, 1980. Also excluded are countries that do not adequately compensate U.S. parties when U.S. property is nationalized and countries that do not help prevent international narcotics trade. The President reviews the list of eligible countries annually. The last change in the list of countries eligible for the GSP was in May 1980, when Afghanistan was removed from the list because of the Soviet invasion.

Product coverage

Approximately 3,000 products, mostly manufactured and semimanufactured goods, are eligible for the GSP. The Trade Act of 1974 excludes certain import-sensitive products from the GSP:

- (1) textile and apparel articles that are subject to textile agreements;
- (2) watches;
- (3) import-sensitive electronic articles;
- (4) import-sensitive steel articles;
- (5) import-sensitive semimanufactured and manufactured glass products;
- (6) certain footwear items; and
- (7) any other articles that the President determines to be import sensitive.

Every year, a GSP product review is conducted by the Executive Branch in which producers, workers, importers, and foreign governments can submit petitions to add or remove products from the GSP. Approximately 300 items have been added to the GSP since its inception as a result of these petitions; 31 products have been removed. The President, with the advice of the U.S. International Trade Commission, decides which petitions to accept. Two principal factors are considered in the product review: (1) the probable economic effect that GSP treatment for an article would have on U.S. producers of competing articles; and (2) the probable economic effect that GSP treatment would have on the beneficiary countries that export the article.

Competitive-need limits

The Trade Act of 1974 contains competitive-need limits that are designed both to protect U.S. industries and to insure that the benefits of the program are received by countries that truly are deserving. The competitive-need rules state that if, in any calendar year, imports of an eligible product from an eligible country either (1) exceed a given dollar amount (\$53.3 million in 1983) 1/ or (2) account for more than 50 percent of total U.S. imports of that product for that year, then imports of that product from that country cannot receive duty-free treatment under the GSP in the following GSP year. 2/ A country may be redesignated for GSP treatment in an excluded product if imports of that product from that country fall below the competitive-need limits in a subsequent year.

In 1983, 39.9 percent of the value of otherwise eligible products from beneficiary countries was denied GSP treatment because of these limits. The value of trade excluded from GSP treatment because of the competitive-need limits was \$7.1 billion in 1983.

As originally enacted, the Trade Agreements Act of 1979 allowed the President to waive the competitive-need limits on any imported article if the value of total imports of the article into the United States amounted to less than \$1 million a year. 3/ As a result of this de minimis waiver, imports of 206 products, valued at \$47 million, were exempted from the competitive-need limits in 1983.

Discretionary graduation

The President may use his discretionary authority to graduate a country out of duty-free status, on a product-by-product basis, if he believes that the country's exports of that product to the United States do not need duty-free status to be competitive. Exclusions due to discretionary graduation are over and above the statutory competitive-need limits. The policy of discretionary graduation was outlined in the President's 1980 Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP) and was begun in March 1981. The policy was intended to expand the benefits of the program for the LDDC's by selectively limiting GSP duty-free imports from seven advanced developing countries: Brazil, Hong Kong, Israel, the Republic of Korea (Korea), Mexico, Singapore, and Taiwan. 4/ The value of trade excluded from the GSP because of graduation, on the basis of the previous year's trade, was \$443 million in 1981, \$651 million in 1982, and \$900 million in 1983.

1/ The competitive need limit is adjusted annually to reflect changes in the nominal U.S. gross national product.

2/ The GSP year begins 90 days after the close of the calendar year.

3/ The \$1 million figure was established in 1979 and is adjusted annually to reflect changes in the nominal U.S. GNP. In 1983 the de minimis value was \$1.3 million.

4/ These seven countries together accounted for 73.9 percent of the trade that came in under the GSP in 1983 and for about 74 percent of the duties foregone because of the GSP in 1982.

Criticisms of the present program

The present GSP system has been criticized by some for allowing most of the benefits of the program to go to the more advanced developing countries. Many critics believe that the advanced developing countries do not need the GSP for their products to be competitive in the United States and argue that these countries should be removed entirely from the program. Removing the advanced developing countries from the program would presumably allow the lesser developed countries to enjoy greater benefits. Much of the discussion on the renewal of the GSP deals with how to treat the advanced developing countries and the LDDC's.

Many U.S. labor groups object to the GSP, claiming that the program damages U.S. interests. Some trade associations have endorsed the general idea of the GSP but have argued that much greater care should be taken to insure that U.S. industries are not hurt by the program.

Administration's Proposal for GSP Extension

Before the administration's proposal was drafted, the interagency Trade Policy Staff Committee sponsored public hearings in New York, San Francisco, and Washington, D.C. More than 80 witnesses presented testimony concerning the extension of the GSP, and over 100 other interested parties supplied written comments.

On August 1, 1983, Senator Danforth (R.--Mo.) introduced the administration's proposal to amend and extend the U.S. GSP system. On August 4, 1983, Ambassador Brock, the United States Trade Representative, presented testimony on the bill before the International Trade Subcommittee of the Senate Finance Committee. A second day of hearings was held on January 27, 1984, in which Commission Chairman Eckes and several private-sector witnesses testified.

As of February 15, 1984, the administration's proposal had not yet been introduced in the House of Representatives. Nonetheless, the Trade Subcommittee of the Ways and Means Committee held hearings on the Administration's proposal on August 3, 1983, and on February 8 and 9, 1984. Several administration witnesses testified along with various private-sector representatives.

The administration's proposal, called the Generalized System of Preferences Renewal Act of 1983, would extend the U.S. GSP for 10 years. It would change the program to take greater account of both the level of economic development of a beneficiary country and the degree to which that country's markets are open to U.S. exports. The administration's proposal would substantially expand the President's discretionary powers to decide which products from which countries would be eligible for GSP treatment.

Broadly speaking, the administration argued that the program should be extended for five main reasons:

- (1) to continue to promote the economic development of developing countries through trade rather than through aid;
- (2) to provide greater access for U.S. exports in the markets of developing countries;
- (3) to help integrate developing countries into the international trading system;
- (4) to assist developing countries in generating sufficient foreign exchange to meet their international debt obligations; and
- (5) to maintain the program's role as an important element of U.S. foreign policy towards developing countries.

Under the administration's proposal, the President would decide which products from which countries would be eligible for GSP treatment by examining the same set of factors that he looks at under the present system. 1/ The proposal would give greater weight than the current system to the level of economic development of a beneficiary country and to the degree of market access that country gives to U.S. exports.

Change in competitive-need rules

The administration's proposal calls for a three-tier competitive-need system to be established, i.e., different rules would apply to advanced, midlevel, and least developed beneficiary countries. Advanced beneficiaries would be subject to more restrictive competitive-need limits than under the current program: duty-free treatment on a product would be withdrawn if the country supplied 25 percent of the value of total U.S. imports of the product or 25 million dollars' worth of imports of the product in a year. 2/ Midlevel beneficiaries would be subject to the current limits: 50 percent of the value of total U.S. imports in a particular product, or \$53.3 million of imports in

1/ In determining if a country's product should be eligible for GSP treatment or if discretionary graduation should be used, the President considers a number of factors, including the country's competitiveness in the product; the country's level of development; the degree to which the country's markets are accessible to U.S. exports; the extent to which other major developed countries have extended preferential treatment to the country; and the overall economic interests of the United States, including the sensitivity of U.S. producers and workers to imports.

The policy of discretionary graduation is not specifically addressed in the Trade Act of 1974. The administration's proposal would explicitly give the President the power of discretionary graduation.

2/ The \$25 million limit would be adjusted annually to reflect changes in the nominal U.S. gross national product, using calendar year 1983 as the base period.

the product in a year. LDDC's would not be subject to any competitive-need limits. 1/ The President would designate the LDDC's and would review the designations periodically thereafter.

It is anticipated that the program's top seven beneficiaries (Taiwan, Korea, Hong Kong, Mexico, Brazil, Singapore, and Israel) would be designated as advanced beneficiaries and that the 26 countries identified in general headnote 3(d) of the Tariff Schedules of the United States (TSUS) as LDDC's would be designated as least developed. 2/ All other countries would be designated as midlevel. The President would have the authority to reclassify a beneficiary or to remove it as a beneficiary at any time during the program.

Within 2 years after the proposal is enacted into law, the President would conduct a general review of eligible products to determine which countries already had a sufficient degree of competitiveness relative to other beneficiary developing countries. These countries would then be subject to the tighter competitive-need limits.

Reciprocity

Before the new competitive-need limits would take effect under the proposed system, advanced and midlevel beneficiary countries would be allowed to negotiate to have the limits waived on a product-by-product basis. Through bilateral discussions, the United States would seek to eliminate or reduce the beneficiary country's barriers to trade in goods and services and trade-related investment practices on a nondiscriminatory basis. In addition to tariffs and traditional nontariff barriers such as quotas, the discussions would include other trade-distorting practices such as investment performance requirements and violation of intellectual property rights. In short, the administration's proposal would allow the President to try to gain reciprocal trade advantages from developing countries.

The President would consider the results of these discussions in determining whether to waive the competitive-need limits for advanced and midlevel beneficiaries. Before any competitive-need limits are waived, the probable economic effects on U.S. producers and workers would also be analyzed.

Even though the administration proposal would apply different rules to the three classes of beneficiaries, the administration does not believe it violates any GATT rules. The administration argues that its proposal conforms

1/ Under the current GSP system, the only ways in which the President can waive the competitive-need limits for a country are (1) using the de minimis provision or (2) if the beneficiary country meets the following three criteria: (a) the country has had a historical preferential trade relationship with the United States; (b) the United States and the country have a treaty or trade agreement in force covering economic relations between them; and (c) the country does not discriminate against, or impose unjustifiable or unreasonable barriers to, U.S. commerce. This waiver has never been exercised.

The administration's proposal keeps these waivers in the GSP system, as well as providing for the more favorable treatment for the LDDC's described above.

2/ The United Nations recognizes 10 additional countries as least developed. Some of these countries might also be designated as least developed in the U.S. GSP system.

to the terms of the MFN waiver and waiver extension because it is nondiscriminatory and nonreciprocal. The proposal is nondiscriminatory because it requires the President to apply the same criteria to all GSP eligible products, except the products of the LDDC's, in deciding which products should be subject to lower competitive-need limits. The exemption of the LDDC's from competitive-need limits is consistent with the terms of the GATT waiver extension, which authorizes special preferential treatment to foster the trade and economic development of such countries. The administration argues that its proposal is nonreciprocal because it does not require beneficiaries to provide concessions in exchange for GSP benefits and, instead, merely places greater emphasis on market access as one of several factors that the President is to consider when deciding whether a product is highly competitive.

Implementation procedure

After the proposal is enacted, the administration would conduct the various activities required to implement the new system. During this transition period, the GSP program would operate along essentially the same lines it does now. It is expected to take about 4 years to implement the new system fully.

During the transition period, the President would propose the implementing regulations and would designate the three beneficiary groups, and the private sector would be asked to comment on the value of possible concessions from beneficiary countries. Interested parties would be invited to identify those trade barriers that, if reduced or eliminated, would most benefit U.S. interests. The United States would seek concessions to be applied on only a nondiscriminatory basis to products of all countries, and not just to U.S. products.

Bilateral discussions would then be held with interested advanced and midlevel beneficiaries. Beneficiaries would be expected to identify those eligible products on which they would like to have competitive-need limits waived. The United States would then determine what concessions it would require to waive the competitive-need limits. 1/

The United States would attempt to avoid waiving the competitive-need limits on a product for one beneficiary without waiving the limits for all beneficiaries. Thus, if one beneficiary seeks to waive the competitive-need limits on a particular product, the United States would attempt to obtain concessions not only from that beneficiary, but also from any other beneficiary that might benefit if the limits on that product were waived. This approach, if successful, would help avoid any claim that certain beneficiaries were being discriminated against.

On the basis of these bilateral discussions, a list of GSP products for which competitive-need limits might be waived would be established. Advice would be sought from the Commission and from interested parties on the probable economic effects on U.S. industries and workers of the proposed competitive-need waivers.

1/ The administration would take into account that Singapore and Hong Kong have very few import restrictions to eliminate, provided that these countries²³ vow to maintain their free trade philosophy.

Once the advice is provided, a second round of discussions would be held with advanced beneficiaries and interested midlevel beneficiaries. Final agreements would be sought on what competitive-need limits would be waived and what trade barriers would be reduced. Beneficiaries that liberalize their trade would be expected to maintain any concessions for the duration of the U.S. GSP program.

Senator Heinz's Amendment

On January 25, 1984, Senator Heinz (R.-Pa.) proposed an amendment to the administration's proposal. The Heinz amendment bases eligibility for the GSP primarily on per capita GNP levels. In addition, the Heinz amendment would delete the never-used section of the Trade Act of 1974 that allows the President to waive the competitive-need limits in certain circumstances. The Heinz amendment would also change the administration's proposal in that the competitive-need limits for LDDC's would not be waived, and the President would not be allowed to waive the competitive-need limits for advanced and midlevel developing countries that have agreed to reduce their trade barriers.

The Heinz amendment includes a list of 49 countries that would automatically be eligible for GSP benefits. Most of these countries, shown below, have a per capita GNP of less than \$680:

Bangladesh	Guinea-Bissau	Philippines
Benin	Haiti	Rwanda
Bolivia	Honduras	Senegal
Burma	India	Sierra Leone
Burundi	Indonesia	Somalia
Cameroon	Kenya	Sri Lanka
Central African Republic	Lesotho	Sudan
Chad	Liberia	Tanzania
Congo, People's Republic	Madagascar	Thailand
Egypt	Malawi	Togo
El Salvador	Mali	Uganda
Ethiopia	Mauritania	Upper Volta
	Mozambique	Yemen Arab Republic
	Nepal	Yemen, People's Democratic Republic
Gambia	Nicaragua	Zaire
Ghana	Niger	Zambia
Guinea	Pakistan	Zimbabwe

Although these countries would be eligible by statute for the GSP, the President would be able to remove them from the program on the basis of the criteria set forth in section 502(b)(1-7) of the Trade Act of 1974. 1/

1/ Sec. 502(b)(1-7) of the Trade Act of 1974 gives several specific conditions under which a country automatically becomes ineligible for the GSP.

Any other developing country could become eligible for the U.S. GSP system under the Heinz amendment only if it had already signed the GATT subsidies code (or entered into an equivalent agreement with the United States) 1/ or if it signed a congressionally approved agreement with the United States that eliminates nontariff barriers to investments and to trade in goods and services. The President would have to notify Congress of his intent to make a country eligible for the GSP under the provision, along with his reasons for making the decision. The President could terminate any designation by giving a 60 days' notice to Congress and the country whose eligibility is to be terminated.

The Trade Act of 1974 does not explicitly list which countries are eligible for GSP; it lists only countries that are ineligible. The Heinz amendment would add 13 countries to the ineligible list. It would remove Poland and the Republic of South Africa from the ineligible list of the 1974 act. Most of the countries on the list, shown below, have a per capita GNP of more than \$4,000:

Andorra	Qatar
Bahrain	San Marino
Bermuda	Saudi Arabia
Brunei	Spain
Kuwait	United Arab Emirates
Liechtenstein	
Vatican City	
Libya	

The Heinz amendment would add footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel to the list of import-sensitive products that are excluded from the GSP. These goods are also excluded from the Caribbean Basin Initiative, legislation passed in 1983.

Related Issues

In addition to the renewal of the GSP system, Congress is considering two other tariff-reducing measures--the establishment of a free-trade area with Israel and the establishment of a free-trade area with members of the Association of Southeast Asian Nations. 2/

If a GSP renewal bill is passed in 1984, it may be tied to one or both of these other tariff-related measures and would probably incorporate aspects of both the Administration's proposal and the Heinz amendment.

CARIBBEAN BASIN INITIATIVE

The Caribbean Basin Economic Recovery Act became law in August 1983. The background of the act, various provisions of the act, and its expected effects are discussed below. Although some products were excluded, the act extends duty-free treatment to most imports from designated beneficiary countries into the United States. By the end of 1983, 20 of the 27 eligible countries had been designated beneficiary countries by the President.

1/ The subsidies code is a GATT agreement that establishes the rules by which countries can take countervailing action against subsidized imports.

2/ Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Background

The impetus for the Caribbean Basin Economic Recovery Act (CBERA) came in 1981 when the Reagan administration began to formulate a comprehensive economic package to develop the Caribbean Basin area. The administration's approach was first presented in the administration's "White Paper" on U.S. trade policy given to Congress by Ambassador Brock in July 1981. The approach was formalized in the Caribbean Basin Initiative (CBI), an economic recovery program for the Caribbean Basin announced by President Reagan on February 24, 1982, in an address to the Organization of American States.

The CBI is part of a multilateral effort by the Governments of Canada, Colombia, Mexico, and Venezuela to respond to the economic and social problems in the Caribbean Basin. As part of this effort, Canada has expanded its foreign assistance to the region. Colombia has begun a technical assistance program and has announced plans for greater financial aid and more concessionary trade policies. Mexico and Venezuela have established a "joint oil facility" to provide low-interest loans to Caribbean Basin countries; they are raising the funds for the facility through their sales of oil products to the region. Through the CBI, the United States is offering duty-free access to the U.S. market to provide eligible Caribbean Basin countries with potentially larger exports in traditional export items as well as expanding exports into nontraditional products.

The CBI is designed to foster economic development in the Caribbean Basin primarily through economic stimulus to the private sector. To promote private-sector development, the administration's proposal originally contained three basic mechanisms: a free-trade arrangement (FTA), investment incentives, and expanded economic assistance. Under the FTA, designated beneficiary countries in the Caribbean Basin would receive duty-free treatment on their exports (with some notable exceptions) to the United States for 12 years. Investment incentives were to come from tax proposals and bilateral investment treaties. Expanded economic assistance to several of the Caribbean countries was proposed from supplemental Economic Support Funds under the Foreign Assistance Act.

The President first submitted the CBI to Congress on March 17, 1982. The House passed a modified version of the President's proposal, but the Senate did not act on either version in 1982. The President resubmitted the House-passed version of the bill on February 23, 1983, and after being further modified, the CBERA was passed in July and signed into law in August 1983. In its final form, the CBERA contained the free-trade arrangement but did not include the investment incentives; the supplemental financial assistance received separate congressional approval.

The Caribbean Basin Economic Recovery Act

The centerpiece of the CBERA is a one-way free-trade area that provides duty-free access to the U.S. market for 12 years. Under the CBERA, the President may proclaim duty-free treatment for all eligible articles from any designated beneficiary country. Articles that are not eligible for duty-free treatment are textile and apparel articles subject to textile agreements of the multifiber agreement, certain leather products, footwear, canned tuna, and

petroleum and petroleum products. 1/ To protect domestic price-support programs, imports of sugars, sirups, and molasses will receive duty-free treatment, but only to the quota limits currently in effect. 2/ To qualify for duty-free treatment for sugar, beef, and veal products, an eligible country must present the United States with an acceptable plan for food production that insures adequate food and nutrition levels for the country's domestic needs. Finally, watches and watch parts are not eligible if they contain any material that originated in a Communist country.

A product will be eligible for duty-free treatment if it meets certain rules-of-origin requirements. Under these requirements, the product must be imported directly from a beneficiary country into the customs territory of the United States and the value added by the beneficiary country, or by any two or more beneficiary countries (including Puerto Rico and the U.S. Virgin Islands) must equal or exceed 35 percent of the product's customs value at the time of entry. 3/ In addition, products that include foreign components must be substantially transformed, not simply repackaged or diluted, within the beneficiary country to produce a new and different article of commerce.

Under the CBERA, only 27 countries are eligible for duty-free access to the U.S. market. 4/ To be designated as a beneficiary country, each of these eligible countries must satisfy seven mandatory criteria, some of which may be

1/ A list of excluded textile products by TSUS numbers is contained in Correlation: Textile and Apparel Categories with Tariff Schedules of the United States Annotated, U.S. Department of Commerce, Revised Jan. 1984, pp. 118-124. Certain leather products excluded are certain leather, rubber, and plastic gloves, TSUS items 705.35 and 705.85-86; luggage, handbags, and flat goods, TSUS items 706.05-706.16, 706.21-706.32, 706.34, 706.36, 706.38, 706.41, 706.43, 706.55, and 706.62; certain leather wearing apparel, TSUS items 791.76. Footwear excluded are TSUS items 700.05-700.27, 700.29-700.53, 700.56-700.89, and 700.91-700.95. Canned tuna excluded are TSUS items 112.30, 112.34, and 112.90. Petroleum and petroleum products excluded are in pt. 10, of Schedule 4, of the TSUS.

2/ Caribbean countries not receiving duty-free treatment on sugar products under the U.S. GSP in 1983--the Dominican Republic and Barbados--will be subject to absolute quotas free of duty. The remaining countries will receive the same duty-free treatment for sugar exports to the United States that they currently receive under the GSP. If the Secretary of Agriculture recommends a change in quotas to protect the domestic price-support program for sugar, the President may change the quotas on sugar for countries that are not eligible for the GSP and may suspend the duty-free treatment for the remaining countries.

3/ U.S.-made components may constitute 15 percent of the 35-percent value-added requirement.

4/ The list of eligible beneficiary countries and territories includes: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Cayman Islands, Montserrat, Netherlands Antilles, Saint Christopher-Nevis, Turks and Caicos Island, and the British Virgin Islands.

waived by the President on national economic and security grounds. 1/ In addition, the President is required to take into account 11 discretionary criteria when designating a beneficiary country. 2/ As of December 31, 1983, only seven eligible countries had not been designated as beneficiary countries with duty-free access to the U.S. market. 3/

Under title B of the act, convention expenses incurred in certain of the designated beneficiary countries are allowed as business expenses for income tax purposes. Countries must qualify for this portion of the act by entering into an agreement with the United States to exchange tax information. These countries must also not discriminate against U.S. convention sites in their tax laws.

Safeguard procedures under the CBERA for domestic industries will be the same as those currently available under title II of the Trade Act of 1974. Domestic industries--including those in Puerto Rico, the U.S. Virgin Islands, and other U.S. insular possessions--may petition the U.S. International Trade Commission for import relief from serious injury or threat of serious injury

1/ Under the mandatory criteria the President may not designate a country if it: (1) is a Communist country; (2) fails to meet certain criteria regarding expropriation of U.S. property; (3) fails to recognize arbitral awards to U.S. citizens; (4) provides preferential treatment to the products of another developed country which adversely affects trade with the United States; (5) engages in the broadcast of U.S.-copyrighted material without the consent of the owner; (6) does not take adequate steps to cooperate with the United States to prevent narcotic drugs from entering the United States; or (7) has not entered into an extradition treaty with the United States. The President is authorized to waive criteria 1, 2, 3, and 5 for national economic and security reasons.

2/ The 11 discretionary criteria are as follows: (1) an expressed desire by the country to be designated; (2) the economic conditions in the country (3) the extent to which the country is prepared to provide equitable and reasonable access to its markets and basic commodity resources; (4) the degree to which the country follows the accepted rules of international trade; (5) the degree to which such country uses export subsidies or imposes export performance requirements and local content requirements which distort international trade; (6) the degree to which the trade policies of the country as related to other CBI beneficiaries are contributing to revitalization of the region; (7) the degree to which a country is undertaking self-help measures to promote its own economic development; (8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively; (9) the extent to which such country protects the intellectual property rights, including patents and trademarks, of foreign nationals; (10) the extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material belonging to U.S. copyright owners without their express consent; and (11) the extent to which such country is prepared to cooperate with the United States in administering the provisions of the CBERA.

3/ Those countries not yet designated by the President are Anguilla, the Bahamas, Guyana, Nicaragua, Suriname, Cayman Islands, and Turks and Caicos Islands.

that is caused by imports from the Caribbean Basin. 1/ For perishable products, the President is, however, authorized to restore MFN duty levels immediately pending completion of the Commission investigation provided that the Secretary of Agriculture recommends immediate relief. If the Commission recommends import relief, the President may withdraw duty-free treatment for imports from all sources or impose duties on imports from beneficiary countries that differ from duties imposed on nonbeneficiary countries. Other provisions of the CBERA require the Commission to prepare annual reports that assess the economic effect of the duty-free treatment 2/ and the Secretary of Labor to prepare annual reports that review the effect of the act on U.S. labor.

In addition to safeguards, the CBERA provides measures that benefit U.S. insular possessions in general and Puerto Rico and the U.S. Virgin Islands in particular. All products that enter the mainland from U.S. insular possessions will receive treatment as favorable as products from designated beneficiary countries. Further, the maximum amount of foreign content that is permitted for duty-free treatment of products from U.S. insular possessions is increased from 50 to 70 percent. Under title B of the act, excise taxes collected on all rum imports into the United States will be transferred to the treasuries of Puerto Rico and the U.S. Virgin Islands. Prior to the CBERA, only excise taxes on rum produced in Puerto Rico and the U.S. Virgin Islands were transferred to these treasuries. 3/

Total Trade Affected by the CBI

Data presented in tables 2 through 5 show, for recent years, the levels of imports from the Caribbean Basin, the portion of trade that was dutiable under MFN (TSUS items 806.30 and 807.00), 4/ the duties collected, and the portion of trade that was duty-free under MFN or GSP provisions. Imports totalled \$9 billion in 1983. Approximately 69 percent, or \$6 billion, of total imports were dutiable; duties collected on these products were \$159 million. 5/

1/ Currently, industries in only the 50 States may petition for relief.

2/ The first of the annual ITC reports is due in 1986.

3/ For purposes of this subsection of the CBERA, rum means any article classified under TSUS items 169.13 and 169.14.

4/ Articles imported in TSUS items 806.30 and 807.00 are imports of products composed partly of articles that have been manufactured, or subjected to a process of manufacture, in the United States. Duties that are paid on imports under items 806.30 and 807.00 are assessed only on the value of any processing and the cost of materials used, labor, overhead, depreciation, other general expenses, a normal profit, and export-packing expenses that took place or were incurred in the foreign country.

5/ The total duties collected may be overstated, because duties on TSUS items 806.30 and 807.00 reflect the full value of items entered under these provisions, not the dutiable value. However, the total duties collected may be understated, because duties on sugar have not been included.

Table 2.--Leading items in U.S. imports for consumption from
Caribbean Basin countries, 1981, 1982, and 1983

(In thousands of dollars; customs value)

TSUS item No.:	Description	1981	1982	1983
475.05	Crude petroleum, 25 degs . . .----	2,500,331	2,038,597	2,190,510
475.10	Crude petroleum, 25 degs . . .----	2,162,882	1,708,998	1,861,888
160.10	Coffee, crude, roasted or ground--:	427,031	501,298	520,503
475.35	Napthas-----:	488,816	342,295	480,874
155.20	Sugars, sirups, and molasses,-----:	669,798	280,706	436,963
475.25	Motor fuel-----:	612,810	476,234	400,749
146.40	Bananas, fresh-----:	354,932	349,601	381,966
114.45	Shellfish other than clams, . . .-:	202,721	216,883	213,521
800.00	U.S. goods returned-----:	143,413	146,584	190,478
687.74	Monolithic integrated circuits-----:	-	98,960	159,101
417.12	Aluminum hydroxide and oxide-----:	227,279	77,038	147,198
106.10	Beef and veal, fresh, chilled,-----:	176,844	149,960	132,850
605.20	Gold or silver bullion/ore-----:	116,423	63,710	124,800
601.06	Bauxite-----:	262,037	227,866	114,231
685.90	Electrical switches-----:	29,461	39,754	79,357
376.24	Lace or net body-support garments--:	57,240	56,926	68,503
480.65	Nitrogenous fertilizers-----:	46,551	43,739	66,571
156.10	Cocoa beans-----:	54,227	56,617	54,822
412.22	Analgesics, antipyretics, . . .----:	27,919	34,814	51,036
521.11	Asphaltum, bitumen and limestone--:	59,582	22,656	50,947
383.90	Other WGI wearing apparel, . . .----:	-	23,750	39,082
734.56	Baseball equipment and parts,-----:	38,341	41,858	39,034
475.30	Kerosene derived from petroleum--:	-	3,448	36,034
170.70	Cigars each valued 23 cents . . .-:	12,945	29,910	35,058
685.80	Electrical capacitors-----:	29,069	31,435	33,575
376.28	Body-supporting garments . . .----:	33,955	33,382	31,716
155.40	Beet or can molasses, . . .----:	50,289	24,552	31,108
170.80	Tobacco, manufactured or . . .----:	18,087	9,919	30,335
606.20	Ferronickel-----:	60,471	-	29,730
791.27	Leather, other than patent . . .----:	14,251	12,975	27,433
	Total-----:	8,877,706	7,144,466	8,059,974
	Total, all items imported			
	from Caribbean Basin-----:	9,898,939	8,007,561	9,005,965

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

Table 3.--U.S. imports from individual Caribbean Basin countries, 1983

(In thousand of dollars, customs value)

Rank	Country of territory	Imports
1	Netherlands Antilles	\$2,274,510
2	Bahamas	1,676,394
3	Trinidad and Tobago	1,317,534
4	Dominican Republic	806,520
5	Costa Rica	386,520
6	Guatemala	374,692
7	Honduras	364,742
8	El Salvador	358,898
9	Haiti	337,483
10	Panama	336,086
11	Jamaica	262,360
12	Barbados	202,047
13	Nicaragua	99,013
14	Guyana	67,332
15	Suriname	63,147
16	Belize	27,315
17	St. Christopher-Nevis-Anguilla ^{1/}	18,758
18	Antigua	8,809
19	Cayman Islands	8,607
20	St. Lucia	4,700
21	St. Vincent	4,276
22	Turks and Caicos Islands	3,965
23	Montserrat	924
24	British Virgin Islands	880
25	Dominica	242
26	Grenada	211
	Total	\$9,005,965

^{1/} A separate breakdown of data on Anguilla, which constitutes the 27th Caribbean Basin country, is not available.

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

Table 4.--U.S. imports for consumption from the world and from the Caribbean Basin, duties collected, and average tariff rates, 1981-83

Item	1981	1982	1983
Imports from the world-----1,000 dollars--	259,011,977	242,339,988	256,679,524
Imports from the Caribbean Basin-----do-----	9,898,939	8,007,561	9,005,965
Ratio of imports from Caribbean Basin to imports from the world-----percent--	3.8	3.3	3.5
Dutiable value of imports from Caribbean Basin-1,000 dollars--	7,024,247	5,547,313	6,236,632
Imports under items 806.30 and 807.00-----do-----	548,704	605,341	752,052
Ratio of 806.30 and 807.00 imports to dutiable imports from the Caribbean Basin-----percent--	7.8	10.9	12.1
Ratio of 806.30 and 807.00 imports to total imports from the Caribbean Basin-----percent--	5.5	7.6	8.4
Duty-free value of imports from the Caribbean Basin-----1,000 dollars--	2,874,692	2,460,248	2,769,333
GSP duty-free imports from Caribbean Basin-----do-----	550,628	399,124	604,137
Ratio of GSP duty-free imports to duty-free imports from the Caribbean Basin-----percent--	19.2	16.2	21.8
Ratio of GSP duty-free imports to total imports from the Caribbean Basin-----percent--	5.6	5.0	6.7
Average tariff rate			
On dutiable imports from the Caribbean Basin-----percent ad valorem--	1.9	2.4	2.6
On all imports from the Caribbean Basin-----do-----	1.4	1.7	1.8

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

Table 5.--U.S. Imports for consumption of selected products from the Caribbean Basin, 1983

Product ^{1/}	Major Caribbean Basin supplier	Value : 1,000 dollars, customs : value basis:	Caribbean Basin		Duty-free	
			share of all : U.S. imports	Share of imports : from the Caribbean Basin	share : of total	: 806.00 and : 807.00 share : of total
Percent						
Petroleum-----	Netherland Antilles--	5,005,617	8.8	55.6	1.8	-
Textiles-----	Dominican Republic--	401,937	3.4	4.5	2.3	89.9
Certain leather products-----	Haiti-----	20,443	1.6	.2	.9	57.9
Certain footwear products-----	Haiti-----	14,591	.4	.2	.1	11.0
Canned tuna-----	Panama-----	8	2/	2/	22.5	-
Total-----		5,442,596	7.3	60.4	1.8	6.9

^{1/} Petroleum and petroleum products are in p. 10 schedule 4, of the TSUS. Textile products consist of schedule 3 of the TSUS. Certain leather products are certain leather, rubber, and plastic gloves TSUS items 705.35 and 705.85-86; luggage, handbags, flat goods, TSUS items 706.05-706.16, 706.21-706.32, 706.34, 706.36, 706.38, 706.41, 706.43, 706.55, and 706.62; certain leather wearing apparel, TSUS item 791.76; footwear products, TSUS items 700.05-700.27, 700.29-700.53, 700.56-700.89, and 700.91-700.95; and canned tuna products, TSUS items 112.30, 112.34, and 112.90.

^{2/} Less than 0.05 percent.

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

Textiles are excluded from the CBI if they are subject to the multifiber arrangement (MFA). The data on textile imports in the tables 2 to 5 refer to products classified under schedule 3 of the TSUS. These data approximate data for imports subject to MFA, but the MFA excludes some schedule 3 items and includes some schedule 7 items. In 1983, textile imports from the Caribbean Basin were approximately 4.5 percent of total imports from the region and 6.4 percent of total dutiable imports. Approximately 90 percent of all dutiable textile imports were brought in under items 806.30 and 807.00. Over 63 percent of total duties collected in 1983 were collected on imports of textile products.

Petroleum and petroleum products have also been excluded from duty-free treatment. In 1983, over 80 percent of total dutiable imports, \$5 billion, were of petroleum products, on which \$17.5 million in duties were collected. The majority of these imports were from the Netherlands Antilles, the Bahamas, and Trinidad and Tobago.

The remaining products excluded from duty-free treatment--certain leather products, footwear, and canned tuna--constitute a much smaller portion of U.S. trade with the Caribbean Basin. In 1983, these imports combined were less than 1 percent of total imports or of total dutiable imports from the Caribbean Basin. ^{1/} Both leather products and footwear products received item 807.00 treatment in 1983; 39 percent of the dutiable value of these products received item 807.00 treatment. Approximately 2.5 percent of the duties collected in 1983 were on imports of certain leather products, footwear, and canned tuna that have been excluded from the CBI.

Once the value of items excluded from the CBI--textile, petroleum, certain leather products, certain footwear products, and canned tuna--are accounted for, the values of the remaining products imported from the Caribbean Basin totaled \$3.6 billion in 1983 (table 6). Thus, out of total imports of \$9 billion from the Caribbean Basin, only 40 percent will be affected by the free-trade arrangement. Most of these affected imports are classified under items 806.30 and 807.00.

Over 2.7 billion dollars' worth, or 75 percent, of imports other than textiles, petroleum, certain leather products, certain footwear products, and canned tuna were duty free in 1983. Approximately 22 percent of these duty-free imports came under GSP provisions.

Specific Industries Affected

The industries most likely to be immediately affected by the CBI are those that manufacture products already imported in significant quantities from the Caribbean Basin and eligible for duty-free treatment. Table 6 presents data, by TSUS items, for leading imports from the Caribbean Basin in 1983 that are eligible for duty-free treatment under the CBI. This table excludes textiles, petroleum products, leather products, footwear, and canned tuna, which are ineligible for duty-free treatment under the CBI, and those products already receiving duty-free treatment.

^{1/} The individual product shares were leather products, 0.2 percent of total imports and 0.3 percent of dutiable imports; footwear, 0.2 percent of total imports and 0.2 percent of dutiable imports; and canned tuna, less than 34 0.1 percent of total imports and dutiable imports.

Table 6.—Leading items in U.S. imports for consumption from Caribbean Basin Countries that are eligible for duty-free treatment, 1981-83

(In thousands of dollars; customs value)

Item No.	Description	1981	1982	1983
155.20	Sugars, sirups, and molasses . . .	669,798	280,706	436,963
687.74	Monolithic integrated circuits-----	--	98,960	159,101
106.10	Beef and veal, fresh, chilled,-----	176,844	149,960	132,850
685.90	Electrical switches-----	29,461	39,754	79,357
412.22	Analgesics, antipyretics, . . .-----	27,919	34,814	51,036
734.56	Baseball equipment and parts,-----	38,341	41,858	39,034
170.70	Cigars each valued 23 cents . . .--	12,945	29,910	35,058
685.80	Electrical capacitors-----	29,069	31,435	33,575
155.40	Beet or cane molasses . . .-----	50,289	24,552	31,108
170.80	Tobacco, manufactured or not . . .	18,087	9,919	30,335
606.20	Ferronickel-----	60,471	--	29,730
791.27	Leather, other than patent . . .--	14,251	12,975	27,433
686.10	Resistors, fixed-----	17,804	18,243	19,479
791.28	Leather, other than patent . . .--	401	3,676	15,946
676.52	Parts for office mach, other . . .	6,524	7,316	15,201
607.17	Wire rods of iron or steel . . .-----	1,806	14,824	15,015
256.87	Articles of coated paper . . .-----	7,717	10,402	11,085
420.94	Sodium chloride or salt, . . .-----	8,066	8,750	10,582
	Total-----	1,169,793	818,054	1,172,888

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

The effect of the Caribbean Basin Initiative on imports of a product will depend on the level of the tariff that is suspended and the value of imports that will be affected by the tariff suspension. Therefore, table 7 gives the ratio of duties collected to dutiable value for each product (this ratio is the ad valorem equivalent tariff rate for each product), and it gives the value of imports that are affected. Data are not available to compare the value of imports that are affected with the competing domestic output. Thus, the specific domestic industries that will be most affected by the CBI cannot be identified. By comparing these imports to total U.S. imports, however, the relative importance of imports from the Caribbean Basin can be shown.

The data in table 7 suggest that the Caribbean Basin exports to the United States that will benefit most following duty-free treatment are exports of certain electrical products, certain tobacco products, and bulk imports of rum. Of these, rum probably has the greatest new export potential. The Caribbean Basin supplied 99.4 percent of all such will imports by the United States in 1983, almost all such imports were dutiable, and the ad valorem tariff equivalent was 39.04 percent.

THE BILATERAL INVESTMENT TREATY PROGRAM

The United States believes that private investment can play a vital role in economic growth and development. Direct investment can act as a catalyst for growth, improve productivity, expand employment, and introduce new technology and management skills.

As the leading source of investment capital in the world, the United States has grown increasingly concerned about government restrictions on foreign direct investment. Such restrictions can affect international flows of capital, goods, services, and know-how. They may thus introduce distortions into the international trading system, sap the vitality of the world financial system, and ultimately diminish the efficiency of the global market.

The U.S. bilateral investment treaty (BIT) program was initiated in late 1981 in an effort to facilitate and protect American investment abroad. The program involves negotiating investment treaties with interested countries around the world. These treaties are negotiated from a standard, prototype treaty drafted by the United States. By establishing accepted rights and protections for international investors among governments, the program should help to create a stable and more uniform environment for investment. This stable environment should serve as the basis for increased investment flows, particularly from developed countries to developing countries.

Background

A number of countries use their ability to control entry of foreign investment to force firms seeking to do business in their country to agree to certain conditions. Firms that are allowed to invest in a country may be required to build local manufacturing plants, use local labor and parts, or meet minimum export levels. These requirements are commonly referred to as performance requirements. Other performance requirements may limit location,³⁶ foreign ownership, employment of foreigners (particularly technicians and

Table 7.--Selected leading U.S. imports from the Caribbean Basin, and the total Caribbean Basin's share of total imports, dutiable value as a share of customs value, and the ad valorem equivalent tariff, 1983 ^{1/}

TSUS item No.	Product	Imports from the Caribbean Basin	Share of total imports	Rate of of duty	Dutiable:	
					Value percent	Percent ad valorem
		1,000 dollars	Percent	Value percent	Percent ad valorem	
68774	Monolithic integrated circuits----	159,101	3.9	100	4.20	
10610	Beef and veal-----	132,850	11.4	100	1.99	
68590	Electrical switches-----	79,357	5.9	56	5.53	
41222	Analgesics, antipyretics, etc.-----	51,036	47.4	1	10.10	
73456	Baseball equipment and parts-----	39,034	72.2	99	3.57	
17070	Cigars each valued 23 cents-----	35,058	86.0	1	6.50	
68580	Electrical capacitors-----	33,575	12.0	100	10.00	
17080	Tobacco-----	30,335	8.7	100	9.85	
68610	Resistors-----	19,479	9.4	100	6.00	
67652	Parts for office mach etc.-----	15,201	.5	100	4.59	
60717	Wire rods of iron and steel-----	15,015	5.1	100	2.00	
68843	Electrical articles and parts-----	10,312	1.9	95	4.63	
68260	Generators, etc.-----	7,994	1.1	86	3.60	
14896	Pineapples-----	7,572	96.9	100	6.53	
68360	Ignition magnitos, coils, etc.-----	7,420	3.4	100	3.10	
72315	Film, other than motion picture-----	7,186	1.7	100	4.40	
42552	Nitrogenous compounds-----	5,761	5.8	100	7.90	
68205	Transformers of less than 1 kv-----	5,725	8.6	63	7.37	
74070	Chains etc, of precious metals-----	5,443	30.4	99	9.86	
17060	Scrap tobacco-----	5,379	14.8	100	13.88	
68529	Hand-held citizens band radio-----	4,886	.5	100	6.00	
68815	Insulated electrical conductor-----	4,862	2.1	27	5.77	
16914	Rum (including cana paraguayana)-----	4,257	99.4	100	39.04	
17035	Tobacco, cigarette leaf not mixed-----	3,173	13.0	100	19.38	

^{1/} The leading imports were chosen once all products excluded from the CBI and any nondutiable products were removed from the list of products imported by the United States from the Caribbean Basin.

^{2/} Dutiable and customs value both include the full value of items entered in items 806.30 and 807.00 of the TSUS.

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

managers), repatriation of earnings, and technology transfer. To ease the burdens of performance requirements somewhat, governments usually offer investment incentives such as subsidies, favored tax treatment, tariff concessions, and limited monopoly positions in the economy to firms investing in their countries. Some countries impose performance requirements on their own firms, but these performance requirements are often less stringent than those imposed on foreign firms. The United States is opposed to performance requirements per se, because they can distort trade and hurt U.S. commercial interests.

Countries impose performance requirements for a number of purposes; however, no consensus on their effectiveness in meeting these goals exists. They can be used to shape the structure of investment and economic growth by raising skill and technology levels in key industrial sectors. They may also be used to improve the balance of payments. Resource-rich developing countries often impose performance requirements so that they can take on higher-value-added processing operations, such as refining.

Countries with the largest and most insulated domestic markets are the most likely to use performance requirements, because foreign firms consider it vital to have access to their markets. Performance requirements are most common in developing countries, particularly newly industrialized countries like Brazil, Mexico, Korea, and Taiwan.

The two most frequently used performance requirements put minimums on local content and local equity participation. Some industrial sectors are particularly affected by these two requirements. According to limited data, the most affected industries are mining, electrical machinery, and transportation (particularly automobile). ^{1/}

The importance of performance requirements to U.S. trade can be seen by examining the link between U.S. direct investment abroad and U.S. exports and imports. Studies indicate that the establishment of foreign affiliates by U.S. companies can affect U.S. trade by several means:

- (1) creating export markets for capital equipment and securing markets for replacement and spare parts;
- (2) creating sales to local markets that could not be efficiently serviced from the United States and therefore could be lost to foreign competition;
- (3) stimulating exports of products not produced by the affiliate; and
- (4) creating potential import competition from products produced by the foreign affiliate.

These studies conclude that performance requirements affect U.S. trade and employment by lowering U.S. exports and employment in related industries and raising U.S. imports from the importing country. ^{2/}

^{1/} U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Direct Investment Abroad, 1977, Washington, D.C., 1981.

^{2/} Price Waterhouse, U.S. Investment Abroad, 1981, a report prepared for the Council of State Chambers of Commerce. 38

Operation of the Bilateral Investment Treaty Program

The U.S. bilateral investment treaty program was designed to reduce restrictions requirements on U.S. investors abroad by negotiating treaties with individual countries using a standard treaty as a model. The basic elements of the model treaty are discussed in greater depth below.

By establishing on a government-to-government basis accepted rights and protections for international investors, the program should help to create a more favorable environment for international investment. By lowered risk, the treaties should serve as the basis for increased investment flows to developing countries.

In 1982, U.S. direct investment abroad totaled \$221 billion, but only about one-fourth of this investment was directed toward the developing countries. Nearly 70 percent of that share was directed to countries in Latin America, with Brazil and Mexico the largest recipients. ^{1/} Those two countries also frequently use performance requirements.

European countries and Japan both have had BIT Programs since the early 1970's. By 1983, they had signed over 200 such treaties. These treaties are generally less specific than the prototype U.S. treaty and include fewer specific rights for foreign investors. The prototype U.S. treaty includes provisions that secure easy access for foreign investors, while freeing them from performance and other requirements.

Until the mid-1960's, the United States negotiated bilateral treaties of Friendship, Commerce, and Navigation (FCN) that contained some provisions on investment. Over 40 of them are in force today, most with developed countries. FCN treaties do contain some provisions on investment: most contain provisions on national treatment and expropriation that are similar to those of the model bilateral investment treaty. However, the bilateral investment treaties now being concluded are designed to address many more issues of concern to U.S. investors.

The United States is undertaking formal BIT negotiations with countries that have requested such negotiations. Countries are often interested in the BIT program because it can help them attract foreign capital. Over the past 2 years, American officials have met with officials from over 35 countries to explain the program and explore the possibility of negotiating a formal treaty.

Under the leadership of the Office of United States Trade Representative's (USTR), representatives from the Departments of State, Treasury, Commerce, Agriculture, Labor, and Justice generally take part in the negotiations which use the prototype treaty as a starting point. After a treaty is negotiated it goes through full interagency review in the Trade Policy Staff Committee (TPSC). The draft treaty is also reviewed by legislatively-mandated private sector advisory committees that include representatives from labor, industry, and agriculture.

After all the details have been ironed out, the United States concludes negotiations with the country and signs the completed treaty, which is then forwarded to the Senate. The Senate Foreign Relations Committee has jurisdiction over any such treaty, and after it reviews it, the full Senate

votes on ratification. A treaty comes into force 30 days after the two countries have exchanged these ratifications. It remains in force for 10 years; after that time, either party may terminate the agreement by giving the other party 1 year notice.

Objectives of the prototype treaty

As mentioned earlier, individual BIT's are negotiated from a model or prototype treaty. The model was originally released on January 11, 1982. On January 21, 1983, the current prototype treaty was released. It takes into account U.S. experience in BIT negotiations with Egypt and Panama in 1982. The model treaty has four major objectives: (1) giving foreign firms and individuals opportunities on a nondiscriminatory basis to invest and operate in host countries; (2) maintaining freedom to transfer funds, such as profits, readily across national borders; (3) establishing recognized standards to compensate foreigners if their property is expropriated; and (4) creating fair and readily available mechanisms for resolving disputes. These provisions are discussed in detail below:

National or most-favored-nation treatment

This provision of the treaty is designed to insure that foreign investors receive fair, equitable, and nondiscriminatory treatment in both new and existing investment. The provision states that foreign investors should receive "national treatment," in other words, they should be treated no less favorably than domestic investors in like situations. Exceptions are permitted to the national treatment principle, and in these cases, foreign direct investment should be accorded treatment consistent with the most-favored-nation principle, which provides for nondiscrimination between foreign investors. The treaty also contains a national security exception.

Each party to the treaty reserves its right to maintain limited exceptions to the national treatment provisions of the treaty. The exceptions are listed in the annex to the treaty; the sectors in the U.S. annex are identical in all of the treaties. ^{1/} The parties agree to notify each other of new exceptions in the sectors listed in the annex and to keep such exceptions to a minimum. These new exceptions will not apply to existing investment.

The prototype treaty provides for the right of entry and freedom from performance requirements. Furthermore, it commits the two countries to make their investment regulations and decisions in an open and accessible manner. The parties agree to make public all laws, regulations, administrative practices and procedures that may affect foreign direct investment in their country. These regulations should be imposed for legitimate policy purposes and readily understood by the affected firms.

^{1/} The United States reserves the right to derogate from the national treatment provisions of the treaty in the following sectors: air transportation; ocean and coastal shipping; banking and insurance; government grants, insurance, and loans; energy and power production; customs house brokers; real estate; communications; and land and natural resources. 40

Freedom to transfer funds across borders

This provision is designed to insure that foreign firms that invest in a host country will be able to readily transfer funds (such as profits, management and licensing fees, and royalties) across national borders. Those funds should be available in specified currencies and transferred at prevailing market exchange rates. No substantive restrictions on repatriation can be applied to foreign firms under the terms of the prototype treaty. Only procedural delays are allowed.

Recognized standards for compensation

This provision is intended to guarantee that compensation in the event of expropriation, war, or other disturbance of normal operations will be prompt, adequate, and effective. Under the provision, governments agree that affected investors will receive the full and fair market value for their assets. The parties agree that no investment should be expropriated unless it is done for a public purpose, is accomplished under due process of law, is nondiscriminatory, does not violate previous contractual arrangements, and is accompanied by prompt, adequate, and effective compensation.

Dispute settlement

This clause is designed to insure investor access to binding third-party arbitration of investment disputes. An investor and a party under the treaty agree to consult promptly to resolve investment disputes and to make best efforts to provide information needed to resolve them. Should such consultations fail, an investor may seek settlement in local courts or request third-party arbitration. In most treaties, the designated arbiter is the World Bank's International Centre for the Settlement of Investment Disputes, but in the case of Haiti, the United States has agreed to allow the International Chamber of Commerce to handle investment disputes.

Action in 1983

By the end of 1983, the United States signed bilateral investment treaties with four countries--Panama, Egypt, Senegal, and Haiti. A fifth treaty, with Costa Rica, is now close to being concluded. All five treaties should go to the U.S. Senate for confirmation in early 1984. Negotiations with the People's Republic of China and Saudi Arabia are currently underway, as are negotiations with a number of developing countries--including Antigua, Bangladesh, Burundi, Cameroon, El Salvador, Gabon, Honduras, Liberia, Morocco, and Zaire.

In the course of the negotiations, some of the more contentious clauses of the prototype bilateral investment treaty have been those guaranteeing the right of entry for foreign investors and limiting the use of performance requirements by foreign governments. Some countries have also expressed an unwillingness to assure the free transfer of funds at all times, noting that balance-of-payments difficulties may necessitate government regulation of fund transfers. Many also object to the provision allowing for binding third-party arbitration of investment disputes; they believe that companies that invest

and operate within their nation should abide by all domestic laws and regulations and should not have access to a "higher court" in the form of an international arbiter.

Bilateral Investment Treaties and U.S. Investment Policy

American officials view efforts by governments to manipulate international direct investment flows, through performance and other requirements, as a serious nontariff barrier to trade. Despite continued U.S. efforts to reduce government intervention, the use of investment incentives and performance requirements has increased over the past decade. As debt problems have worsened, more countries are attempting to bring in direct investment by introducing new and prohibitive trade restrictions that effectively close the market to foreign firms.

On September 9, 1983, the President released a statement on U.S. investment policies that reaffirmed the U.S. belief that an open international economic system that responds to market forces provides the most efficient and beneficial allocation of resources. U.S. policy is to strengthen multilateral discipline and restraint over government actions that affect investment. The President said the United States will actively seek to minimize government distortion of private investment flows by taking action in multilateral forums, through bilateral negotiations, and by taking unilateral actions.

To date, the United States has had little success in its efforts to develop international consensus on investment policy. Even with its industrial country partners, it has been unable to secure consensus that a policy of discouraging government distortions of private investment flows is appropriate. Although most developed countries have made general commitments in the Organization for Economic Cooperation and Development to liberalize international investment flows, certain sectors have been exempted from these commitments. And, even if countries agree to liberalize their investment policies in specific cases, no mechanism exists to enforce these commitments.

Multilateral consensus in the GATT, even in a very limited sense, has proven even more difficult to achieve. At the November 1982 GATT Ministerial, the United States proposed that the GATT begin exploring the effects of performance requirements on world trade. However, GATT work program was not adopted on this issue.

In many countries, foreign direct investment issues are considered politically sensitive. Some countries are concerned about the degree of foreign ownership and control over domestic economic resources, and others believe that multinational corporations ignore local suppliers of components in favor of home country suppliers and export less than do their domestic counterparts.

Furthermore, fewer countries engage in two-way flows of direct investment than engage in two-way trade in goods. Thus, net capital importers, which include almost all of the developing countries and several economically important developed countries, resist multilateral agreements that limit the

options open to their governments. 1/ In the face of this resistance, the United States is using other tools to reduce government interference in investment decisions. The bilateral investment treaty program is one of the most promising avenues for investment liberalization along these lines.

COMMERCIAL COUNTERFEITING

According to the definition used by the proposed GATT International Anticounterfeiting Code, commercial counterfeits are any goods bearing an unauthorized representation of a legally registered trademark if those goods are similar or identical to the product for which the trademark is registered. 2/ Although the problem has been around for a long time, detection of the number of counterfeits and recognition of their existence have increased in recent years.

Much activity in 1983 was directed toward combating the problem of counterfeiting. Studies on product counterfeiting were initiated in the United States, the EC, and in the GATT. 3/ A study on copyrights and piracy was initiated by the Customs Cooperation Council. In many countries, legislation was introduced or revised to stiffen penalties for commercial counterfeiting. The International Chamber of Commerce organized a conference on counterfeiting that was attended by American and European manufacturers, members of the legal profession, and anticounterfeiting groups. This section focuses on international trade in counterfeit goods and the progress of bilateral and multilateral efforts to deal with the problem.

Background

Developed and developing countries harbor both counterfeiters and their victims. The U.S. International Trade Commission identified 44 countries as sources of counterfeit products during 1980-82. 4/ In a study conducted by the EC, 59 countries were identified. The spectrum of products that are counterfeited include luxury items (the traditional market), automotive parts, agricultural chemical products, toys, sporting goods, and pharmaceuticals.

1/ Harvey E. Bale, Jr., "Policy Implications of Trade Related Performance Requirements," paper presented to the Society of Government Economists, Dec. 29, 1983, p. 5.

2/ There is no one universally accepted definition of commercial counterfeiting. Other definitions of counterfeiting include some or all of the following practices: (1) unregistered trademarks; (2) copyright infringements; (3) patent infringements; (4) the unauthorized use of a trademark on a substantially nonsimilar product; (5) "passing off"--the use of a similar, but not identical, trademark on a substantially similar product, or the use of similar or identical packaging without the trademark; or (6) "gray market" sales--the sale of products bearing an authorized trademark in contravention of a marketing agreement.

3/ In January 1984, the U.S. International Trade Commission published the results of its investigation entitled The Effects of Foreign Product Counterfeiting on U.S. Industry: Final Report on Investigation No. 332-158, USITC Publication 1479, January 1984.

4/ Ibid. pp. 26-28.

Goods which are pirated include audio and video cassettes, computer software, and characters (e.g., cartoon characters).

The counterfeiting problem is often associated with developing countries. Some advanced developing countries are particularly guilty of exporting counterfeit and pirated goods. Product counterfeiting is viewed by some experts as a part of the economic evolution of some advanced developing countries. At a certain stage of industrial development, third world entrepreneurs possess high-quality manufacturing skills, but businesses are small, and they do not possess the expertise to develop or market their own products. When entrepreneurs take advantage of an already-existing market or process (e.g., the market for well-known designer jeans), they do not have these marketing or development barriers, but have a product that is quite price competitive.

In addition, the concept of intellectual property rights is a new one for many developing countries. Many view imitation as a legitimate enterprise--perhaps an art--and see trademarks as a Western scheme to stifle competition. They fear anticounterfeiting measures will be used as trade barriers against their legitimate products. However, underlying counterfeiting in any country is its profitability. In the developing countries, industries are technologically adept at making good copies, the penalties for infringement of intellectual property rights are lenient or unenforced, and businesses are usually small and mobile. Hence, the costs are minimal and the rewards are high.

Incentives do exist, however, for developing countries to crack down on their counterfeiters. If they want to attract advanced technology into their country, they must provide protection for the industry's intellectual property. Protection not only tends to encourage foreign direct investment, but also encourages the development of new products and processes by entrepreneurs within their own country. In addition, developed countries may begin to take retaliatory actions against countries from whose borders counterfeits originate. The United States is considering incorporating reciprocal protection of intellectual property into the renewal legislation for the Generalized System of Preferences and has incorporated protection of certain intellectual properties into the Caribbean Basin legislation. 1/

U.S. firms have been pressing for tougher measures to combat counterfeits. In addition to those mentioned above, measures include a new Commercial Fraud Investigations Program within the U.S. Customs Service and a 1982 law that stiffened penalties for trafficking in counterfeit labels on copyrighted works. A new trademark law with much stiffer penalties for those who traffic in counterfeit goods has been proposed. 2/ Remedies to combat domestic counterfeiting are easier to take than measures to deal with counterfeiters outside the jurisdiction of the United States. The following discussion outlines the multilateral and bilateral efforts in this area.

1/ These two programs are described in detail in preceding sections.

2/ The United States does not currently have criminal penalties for trademark counterfeiting; most countries do have such legislation.

Multilateral Efforts

Proposals for establishing a commercial counterfeiting code have been put forth since the MTN round of 1979 that aim at removing the economic incentives to counterfeiting. Such a code would require signatories to enact certain customs provisions authorizing the seizure of counterfeit goods in order to prevent reexportation.

In November 1982, proposals to negotiate a code again surfaced at the GATT Ministerial. There is great reluctance, however, on the part of the developing countries to adopt such a code. Some feel it is outside the jurisdiction of the GATT, and others fear that the code will be misused as a trade barrier against their exports. Many developing countries prefer the World Intellectual Property Organization (WIPO) to the GATT as the appropriate forum to handle the problem. The Ministerial Declaration directed the Director-General of the GATT to consult with the Director-General of the WIPO to determine jurisdiction over the issue. During February and March 1983, the respective Director-Generals held discussions and agreed on the need for effective measures to combat counterfeiting and the desirability of cooperation between the two organizations.

The United States, EC, Japan, and Canada have been particularly interested in combating counterfeiting by encouraging GATT action and by working on drafts of possible code provisions. Discussions in the GATT are continuing on the nature of counterfeit trade, its effect, the international rules governing action to combat such trade, domestic laws of CP's, and the reasons, if any, that GATT action is needed.

Bilateral Efforts

Progress towards reducing product counterfeiting is meeting with relatively more success through bilateral negotiations.

Taiwan

Taiwan is cited by many firms as the leading source of counterfeits of their products. ^{1/} Although counterfeits represent less than 1 percent of Taiwan's exports, the trickle does serious damage to the country's trade reputation. Perhaps it is this dubious distinction which makes Taiwan the forerunner among the developing countries in combating counterfeiting.

In 1981, under threats of retaliation and bad publicity from the United Kingdom and France, Taiwan embarked on a campaign against counterfeiting. In the press, Taiwan officials sought to build up public opinion against

^{1/} The Effects of Foreign Product Counterfeiting on U.S. Industry, USITC Publication 1479, January 1984.

counterfeiting by appealing to self-interest, i.e., underlining the possibility of a retaliatory boycott of Taiwan goods. In August, they activated "Measures Governing the Prevention of Trademark Counterfeiting and False Marking of Place of Origin," a series of regulations aimed at preventing exports of counterfeits. As a prerequisite to obtaining an export permit, exporters must present evidence of ownership or license to use any trademarks involved. All exports must be marked "Made in Taiwan." Violation of the regulations results in the withdrawal of all export privileges.

In 1982, an anticounterfeiting committee was established to collect information on counterfeiting and facilitate counterfeiting investigations. Also, 10 guidelines on anticounterfeiting were issued by the Executive Yuan. Many of the measures listed below are a result of those guidelines.

In January 1983, the national trademark law was amended to provide stiffer penalties, more effective enforcement, and greater protection for foreign trademark holders. Foreign trademark holders who meet the "famous trademarks" criteria (i.e., a worldwide, well-known trademark) and are registered in a country with which Taiwan has a reciprocal arrangement may bring criminal action without being formally registered in Taiwan. 1/

In March, a favorable court decision was handed down involving the Apple Computer Co. In Taiwan, the principle means of fighting trademark, copyright, and patent infringement is criminal action, but foreign firms without registered local branches are not recognized as legal entities and, therefore, are not able to prosecute such cases. In the Apple ruling, the Taiwanese High Court overturned a lower court ruling and judged that under a 1946 Treaty of Friendship, Commerce, and Navigation with the United States, unrecognized U.S. firms are accorded legal status. 2/ Although this ruling applies only to U.S. firms, the Executive Yuan announced in June that the copyright, patent, and trademark laws needed to be further amended to allow all unrecognized foreign firms to file criminal actions.

Technical discussions on the protection of intellectual property rights were held between Taiwan and a delegation of U.S. officials and industry representatives. In April, a seminar on procurators' criminal investigations was held to draw attention to the seriousness of infringement upon intellectual property rights and to have prosecutors exchange views on patent and trademark cases. In addition, the anticounterfeiting committee's staff and funding were enlarged.

1/ Enforcement has always been a large part of the counterfeiting problem in developing countries, so it is not always certain that anticounterfeiting measures will be effective. However in Taiwan's case, it appears these measures are being effectively executed. In January-June 1983, imprisonment was ordered in 79 percent of the cases compared with 53 percent of the cases in all of 1982.

2/ This ruling does not mean the Apple case has been resolved. Apple claims two Taiwan firms have copied Apple's memory software. Whether or not computer software can be copyrighted is a difficult issue not yet resolved in the United States. It was not included in the draft of Taiwan's new copyright law but was set aside for further study.

The draft of the new copyright law was passed in August. The national patent law is also undergoing revision. Two new laws are also under consideration, an unfair competition law and a trademark law. The unfair competition law would provide protection in areas not covered by the trademark law, such as imitation of trade dress and false advertising, in addition to counterfeiting of brand names and trademarks. The trademark law would give the Board of Foreign Trade the authority to revoke import and export licenses in cases where trademark, copyright, and patents have been infringed.

Special courts were created to handle trademark and patent cases, presided over by judges with special expertise in intellectual property.

The Taiwan Government has sought to give exporters and manufactures assistance in developing their own product names and trademarks, and in lawfully acquiring intellectual and commercial property rights in connection with their products. In June, a mobile seminar toured the country advocating expansion into international markets through the creation of trademarks.

Cooperation between U.S. and Taiwan customs officials has increased. In 1983, a project was instituted to verify by computer the documents accompanying goods traded between the two countries. Taiwan is also upgrading the procedures and institutions which deal with overseeing the patent and trademark system, including establishing a computer bank to store information on internationally recognized trademarks. Taiwan has expressed an interest in signing the Paris Convention and the Counterfeiting Code but to date has taken no action. 1/

Republic of Korea

As a leading GSP beneficiary and as a country embarking on a program to encourage foreign direct investment, Korea has many reasons for increasing its protection of foreign intellectual property. Korea acceded to the Paris convention in 1980. This action gives foreign firms access to Korea's Unfair Competition Law, under which a firm can bring action against another firm to prevent it from copying the trade dress of its product. However, import restrictions sometimes make it impossible for foreign firms to meet the requirement of the law that the trade dress and label be well known in Korea before action is taken.

In March 1983, a delegation of U.S. officials held patent and trademark consultations with Korean officials. At that time, Korea indicated it intended to enforce penalties in a more conscientious and uniform fashion and would examine the problem of foreign access to the Korean judicial system. Officials from the Office of Patent Administration toured major cities in a campaign to educate manufacturers and consumers on the negative effects of product counterfeiting. Patent protection is considered weak. Certain subject matter is excluded, and there are unnecessary restrictions on technology transfer. Patents registered elsewhere must be reregistered in Korea within 1 year; otherwise, they are considered to be within the public

1/ The 1883 Paris Convention governs industrial property. The "national treatment" provision calls for signatories to afford foreign trademark owners the same protection as nationals.

domain. Korea has indicated that it intends to sign the Patent Cooperation Treaty but has not yet done so. 1/ It also plans to computerize the patent examination system.

Korea is in the process of revising its copyright law. Currently, foreign firms are ineligible for direct protection. Under the Foreign Capital Inducement Law, local firms are prohibited from obtaining a license for a foreign trademark unless linked to a technical agreement, joint venture, or raw-material supply agreement. The duration of the license cannot exceed the life of the agreement. The Korean Chamber of Commerce and Industry has petitioned the Government to allow the introduction of foreign trademarks on goods produced by Korean firms for local sales. With funds from the United Nations Development Program, U.S. patent and trademark officials provided training for six Korean patent officials in 1983.

Other countries

In Singapore, the Interministerial Group on Copyrights released recommendations for new legislation incorporating harsher penalties for copyright infringement.

In Malaysia, the Government approved a new Patent act with more effective patent protection measures in 1983. The WIPO assisted in drafting the new act and patent regulations. The copyright law is expected to be extensively amended in 1984 to eliminate the piracy of sound recordings.

In Thailand, U.S. officials assisted in the revision of existing patent law. Indonesia promulgated a new copyright law in 1983.

1/ The Patent Cooperation Treaty is an international central filing of patents administered by the WIPO.

CHAPTER II
GATT ACTIVITIES DURING 1983

OVERVIEW

At its inception in 1948, the General Agreement on Tariffs and Trade (GATT) was designed to advance free-market principles. It was based on the concepts of nondiscriminatory treatment and liberal market access in trade relations among nations. Successive refinements have molded the GATT into a comprehensive set of rules governing most aspects of international trade and into a unique forum for resolving disputes among trading partners. Seven rounds of multilateral trade negotiations, under the auspices of GATT, have significantly lowered world tariff levels and have accompanied a ninefold increase in the volume of international trade.

At yearend 1983 the halfway point was passed for both implementation of the 1982 Ministerial declaration 1/ and completion of the annual tariff reductions negotiated under the 1979 Tokyo round of Multilateral Trade Negotiations (MTNs). Although implementation of the tariff reductions has proceeded on schedule, the Ministerial program has fared less well. 2/ B.L. Das, Chairman of the Contracting Parties, stated at the November 1983 annual session that "Some of the important elements of the work program set out by the Ministers are scarcely past their preliminary stages." Indeed the consensus emerged among the Contracting Parties that only preparatory work has advanced; neither concrete results nor substantive action has thus far evolved from the Ministerial work program.

Regarding issues of importance to the United States, progress is mixed. Though an agreement on safeguards did not surface in 1983, the Contracting Parties requested presentation of a comprehensive understanding on safeguards by the end of 1984. Little or no progress was made, however, on trade in services, though the process of submitting and reviewing national studies has begun. Progress with initiatives covering trade in high-technology products and commercial counterfeiting was minimal.

1/ For a lengthy description of the 1982 Ministerial level session of the GATT Contracting Parties see the Operations of the Trade Agreements, 34th Report, 1982, United States International Trade Commission Publication 1414, 1983, p. 14

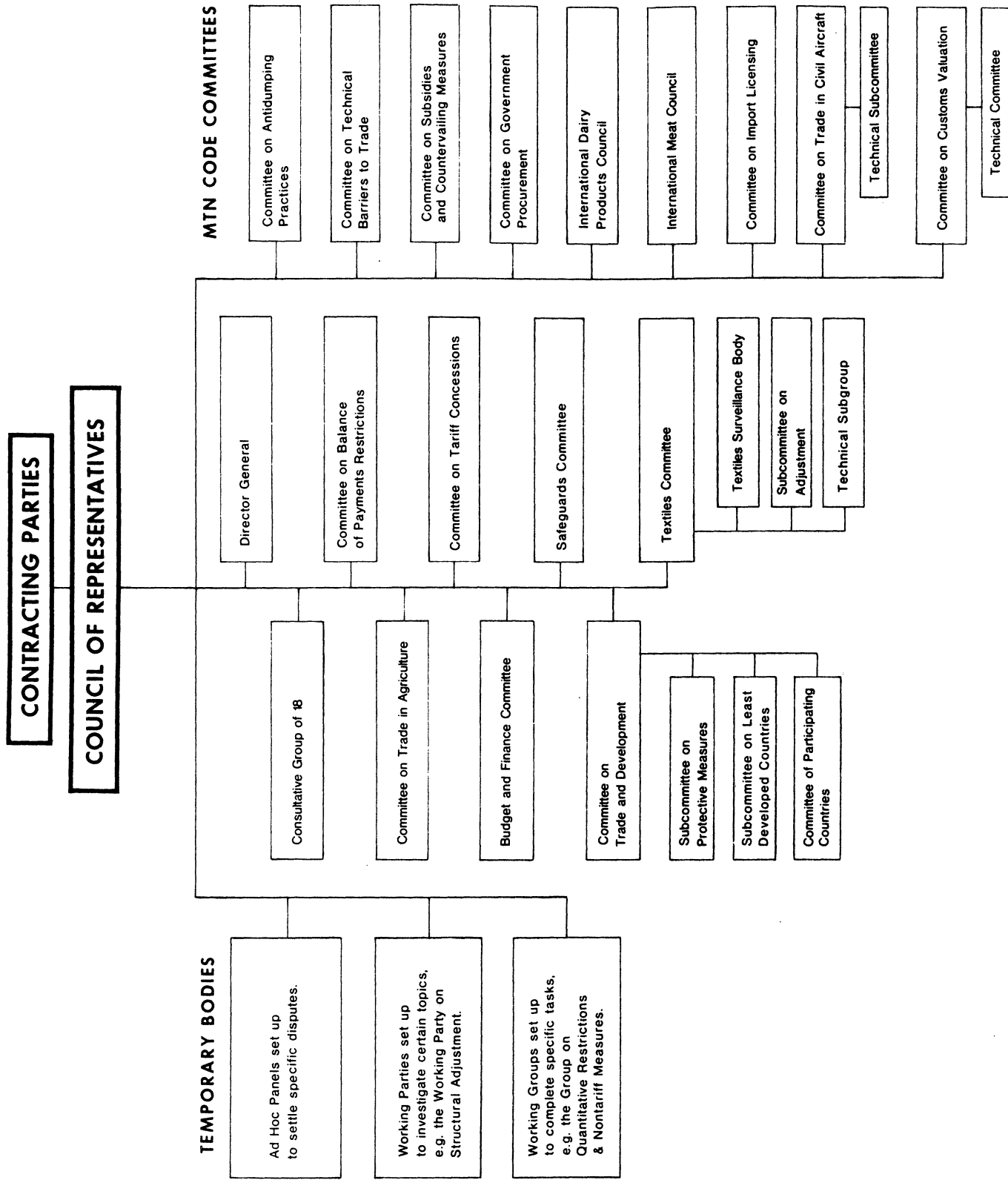
2/ The most recently negotiated tariff reductions are contained in the 1979 Geneva Protocol and the Supplementary Protocol which are implemented through annual staged duty reductions starting from Jan. 1, 1980, and ending the same date in 1987. Prominent among the numerous deviations from this process are (1) U.S. and EC textile and steel concessions, given six stages which began Jan. 1, 1982; and (2) Japan, whose regular annual reductions occur Apr. 1 of each year.

World economic recession has tested GATT conciliation and dispute mechanisms, both those under the GATT articles and under the MTN codes resulting from the Tokyo round. During the past 2 years the number of disputes brought before GATT has risen sharply over that of previous years. As a consequence, machinery for dispute settlement came under scrutiny and the effectiveness of the various MTN agreements was examined.

Some governments opine that increasing incidence of disputes in GATT means that the trading system is not working. Other observers feel this phenomenon shows faith in the GATT system's capacity to mediate disputes fairly. In any case, greater exercise of the procedures has brought shortcomings into focus -- a positive development in that the problems can be addressed once they are brought forth.

The Ministerial declaration generated a substantial amount of work. Much of the work lays groundwork for the effectiveness of future negotiations. All of the organs and committees of GATT placed top priority on assignments agreed that the Ministerial, adding these to their regular agendas. The sections that follow outline these efforts during 1983. In order to assist the reader in understanding the organization of the rest of this chapter, figure 1 presents a chart of the organizational structure of the GATT.

Figure 1.--- ORGANIZATIONAL STRUCTURE OF THE GATT



ACTIVITIES OF THE GOVERNING BODIES

The Contracting Parties

Administration and governance of the GATT are conducted by the Contracting Parties (CP's) and the Council of Representatives (the Council). The Contracting Parties meet once annually to oversee the operation and direction of GATT. In the interim, the Council is authorized to act on behalf of the Contracting Parties on both routine and urgent matters which appear on the agendas of its frequent meetings.

Generally, the annual session of Contracting Parties provides a forum for review of activities and actions that have been pursued under the auspices of the agreement over the preceding year. Accordingly, at the 1983 annual session, the CP's adopted decisions regarding certain issues, reviewed reports of the various GATT committees and the Council, and assessed progress and problems encountered in GATT activities during the year.

The Council

Virtually all GATT operations and activities are subject to the continuous oversight of the Council. Proposals that are particularly controversial, as well as those in the formative stages, are thoroughly debated at Council meetings until consensus on a course of action is reached. Work is then parceled out to committees or specially created working groups. During 1983, the Council directed the bulk of its attention to implementation of the Ministerial work program, in particular, decisions on trade in services and high-technology products, commercial counterfeiting, and special reviews of developments in the trading system. Delegations also bring before the Council specific issues related to their countries' trade problems. Some notable examples of these issues will be described briefly. Other issues raised in the Council which are assigned to specific committees will be described under committee headings.

Selected topics of Council debate

Services

The United States took the lead on implementation of the Ministerial decision regarding services. ^{1/} The 1982 Ministerial directed that national examinations, exchange of information, and subsequent review of services issues would take place. Throughout 1983, the United States conducted consultations with other GATT members to help define an understanding of the issue and to insure uniformity of the information compiled for the national examinations. The U.S. report on services was completed and submitted to the GATT in 1983. Other nations plan to submit their reports during early 1984. If work proceeds according to the Ministerial plan, a review recommending any appropriate multilateral action regarding services should be presented to the yearend 1984 session of the Contracting Parties.

^{1/} For detailed analysis of this issue see the services section in ch. III of this report.

High technology

The United States, supported by Japan, continued to lead consultations throughout the year concerning its proposal for a study of trade in high-technology goods. However, by yearend, the Council had still not decided to adopt the proposal. Slow advances reflected questions concerning the relationship of the issue to the scope and competence of the General Agreement and MTN codes, as well as concern by representatives of the EC that efforts to restructure their economies toward production of high-technology goods could be undermined. Decisions as to which products deserve coverage in the proposed study have also been subject to careful negotiation. Examples of some of the sectors proposed for inclusion in the study are computers, semiconductors, telecommunications, pharmaceuticals, robotics, and advanced chemicals.

Counterfeiting ^{1/}

As directed by the Ministerial Declaration, the GATT Director General held consultations on trade in counterfeit goods with the Director General of the World Intellectual Property Organization (WIPO) in early 1983. In May, the Director General submitted his report to the Council. In the report, he noted that no jurisdictional issues prevented the GATT from undertaking work on the trade aspects of commercial counterfeiting should the CP's so desire. Several concerns were raised: on one side, that an agreement was necessary because current rules under the Paris Convention establishing WIPO entail no formal obligations regarding counterfeit trade, and on the other side, that an agreement could entail pitfalls because measures designed to prevent trade in counterfeit goods might be abused to advance protectionism.

In July, the United States proposed that a working party be established to begin examination of the need for additional multilateral action. As a result, discussion of the counterfeiting report gained more specific focus. Representatives stated that although the report concluded that WIPO was competent to deal with general issues on counterfeit goods, the role of GATT concerning trade in these goods, which the report recognized, should be investigated further. Some representatives stated that the trade impact of counterfeiting falls within the competence of GATT, not WIPO. Agreement was finally reached in November that the GATT Secretariat would study the problems of trade in counterfeit goods. The study is scheduled for completion in mid-1984.

Review of developments in the trading system

In March 1980, the Council agreed that reviews of developments in the trading system would be conducted at special sessions held during the year. This year, the Council agreed, as suggested by the Consultative Group of 18 (CG-18), to hold these meetings twice a year and to use the meetings to

^{1/} For a discussion of U.S. and multilateral efforts to combat commercial counterfeiting see ch. I of this report.

monitor implementation of paragraph 7(i) of the Ministerial Declaration. 1/ Projects associated with this review include efforts to improve transparency (by collecting, in addition to information submitted by members, information not obtainable through notifications) and to streamline the information process. In connection with the responsibilities entailed in the review process, a new trade policies division was set up this year within the GATT Secretariat.

One study prepared for these special meetings by the Secretariat summarized actions taken under all GATT provisions for notification, consultation, and dispute settlement. In a significant departure from previous GATT practice, the summary also covered, without regard to their legal status, unnotified measures which had been obtained from press reports, official bulletins or unofficially from delegations. 2/ These are to be systematically collected in the future in order to improve capacity for surveillance of developments in trade policies.

At the special meeting in July, the Director General observed that the trend of events in the trading system had run counter to the 1982 Ministerial commitment to stop the proliferation of restrictive measures. A number of representatives agreed with this observation and noted further that the majority of trade measures had not been notified to the GATT, thus reducing the ability of GATT to seriously address trade problems. Due to increasing number of trade-distorting measures taken outside GATT, voluntary export restraints and orderly marketing arrangements were gaining significance. Lack of notification of many national measures led to a proposal to establish a working party to examine notification requirements. Adoption of this proposal was postponed to give the new Trade Policies Division the chance to examine the question.

Structural adjustment

The Council established the Working Party on Structural Adjustment in 1980. It has reported regularly to both the Committee on Trade and Development and the Consultative Group of 18. In this year's progress report, the Working Party concluded that national approaches to structural adjustment differ widely but that cooperation on formulation of some conclusions was nonetheless possible. Some differences linger, nevertheless, over the meaning of structural adjustment as defined by developed countries and by developing countries.

1/ Par. 7(i) commits Contracting Parties to undertake individually and jointly, "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."

2/ Under regular GATT procedures, members are responsible for notifying GATT of their own national measures, and in some cases measures of other members which affect international trade. The Secretariat did not previously catalog information not contained in notifications.

Conclusions presented by the Working Party to the Council affirmed that sectoral rigidities hindering adjustment can give rise to pressures for protective measures and that domestic measures to effect adjustment can have adverse trade effects. Agricultural sectors were singled out as having lacked flexibility and liberalization. Further work on trade liberalization, in general, and safeguards, in particular, were linked to easing structural adjustment problems.

Country issues brought before the Council

Issues involving the United States

United States: Caribbean Basin Initiative. 1/--At the request of the United States, the CP's agreed in November to set up a working party to consider granting the United States a waiver from certain obligations under the GATT in order to allow implementation of the Caribbean Basin Economic Recovery Act.

In October, the United States had informed the GATT Council of the passage of the act, commonly referred to as the Caribbean Basin Initiative (CBI), and offered to consult informally about the act with any interested GATT members. The act, taking effect in January 1984, is designed to revitalize Caribbean national economies through trade, tax, and assistance measures.

At the November meeting of the GATT Council, the United States requested a waiver under article XXV:5 2/ permitting duty-free treatment of certain goods to be imported from the designated Caribbean countries. The United States argued that the waiver would enable implementation of a program consistent with the 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries (the "enabling clause"). The waiver would allow a temporary (11 year) extension of one-way duty-free treatment to most products from Caribbean countries, but would neither create new barriers nor impede any trade of the Contracting Parties. Representatives of Cuba and Nicaragua expressed reservations about the benefits to accrue from the program and requested further information on implementation of the act. Finally, at the annual session of the Contracting Parties, the CP's agreed to the establishment of a working party to examine the U.S. waiver request.

1/ For more in-depth treatment of this topic see ch. I.

2/ Poland acceded to the General Agreement in 1967. The protocol of Accession governing Poland's membership requires Poland to increase the value of its imports from other GATT members by 7 percent per year, rather than negotiate the schedule of tariff concessions which are normally exchanged for the privilege of GATT membership. Other Contracting Parties had posited that tariff concessions would have no value for an economy such as Poland's where trade flows are governed by central planning.

United States: Restrictions on agricultural products.--The United States must submit an annual report pursuant to a waiver allowing actions under section 22 of the Agricultural Adjustment Act, which became U.S. law in the 1930's. As in previous years, many members of GATT were dissatisfied with the fact that the waiver, intended to apply temporarily, had been continually renewed since first granted in 1955.

Poland: U.S. suspension of most-favored-nation treatment. 1/--In October 1982, the United States suspended application of most favored nation (MFN) treatment to Poland. The United States argued that Poland had not fulfilled its commitments under the Polish Protocol for Accession; Poland argued that the measure was taken primarily for unjustified political reasons. This debate, which appeared on the agenda of meetings of the Council throughout 1983, now remains dormant though unresolved.

Czechoslovakia: U.S. suspension of GATT obligations.--In February 1983, Czechoslovakia proposed that negotiations be held with the United States on the resumption of mutual GATT relations. It claimed that the reasons for the U.S. suspension of GATT obligations vis-à-vis Czechoslovakia, over 30 years ago, had ceased to exist. The U.S. declined to enter into negotiations, noting that having validly suspended GATT obligations, it is now under no GATT obligation to change the status. U.S. domestic laws would, in any case, preclude resumption of normal trade relations with Czechoslovakia on these terms.

Other country issues

Argentina: Trade restrictions on Argentina's exports.--In April 1982, the EC, Australia, and Canada applied restrictions to imports from Argentina in conjunction with the conflict between Argentina and the United Kingdom over sovereignty of the Falkland Islands. Though the import restrictions were suspended in June 1982, debate concerning the proper application of article XXI continued into 1983. 2/ A decision clarifying procedures for application of the article had been requested by Argentina pursuant to its claim that the restrictions, imposed for noneconomic reasons, did not qualify under the security exemptions. During 1983, Argentina informed the Council that it reserved its right to pursue avenues leading to compensation, if appropriate, in the future.

1/ Art. XXV addresses joint action by the Contracting Parties and provides that in exceptional circumstances the Contracting Parties may waive an obligation imposed by the General Agreement if the decision is approved by two-thirds of the votes cast and that this two-thirds comprises more than half of all Contracting Parties. In this case a waiver would exempt the United States from the obligation of granting all its trading partners tariff treatment on certain products equal to that accorded the Caribbean nations, as required under the GATT art. I provision for nondiscriminatory treatment.

2/ Art. XXI allows for protection of national security interests as regards 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.

Greece: Accession to the EC.--A working party, established in 1979 to examine the compatibility of the accession of Greece with the provisions of the General Agreement, finally circulated its report in March. Upon accession to the EC, Greece adopted the EC Common External Tariff schedule. Thus, its original schedule of tariff concessions negotiated upon accession to the GATT is altered. Some GATT members, including the United States, argued that the Greek tariff changes necessitated compensation; the EC argued that, on balance, the changes had an impact on earlier Greek concessions that were favorable to other Contracting Parties. The report of the working party was not adopted by the Council, however, since no unanimous conclusions could be reached.

Japan: Promotion of external economic policies. 1/--A series of measures further opening the Japanese market were introduced in 1983. These measures included a substantial reduction of tariff rates, a relaxation of import restrictions, and a comprehensive review of standards and certification systems. Japan's representative reported in May that action had been taken on amendments to trade laws and assured that these improved measures would be implemented effectively.

ACTIVITIES OF THE STANDING BODIES

The Secretariat

Various projects, some stemming from the Ministerial Program of Action, were assigned specifically to the Secretariat for implementation. For the most part these assignments consisted of preliminary investigations to provide direction for projects to be acted upon by the Council or committees once reports are submitted by the Secretariat to clarify the issues concerned and outline possible courses of action.

Trade Policies Division

In order to properly review developments in the trading system as directed by the 1982 Ministerial Declaration, the Director General created a new Trade Policies Division in 1983. The Office was given the task of improving the Secretariat's ability to handle more systematically information relevant to the mandated review, including information on trade measures and policies from sources other than national notifications to the GATT.

Exchange rate fluctuations and their effects on trade

In order to provide background for discussions on this issue, the Director General agreed to consult with the Managing Director of the International Monetary Fund (IMF) and report back to the Council with the results. In May, the Director General reported that consultations had taken place with the IMF and that a joint study of the issue would be conducted. As of yearend 1983, the study had not been completed.

1/ For further information on this topic see the Japan section of ch. IV.

Problems of trade in natural resource products

In accordance with the Ministerial work program, the Secretariat began to undertake studies on trade problems in selected natural resource products. Studies on lead and zinc have been drafted and a study on copper is expected to be completed early in 1984. The Secretariat was urged to use consultations aimed at finalizing the drafts in order to obtain guidance for subsequent studies. 1/

Study group on trade problems

Director General Dunkel announced to the Contracting Parties in November that he had invited, on his own initiative, a group of distinguished people to study problems facing the international trading system. United States Senator William Bradley, (D-NJ) was one of the invitees chosen for having expertise and wide knowledge of economic issues confronting governments yet without being directly engaged in day-to-day administration of trade policy.

The group, which was offered complete independence in setting its agenda and seeking testimony, was asked to identify the fundamental causes of the problems afflicting the international trading system, and to consider how these may be overcome during the remainder of the 1980's. The necessity for a group of this nature was identified by the Director General subsequent to informal consultations with Contracting Parties. GATT members said they encounter increasing difficulties maintaining, in practice, a policy orientation consistent with the GATT principles to which they remain committed.

Consultative Group of 18

Objectives of the Consultative Group of 18 (CG-18) are to assist the Contracting Parties in formulation and implementation of GATT policies, to manage actual or potential threats to the multilateral trading system, and to coordinate discussion on issues of a general nature, particularly international economic adjustment. The CG-18 serves as a smaller forum in which issues can be addressed in greater depth. Established on a temporary basis in 1975, the CG-18 was made permanent in 1979 with membership of both developed and developing country members rotating annually. 2/

1/ According to the Ministerial directive, studies are to be conducted on (1) nonferrous metals and minerals; (2) forestry products; and (3) fish and fisheries products.

2/ During 1983, the following countries were members of the CG-18: Argentina, Australia, Brazil, Canada, Colombia, EC for member states, Egypt, Hungary, India, Japan, Nigeria, Norway, Pakistan, Singapore for The Association of Southeast Asian Nations (ASEAN), Switzerland, Turkey, United States, and Zaire. The following composition was approved for the CG-18 in 1984: Argentina, Australia, Brazil, Canada, Colombia, Czechoslovakia, EC for member states, Egypt, India, Japan, Nigeria, Pakistan, Spain, Sweden, Switzerland, Thailand, United States, and Zaire.

The agenda of the CG-18 for 1983 consisted of discussions of several broad items concerning the trading system. Most prominent on the agenda of the Group were the issues of (1) reviewing developments in trade relations and trade policy; (2) analyzing the relationship between trade policy and the international financial system; and (3) following implementation of the Ministerial work program.

Implementation of the political commitment of paragraph 7(i) of the Ministerial Declaration was considered a serious basis for more extensive discussion of GATT obligations. 1/ In July, the CG-18 recommended and the Council agreed to include surveillance of implementation of paragraph 7(i) of the Ministerial Declaration on the agenda of its special Council sessions devoted to review of developments in the trading system. 2/

Considerable discussion centered on the relationship between trade policy and international financial problems, i.e., indebtedness. The group concluded that the best means to focus on this issue was through granting it higher priority attention in the Committee on Trade and Development and the Committee on Balance of Payments Restrictions. Greater cooperation between GATT and the International Monetary Fund was termed the key to improving the procedures of the GATT Balance of Payments Committee. Cooperation could also take the form of technical assistance to the Fund in so far as the Fund takes trade policy into account in considering the general economic policies of its members.

Committees

Safeguards 3/

According to the 1982 Ministerial Declaration, a comprehensive understanding on safeguards was to be presented by the Safeguards Committee to the meeting of Contracting Parties in 1983. 4/ This goal was not accomplished and presentation of a safeguards agreement is now slated for the end of 1984. Discerning the nature and functioning of "grey area" measures appeared to present a major drawback to finalizing the agreement. 5/ Most CP's expressed

1/ See earlier section on "Review of Developments in the Trading System."

2/ At its first 1984 meeting in April, the CG-18 will consider the impact of subsidies on world trade, structural adjustment, the trade-monetary relationship, and the proliferation of countertrade.

3/ Canada and the United States concluded a bilateral agreement on safeguards in early 1984. For more details see OTAP, 34th Report, 1982 p. 145.

4/ The Ministers directed that the understanding should be based on the principles of the GATT and entail, inter alia, the elements of transparency, coverage, the concept of serious injury and threat thereof, notification, consultation, multilateral surveillance, dispute settlement, temporary nature, digressivity, and structural adjustment.

5/ Grey area actions, though not precisely defined in GATT discussion, are generally agreed by CP's to be actions affecting trade which do not currently come under the scope of GATT rules or whose application to GATT rules is ambiguous. These actions comprise bilateral arrangements such as voluntary export restraints or orderly marketing arrangements which have quantitative limitations, surveillance systems, price undertakings, or export forecasts. Also included are industry-to-industry arrangements (against antitrust laws for U.S. firms but more common in industry from other countries) and unilateral actions.

disappointment that the code on safeguards had not been completed, citing safeguard measures as a prominent means of circumventing principles and obligations of GATT. Despite universal agreement on the need for a safeguards code, wide disagreement remains over some of the fundamental concepts involved. Even presentation of a proposed code to the Contracting Parties in 1984 would in no way guarantee its adoption. Specific provisions of the code will require intensive negotiations among GATT members.

After holding informal consultations, the Chairman of the Safeguards Committee reported conclusions that the best course of action would be to informally examine recent cases of voluntary export restraints, orderly marketing arrangements, and other import restraints of a safeguarding nature that are taken outside the purview of article XIX of the General Agreement. ^{1/} The talks would center on examination of the exact nature of these actions, their effects on trade, the reasons they had been taken and the reason article XIX procedures had not been used.

An interim report, completed in July, noted that the scope of safeguarding measures extended beyond the purview of article XIX. Informal consultations had revealed that the types of so-called grey area measures varied widely. In addition, safeguards consisted not only of bilateral arrangements, but also of unilateral actions and industry-to-industry agreements where the specific role of governments was not clear. Discussions also disclosed that the measures were used both as alternatives to article XIX and as substitutes for other procedures under GATT; most often, article VI antidumping and countervailing duty procedures.

Grey area measures appeared to be applied by importing countries and accepted by exporting countries for a variety of reasons. Importing countries found the measures preferable to article XIX actions because the problems of compensation and retaliation could be more easily avoided and because they did not have to affect all supplying countries, thus having more limited effects on trade. Furthermore, the measures could be taken prior to serious injury to the domestic market. Exporting countries accepting the measures indicated that they often had little choice entering into agreements of this nature because refusal could result in quantitative restrictions, antidumping or countervailing actions, or enforced price mechanisms against their products. These types of measures could result in more serious harm to exports than a "grey area" agreement.

The harm of the measures was thought to stem from their possibility for cartelizing markets, penalizing efficient suppliers, trade-diversion, and political frictions. Lack of transparency and of provisions for expiration dates also presented important disadvantages. The interim report concluded that national commitments under the Ministerial had done nothing to slow the increasing resort to these measures.

^{1/} For explanation of art. XIX see the sec. of this report entitled Emergency Action on Imports.

Trade in agriculture

In January 1983, the GATT Council established the Committee on Trade in Agriculture called for by the Ministerial Declaration. Once set up, the Committee began consideration of the work program mandated by the Ministers. Development of improved notification procedures was found necessary in order to proceed with examinations of (1) trade measures affecting agricultural market access and supplies; (2) subsidies and other forms of export assistance affecting agriculture; and (3) measures affecting agriculture taken under exceptions or derogations to the Agreement. Formal conclusions and recommendations resulting from these examinations are slated for submission to the session of Contracting Parties in 1984.

After initiating its review of measures affecting market access and supplies on a country-by-country basis, the Committee soon discovered that a major obstacle to its work would be deficiencies in the information submitted. Initial work also revealed that governments view many of their restrictive measures in agriculture as legitimate rights under the Agreement. 1/

Initial work on agricultural subsidies and other forms of export assistance 2/ revealed that although these measures were controversial, their exact impact on trade was difficult to assess. As a starting point, more extensive notification and regular review were necessary. A more difficult issue concerns varying interpretations and applications of GATT provisions regarding subsidies. Subsidies will be one of the most sensitive and complicated issues tackled by the Agriculture Committee in 1984. 3/

Tariff concessions

At its inception in 1980, three primary objectives assigned to the Committee on Tariff Concessions (CTC): (1) to supervise the updating of GATT schedules; (2) to supervise the staging of tariff reductions; and (3) to serve as a forum for discussion of tariff questions. In view of these responsibilities, the CTC also manages preparations for implementation of the new Harmonized Commodity Description and Coding System (the Harmonized System).

Reporting on progress during 1983, the Chairman of the Committee said that submission of loose-leaf schedules had advanced only slowly. Questions regarding the legal status of loose-leaf schedules have also remained on the

1/ Arts. XI, XVI, XVII, as well as waivers and "grandfather" clauses (legislation enacted prior to accession the GATT) were presented frequently as justification for agricultural restrictions.

2/ Credit sales, tied aid, barter, draw-back, buy-back, dual-pricing, inward processing arrangements, and sales against local currencies are some examples of "other forms of export assistance" under consideration.

3/ Subsidies are an extremely contentious issue in international trade, and many of the disputes raised under art. XXIII and under the subsidies code concern agricultural subsidies, in particular.

committee's agenda. Tariff escalation, 1/ which is an issue closely linked to the Secretariat studies of natural resource products, had also been an important topic of the committee. Close coordination with the Secretariat was recommended for proper examination of this issue.

A document outlining procedures for rectification and renegotiation of GATT schedules for the introduction of the Harmonized Commodity Description and Coding System was adopted in February 1983. 2/ According to an agreement finalized in the Customs Cooperation Council, the Harmonized System has been adopted for implementation on 1 January 1, 1987. Therefore, the proposals in GATT to establish a common data base, currently being aired in the committee, are vital to preparations for introduction of the Harmonized System. The data base will form the basis for any renegotiation of tariff concessions under article XXVIII 3/ as national tariff schedules are adjusted to conform to the new international system.

As directed by the Council, the Committee raised the issue of application of article XXVIII to new products. In preparation for widely supported consultations on the subject, the Committee requested the Secretariat to assemble information on actions taken under article XXVIII.

Trade and development

The Committee on Trade and Development (CTD) was established in 1966 to insure that issues concerning developing countries are given priority attention, as called for by Part IV of the General Agreement. 4/

1/ Tariff escalation refers to tariff structures in which duties rise with respect to increasing levels of processing. Accordingly, when duties are higher on particular manufactured goods than those on the semiprocessed inputs, and when duties on the semiprocessed products are higher than those on the raw-material inputs, processing industries of importing countries can gain substantial protection even with a small degree of escalation. Development of processing industries in countries providing raw materials is thus discouraged.

2/ For further information on the harmonized system see the OTAP, 33rd Report, 1981, p.27

3/ Much of the work of the committee revolves around art. XXVIII which provides for consultation and negotiation or modifications in bound tariffs.

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

During 1983, the CTD initiated consultations, called for in the Ministerial Declaration, to examine implementation of part IV of the General Agreement by individual Contracting Parties. The consultations are designed not only to assess implementation but also to encourage governments to consider part IV in forming overall trade policy. The first round of consultations were held with Finland, Norway, Sweden, Austria, and Hungary. The United States, the EC, and Japan, are slated to engage in consultations in 1984. Responsibilities of developing countries with respect to implementation of part IV have been stressed by the United States. With a view to encouraging the more advanced developing countries to assume fuller commitments, particularly toward the least developed countries, several developing countries have been chosen for part IV consultations during the second half of 1984.

Although the consultation process was deemed successful in promoting a broad exchange of views on trade policies and measures linked to the objectives of part IV, suggestions surfaced for improving specificity, preparations, and followup. Members were called upon to adhere closely to the established procedures for submitting specific inquiries well in advance of the consultation date. More specific answers could then be prepared and a more effective process would result. The exact nature of followup remains unclear, according to the criticism of some delegates, as does the orientation of the report to be submitted in 1984 to the Contracting Parties.

Tropical products

A particular responsibility assigned to CTD to followup on the Ministerial was the initiation of consultations and negotiations on trade in tropical products. ^{1/} The aim of the consultations is to liberalize trade in processed, semiprocessed, and unadulterated tropical products. Developing countries have been asked to submit further requests concerning these products for discussion at a second round of consultations in 1984.

Protective measures

Examination of protective measures taken by developed countries which affect imports from developing countries is carried out by the Subcommittee on Protective Measures. The subcommittee functions as a forum for discussion of the measures notified by member countries. Results of the meetings contribute to the regular annual review of implementation of part IV and operation of the enabling clause. U.S. measures regarding specialty steel were reviewed in September 1983. The transparency and nondiscrimination in their application was welcomed by developing countries, however, they appealed for special consideration to minimize the effect of such actions on their imports.

^{1/} Consultations in November 1983 covered the following groups of products: tropical beverage items (coffee, cocoa, and tea); spices, flowers, and plants; certain oilseeds, vegetable oils, and oilcakes; tobacco, rice, and tropical roots; and tropical wood and rubber.

Least developed countries

Work of the Subcommittee on Trade of Least Developed Countries is concentrated in three areas: (1) expansion and diversification of trade of least developed countries; (2) strengthening of technical cooperation regarding trade; and (3) integration of these countries into the GATT trading system.

This year the subcommittee began a series of consultations between interested least developed countries and their trading partners. Trade barriers and relevant commercial policies will be examined along with issues generally related to development and trade interests.

Balance-of-payments import restrictions

Under certain articles of the General Agreement, members of GATT can employ import restrictions to correct balance of payments difficulties. These restrictions must be monitored, however, by the Committee on Balance of Payments Restrictions. Although quantitative restrictions are generally prohibited by GATT, exemptions under articles XII and XVIII 1/ can be applied in conjunction with consultations with this committee.

Discussion was initiated this year on means of strengthening the consultative process and of improving coordination between GATT and international financial institutions on balance of payments issues.

Full consultations

Brazil.--Consultations held with Brazil in December 1983 yielded interesting side issues. Brazil presented a catalog of import restrictive measures of other countries which it said affected Brazil's exports. Brazil pushed for acceptance of the concept that consideration of these measures should become an integral part of the balance-of-payments consultation procedures. Although discussion of improving the procedures will continue into 1984, this specific technique is likely to be softened or rejected.

Ghana.--In January, the Council agreed that full consultations would be held with Ghana this year, in view of the fact that a complete examination had not taken place in over a decade, during which time, Ghana had made numerous changes in its import regime. These consultations were held in December 1983.

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

Portugal.--Consultation with Portugal occurred in October 1983 in which the Portuguese authorities were requested to announce a timetable for the removal of restrictive import measures as soon as possible after the country's stabilization program was taking hold.

Miniconsultations

Consultations under simplified procedures were held with Egypt, Korea, Peru, Tunisia, Turkey, and Sri Lanka during 1983. The committee observed that these countries had fulfilled their obligations relative to GATT procedures for balance-of-payments import restrictions. Full consultations were recommended for Korea in 1984.

Quantitative restrictions and non-tariff barriers

The Group on Quantitative Restrictions and Other Non-Tariff Measures was constituted in January 1983. In its 1983 progress report, the Group stated that its work program had been broken down into three stages. The first stage consists of obtaining more extensive and improved documentation from Contracting Parties on quantitative restrictions and nontariff measures. The second stage, slated for completion in April 1984, consists of conducting a detailed review of these measures. Stage three consists of presenting findings and conclusions to the Contracting Parties at the 1984 session.

Detailed review of information on quantitative restrictions and nontariff measures, collected from all Contracting Parties, began in December, thus marking progress into stage two of the group's work program. Collection of information will continue throughout stage two, and concurrent efforts will be made to improve the quality and uniformity of information already submitted.

ACTIONS UNDER THE ARTICLES OF THE GENERAL AGREEMENT

Emergency Actions on Imports of Particular Products (Article XIX)

Article XIX of the General Agreement allows GATT members to impose emergency restrictive trade measures when actual or threatened serious injury to a domestic industry is demonstrated. Since article XIX provides that a concession may be suspended, withdrawn, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury, the suspensions are legally of a temporary nature. Prior notification to the Contracting Parties and consultation with exporting countries is required regarding the restrictive measures taken, except when delay of consultation would cause "damage difficult to repair." The bulk of article XIX actions have been taken under this exception, however, with consultations following implementation of the measures. Consultation is induced by the provision that affected exporting countries may unilaterally suspend "substantially equivalent concessions or other obligations," without resort to negotiation.

U.S. Consultations on specialty steel 1/

On July 20, the United States notified the GATT Council of article XIX temporary import relief measures instituted on certain articles of specialty steel and stated its willingness to enter into consultations with affected parties. The imposition of the relief measures, following determination by the President that import relief measures were warranted, was based on a U.S. International Trade Commission (Commission) finding that certain of these products were being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industries producing similar articles. The relief measures imposed by the President took the form of both quotas and tariffs to be phased down over a 4-year period. The U.S. action was also raised in the September meeting of the Subcommittee on Protective Measures of the Committee on Trade and Development, as an action having impact upon trade of developing countries. The question was raised whether special consideration might be shown to developing countries in such cases, particularly when developing countries were only minor suppliers of the article concerned.

When the issue of U.S. imports of specialty steel was brought before the Council in July, the U.S. action was termed drastic and unfair, and a grey-area nontariff measure by some Contracting Parties. In response to a criticism by the EC that no evidence had been presented that the U.S. steel industry difficulties resulted from imports and that these difficulties stemmed more from the world economic crisis, the United States stated that determination of injury had been made under transparent U.S. procedures, and that the Administration action had, after all, been less severe than the measures recommended by the Commission.

Several countries entered into consultations with the United States on the specialty steel restrictions. Consultations with Spain, Finland, Brazil, Austria, Sweden, Argentina, and Poland focused on conclusion of market share arrangements. Consultations with Canada and the EC concerned requests for compensation. Consultations on arrangements with the EC were by far the most controversial and difficult. The EC proposed to exercise its right of retaliation suspending substantial benefits to the United States by means of tariffs and quotas on certain chemical products and sports equipment. The proposed measures were thought by U.S. authorities to be generally excessive and negotiations on compensation continued into 1984. 2/

1/ For further coverage of this issue see also sec. 201 of the Trade Act of 1974, ch. V.

2/ For further coverage of this matter see the section on U.S.-EC Bilateral Trade Issues in ch. IV of this report.

Notifications

The tabulation below presents the products for which notifications were received from various contracting parties under article XIX during 1983.

Country	Product	Date
Australia	Filament lamps	7-26-1983
Australia	Nonelectrical domestic re-	
	frigerators and freezers	8-17-1983
Canada	Nonleather footwear	7-13-1983
Canada	Leather footwear	7-13-1983
Canada	Footwear other than rubber	
	or canvas	7-13-1983
Canada	Yellow onions	7-13-1983
EC	Dried grapes	8-11-1983
EC	Tableware and other articles	8-29-1983
(France, United Kingdom)	of stoneware, commonly used	
	for domestic or table	
	purposes	
EC	Certain species of timber	2-11-1983
Norway	Various textiles items	7-20-1983
United States	Porcelain-on-steel cookware	4-13-1983
United States	Preserved mushrooms	7-13-1983
United States	Heavyweight motorcycles	7-19-1983
United States	Lag screws and bolts	7-13-1983
United States	Specialty steel	7-20-1983

Conciliation and Dispute Settlement (Articles XXII and XXIII)

The General Agreement organized a system of reciprocal rights and obligations to be maintained in balance. When a country fails to respect a tariff concession or other obligation or engages in a trade practice inconsistent with the GATT provisions, the Agreement allows member countries to seek redress through the dispute settlement procedures of articles XXII and XXIII.

Article XXII provides that Contracting Parties shall afford adequate opportunity for other Contracting Parties to consult on any matter affecting the operation of the General Agreement. If this consultation does not lead to resolution of a dispute, the affected party may proceed under article XXIII(1) to "make written representations or proposals to the other contracting party or parties" concerned. Thereupon, "any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it." If the bilateral discussions fail to produce a settlement within a "reasonable" time, the matter is referred to the Contracting Parties under article XXIII(2). At this point, the procedure now common is to refer the dispute to a panel, usually composed of three (sometimes five) individuals selected from Contracting Parties not engaged in the dispute. The panel members are expected to act as disinterested mediators and not as representatives of their governments. Panels meet one or more times to consider oral and written presentations not only from the parties directly involved but also from other interested GATT members.

A draft report of the panel is first presented confidentially to the disputing parties for comment. It is then distributed confidentially to all Contracting Parties prior to presentation at a Council meeting. Panel reports normally contain proposals for remedies to be recommended to the disputing parties by agreement of the Contracting Parties. Most often, these remedies counsel elimination of the offending practice. If the GATT-inconsistent practices are not eliminated, the CP's may authorize suspension by the complainant country of "appropriate" concessions; this authorization is not frequently granted. According to the final paragraph of article XXIII, such suspension, the ultimate GATT sanction, may trigger withdrawal of tariff concessions (within 60 days) of the country subjected to the sanction.

One result of the increasing number of disputes brought before GATT in recent years is that the integrity and workability of the dispute settlement process is under closer scrutiny. Now, the strengths, weaknesses, and most appropriate uses of the process are more clearly coming to light than when resort to conciliation under GATT auspices was less common.

The United States has resorted extensively to these mechanisms. Out of 75 disputes which have arisen under article XXIII in the history of GATT, the United States has been engaged in over half. Cases the United States has brought against other Contracting Parties have totaled 28; cases brought against the United States have totaled 11.

Bilateral consultations

The following tabulation shows the consultations under articles XXII and XXIII(1) conducted during 1983:

	<u>Complaint</u> <u>by--</u>	<u>Against</u> <u>actions of--</u>	<u>Product</u>
Art. XXII	United States	1/--Brazil	Nonrubber footwear
	-----do-----	1/--Japan	-----do-----
	-----do-----	1/--Korea	-----do-----
	-----do-----	1/--Spain	Soybean oil and products
	-----do-----	1/--Portugal	-----do-----
	-----do-----	2/--Canada	Front-end loaders
	EC-----	-----Japan	Copper ore and concentrates
	Japan 2/-----	-----United States	Cab chassis
Art. XXIII.	United States-----	-----Japan	Agricultural import restrictions
	EC-----	-----United States	Machine-threshed cigarette leaf tobacco
	Malawi-----	-----do-----	Sugar quotas
	Brazil-----	-----do-----	-----do-----
	Nicaragua-----	-----do-----	-----do-----
	EC 2/-----	-----Japan	Nullification or impairment of benefits

1/ These consultations were brought to the GATT pursuant to Section 301 of the U.S. Trade Reform Act of 1974.

2/ These consultations, though initiated in 1982, continued into 1983.

Cases referred to panels

If bilateral discussions fail to produce a settlement, disputes are often referred to panels or working parties set up under article XXIII:2. Bilateral settlement among parties to a dispute is encouraged at every phase of the process, however, up until final adoption of a panel report by the Council. Those disputes that were being considered by panels during 1983 are discussed below in detail.

Panels requested by the United States

Canada's Foreign Investment Review Act.--In March 1982, a panel was set up to examine the U.S. complaint concerning Canada's Foreign Investment Review Act (FIRA). The United States argued that the act led to trade distorting practices. Although the report was first presented to the Council in November 1983, its findings were not immediately adopted since Canada requested further time for administrative review of the impact of the

findings. 1/ Although the United States did not totally agree with the findings of the panel, it supported adoption of the report as a sign of commitment to GATT dispute settlement procedures.

The panel concluded that the Canadian practice of conditioning investments upon written undertakings to purchase Canadian goods was inconsistent with GATT Article III(4) which states that imported products shall be given treatment no less favorable than products of national origin. Further, the panel found that the purchase undertakings were not necessary to the effective administration of the legislation. These conclusions led the panel to suggest that "there may be scope for adapting the administration of the Foreign Investment Review Act in such a way as to remove the implication that imported products are treated less favorably than domestic products."

Consultations regarding FIRA had taken place periodically between the United States and Canada since enactment of the act in 1974. FIRA provisions required that new or newly acquired companies seeking to invest in Canada submit investment proposals which describe the company's intentions, including plans for export sales and for purchase of Canadian products. FIRA further allowed for local content requirements, which could take the form of purchase of a minimum share of Canadian goods or of preferences for purchase of "competitively available" Canadian goods. Although the Canadian Government argued that these measures were to be entered into on a voluntary basis, the Government could negotiate legally binding commitments during the review process and could reject proposals that did not conform.

EC subsidies on canned fruit and raisins. 2/--A panel was established in March 1982 in response to the U.S. complaint that the EC subsidizes the production of canned peaches and pears, and raisins. The United States argued that benefits resulting from tariff concessions negotiated on these products and on fruit cocktail were being impaired and nullified by the subsidies. During previous consultations the United States alleged that the subsidies were causing and threatening to cause further disruption of U.S. exports of these products to EC member states. Since this case tackles the extremely sensitive issue of EC policies on agricultural subsidies, the EC appears to prefer a bilateral settlement. The report of the panel is expected to be presented to the Council in March 1984 unless a bilateral settlement is achieved.

Japanese import restrictions on leather.--A panel was first requested by the United States to resolve the issue of Japanese leather import restrictions at the March 1983 Council meeting. The Council, however, requested the United States and Japan to continue bilateral consultations and report back on the dispute at a later date. In April, the Council agreed to establish a panel, but encouraged further bilateral consultations during finalization of the terms of reference of the panel.

1/ Canada agreed to adoption of the report at a Council meeting in February 1984, and indicated that the legislation would now be implemented in a manner consistent with GATT.

2/ See also sec. 301 of the Trade Act of 1974, in ch. V of this report.

This dispute is a continuation of a 1979 complaint filed with the U.S. Government under section 301 of the trade act of 1974 by the Tanners' Council of America. The group claimed that the Japanese leather quotas were illegal under GATT and that the leather tariffs were excessive. Bilateral consultations led to an understanding that took effect in 1979 and expired in March 1982. The understanding, which called for quota increases and improved quota licensing procedures, proved ineffective due to the continuation of high tariffs and restrictive licensing practices. As a result, the allotted U.S. quotas went unfilled. Further consultations with Japan did not succeed and the United States resorted to conciliation by a GATT panel. Japan has not argued that its actions are consistent with GATT but that its restrictions are necessary for socioeconomic reasons; to protect the economically deprived class of people employed in the domestic leather industry.

Pressure to resolve the case bilaterally has continued even throughout the panel phase, as the social and political complications of the dispute are quite sensitive for Japan. The two governments will continue negotiations into 1984, although the panel findings may be ready for submission to the Council in March 1984. Findings regarding this case would also have implications for the article XXII consultations the United States is currently conducting with Japan on footwear.

EC tariff preferences on citrus products. 1/--In November 1982, the Council agreed to establish a panel to examine the U.S. complaint. During 1983, establishment of the terms of reference of the panel proved to be a controversial undertaking. Terms of reference were finally adopted in May, but only after attachment of certain understandings proposed by the Council chairman. The first understanding defined product coverage of the panel discussion and the second stipulated that materials relating to EC agreements with Mediterranean countries and the corresponding citrus tariff preferences be taken into account.

In bilateral consultations taking place between October 1980 and April 1982, the United States contended that EC tariff preferences on imports of citrus products from Mediterranean countries violated MFN obligations and thus represented nullification and impairment of GATT benefits accruing to the United States. The United States argued further that the preferences were pervasive; granted to 11 Mediterranean countries and to some African, Caribbean, and Pacific countries, and applying to 9 citrus products of interest to the United States. The preferences were calculated to result in discriminatory advantage to 85 percent of EC fresh orange imports, and to 60 and 50 percent, respectively, to grapefruit and lemon trade. 2/

A panel was not established until November, as the parties first employed the good offices of the Director-General to attempt to achieve bilateral resolution of the dispute. The EC countered that the preferential arrangements were consistent with GATT provisions governing free-trade areas (art. XXIV) and that no evidence of U.S. injury was presented.

1/ See also sec. 301 portion of ch. V of this report.

2/ Further background on this case may be found in OTAP, 34th Report, 1982, p. 44.

Panels examining U.S. measures

Canada's complaint on U.S. exclusion of imported spring assemblies.--A longstanding dispute before the Council was finally resolved in May 1983 with the adoption of the panel report on Canada's complaint on U.S. exclusions of imported spring assemblies. Canada had requested formation of a panel in December 1981 to examine whether a U.S. order excluding imports of automotive spring assemblies which infringed upon a certain patent violated the "national treatment" provisions of article III:1 of the General Agreement. This exclusion order followed a determination by the U.S. International Trade Commission that imports from a Canadian firm that infringed U.S. patents threatened to cause substantial injury to U.S. industry, thus violating section 337 of the Tariff Act of 1930.

The panel concluded that the U.S. exclusion order, directed at all foreign imports of automotive spring assemblies violating a valid U.S. patent, was not applied in a manner constituting "arbitrary or unjustifiable discrimination against countries where the same conditions prevail." The panel did not find that the law had been applied as a disguised restriction on international trade, as Canada had argued.

Prolongation of the case resulted from controversy over the findings of the report presented to the Council in June 1982. The report was adopted after a compromise understanding, proposed by the Council chairman, was accepted. As a result of Canada's dissatisfaction with the findings of the report, it came before the Council several times before its adoption. In May, after consultations with the U.S. and Canadian delegations, the Council chairman proposed that the report be adopted subject to the understanding that adoption would not foreclose future examination of the consistency of using section 337 for patent infringement cases with national treatment provisions of article III and article XX of the General Agreement. 1/

EC complaint on the U.S. Manufacturing Clause.--A panel was established in April 1983 to examine the EC complaint on section 601 of the U.S. Copyright Act known as the manufacturing clause. 2/ According to the EC, the manufacturing clause effectively prohibits imports of certain literary material by an American author into the United States, thus violating articles XI and XIII 3/ of the General Agreement. The United States and the

1/ Art. XX(d) provides a general exception from obligations of the Agreement for the adoption or enforcement of measures 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.

2/ This Act prohibits imports into the United States of "non-dramatic literary works" in the English language by American authors except for those imported from Canada. In 1982, legislation extending the expired manufacturing clause was passed by Congress. A Presidential veto of the legislation was overridden by Congress. Some version of this clause has accompanied the U.S. copyright law since its enactment in 1891 to protect the nascent domestic printing industry.

3/ Art. XI provides the rules as well as certain exceptions for the general elimination of quantitative restrictions. Art. XIII outlines the rules for nondiscriminatory administration of those quantitative restrictions which are maintained under exceptions of the Agreement.

EC held consultations, which were not successful, on the discriminatory treatment resulting from the legislation. Findings of the panel were nearly complete and were scheduled to be presented to the Council in March 1984.

Nicaraguan complaint on U.S. sugar quotas.—A panel was established in July 1983 at the request of Nicaragua to investigate U.S. reduction of quotas on sugar imported from Nicaragua. Nicaragua argued that the quota reduction was unilateral, discriminatory, and violated the principles contained in articles II and XIII 1/ of the General Agreement. Also, Nicaragua noted that reasons put forth by the United States as justification for the measure were not economic reasons. In response, the United States claimed that the measure was not inconsistent with the agreement, that the dispute would require a political solution; thus, a GATT panel could not appropriately resolve the security and political issues involved.

In May, President Reagan announced that quota allocations for imports of sugar would be reallocated, beginning October 1, 1983, and extending through September 1984. By the Council meeting of late May, Nicaragua requested consultations under article XXIII(1), but these consultations yielded no satisfactory results. The quota for Nicaraguan sugar was reduced from 58,000 to 6,000 short tons. The balance was redistributed to Costa Rica, El Salvador, and Honduras with Honduras receiving the lion's share. Reasons for the actions were contained in a press release made available to GATT delegations. These reasons included the U.S. desire to reduce the resources available for Nicaragua for financing military buildup and subversion in the region, and the U.S. commitment to stability in the region. The press release closed saying that the action did not fundamentally change the overall sugar program, as quotas were unchanged for all countries but the four concerned.

Followup on certain panel reports

Quantitative restrictions by the EC (France) against certain products from Hong Kong.—In July 1983, the Council adopted the report of the panel established to examine quantitative restrictions by the EC (France in particular) on imports of certain products from Hong Kong. The panel report found that infringement of obligations under the General Agreement had taken place which constituted nullification or impairment of benefits accruing to Hong Kong. In redress, the report suggested that the Contracting Parties recommend termination of the relevant quantitative restrictions by France. The report was credited with dispelling the argument that allowing a lapse in time before using GATT dispute settlement channels implied tacit acceptance of the disputed measures. The panel report was adopted by the Council along with the recommendation contained in the report.

1/ Art. II provides the rules for maintenance of the schedules of negotiated tariff concessions. See art. XIII, *ibid*.

In December 1981, the United Kingdom complained (on behalf of Hong Kong) that France maintained quantitative restrictions, not justified by any GATT provisions, against various products imported from Hong Kong. As consultations yielded no satisfactory results, a panel was established in October 1982. Followup on the report continued throughout the year, however, compliance by France with the Council recommendations proceeded slowly. Following adoption of the report, however, the United Kingdom informed the Council in November 1983 that France still had not lifted restrictions on any of the eight affected product categories. Lifting of three product categories was said by the EC to be imminent and a solution for terminating restrictions on the other five was being worked out. The latter categories represented the bulk of the disputed trade. By the time the issue was brought before the session of the Contracting Parties in late November, restrictions of the first three categories had been terminated but no further action had been taken on the other five. The United Kingdom described the case as a test of the capability of dispute settlement procedures of the GATT to encourage compliance with final recommendations.

DISC. 1/--Although the panel on the U.S. legislation completed its work in 1981, followup on the panel's report continued into 1983 due to EC discontent with the slow progress in efforts by the United States to implement changes in the legislation. In July 1982, the EC proposed that work begin on compensation measures, but Council action on this proposal was postponed with the argument that the final legislation must be examined prior to making any compensation decisions. The U.S. legislation to replace DISC was introduced to Congress in August.

In October 1983, the EC further proposed that the Council establish a working party to evaluate injury resulting from the application of DISC legislation. Although many countries supported the EC proposal, some felt the timing inappropriate and preferred to await passage of the alternative legislation.

Vitamin B-12. 2/--Followup on the 1982 report of the panel continued into 1983 with the EC claiming a right to compensation for injury. Increasing customs duties on imports of acetic acid was proposed as retaliation. For its part, the United States claimed that the EC did not possess this right as the panel report had stated that the United States had not infringed upon obligations under GATT, nor had it mentioned compensation. To this argument, the EC claimed that the panel report had contained contradictory conclusions.

1/ For further background on this case see the OTAP, 34th Report, 1982, p. 39 and OTAP, 33rd Report, 1981, p. 55.

2/ For further background on this case see the OTAP, 34th Report, 1982 p. 41 and OTAP, 33rd Report, 1981, p. 53.

The following tabulation lists progress on article XXIII(2) cases during 1983. It also gives the reader a conception of the duration of time required, in each case, for the completion of the panel dispute settlement process.

Case by/versus	Subject of complaint	Panel established	Report presented	Report adopted
EC/US <u>1</u> /-----	DISC	July 1973	Nov. 1976	Dec. 1981 <u>2</u> /
EC/US <u>1</u> /-----	Vitamin B-12	1981	June 1982	Oct. 1982
US/Canada-----	Spring Assemblies	Dec. 1981	June 1982	May 1983 <u>2</u> /
Hong Kong/EC <u>1</u> /-	Quantitative restrictions:	Oct. 1982	July 1983	July 1983
US/Canada-----	FIRA	Mar. 1982	Nov. 1982	Feb. 1984
US/EC-----	Canned Fruits	-----do-----	pending	pending
US/EC-----	Citrus preferences:	Nov. 1982	-----do-----	-----do-----
US/Japan-----	Leather	Apr. 1983	Mar. 1984	-----do-----
EC/US-----	Manufacturing Clause	-----do-----	Mar. 1984	-----do-----
Nicaragua/US----	Sugar Quota	July 1983	Mar. 1984	-----do-----
EC/Japan-----	Nullification or impair- ment of benefits	<u>3</u> /		

1/ Followup on panel report continued during 1983.

2/ Adoption subject to an understanding.

3/ Panel requested April 1983, but not yet established.

**Negotiation on Modification of Schedules
(Article XXVIII)**

Under article XXVIII, a Contracting Party may request negotiation to modify or withdraw original tariff concessions. The Contracting Party wishing to take this action must enter consultations not only with the party directly affected, but also with other parties with a principal supplying interest in the products concerned. The article is based on the principle of compensation to maintain a balance of concessions. ^{1/} This article is particularly relevant to the changes the United States and Canada will have to incorporate into their customs classifications for implementation of the harmonized system. It is also used when tariff classifications are generally adjusted and reclassified.

Negotiations

During 1983, the United States engaged in negotiations with several countries that had notified article XXVIII adjustments. These countries included Brazil, Sweden, India, Australia, and Canada. Negotiations with India, which concerned a wide range of products, continued into 1984.

Due to its stake in high-technology trade, the United States has shown consistent interest in the case brought before the Council by Japan concerning the raising of tariffs on compact disc players by the EC. In submitting this complaint to the GATT, Japan argued that the preemptive raising of a tariff rate on a new product had much broader implications than article XXVIII alone. The issue, according to Japan, has serious trade implications for high-technology goods in general. In addition, trade in new products passes questions regarding the proper use of safeguards measures and the application of standards which might not be adaptable to a previously untrade product. In particular, several questions surfaced in determining the proper application of article XXVIII to cases where the volume of trade in a product had not reached a high enough level to provide a useful quantitative basis for negotiations and where expansion of trade in a new product was foreseen. The existing formula for determining compensation might not be adequate in such cases. In October, Japan formally proposed establishment of a working party on the general issues entailed. However, the Council agreed that the Committee on Tariff Concessions was the most appropriate forum for the CP's to examine the implications of the EC action.

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

Notifications

The tabulation below lists articles subject to notifications by contracting parties in 1983. Affected contracting parties base requests for negotiations on the tariff alterations contained on these notifications.

<u>Country</u>	<u>Product</u>
United States-----	Ethyl alcohol
Australia-----	Refrigerators
Do-----	Nonagricultural tariff revisions
Austria-----	Various schedule changes
Canada-----	Bulldozer and feed pellet mill parts.
Canada-----	Yeast
EC-----	Compact disc players
New Zealand-----	Polymerization products and cellulose, pens and pencils
South Africa-----	Lab glass
Do-----	Motorcycle spark plugs
Sweden-----	Shrimp

Accessions to GATT (Articles XXXIII and XXVI)

Belize was admitted as a contracting party to GATT through declaration under article XXVI of the General Agreement. 1/ Belize had been classified as one of 30 states accorded de facto application of the GATT as territories subject to GATT prior to becoming independent states. Nations not in this category must accede under the procedures of article XXXIII. 2/ The accession of Belize brings the total number of Contracting Parties to 90.

1/ Art. XXVI states that "if any of the customs territories . . . possesses or acquires full autonomy in the conduct of its external relations . . . such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the fact, be deemed a contracting party."

2/ Art. XXXIII contains the normal procedures for accession under which the Contracting Parties may accept the accession of a new member by a two-thirds majority vote.

Several countries applied for observer status in 1983 with the intention of becoming Contracting Parties. In January, Paraguay formally decided to reinstate procedures for accession to GATT, and began negotiations through reactivation of a Working Party that had been previously established. In October, Guatemala and Honduras were granted permanent observer status for Council meetings and were recognized as countries with plans to consider becoming GATT members. The People's Republic of China requested observer status at the November Council meeting stating that the request was without prejudice to its position regarding its legal status vis-à-vis GATT. After having joined the textiles agreement this year, China is, however, thought to be seriously considering applying for full GATT membership. Provisional membership of Tunisia was renewed again this year pending completion of negotiations. The tabular presentation which follows shows the composition of the contracting parties at year-end 1983.

GATT Membership as of December 31, 1983

Contracting Parties to the GATT (90)

Argentina	Ghana	Norway
Australia	Greece	Pakistan
Austria	Guyana	Peru
Bangladesh	Haiti	Phillipines
Barbados	Hungary	Poland
Belgium	Iceland	Portugal
Belize	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	Thailand
Cyprus	Malawi	Togo
Czechoslovakia	Malaysia	Trinidad and Tobago
Denmark	Maldives	Turkey
Dominican Republic	Malta	Uganda
Egypt	Mauritania	United Kingdom
Finland	Mauritius	United States of America
France	Netherlands	Upper Volta
Gabon	New Zealand	Uruguay
Gambia	Nicaragua	Yugoslavia
Germany, Federal Republic of	Niger	Zaire
	Nigeria	Zambia
		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	Guinea-Bissau	St. Vincent
Angola	Kampuchea	Sao Tome and
Antigua and Barbuda	Kiribati	Principe
Bahamas	Lesotho	Seychelles
Bahrain	Mali	Solomon Islands
Botswana	Mozambique	Swaziland
Cape Verde	Papua New Guinea	Tonga
Dominica	Qatar	Tuvalu
Equatorial Guinea	St. Christopher	United Arab Emirates
Fiji	and Nevis	Yemen, People's Democratic
Grenada	St. Lucia	Republic of

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 sectoral agreements to liberalize trade in civil aircraft, bvine meat, and dairy products. Nontariff barriers (NTBs) were perceived by both the United States and its 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. 1/

The following section describes the implementation and operation of these agreements during 1983, as carried out by their respective committees. Committees established under the codes, which met two or more times a year, are composed of signatories of the perspective codes and are charged with implementation of code provisions. As such, the committees provide a forum for addressing questions, raised regarding the code provisions and for settling code-related disputes among signatories. During 1983, all code committees were directed by the CP's to evaluate the success of the operation of the codes. 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 8.

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

Table 8.--Signatories to the Tokyo Round Agreements:
Status as of December 2, 1983

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

See footnotes at end of table.

Table 8.--Signatories to the Tokyo Round Agreements:
Status as of December 2, 1983--Continued

Countries	: Stan- : dards	: Gov't : procure- : ment	: Subsi- : dies	: Bovine : meats	: Dairy : pro- : ducts	: Customs : valu- : ation	: Import : licen- : sing	: Civil : air- : craft	: Anti- : dump- : ing
Switzerland----	A	A	A	A	A	A	A	A	A
Tunisia 3/-----	A			A					
United Kingdom--	<u>A1/</u>	<u>A1/</u>	<u>A1/</u>	<u>A1/</u>		<u>A1/</u>	<u>A1/</u>	<u>A1/</u>	<u>A1/</u>
United States---	A	A	A	A	A	A	A	A	A
Uruguay-----			A	A	A				
Yugoslavia-----	A		S	A		A	A		A
<u>Non-contracting</u>									
<u>parties:</u>									
Bulgaria-----				A	A				
Guatemala-----				<u>A1/</u>					
Paraguay-----				Prov.					

A: Accepted - S: Signed (acceptance pending)

1/ Reservation, condition and/or declaration.

2/ The EC is a signatory to all the agreements. In as much as the standards agreement and the aircraft agreement cover matters which go beyond the authority of the EC, each of the EC member states is also a signatory to these agreements.

3/ Provisional accession to GATT

Agreement on Subsidies and Countervailing Duties

The Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT (the subsidies code) entered into force on January 1, 1980. There were no new signatories to the Agreement in 1983 and thus its membership remained at 21. 1/ Egypt, which had signed the Agreement in 1982, formally ratified the agreement in September of 1983 and thus the provisions of the Agreement became fully operative with respect to Egypt.

The subsidies code is intended to clarify existing GATT provisions regulating the use of subsidies as well as the use of offsetting countervailing duty measures employed by signatories to remedy the trade distortive effects of certain subsidy practices. Through the establishment of agreed rights and obligations relating to the use of subsidies and countervailing measures, the agreement seeks to ensure that a signatory's subsidies do not injure the trading interests of another signatory, and that countervailing measures do not unjustifiably impede trade. 2/

The Committee on Subsidies and Countervailing Measures (CSCM), consisting of representatives from each signatory, is normally scheduled to meet on a semiannual basis, generally in the Spring and the Fall of the year. However, in addition to these regularly scheduled meetings, the CSCM met on a number of other occasions in 1983 to address other urgent business before the committee, most notably United States' allegations that the EC was providing export subsidies on pasta and wheat flour in violation of the agreement's provisions regulating the use of export subsidies. Bilateral efforts to resolve these disputes had proved unsuccessful and as a result the CSCM had established panels in 1982 to consider these matters. Because of the fundamental importance of these disputes regarding the interpretation of key operative provisions of the agreement regulating the use of export subsidies, these disputes occupied a great deal of time and attention of the CSCM in 1983.

1/ See table 8 at the beginning of this section for a full listing of this code's membership.

2/ 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.

Other topics discussed at the meetings of the CSCM in 1983 included the notification of subsidies, countervailing duty actions taken by signatories, the manner in which subsidies should be calculated, and the dispute settlement procedures of the agreement. A brief discussion of these issues follows.

Dispute settlement activities 1/

In 1983, the United States continued action under the dispute settlement provisions of the subsidies code in an effort to seek redress for EC export subsidies on pasta and wheat flour allegedly conferred in violation of the agreement. 2/ Prior bilateral efforts to resolve these disputes had failed despite repeated attempts in 1981 and 1982. Consequently, the CSCM convened panels pursuant to Article 18 of the agreement to examine the contentions of the United States. In addition to being the first panels to be convened under the dispute settlement provisions of the agreement, these panels were called upon to make findings on issues of fundamental importance to the operation of the agreement; namely, the nature and use of export subsidies. In part, because of the gravity of the issues before them, the panels deliberated and conferred with the parties for much of 1982 and into 1983. In the case of wheat flour, the panel finally circulated its conclusions to the parties on February 24, 1983 with the understanding that a bilateral conclusion should be reached by March 18, 1983. When such a resolution was not forthcoming, the panel formally submitted its report to the CSCM on March 22, 1983. In the case of pasta, the parties also failed to reach a bilateral resolution of their differences, and the panel formally submitted its finding to the CSCM on May 19, 1983.

At yearend, the panel reports were still before the full committee with little likelihood that these reports would be adopted or acted upon by the CSCM in the foreseeable future. Disagreement among the signatories regarding the findings of the panels have effectively blocked the needed consensus for the adoption of these reports. 3/

1/ 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.

2/ For a detailed discussion of wheat flour and pasta disputes see OTAP, 34th Report, 1982, pp. 23-25.

3/ These panel reports have not been officially released to the public. However, some panel findings have been reported by the press. Apparently, EC export subsidies in pasta were found to be inconsistent with article 9 of the agreement. Furthermore, the panel on wheat flour reportedly declined to determine if EC export subsidies on wheat flour violated articles 8 and 10:1 of the agreement.

In 1983, the United States also continued action under the dispute settlement provisions of the subsidies code on allegations that the EC and Brazil were granting export subsidies, in violation of the agreement, on poultry sales to third country markets, thereby displacing U.S. sales to these markets. Consultations were held with the EC pursuant to article 12 of the agreement on February 16, 1982, but conciliation ended on April 30, 1982 without a resolution of the issue. During these consultations, the EC alleged that it was simply meeting the subsidized price competition of Brazilian poultry exporters in those third country markets and thus it was in conformance with the provisions of the agreement.

On June 11, 1982, the United States submitted requests for information under article 17 of the agreement to both the EC and Brazil in an attempt to clarify the conflicting accounts regarding their respective use of subsidized exports. Further bilateral efforts failed to resolve the issue. Consequently, formal consultations pursuant to article 12 of the agreement were held with Brazil in April 1983. A subsequent tripartite meeting among the parties in June 1983 again failed to resolve the issue. Finally, the United States requested formal conciliation pursuant to article 17 of the agreement which was subsequently held on November 18, 1983. The matter was pending before the CSCM at yearend with little prospect for early resolution.

On May 18, 1983 the CSCM met at the EC's request to conciliate its dispute with the United States regarding the sale in January 1983 of one million tons of subsidized wheat flour to Egypt. The EC alleged that the United States used export subsidies to undercut EC prices and displace EC suppliers from the Egyptian market. The EC further alleged that the price at which the wheat flour had been sold had become a reference price for other potential sales, thus causing problems for the EC in world markets. The EC demanded either compensation or the establishment of a panel. The United States maintained that the EC was asking the committee to protect the world market share that the EC had gained through the use of export subsidies. Since the dispute was not settled by conciliation, a panel was established to examine the EC complaint. However, the establishment of the panel was not completed during 1983 because of certain difficulties in establishing terms of reference.

During 1982, the United States began actions under the agreement against production subsidies on specialty steel maintained by Austria, Sweden, and four EC countries, 1/ allegedly in violation of articles 8 and 11 of the subsidies code. The United States held formal consultations with Austria, Sweden, and the EC under article 12 of the subsidies code in October 1982. 2/

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 the USTR monitor U.S. specialty steel imports. The Commission made an affirmative determination under section 201, and effective July 20, 1983, the President imposed import relief for a four year period.

On November 17, 1983, the United States notified the CSCM that the issues involved in this dispute viz-a-viz Austria and Sweden had been resolved and that the United States did not intend to pursue this matter any further under the agreement insofar as Austria and Sweden were concerned.

Another action under the dispute settlement procedures of the subsidies code during 1983 involved a request by India for conciliation in a dispute with the United States. Until September 1981, the United States had refused to apply the provisions of the subsidies code to India pursuant to the non-application provisions of article 19:9 of the code on the grounds that India had not made a sufficient commitment to phase out its 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. 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. ^{1/} In 1983, it was reported that most of the countervailing duty problems were resolved as a result of discussions between the two countries.

Notifications of Subsidies

An issue that continued to generate discussion in the 1983 meetings of the CSCM was the notification of subsidies. GATT article XVI:1 requires all GATT members to respond every third year to a questionnaire regarding the host country's subsidy programs and to submit notifications of subsidy programs initiated during the intervening period. In theory, the CSCM will review these notifications to ensure that code signatories' subsidy programs are in compliance with the agreement. As a practical matter, this review process may have been hampered by the tardiness and poor quality of the submissions to the committee. While there are a number of reasons that underlie this problem, there is the prevailing view among the signatories that the questionnaire itself could be improved and this would, in turn, facilitate the notification process. Toward this end, the CSCM has undertaken a formal review of the questionnaire and has requested that all signatories submit their written comments on improving the notification procedure by early 1984. The notification process has also been somewhat obstructed by the lack of an agreed definition as to what constitutes a "subsidy." Because of differing

^{1/} 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.

perceptions as to what is a notifiable subsidy, there have been numerous allegations within the CSCM that certain signatories have failed to fully report their subsidy programs. This has engendered a substantial amount of "cross-notifications" whereby signatories notify the committee of another signatory's unnotified subsidy practices. Despite these problems, it was the sense of the committee that progress has been made in the notification process during 1983, particularly in terms of the number of notifications that have been received by the committee. New subsidy notifications for both agricultural and industrial programs are due early in 1984.

Calculation of subsidies

At its May 1980 meeting, the committee established a group of experts to consider the procedures for calculating the amount of a subsidy. Divergent views have always existed among signatories as to what constitutes a subsidy and how it should be quantified. The group of experts met again on two occasions in 1983 to consider this matter. In this context, papers were circulated on substitution drawback, physical incorporation, amortization and depreciation, and de minimus for the consideration of the group. By yearend the group had failed to reach an accord on an agreed methodology for computing subsidy margins. The group is scheduled to meet again in March 1984.

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 undertaken during that 6-month period. Countervailing duty actions reported during 1983 by signatories countries are listed in table 9.

Agreement on Government Procurement

The year 1983 marked the third year of operation of the Government Procurement Code formally known as the Agreement on Government Procurement. ^{2/} Before the code was adopted, many governments followed strict "buy-national" purchasing policies, which often included outright prohibitions on foreign purchases or gave substantial price preferences to domestic producers. The code opened new opportunities for trade by allowing foreign firms to compete for government contracts to purchase selected goods. ^{3/} Each signatory has

^{1/} Austria, Brazil, Egypt, Finland, India, Korea, New Zealand, Norway, Pakistan, Spain, Sweden, Switzerland, the United Kingdom on behalf of Hong Kong, Uruguay, and Yugoslavia.

^{2/} See table 8 at the beginning of this section for a full listing of this code's membership.

^{3/} The agreement also covers purchases of services incidental to the procurement of supplies and equipment (i.e., where the value of services equals less than 50 percent of the total value of the procurement).

Table 9.---Countervailing duty actions reported by signatories to the GATT Committee on Subsidies and Countervailing Measures, in 1983

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia	Denmark	Edam cheese	2-17-83	8-4-83	11-25-83 - Price undertakings.
	do	Blue vein cheese	do	do	do
	Netherlands	do	do	2-9-83	do
	do	Gouda cheese	do	3-8-83	do
	New Zealand	Chip coated metal roofing tiles	10-19-82	10-19-82	7-22-83 - Price undertakings.
	do	Mechanically refrigerated freight containers	6-24-83	do	10-24-83 - Other.
	do	Square dressed structural softwood timber	11-3-82	11-3-82	5-25-83 - Price undertakings.
	West Germany	Blue vein cheese	2-17-83	8-19-83	11-25-83 - Price undertakings.
	do	Edam cheese	do	do	do
Canada	Denmark	Canned jams and picnics	12-16-83	do	do
	Italy	Red rose and white table wines containing less than 14 percent alcohol	8-27-82	do	3-14-83 - Case withdrawn.
	do	Canned whole tomatoes	1-28-83	3-15-83	6-23-83 - No injury.
	do	Biscuits	6-28-82	do	4-16-83 - Other.
Chile	Argentina	Bags of polypropylene	7-31-82	do	do
	do	Jars of glass	9-20-82	do	do
	do	Ethyl alcohol, undenatured	11-12-83	do	do
	do	Sugar, refined and semi-refined	6-15-83	do	do
	Brazil	Yarn of polyester fiber	do	do	4-16-83 - Other.
	do	Carpets and floor coverings	2-10-83	do	do
	do	Notebooks of all kinds	6-28-82	7-2-82	4-16-83 - Other.
	do	Biscuits	7-31-82	do	do
	do	Bags of polypropylene	do	do	do
	do	Detonating fuses	9-27-82	do	do
	do	Unworked drawn glass	10-10-82	do	do
	do	Macaroni, spaghetti and similar products	12-18-82	do	do
	do	Cables and cordage, of iron and steel wire	1-13-83	do	do
	do	Rubber tires	1-24-83	do	do
	do	Towels	do	do	do
	do	Bed-sheets	2-10-83	do	do
	do	Bars, rods, shapes, sections, wire and tubes of aluminum	3-16-83	do	do
	do	Ethyl alcohol, undenatured	4-12-83	do	do
	Columbia	Corduroy cloth and jeans	1-13-83	do	do
	EEC	Wheat flour	9-27-83	9-27-83	4-16-83 - Other.
	Japan	Rubber tires	1-24-83	do	do
	Peru	Bags of polypropylene	7-31-2	do	do
	do	Detonating fuses	9-7-82	do	do
	Spain	Cables and cordage, of iron or steel wire	1-13-83	do	do
	do	Carpets and floor coverings	2-10-83	do	do
	do	Bed-sheets	do	do	do
	S. Korea	Bags of polypropylene	2-3-83	do	4-16-83 - Other.
	do	Clothing	1-12-82	do	do
	do	Woven fabrics of man-made fibers	1-13-83	do	do
	do	Cables and cordage, of iron or steel wire	do	do	do
	do	Rubber tires	1-24-83	do	do
	do	Shirts and blouses	2-10-83	do	do
	Uruguay	Clothing	12-1-82	do	4-16-83 - Other.
	Brazil	Steel plates	7-31-82	do	7-29-83 - Definitive duty.
	do	Steel sheets	6-10-82	do	2-17-83 - Definitive duty.
	Spain	Malleable tube fittings	5-31-83	11-19-83	do
	do	Broad flanged beams	8-10-82	do	do
	Pakistan	Carded cotton yarn	4-20-83	do	4-30-83 - Other.

Table 9. --Countervailing duty actions reported by signatories to the GATT Committee on Subsidies and Countervailing Measures, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States	Argentina	Wool	10-18-82	1-18-83	4-4-83 - Definitive duty.
	-do-	Cold rolled carbon steel sheet	12-8-83		
	Brazil	Tool steel	8-24-83	3-3-83	3-21-83 - Price undertakings.
	-do-	Prestressed concrete steel wire strand	3-30-82	8-10-82	3-23-83 - No injury.
	-do-	Certain stainless steel products	7-13-82	11-19-82	2-2-83 - Price undertakings.
	-do-	Frozen orange juice concentrate	8-2-82	12-17-82	3-2-83 - Price undertakings
	-do-	Certain carbon steel products	12-18-83		
	-do-	Continuous cast iron bar	12-14-83		
	Canada	Railcars	7-14-82	11-29-82	2-5-83 - Case withdrawn.
	-do-	Softwood lumber	11-3-82	3-11-83	5-31-83 - No subsidy.
	China	Textiles, apparel and related products	10-13-83		12-13-83 - Case withdrawn.
	Colombia	Cut flowers	9-1-82	1-1-83	1-18-83 - Price undertakings.
	Czechoslovakia	Carbon steel wire rod	12-21-83		
	France	Industrial nitrocellulose	10-4-82	12-30-82	3-22-83 - Definitive duty.
	Italy	Forged undercarriage parts	5-24-83	8-24-83	11-16-83 - Definitive duty.
	-do-	Instrument key pads	11-25-83		
	Mexico	Ammonia	11-26-82	4-5-83	6-22-83
	-do-	Asparagus	11-30-82	3-2-82	
	-do-	Carbon black	12-3-82	4-8-83	6-27-83 - Definitive duty.
	-do-	Cement and cement clinker	4-1-83		
	-do-	Yarns of Polypropylene fiber	9-21-82	11-26-82	2-7-83 - Price undertakings.
	-do-	Pork rind pellets	6-13-83		9-29-83 - No subsidy.
	-do-	Certain iron castings	9-30-82	12-16-82	3-2-83 - Definitive duty.
	-do-	Portland hydraulic cement clinker	3-28-83	7-8-83	9-21-83 - Definitive duty.
	-do-	Unprocessed float glass	10-17-83	12-19-83	
	-do-	Certain fresh cut flowers	10-26-83		
	-do-	Bricks	11-18-83		
	-do-	Certain carbon steel products	12-8-83		
	Pakistan	Shop towels of cotton	8-25-83	10-27-83	
	Peru	Cotton yarn	7-6-82	11-19-82	2-1-83 - Definitive duty.
	-do-	Cotton sateen and sheeting	do	do	do
	Philippines	Canned tuna	4-11-83	8-16-83	10-31-83 - Definitive duty.
	Poland	Carbon steel wire rod	12-21-83		
	Singapore	Certain refrigerator compressors	6-23-83	8-29-83	11-7-83 - Price undertakings.
	S. Africa	Galvanized steel wire strand	12-14-82	2-15-83	4-29-83 - Price undertakings.
	-do-	Welded pipe and tube	10-29-82	3-9-83	1-1-83 - Price undertakings.
	-do-	Steel pipe and tube products	do	3-9-83	9-12-83 - Definitive duty,
	-do-	Certain stainless steel products	3-10-82	3-30-82	1-5-83 - No injury.
	-do-	Carbon steel wire rod	12-21-83		
	Taiwan	Fireplace mesh panels	8-18-82	12-23-82	3-17-83 - No subsidy.
	Trinidad and Tobago	Carbon steel wire rod	6-15-83	10-20-83	12-27-83 - Definitive duty.
	United Kingdom	Stainless steel	11-2-82	2-10-83	4-27-83 - Definitive duty.

Source: Compiled from documents of the Committee on Subsidies and Countervailing Measures, General Agreement on Tariffs and Trade.

agreed to allow foreign producers to compete for contracts with specified government entities which are valued at over a threshold level of 150,000 special drawing rights (SDR's) 1/---approximately \$167,000 in 1983. 2/

The Committee on Government Procurement met three times in 1983 to discuss problems in implementation and administration, accession of additional countries, and preparations for the upcoming renegotiation of the agreement.

One matter brought to the Committee's attention during 1983 concerned Italian tendering procedures. The United States reiterated its long-standing dissatisfaction with Italy's implementation of the agreement. The U.S. delegation noted that Italy publishes relatively few tender documents and those that are published contain very short bid deadlines. The delegation also expressed its concern over the use of short bid deadlines by the French Government. Complaints were leveled against the United States by the EC delegation regarding short bid deadlines and the proliferation of "Buy American" requirements. The United States was joined by the EC in criticizing Japan for its government procurement practices, particularly its excessive use of single-tendering provisions, short bid deadlines, short delivery times, maximum price specifications, and complex qualification requirements. Japan has the highest rate of single tendering of any signatory; such tenders accounted for 67 percent of code-covered procurement during 1981. It also has a number of contracts that fall below the threshold level.

Another issue raised at the meetings in 1983 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, reducing the number of contracts that fall above the threshold level and that 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, because 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 United States initiated dispute settlement procedures within the committee. A GATT panel was formed in April to hear the arguments of the dispute. The panel will submit a report on its findings to the Committee on Government Procurement upon the conclusion of its examination. The panel met three times during the year and at yearend, the issue still remained unresolved. 3/

1/ The special drawing right is an international reserve asset that serves as the International Monetary Fund's official unit of account.

2/ The agreement also establishes common international procedures for providing information on bids, opening and awarding bids, and filing complaints. The agreement does not apply to products which are leased or to services that are not incidental to the supply of goods. In addition, it does not apply to construction contracts, national security items, or purchases by local governments.

3/ The panel decided against the EC in February 1984.

As of January 1, 1983, countries that had not signed the Government Procurement Code were to be barred from bidding on U.S. Government contracts by code-covered entities X. Countries that are classified as least developed developing countries (LDDC's) were exempted from this ban. 1/

During 1983, Chile, the Philippines, and Israel conducted bilateral consultations with signatories in an attempt to develop satisfactory terms of accession to the agreement. Israel was the only country able to successfully conclude the negotiations in 1983 and was accepted as a party to the Government Procurement Code on May 25.

The Government Procurement Code provides that no later than 3 years from its entry into force negotiations must be undertaken to broaden and improve the code. The provision was included because a number of countries felt that there were unresolved issues when the code was originally concluded. The United States and several other countries wanted the Code's provisions to be applied to a broader spectrum of government entities. The actual entity coverage of the code is quite limited: for example, entities purchasing telecommunications, transportation, and power generating equipment are generally not covered under the code. The United States had also wanted a lower threshold value than was finally agreed upon and Canada had sought to include services contracts within the code. The "renegotiation" provision was intended to keep discussion of those issues alive, while providing an opportunity to correct flaws that were found once the code was in operation. Some delegations, notably the EC, believe it is too early to determine the effectiveness of the code and thus believe it is not fruitful to expand coverage of the code at this time.

In May, the Committee on Government Procurement agreed to formally open renegotiations at its November 1983 meeting. In November, the Committee agreed to an 18-month timetable for renegotiations and adopted an agenda for them. Interested signatories had submitted proposals on issues to be considered in the renegotiation in the spring of 1982. The renegotiations will concentrate on (1) improving the code by lengthening bid deadlines, improving statistics, and lowering the threshold level; (2) expanding entity coverage; (3) including purchases of services and leased products; and (4) making the code more accessible to developing countries. The negotiations are expected to be concluded by June 1985.

At the February 1984 meeting, the committee will identify areas where improvements in the code could be made and discuss the possibility of expanding the code to cover leased products. A study on the feasibility of extending code provisions to procurement of services will also begin at that time. (The code specifically calls for an examination of services at the renegotiation.) Such services include construction, engineering, data processing, consulting, equipment leasing, maintenance, and security. In April 1984, discussion on possible improvements will be wrapped up and negotiations on adding entities not now covered by the code will begin.

1/ The countries were: Bangladesh, Benin, Bhutan, Botswana, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Gambia, Guinea, Haiti, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Sierra Leone, Somalia, Western Samoa, Sudan, Tanzania, Uganda, Upper Volta, and Yemen.

The signatories had agreed to supply the following information in preparation for renegotiations: (1) a list of entities not currently covered by the agreement and data on the value of the procurement of each noncovered entity, (2) a list of government procured services which are tradable internationally and the value of these services, (3) information on government leasing practices and the value of leasing procured, and (4) the volume, value, and types of products purchased under specific derogations to the code. Annual statistics on contracts awarded by government entities covered by the agreement will also be a valuable source of information for the renegotiation. 1/

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 to ensure safety and to protect consumers, the environment and public health--do not create unnecessary obstacles to trade. 2/

1/ The agreement requires that each signatory annually report on (1) covered contracts; and (2) total purchases of supplies and equipment by covered agencies, including procurements falling below the agreement's threshold. Data for 1981 were exchanged at the February 1983 meeting. In the United States, the Office of Federal Procurement Policy in the Office of Management and Budget established a new data collection mechanism to meet these needs which was called the trade data system. Under the trade data system, each agency covered by the agreement submits a report on each contract valued at \$10,000 or more containing a covered procurement and a quarterly letter report showing the total value of supplies and equipment purchased during the covered period. In October, the General Accounting Office concluded that the trade data system did not present precise data and may actually overstate the value of covered procurements. It suggested that the trade data system be abolished and the Federal Procurement Data Center be charged with collecting the individual contract data instead. The Office of the United States Trade Representative has tentatively accepted this recommendation. For further information, see "Data Collection Under the International Agreement on Government Procurement Could be More Accurate and Efficient," General Accounting Office, GAO/NSIAD-84-1, Oct. 25, 1983.

2/ Signatory governments are required to ensure that technical regulations and standards are not prepared, adopted, or applied in such a way as to obstruct international trade, 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 origin. Whenever possible, standards are to be specified in terms of performance rather than design or descriptive characteristics.

The agreement is administered by the Committee on Technical Barriers to Trade, composed of representatives from each of the signatories. The committee met three times in 1983, in February, May, and October. Several topics dominated the committee's agenda during the year: (1) the 3-year review of the Code; (2) applicability of the code to processes and production methods (PPM's); (3) conformity by regional standards-making bodies with code provisions; (4) agreement on a minimum comment period on proposed standards; and, (5) procedures for responding to comments received.

In February, the Committee completed the first 3-year review of the standards code. The purpose of the 3-year review is to assess the operation of the code and to make necessary improvements in its provisions. As a result of the review, the Committee adopted several measures to improve the operation of the code.

In 1982, the committee had agreed that national inquiry points 1/ should hold meetings on improving information exchange once every two years and recommended that inquiry points develop brochures about their facilities and activities. 2/ In the 3-year review, the committee also recommended that the comment period on proposed standards be extended from 6 weeks to 60 days effective May 19, 1983, and suggested that members approve reasonable requests for extension. The United States had pressed for this action last year.

The United States sought to obtain agreement among the parties that trade problems arising from required use of PPM's could be resolved using the dispute settlement procedures of the committee. The United States claimed that when a country conditions product approval on the use of certain production processes, those PPM's should be considered within the purview of the dispute settlement provisions of the standards code.

The United States became concerned about this issue when the EC implemented regulations requiring the use of PPM's in certain food products that were different from methods used by the United States. For example, in 1981 the EC implemented a directive requiring that poultry be "spin-chilled;" U.S. manufacturers use a different method to ensure the freshness and purity of poultry. The EC then required foreign producers to meet the requirements immediately, while allowing its own producers 2 years to adopt the PPM. When the United States brought a complaint against the practice to the standards code committee, the EC blocked consideration of the complaint on the grounds that the code does not cover PPM's.

1/ National inquiry points are to be established in each signatory country to provide information on standards and standards-related procedures in their country. The U.S. national inquiry point is the National Bureau of Standards (NBS) within the U.S. Department of Commerce.

2/ NBS published a directory of international and regional organizations conducting standards-related activities in April 1983 (NBS Special Publication No. 649, April 1983), as well as several publications about NBS's services.

In 1983, the Committee finally reached a consensus on how to handle complaints about PPM's. In spite of disagreement on code coverage of PPM's, at its October meeting the committee agreed to allow parties to use its dispute settlement facilities if they believe that PPM's have the effect of impeding imports.

In May, the committee discussed another recurring issue: compliance by regional and private standardizing bodies with code provisions. The United States is concerned that such bodies will assume the standardizing activities of governments, thus allowing governments to escape from some of their obligations under the code. To reduce this possibility, the committee decided at its May meeting to invite representatives from different regional standardizing bodies to address the committee, providing brief explanations of their activities and functions. During the October meeting, the Secretary-General of NORDTEST (a Nordic body which promotes developments in the field of technical testing) made a presentation to the committee on its standards procedures. Representatives from the Pacific Area Standards Congress (PASC) and the European Committee for Electrotechnical Standardization (CENELEC) will be invited to address the committee at its meeting late in February 1984.

The committee completed its fourth annual review at its October 4-5 meeting. At that time, the committee agreed to make the list of standards notified under the agreement available to interested standardizing bodies. It also agreed to update the list of technical barriers to trade every 6 months.

The representative of the United States used the occasion to request information about standards-related activities in other countries. The United States asked whether the EC information directive on technical regulations and standards adopted in March 1983 would affect its obligations under the agreement. The EC replied that the information directive set forth internal procedures for harmonizing technical regulations and standards within the EC and did not violate the code's provisions. The United States also inquired about a memorandum of understanding between the United Kingdom and the British Standards Institute (BSI). ^{1/} The understanding was designed to encourage BSI to use internationally recognized standards, the United Kingdom representative claimed, and is part of an effort to increase the competitiveness of the United Kingdom's goods in world markets.

At the October meeting, the United States proposed that the committee consider developing a long-term agenda of its activities. The U.S. delegate claimed that the agenda could stimulate thoughtful consideration of the issues facing the committee in the coming year, clarify those actions the committee could be expected to propose on an issue, and allow the committee to set goals for completing action on or discussion of a problem. Considerable support was expressed for the idea, which will be discussed further at the next meeting.

^{1/} In 1982, the United Kingdom deregulated its telecommunications interconnect market (telephones, PBX systems, key systems, modems, and other ancillary types of customer-provided equipment). Subsequently, an independent approval body was established to develop standards for and certify telecommunications products. The United States is concerned about how this will affect foreign telecommunications firms seeking to do business in the United Kingdom.

At the same meeting, the EC proposed a formal mechanism for handling foreign comments on proposed standards. Under the proposal, countries which have received comments on proposed standards would give written notice of their receipt and explain the reasons for accepting or rejecting the comments. Most countries agreed with the proposal in principle, but the United States asked that the requirement be more flexible. U.S. Government agencies handle comments (both domestic and foreign) by spelling out in the Federal Register the actual regulation adopted and the reasons for adopting it, including a brief recap of the comments received and the reasons why they were or were not favorably acted upon. The committee agreed to continue discussion on this issue at future meetings.

The United States held consultations in 1983 with several countries under procedures set out by the code. Using the case of metal softball bats as an example of Japan's discriminatory standards certification procedures, the United States asked Japan to change its laws to eliminate all trade-distorting procedures. In August, Japan changed a number of standards laws to ease approval of foreign goods. The United States also held discussions with the United Kingdom and other countries about telecommunications interconnect equipment. During 1983, the United States held informal bilateral consultations with Denmark on approval of U.S. lifesaving equipment. Late in December, the two sides reached agreement on conditions for approval.

During 1983, India signed the standards code, bringing the number of signatories to 36. 1/ 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 were unresolved at yearend.

Agreement on Customs Valuation

Formally titled the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, the Customs Valuation Agreement, establishes a uniform system of rules to determine the customs value for imported goods. It entered into force on January 1, 1981. 2/ Although the primary purpose of the agreement is to eliminate arbitrary practices which over value goods and to allow exporters and importers to predict accurately how their goods will be valued by customs authorities, the agreement also

1/ See table 8 at the beginning of this section for a full listing of this code's membership.

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

provides a detailed rule for the determination of the value of imported goods for the assessment of ad valorem customs duties. These rules are designed to provide a fair, uniform, and neutral system of valuation, and preclude the use of arbitrary or fictitious values. 1/

The provisions of the code are carried out by two committees both established by the agreement. The GATT Committee on Customs Valuation and the Technical Committee, which is under the auspices of the international Customs Cooperation Council (CCC), focus on the technical interpretation of the code's provisions and make technical recommendations on problems related to customs valuation. 2/ The two committees closely coordinate their activities.

Over the course of three meetings held in 1983, the GATT Committee on Customs Valuation discussed various topics relating to the code's operation. Detailed examinations were held on the national customs valuation legislation of the EC, Romania, and Australia. Although no other decisions were made in 1983, the committee continued detailed discussions on proposals concerning decisions designed to clarify the treatment of interest charges for deferred payment in the customs value of imported goods and the valuation of computer software.

With respect to the treatment of interest, it is 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 determining customs value, regardless of whether the financing was provided by the seller, a bank, or another person.

1/ The agreement establishes 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 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 art. VII of the GATT may be used. A signatory to the agreement is permitted to determine customs value on either an f.o.b. (free on board) or c.i.f. (cost, insurance, and freight) basis. The United States is continuing to use f.o.b., and other countries intend to continue their existing practices, mainly c.i.f.

2/ Responsibilities and rules of procedure for the Technical Committee on Customs Valuation are described on Annex II of the Agreement.

The proposal on the valuation of computer software would provide that the valuation of imports of computer software would be based on the value of the medium on which it is carried (e.g., magnetic tape, disk, or punched cards), and would exclude the value of the information contained thereon. The United States has proposed that the GATT committee formally decide to return to the international practice that existed before the code, where the information content of software generally did not form part of the dutiable value. Two-thirds of the countries applying the Customs Valuation Code today were parties to the previous practice.

At yearend, the committee agreed to revert to the proposals on both interest and computer software at future meetings. Prior to the agreement, computer software was essentially valued according to the Brussels Definition of Value (BDV), that is, on the basis of the value of the medium on which the software resided. Since the entry into force of the Tokyo round agreement on valuation, however, some signatories have interpreted the agreement in such a way as to permit the inclusion of the value of the software itself in the dutiable value. This would mean that the value of the data, the information, the program, or whatever is contained on the carrier medium would be dutiable in addition to the value of the carrier medium itself.

The United States maintains that this new interpretation of the rules affecting the valuation of computer software introduces a lack of uniformity into customs valuation practices internationally, and in fact, introduces an unintended new barrier to trade in computer software. The anomaly of the new interpretation is further demonstrated by the fact that, under current circumstances and in a number of countries where technical facilities permit, the entire question of customs valuation of software is moot because software can be communicated between countries by telephone or by satellite.

Technical assistance continued to be an important agenda item at committee meetings during 1983. Developed country members affirmed willingness to extend technical assistance in connection with the agreement to developing countries, whether signatories or not. The committee also considered the question of collecting additional and more uniform information on the use of the various valuation methods provided for under the agreement on the basis of recommendations for a common methodology made by the Technical Committee. It agreed that any new data collection exercise should be postponed until additional countries apply the agreement.

The Technical Committee reported to the GATT committee its recommendations for a common methodology for collecting data on the extent of the use of the various valuation methods under the agreement and on its activities and future work program. A question raised by the Technical Committee relating to the linguistic consistency between the English, French, and Spanish texts on the term "development" was agreed by the committee to be placed on its agenda in 1984.

In the 3 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. Nevertheless, members agreed that the code has operated satisfactorily.

At yearend 1983, there were 22 signatories to the agreement including the EC for its member states. Two countries (Malawi and South Africa) signed in 1983 and the committee agreed on terms of accession for Botswana. 1/

Antidumping Agreement

The antidumping agreement, formally entitled the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade, entered into force on January 1, 1980. 2/ The agreement sets guidelines on the conduct of antidumping investigations and the imposition, collection, and duration of antidumping duties. It also addresses the question of retroactivity in the application of antidumping duties 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." It discusses consultation and dispute settlement procedures. Moreover, the agreement obligates developed countries to give "special regard" to the developing countries' "special situation," by considering the code's constructive remedies before applying antidumping duties.

One of the principal activities of the Committee on Antidumping Practices is the adjudication of procedural disputes among signatories concerning the operation of domestic laws and their consistency with the agreement. The committee also reviews the antidumping actions of the signatories for a given period. Antidumping action reported to the committee in 1983 are contained in table 10. In addition to the committee's semiannual meetings, meetings of ad-hoc groups occur several times a year to discuss particular issues.

At their semiannual meetings held in April and November, the committee spent considerable time in discussing the antidumping statute of Australia, which became a signatory in 1982. Several parties, including the United States, criticized Australia's antidumping statute (Customs Tariff Act of 1975) and the way it is being implemented, for conflicting with the GATT antidumping code. Objections were directed against the manner in which Australia initiates and conducts antidumping investigations. Some of the items criticized included: the ministerial discretion it allows in the application of the statute; the definition (or lack thereof) of what constitutes a domestic industry or injury in antidumping cases; and the methods of calculating dumping duties.

1 See table 8 at the beginning of this section for a full listing of this code's membership.

2/ Its predecessor, the original Antidumping Agreement was renegotiated during the Tokyo round in 1973-79 principally to bring certain provisions, especially those concerning determination of injury, price undertakings between exporters and the importing country, and the collection of antidumping duties, into line with similar provisions in the MTN Agreement on Subsidies and Countervailing Duties.

Table 10.---Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia	Austria	Injection Moulding Machines	1-24-83	1-24-83	3-9-83 - No dumping.
	do	Dextrose monohydrate	8-2-83		
	Belgium	Air compressors	7-18-83		
	do	Low density polyethylene resin	7-7-83		11-23-83 - No dumping.
	do	Certain Triethanolamine	3-1-83	3-1-83	4-22-83 - Definitive duty.
	do	Galvanized sheet and coil of iron or steel	8-13-81	8-13-81	6-6-83 - No injury.
	do	Phosphoric acid	4-27-83	4-27-83	
	do	Polyvinyl chloride homopolymer	9-14-82	9-16-82	5-3-83 - Definitive duty.
	do	Dishwashing powder	7-4-83		11-14-83 - No dumping.
	do	Incandescent lamps	5-18-83	8-5-83	
	Brazil	Certain triethanolamine	11-4-82	11-4-82	4-22-83 - Definitive duty.
	do	Alkyl phenol ethoxylates	3-14-83		10-25-83 - No injury.
	do	Uncoated woodfree paper	11-22-82		5-16-83 - Case withdrawn.
	Canada	Asparagus	2-28-83	2-28-83	6-20-83 - No injury.
	do	Polystyrene	12-30-83		
	do	Paper cold drink cups	10-7-83	10-26-83	
	do	Fluorescent lamps (20w and 40w)	12-19-83		
	do	Instrument transformers	6-23-82		
	China	Male industrial overalls	8-12-83		
	do	Ceramic tableware	6-1-83		
	do	Phenol	4-28-82		8-12-83 - No dumping.
	do	Woven worsted flannel and crepe	7-27-82		
	France	Polyvinyl chloride homopolymer	10-31-83		9-10-82
	do	Polystyrene	12-30-83		1-7-83 - Definitive duty.
	do	Polyethylene resin low density	8-5-80		1-7-83 - Other action.
	do	Certain triethanolamine	2-5-82	2-5-82	6-20-83 - No injury.
	do	Stainless steel flat products	10-20-82	12-5-83	1-7-83 - Definitive duty.
	do	Dishwashers	3-1-83		12-29-83 - Definitive duty.
	do	Galvanized sheet and coil of iron and steel	7-24-81	7-27-81	12-20-83 - Definitive duty.
	do	Nylon (polyamide) textured yarns	5-6-82	8-26-82	6-6-83 - No injury.
	Ireland	Polypropylene baler twine	10-6-82		5-24-83-Price undertakings
	do	Carpet sweepers	7-27-82		3-5-83 - No injury.
	Israel	Polyamide nylon yarn	12-8-82	12-8-82	2-28-83-Price undertakings
	do	Polyvinyl chloride homopolymer	9-14-82	9-16-82	9-26-83 - Definitive duty.
	Italy	Pasta	12-23-83		5-3-83 - Definitive duty.
	do	Stainless steel flat products	10-20-82	11-15-83	12-29-83 - Definitive duty.
	do	Dishwashers	3-1-83		-----do-----
	do	Woven wool fabrics	6-3-83		12-2-83 - No dumping.
	Hong Kong	Ceiling sweep fans	11-1-83		
	do	Detergent powder	12-9-83		
	Japan	Passenger cars tires	9-28-82		9-5-83- Price undertakings.
	do	Empty gelatin capsules	11-7-83	11-7-83	
	do	Small diameter welded carbon steel pipe and tube	12-29-83		
	do	Forklift trucks (internal combustion power type)	10-15-80		1-10-83 - No dumping.
	do	Malleable cast iron pipe fittings	1-2-83		
	do	Stainless steel pipes and tubes	2-24-81		6-14-83 - Case withdrawn.
	do	Washing machines compact and medium size	5-14-81		1-7-83 - Definitive duty.

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia--Con.	Japan	Fire protection cabinets	6-27-83		
	do	Paradichlorobenzene	3-18-83		8-10-83 - No dumping.
	do	Textured polyester yarn	4-21-83	4-20-83	
	do	Stainless steel fasteners	do		9-12-83 - No dumping.
	do	Toluene and xylene	1-20-82	3-11-82	4-18-83 - Definitive duty.
	do	Dishwashers	3-1-83		
	do	Special steel bar products	10-20-82	8-16-83	12-29-83 - Definitive duty.
	do	Stainless steel flat products	do	do	do
	do	Injection moulding machines	1-24-83	1-24-83	7-4-83 - No injury.
	do	Certain triethanolamine	11-4-82	11-4-82	4-22-83 - Definitive duty.
	do	Spark plugs	11-30-82	11-30-82	6-9-83 - Definitive duty.
	do	Vertical freezers	12-29-82	4-18-83	5-3-83 - Other action.
	do	Small diameter welded carbon steel pipe and tube	12-29-83		
	do	Toothpaste	8-15-83	8-15-83	
	do	PVC resin paste	12-22-83		
	do	Stainless steel pipes and tubes	6-2-82		10-20-83 - Other.
	do	Acrylonitrile butadienolstyrene	1-25-82		4-5-83 - Definitive duty.
	do	thermoplastic compound.			
	do	Small diameter welded carbon steel pipe and tube	12-29-83		
	do	PVC resin paste	12-22-83		
	do	Polyvinyl chloride homopolymer	4-7-83	4-21-83	5-3-83 - Definitive duty.
	do	Polystyrene	6-24-82	6-24-82	5-25-83 - No injury.
	do	Power transformers	11-17-81	do	
	do	Toilet and laundry soaps	6-30-82	7-21-82	4-5-83 - Definitive duty.
	do	Passenger car tires	9-28-82	4-20-83	4-20-83 - Definitive duty.
Mexico	do	Alkyl phenol ethoxylates	3-14-83	10-21-82	10-25-83 - No injury.
Netherlands	do	Polyvinyl chloride homopolymer	10-31-83		
	do	Dishwashers	8-4-83		
	do	Yacht winches and handles	11-16-83		
	do	Polyvinyl chloride homopolymer	10-31-83		
	do	Sodium lauryl ether sulphate	9-13-82		
	do	Expoxidized soya bean oil	5-18-83		
	do	Passenger car tires	9-28-82	10-21-82	9-5-83- Price undertakings.
	do	Certain triethanolamine	11-4-82	11-4-82	4-22-83 - Definitive duty.
	do	Propylene oxide based polyether polyols	12-8-82		5-17-83 - No dumping.
New Zealand	do	Automotive and industrial filters	1-15-82		1-7-83 - Definitive duty.
	do	Stainless steel pipes and tubes	6-23-82		4-15-83 - No injury.
	do	Brass rods, extruded	8-6-82		5-11-83 - No injury.
	do	Fiberglass coated panels	10-22-82		4-29-83 - No dumping.
	do	Polypropylene baler twine	7-21-82		3-25-83 - No dumping.
	do	Cement	6-27-83		12-8-83 - Other.
	do	Square dressed structural softwood timber	8-9-82		5-25-83-Price undertakings.
	do	Suspended ceiling systems	9-16-82		11-8-83-Price undertakings.
	do	Polypropylene strapping	9-24-82		2-14-83 - No injury.
	do	Passenger car tires	9-28-82		9-5-83 -Price undertakings.
	do	Chip coated metal roofing tiles	9-29-82		7-22-83-Price undertakings.
	do	Marine anchor windlasses and capstans	10-27-82		2-28-83 - No injury.
	do	Spark plugs	11-30-82		
Philippines	do	Fluorescent lamps	12-19-83		
Portugal	do	Polypropylene baler twine	7-21-82		3-25-83 - No dumping.

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Australia--Con.	Qatar	Low density polyethylene resin	6-4-81		9-22-83 - No dumping.
	Romania	Toughened glass panels	6-16-82		4-22-83 - Definitive duty.
	Singapore	Small diameter welded carbon steel pipe and tube	12-29-83		
	South Africa	do	do		
	Spain	Polyvinyl chloride homopolymer	10-31-83		
	do	Toughened glass panels	6-16-82		4-22-83 - Definitive duty.
	do	Galvanized sheet and coil of iron and steel	8-13-81		6-6-83 - No injury.
	do	Instrument transformers	6-23-82		8-12-83 - No dumping.
	Sweden	Painted hardboard	9-22-83		
	do	Stainless steel flat products	10-20-82	8-2-83	11-14-83 - No dumping.
	do	Pneumatic hose couplings	3-14-83		
	Taiwan	Toothpaste	7-7-83	8-15-83	
	do	Alkyl phenol ethoxylates	do	7-7-83	10-25-83 - No injury.
	do	Small diameter welded carbon steel pipe and tube	12-29-83		
	do	Polystyrene	12-30-83		
	do	Phthalic anhydride	5-26-83	5-26-83	
	do	Polyvinyl chloride homopolymer	4-9-83	4-18-83	8-31-83 - Definitive duty.
	do	Power transformers	11-17-81	6-24-82	
	do	Footwear	7-8-83		8-2-83 - Other.
	do	Nylon (polyamide) textured yarns	5-6-82	5-6-82	1-7-83 - Definitive duty.
	do	Textured polyester yarn	4-11-83	5-9-83	8-18-83 - Other.
	United Kingdom	Polypropylene balertwine	7-21-82		3-25-83 - Other action.
	do	Polyvinyl chloride homopolymer	10-31-83		
	do	Dextrose Monohydrate	8-2-83		
	do	Coating crumbs	8-12-83		7-18-83 - Other.
	do	Gear motor drive units	7-27-82		4-22-83-Price undertakings.
	do	Artist oil paints	8-24-82		2-4-83 - Definitive duty.
	do	Gas meters	11-15-82		6-20-83 - No dumping.
	do	Power capacitors	2-24-83		
	do	Vinyl acetate monomer	3-31-83	3-31-83	11-30-83-Price undertakings.
	United States	Dishwashing powder	7-4-83		11-14-83 - Other.
	do	Dental amalgam alloy capsules	8-12-83		
	do	Paper cold drink cups	10-7-83	10-26-83	
	do	Stainless steel repair clamps	12-1-83		
	do	Certain triethanolamine	8-31-81	2-5-82	1-7-83 - Definitive duty.
	do	Toughened glass panels	6-16-82		1-10-83 - No injury.
	do	Fiber glass insect screenings	3-23-82		7-18-83 - Other.
	do	Toluene and xylene	11-3-82	11-3-82	5-23-83 - Definitive duty.
	do	Uncoated woodfree paper	11-22-82		5-16-83 - Case withdrawn.
	do	Spark plugs	11-30-82		
	do	Ethylene glycol monoethyl ether acetate	4-13-83		6-21-83-Price undertakings.
	do	Triple superphosphate	2-14-83		8-25-83 - Definitive duty.
	do	Propylene glycol industrial	2-15-83		
	do	Alkyl phenol ethoxylates	3-14-83		10-25-83 - No injury.
	do	Textured polyester yarn	4-11-83	5-9-83	8-18-83 - No injury.
	do	Sodium stearoyl 2-lactylate	5-16-83		11-9-83 - Other.
	do	Kraft linerboard	6-22-83		11-21-83 - No dumping.
	West Germany	Galvanized sheet and coil of iron and steel	5-8-81	7-23-81	6-6-83 - No injury.
	do	Polystyrene	12-30-83		

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome	
Australia--Con.	West Germany	Polyvinyl chloride homopolymer	10-31-83			
	do	Cold rolled sheet and coil steel	12-23-83			
	do	Hot dipped zinc coated sheet and coil sheet	do			
	do	Dishwashers	3-1-83		12-20-83 - Definitive duty.	
	do	Alkyl phenol ethoxylates	3-14-83		10-25-83 - No dumping.	
	do	Expoxidized soya bean oil	5-18-83			
	do	Special steel bar products	10-20-83		12-29-83 - Definitive duty.	
	do	Power capacitors	2-24-83			
	do	Sodium lauryl ethersulphate	9-13-82		6-30-83 - Definitive duty.	
	do	Dishwashers	3-1-83			
	do	Alkyl phenol ethoxylates	3-14-83			
	do	Expoxidized soya bean oil	5-18-83			
	do	Special steel bar products	10-20-82			
	do	Sparkplugs	11-30-82			
	Canada	Belgium	Stainless steel plate	6-23-82	11-30-82	6-9-83 - Definitive duty.
		do	Stainless steel sheet	6-23-82	12-29-82	3-29-83 - Definitive duty.
		do	Stainless steel strip	do	12-29-82	3-29-83 - No injury.
		do	Carbon and alloy steel plate	12-15-82	10-14-83	12-7-83 - Definitive duty.
		do	Wide flange steel beams	do	7-18-83	10-14-83 - No injury.
		Brazil	Stainless steel bars	6-23-82	1-12-83	4-7-83 - Definitive duty.
do		Carbon and alloy steel plate	12-15-82	10-14-83	12-7-83 - Definitive duty.	
do		Synthetic baler twine	4-2-82	11-22-82	2-18-83 - Definitive duty.	
do		Alloy tool steel bars	8-10-82	do	4-8-83 - Definitive duty.	
do		Tillage tools	3-22-82	9-29-83	12-28-82 - Definitive duty.	
China	Commercial China tableware	8-18-83				
	Hog bristle paint brushes	8-23-83				
	Carbon steel plate	12-15-82				
	Camping tents	9-12-83				
	Carbon and alloy steel plate	12-15-82		10-14-83	12-7-83 - Definitive duty.	
	Camping tents	9-12-83		12-29-82	3-29-83 - No injury.	
	Stainless steel sheet	do				
	Aluminum alloy apline ski poles	11-10-83				
	Shotsheels and rimfire	10-31-83				
	Stainless steel plate	do				
Czechoslovakia	Stainless steel strip	do				
	Stainless steel bars	6-23-82		1-12-83	7-4-83 - Definitive duty.	
	Carbon and alloy steel plate	12-15-82		12-29-82	3-29-83 - Definitive duty.	
	Aluminum alloy alpine ski poles	11-10-83		10-14-83	12-7-83 - Definitive duty.	
	Glass tumblers	7-26-83				
	Shotshells and rim fire	10-31-83				
	Stainless steel plate	6-23-82				
	Organic pigments, reds and yellows	5-28-82				
	Stainless steel sheet	6-23-82				
	Canned whole tomatoes	8-19-82				
East Germany	Hydraulic turbines	6-29-82		4-15-83	7-14-83 - Definitive duty.	
	Electric generators	9-8-83				
	Stainless steel nickel, nickel alloy pipes and tubes.	6-2-83				
	Stainless steel butt weld fittings	8-28-81		4-22-82	7-21-82 - Definitive duty.	
	Stainless steel bars	6-23-82		1-12-83	4-7-83 - Definitive duty.	
	Stainless steel bars	do				
	Stainless steel bars	do				
	Stainless steel bars	do				
	Stainless steel bars	do				
	Stainless steel bars	do				

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
Canada--Con.	Japan	Alloy tool steel bars	6-23-82	1-12-82	4-8-83 - Definitive duty.
	do	Stainless steel sheet	do	12-29-82	3-29-83 - No injury.
	do	Woven polyester filament fabrics	6-4-82	12-9-82	3-9-83 - No injury.
	Korea	Vinyl coated fabrics	7-4-83	11-9-83	
	do	Wide flange steel beams	12-15-83	7-18-83	10-14-83 - No injury.
	do	Stainless steel nickel, nickel alloy pipes and tubes.	6-2-83		
	do	Synthetic rope	1-6-82	7-9-82	1-28-83 - Definitive duty.
	do	Stainless steel bars	6-23-82	1-12-82	4-7-83 - Definitive duty.
	do	Stainless steel sheet	do	12-29-82	3-29-83 - No injury.
	do	Woven polyester filament fabrics	6-4-82	12-9-82	3-9-83 - No injury.
	do	Inner tire tubes	7-21-82	1-20-83	4-21-83 - No injury.
	do	Carbon steel welded pipe	9-14-82	3-30-83	6-28-83 - Definitive duty.
	do	Carbon and alloy steel plate	12-15-83	10-14-83	12-7-83 - Definitive duty.
	Luxembourg	Steel sheet piling	4-1-82	8-19-82	11-17-82 - Definitive duty.
	do	Carbon steel welded pipe	11-18-82	3-30-83	6-28-83 - No injury.
	Mexico	Shotsells and rim fire	10-31-83		
	N. Ireland	Contact lenses	2-4-83	12-28-83	
	Netherlands	Carbon steel and alloy plate	8-5-83	do	
	Norway	Aluminum alloy alpine ski poles	11-10-83	11-10-83	
	Portugal	Synthetic rope	1-6-82		7-9-82 - Case withdrawn.
	Romania	Carbon and alloy steel plate	12-15-82	10-14-83	12-7-83 - Definitive duty.
	South Africa	do	do	do	do
	do	Carbon steel welded pipe	9-14-82	3-30-82	6-28-83 - No injury.
	Spain	Carbon and alloy steel plate	10-14-83	10-14-83	
	do	Stainless steel bars	6-23-82	1-12-83	4-7-83 - Definitive duty.
	do	Canned whole tomatoes	8-19-82	7-18-83	1-20-83 - Case withdrawn.
	do	Wide flange steel beams	12-15-82	7-18-83	10-14-83 - No injury.
	Sweden	Carbon and alloy steel plate	10-14-83	10-14-83	
	do	Stainless steel plate	6-23-82	12-29-82	3-29-83 - Definitive duty.
	Taiwan	Stainless steel screwed end fittings	7-17-81	12-29-82	2-10-82 - Case withdrawn.
	United Kingdom	Stainless steel plate	6-23-82	10-14-83	3-29-83 - Definitive duty.
	do	Carbon and alloy steel plate	10-14-83	12-28-83	
	do	Contact lenses	2-4-83	8-19-82	11-17-82 - Definitive duty.
	do	Steel sheet piling	4-1-82		
	United States	Potatoes	9-3-83		
	do	Sugar	10-24-83		
	do	Plate coils	5-9-83	10-21-83	
	do	Bottoming materials	1-29-82	6-28-82	3-22-83 - Definitive duty.
	do	Industrial wood-cutting band saw blades	7-9-82	11-29-82	2-25-83 - Definitive duty.
	do	Soda ash	12-16-82	4-8-83	7-7-83 - Definitive duty.
	do	Toilet seats	9-22-82	1-26-83	4-26-83 - No injury.
	do	Asbestos-cement pressure pipe	11-8-82		
	do	Contact lenses	2-4-83	12-28-83	1-20-83 - Case withdrawn.
	do	Stainless steel nickel, nickel alloy pipe and tube.	6-20-83		

Table 10. Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome	
Canada--Con.	West Germany	Aluminum alloy alpine ski poles	11-10-83			
	do	Steel beams	12-15-83	7-18-83	10-14-83 - No injury.	
	do	Stainless steel plate	6-23-82	12-29-82	3-29-83 - Definitive duty.	
	do	Stainless steel nickel, nickel alloy pipe and tubes.	6-20-83			
	do	Stainless steel strip	6-23-82	12-29-82	3-29-83 - Definitive duty.	
	do	Stainless steel bars and wire cut in lengths.	6-23-83	1-12-83	4-12-83 - Definitive duty.	
	do	Organic pigments, reds and yellows	5-28-82	11-15-82	2-11-83 - Definitive duty.	
	do	Carbon and alloy steel plate	12-15-82	10-14-83	12-7-83 - Definitive duty.	
	do	Alloy tool steel bars	6-23-82	1-12-83	4-8-83 - Definitive duty.	
	do	Stainless steel sheet	do	12-29-82	3-29-83 - No injury.	
	do	Mold steel	6-23-83	1-12-83	4-12-83 - Definitive duty.	
	do	Steel sheet piling	4-1-82	8-19-82	11-17-82 - No injury.	
	do	Wide flange steel beams	12-15-82	7-18-83	10-14-83 - No injury.	
	Australia	Canned pears	2-10-82		7-20-83-Price undertakings.	
	Brazil	Shovels	12-23-83			
	do	Steel plates	7-31-82	2-17-83	5-20-83 - Definitive duty.	
	do	Fiber building board	5-5-82		2-19-83-Price undertakings.	
	do	Hot rolled coils	11-20-82	3-29-83	8-2-83 - Definitive duty.	
	Canada	do	do	do	do	do
	do	Vinyl acetate monomer	7-7-83			
do	Stainless steel bars and wire in cut lengths.	6-23-82	1-12-83	4-7-83 - Definitive duty.		
Czechoslovakia	Horticultural glass	7-21-83				
	Hardboard	8-31-83				
	Artificial corundum	9-30-83				
	Codeine	4-1-81				
	Hexamethylenetetramine	8-13-82				
	Oxalic acid	9-19-81				
	Refrigerators	7-2-81				
	Sanitary fixtures	3-29-83				
	Vacuum cleaners	9-25-81				
	Perchlorethylene	5-25-82				
	Trichlorethylene	10-23-81				
	Photographic enlargers	do				
	Polyvinylchloride	12-19-81				
	Copper sulphate	12-17-82				
	Low density polyethylene	9-3-82				
	Fiber glass	11-27-82				
	Aluminum	2-10-83				
	Codeine	4-1-81				
	Sanitary fixtures	3-29-83				
	Miniature ball bearings	7-14-83				
	Electronic weighting machines	9-3-83				
	Photographic paper	10-28-83				
	Dicumyl peroxide	2-17-83				
	Outboard motors	8-19-82				
	Fiber glass	11-27-82				
	Video recorders	12-24-82				
	Aluminum	8-2-83				
	Ferrosilicon	9-24-82				
	Egypt	Codeine	4-1-81			
		Sanitary fixtures	3-29-83			
		Miniature ball bearings	7-14-83			
		Electronic weighting machines	9-3-83			
		Photographic paper	10-28-83			
Dicumyl peroxide		2-17-83				
Outboard motors		8-19-82				
Fiber glass		11-27-82				
Video recorders		12-24-82				
Aluminum		8-2-83				
Ferrosilicon		9-24-82				
Hungary		Codeine	4-1-81			
		Sanitary fixtures	3-29-83			
		Miniature ball bearings	7-14-83			
		Electronic weighting machines	9-3-83			
		Photographic paper	10-28-83			
		Dicumyl peroxide	2-17-83			
		Outboard motors	8-19-82			
		Fiber glass	11-27-82			
		Video recorders	12-24-82			
	Aluminum	8-2-83				
	Ferrosilicon	9-24-82				
	Japan	Codeine	4-1-81			
Sanitary fixtures		3-29-83				
Miniature ball bearings		7-14-83				
Electronic weighting machines		9-3-83				
Photographic paper		10-28-83				
Dicumyl peroxide		2-17-83				
Outboard motors		8-19-82				
Fiber glass		11-27-82				
Video recorders		12-24-82				
Aluminum		8-2-83				
Ferrosilicon		9-24-82				
Norway		Codeine	4-1-81			
	Sanitary fixtures	3-29-83				
	Miniature ball bearings	7-14-83				
	Electronic weighting machines	9-3-83				
	Photographic paper	10-28-83				
	Dicumyl peroxide	2-17-83				
	Outboard motors	8-19-82				
	Fiber glass	11-27-82				
	Video recorders	12-24-82				
	Aluminum	8-2-83				
	Ferrosilicon	9-24-82				

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome	
EC--Con.	Poland	Horticultural glass	7-21-83			
	do	Hardboard	8-31-83	8-31-83	12-24-83 -Definitive duty.	
	do	Codeine	4-1-81		1-20-83 - Other action.	
	do	Photographic enlargers	10-23-81	7-21-82	1-12-83-Price undertakings.	
	do	Low density polyethylene	9-3-82		5-27-83-Price undertakings.	
	do	Sodium carbonate	11-21-78	1/ 10-6-82	2-3-83-Definitive duty. 1/	
	Romania	Horticultural glass	7-21-83			
	do	Hexamethylenetetramine	8-13-82		2-12-83-Price undertakings.	
	do	Sodium carbonate	11-21-78	1/ 10-6-82	2-3-83-Definitive duty. 1/	
	do	Cold-rolled steel sections	4-23-83			
	do	Choline chloride	do	12-20-83		
	do	Penterythritol	9-13-83			
	do	Artificial corundum	9-30-83			
	do	Ceramic tiles	10-19-83			
	do	Concrete reinforcing bars	11-5-83	11-5-83		
	do	Broad flanged beams	8-10-82	8-13-82	2-1-83-Definitive duty. 2/	
	do	Hardboard	8-31-83	8-31-83	12-24-83-Price undertakings	
	do	Ferrosilicon	9-24-82		3-4-83-Price undertakings.	
	do	Xanthan gum	9-28-83		9-30-83 - No injury.	
	United States	N-propyl alcohol	10-14-83			
do	Acrylonitrile	4-3-82		4-20-83 - No injury.		
do	Bisphenol	4-14-82		1-26-83 - Definitive duty.		
do	Sodium carbonate	6-11-82	11-13-82	3-10-83-Price undertakings.		
do	Cellulose ester resins	11-16-82		4-23-83-Price undertakings.		
do	Chemical fertilizer	7-16-82	3/ 2-27-82	1-19-83-Definitive duty. 3/		
do	Artificial corundum	9-30-83				
Yugoslavia	Copper sulphate	8-11-83				
do	Ferro silicon	6-8-82		3-4-83-Price undertakings.		
do	Codeine	4-1-81		1-20-83 - Other action.		
do	Aluminum	2-10-83				
do	Caravans	3-31-83		8-30-83-Price undertakings.		
Australia	Carbon steel wire rod	12-30-83				
do	Portland cement	10-19-82	4-29-83	9-13-83 - Definitive duty.		
do	Carbon steel plate	10-25-83		1-23-83 - Case withdrawn.		
do	Hot-rolled carbon steel sheet	do		11-22-83 - Case withdrawn.		
do	Thin sheet glass	4-11-83		5-11-83 - No injury.		
Brazil	Certain carbon steel products	12-8-83				
do	Hot-rolled carbon steel plate	2-28-83	9-7-83			
do	Hot-rolled carbon steel sheet	do	do			
do	Carbon steel plate	2-28-83				
do	Carbon steel wire rod	10-20-82	5-4-83	9-22-83 - Definitive duty.		
Canada	Choline chloride	12-20-83				
do	Potatoes	3-7-83	8-2-83	12-12-83 - No injury.		
do	Sodium nitrate	5-6-82	11-15-82	1-28-83 - Definitive duty.		
China	Barium carbonate	11-18-83				
do	Barium chloride	do				
do	Printcloth	8-26-83	3-9-83	7-28-83 - Definitive duty.		
do	Canned mushrooms	11-18-82	5-20-83	10-5-83 - No dumping.		
do	Cotton shop towels	9-13-82	3-28-83	9-16-83 - Definitive duty.		

Table 10. Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome	
United States--Con.	China	Greige polyester printcloth	9-1-82	3-9-83		
	do	Chloropicrin	5-2-83	9-19-83		
	do	Potassium permanganate	3-14-83	8-9-83	12-29-83 - Definitive duty.	
	Colombia	Fresh cut roses	10-26-83			
	France	Certain stainless steel sheet and strip products.	6-8-82	12-9-82	4-29-83 - Definitive duty.	
	do	Nitrocellulose	7-28-82		8-10-83 - Definitive duty.	
	Italy	Roller bearings	2-24-83	8-30-83		
	do	Spindle belting	8-30-83		9-19-83 - No injury.	
	do	Forged undercarriage components	5-24-83		10-7-83 - No dumping.	
	do	Instrument pads	11-25-83			
	do	Tapered journal roller bearings	2-24-83			
	do	Forged undercarriage parts	5-24-83			
	Japan	Roller bearings	2-24-83	8-30-83	8-30-83	
	do	Spindle belting	8-30-83			
	do	Filament fabrics	1-24-83	1-24-83	8-21-83	9-19-83 - No injury.
	do	Titanium sponge	12-23-83			
	do	Steel valves	10-18-83			
	do	Certain steel pipes and tubes	2-12-82	1-11-83		
	do	Cyanuric acid	6-20-83	11-18-83		
	do	Tapered journal roller bearings	2-24-83			
	do	Polyester fiber fabric	1-24-83			
	do	High capacity papers	9-8-82			
	do	Portland hydraulic cement	10-19-82	1-26-83	8-16-83 - Definitive duty.	
	Korea	Filament fabrics	1-27-83	4-29-83	9-13-83 - Definitive duty.	
	do	Circular steel pipes and tubes	5-11-83	8-8-83	12-5-83 - No injury.	
	do	Rectangular steel pipes and tubes	8-11-83	10-28-83		
	do	Carbon steel plate	11-28-83	10-31-83		
	do	Tire tubes	8-12-83			
	do	Steel wire rope	10-18-82		9-16-83 - No dumping.	
	do	Color television receivers	5-27-83	10-19-83		
	do	Polyester fiber fabric	1-24-83			
	do	Welded carbon steel pipe	5-17-83			
	Mexico	Carbon steel wire rod	12-30-83			
Poland	do	do				
Romania	Color television	5-27-83				
do	Certain steel products	2-1-82		8-16-82	1-4-83-Price undertakings.	
Spain	Carbon steel wire rod	12-30-83				
do	Potassium	3-14-83				
Sweden	Staples and staple machines	1-6-83				
do	Certain staples and staple machines	1-6-83				
Switzerland	Spindle belting	8-30-83	8-9-83	11-28-83 - Definitive duty.		
do	Thin sheet glass	4-11-82	5-25-83	12-20-83 - Definitive duty.		
Taiwan	Carbon steel pipes and tubes	5-11-83	6-2-83			
do	Acrylic sheet	8-25-83	10-28-83			
do	Bicycle tires and tubes	12-7-82		9-19-83 - No injury.		
do	Color television receivers	5-27-83		5-11-83 - No injury.		
do	Welded carbon steel pipe	5-17-83				
do	Bicycles	10-14-82		4-9-83 - No injury.		
do				7-11-83 - Definitive duty.		

Table 10.--Antidumping actions reported by signatories to the GATT Antidumping Code, in 1983--Continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States--Con.	Trinidad and Tobago	Carbon steel wire rod	10-20-82	5-4-83	9-22-83 - Definitive duty.
	United Kingdom	Choline chloride	12-20-83		
	do	Titanium sponge	12-23-83		
	do	PC steel wire strand	3-4-82	10-6-82	2-9-83 - No injury.
	Venezuela	Carbon steel wire rod	3-1-82	7-19-82	2-24-83 - No injury.
	West Germany	Certain stainless steel sheet and strip products.	5-21-82	12-17-82	5-6-83 - Definitive duty.
	do	Spindle belting	8-30-83		9-19-83 - No injury.
	do	Carbon steel plate	10-25-83		1-23-84 - Case withdrawn.
	do	Hot-rolled steel sheet	10-25-83		11-22-83 - Case withdrawn.
	do	Roller bearings	2-24-83		8-30-83 - No dumping.
	do	Thin sheet glass	4-11-83		5-11-83 - No injury.
	do	Tapered journal roller bearings	5-24-83		
	do	Tool steel	8-24-82		1-12-83

1/ The duty was imposed following a review of the previous anti-dumping measure.

2/ Suspended on April 30, 1983 in view of arrangements made with Spain in respect of trade in steel products.

3/ The duty was imposed following the withdrawal of price undertakings.

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

At the invitation of the chairman of the committee, interested parties submitted written questions concerning the antidumping (and countervailing) duty legislation of Australia, following the April meeting. Some responses listed their specific objections to that statute, inviting the Australian Government to explain how specified provisions in their antidumping legislation are consistent with the antidumping code.

The Australian antidumping legislation was an important subject again at the committee's second semiannual meeting in November. At that time, the signatories discussed Australia's written responses to their questions. Many commented that these confirmed, rather than dispelled, the impression that problems existed in the statute's compatibility with the agreement.

The Australian delegate conceded that the country's antidumping legislation conforms more to the agreement negotiated during the Kennedy round (1967) than to the code currently in effect, which was developed during the Tokyo round (1979). The delegate also commented that although some key provisions of the agreement are not covered in Australia's domestic legislation, they are provided for in the form of administrative guidelines. The signatories agreed to continue this discussion at their next meeting. Australian legislative proposals must be introduced in Parliament before they are released for discussion in the committee.

Canada is another signatory to the antidumping agreement whose domestic antidumping legislation was awaiting introduction in Parliament at the time of 1983 semiannual committee meetings when the status of this bill had been repeatedly questioned. 1/ In November 1983, the Canadian delegate stated that the legislation had been fully drafted awaiting introduction at the next session of Parliament. 2/

Also at its November meeting, the committee welcomed Egypt, the newest signatory to the antidumping agreement. Egypt had ratified the agreement on September 16, 1983, bringing the number of full signatories to 21 by yearend. 3/

An ad hoc group of experts on the implementation of the agreement met several times during the year. They focussed on drafts submitted on procedural matters such as the "transparency" of antidumping proceedings; on-the-spot investigations; time limits given to respondents to antidumping questionnaires; and the method of providing the "best information" to the parties involved in a case. The "transparency" issue revolves around the need of interested importers and exporters to be informed to the fullest possible extent concerning the allegations made against them. This means, in part, that interested parties may get full documents rather than expurgated versions pertaining to their case. "Best information" requires that disclosures should include all relevant and verifiable information.

1/ See OTAP, 34th report, 1982. United States International Trade Commission Publication 1414, 1983, p. 61.

2/ The bill was, in fact, introduced this year at the January 16th session of the Canadian Parliament.

3/ See table 8 at the beginning of this section for a full listing of this code's membership.

Once a consensus is reached on the text of these draft documents, these procedures will be adopted by the committee. However, whether they would be adopted as clarifying guidelines or binding obligations remains to be determined.

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. 1/ At yearend 1983, there were 23 signatories. 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 not be denied on the basis of documentation errors only when the errors are significant nor for minor variations in terms of value, quantity, or weight of the product.

In 1983, the Committee on Import Licensing held two meetings, one in July and one in October. 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. Several members explained their implementation of the agreement relating to transparency. In this respect the committee continued to request further efforts from Japan to comply with the relevant requirements of the agreement.

The committee continued to compile information on the licensing system of each signatory to be submitted to the GATT Secretariat. At the October meeting, the committee also examined the adequacy and effectiveness of the agreement in the light of its operation since it entered into force. The committee found that the work carried out so far under the agreement has permitted a marked improvement in transparency with regard to import licensing procedures and their operation.

1/ 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 necessary to obtain such licenses are complicated. The "red tape" involved in obtaining licenses under these circumstances is considered a barrier to international trade.

2/ See table 8 at the beginning of this section for a full listing of this code's membership.

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 (NTB's) with regard to standards, government purchase policies, quantitative restrictions, financing, and inducements in the aircraft sector. The agreement's focus on removing both tariffs and NTB's in a single sector of industry makes it unique among the Tokyo round codes. The agreement went into effect on January 1, 1980, with 17 signatories. In 1983, there were 20 signatories. 1/ No new members joined during 1983.

The Committee on Trade in Civil Aircraft frequently discusses the problem associated with interpretation of article 2.1.2 of the agreement, which calls for the elimination of all duties and other charges on repairs on civil aircraft. The United States took the view that repairs of aircraft should be duty free only for the aircraft and parts covered by the Annex to the Agreement. 2/ The EC expressed the opinion that repairs of any aircraft or aircraft products, not just products covered by the Annex to the Agreement, should be duty free. In 1983, at the May meeting, the committee agreed that article 2.1.2 should apply only to products listed in the Annex of the agreement.

The committee discussed the subsidization of civil aircraft exports stressing the link between obligations under article 6 of the agreement and those obligations under the Code on Subsidies and Countervailing Measures. During these discussions all members recognized the importance of avoiding trade distortions, in particular those caused by officially supported export credits. Some members stated that the aircraft agreement was not the appropriate forum for discussing export subsidies. The United States, however, felt that it was appropriate that the agreement make a policy statement that signatories did not want subsidies in the area of export financing of civil aircraft. The issue was still under discussion at yearend.

In the original version of the agreement, all aircraft with military registration were excluded from coverage. In 1982, signatories agreed that exclusion of nondefense aircraft with military registration (aircraft mainly operated by domestic police forces) was too restrictive; subsequently members agreed to bring such nondefense aircraft under the agreement. In 1983, members agreed to refer the matter of the civil/military identification for customs purposes to the Technical Subcommittee.

1/ See table 8 at the beginning of this section for a full listing of this code's membership.

2/ The Annex to the Agreement lists products accorded duty-free treatment under the Civil Aircraft Agreement.

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. The United States initiated an investigation regarding subsidies reported to have been paid to French and Italian producers of certain commuter aircraft. An investigation by the U.S. International Trade Commission found no injury or threat of injury.

Negotiations under article 8.2 of the code were continued in 1983 to broaden and improve the agreement. On October 6, the members of the committee agreed to recommend to their governments the addition of 32 new categories of civil aviation products to the lists of products already admitted duty free. The new duty free treatment will take effect on January 1, 1985. The Commission has instituted an investigation, under section 332(g) of the Tariff Act of 1930, to probe the probable economic effects of duty-free imports on U.S. producers of certain articles used in civil aircraft. A public hearing was held on January 5, 1984.

The agreement 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 of aircraft, parts, and repairs. During 1983, the subcommittee reported to the committee on the work done, within the subcommittee, on statistics, tariff classification matters (including those arising from the introduction of the Harmonized System), the reproduction of Aircraft Agreement concessions in national tariffs (including civil/military identification), and nomenclature for the new products agreed to for inclusion in the Annex to the Agreement.

The signatories to the agreement noted that the it has facilitated trade in civil aircraft. The duty-free or duty-exempt treatment by signatory countries of all civil aircraft and most parts on a most-favored-nation basis has benefited all parties. Also, the successful negotiation of additional items for duty-free or duty-exempt treatment indicates that the liberalization of trade in civil aircraft may gain momentum. Signatories also noted that both the Aircraft Committee and the Technical Subcommittee have served as useful forums in which to examine, discuss, or explore both trade policy and technical matters. Looking to the future, signatories declared that they welcome open discussions with interested contracting parties, in particular, developing countries producing aircraft or components, to remove the obstacles to their accession to the agreement.

Arrangement Regarding Bovine Meat

The Arrangement Regarding Bovine Meat seeks to promote expansion, liberalization, and stabilization of trade in meat and livestock and to improve international cooperation toward these ends. The arrangement applies to beef, veal, and live cattle. In force since January 1980, the membership of the agreement has grown to 25. ^{1/} The list of signatories includes all major beef-exporting and beef-importing countries, except the Soviet Union, and covers roughly 90 percent of exports and 60 percent of both imports and

^{1/} See the table 8 at the beginning of this section for a full listing of this code's membership.

production in the sector. Guatemala and Paraguay became signatories during 1983. As one of the few codes which admits signatories that are not members of the GATT, the arrangement includes Bulgaria, Guatemala, and Paraguay. Belize and Paraguay are applying the arrangement provisionally.

Under the arrangement, the signatories coordinate the collection and dissemination of data on production, trade, and prices and consult on market conditions and problems in the bovine meat sector. The vehicle through which the arrangement operates, the International Meat Council (IMC), met twice in 1983. The IMC reviewed the operation of the arrangement and made an evaluation of the world bovine meat supply and demand conditions. One paper prepared by the GATT Secretariat for the meat council was designed to serve as an aid in the continual monitoring of market conditions and to help provide an early warning function to detect market imbalances.

At International Meat Council meetings held in 1983, members agreed that the arrangement had been working in a satisfactory manner in its 4 years of existence but that the aims of the arrangement should be seen within the context of contributing to the progressive dismantling of obstacles and restrictions to international trade in this sector. Some members noted that not enough attention had been paid to discussion of national policies which inhibit the development of beef trade. National policies of the EC and, to a lesser extent, of the United States are a growing concern to other members of the arrangement who see access to these markets as vital to expansion of world trade in bovine meat. Studies of national policies and their influence on the evolution of the international meat market, which are already underway, were not completed during 1983, but may be the subject of discussions in 1984.

International Dairy Arrangement

Designed with the aim of expanding and liberalizing world trade in dairy products through the improvement of international cooperation, the Dairy Arrangement establishes (1) a system for review and consultations regarding market conditions and trade conflicts; (2) a central pool of data on world production, trade, stocks, and prices; and (3) minimum export prices for "pilot" products covered under the three protocols on milk powders, milk fats, and cheeses. Administration of the arrangement is the responsibility of the International Dairy Products Council. On January 1, 1980, the International Dairy Arrangement entered into force with 15 signatories. Three additional countries acceded in 1980, bringing to 18 the current number of members. 1/

Review of world market conditions for dairy products and assessment of the functioning of the agreement are required at all regular Council meetings. Implementation of the protocols is assigned to three committees that report to the Council. National policies, food aid, data regarding products (whether covered or not by the Protocols), and reports of the protocol committees are considered.

In addition to the two regular meetings in 1983, a special Dairy Council meeting was held at the request of the EC, to discuss U.S. sales to Egypt. This event represented the first opportunity for the Council to settle a dispute under the provisions of the arrangement. In the opinion of the EC, these sales were prejudicial both to the EC and to the stabilization of the world dairy product market because the United States was not observing minimum-price provisions of the arrangement. At the meeting, the EC proposed adoption of a recommendation, addressed to the United States, which would contain a remonstrance or solemn appeal not to repeat the action. Although the recommendation was supported in principle by the majority of members, it was not adopted since the United States did not agree with the consensus. The United States argued that neither the arrangement nor minimum price levels had been violated, and produced price calculations as evidence. The United States considered the sales to fall within the range of recent price quotes. Further argument stated that U.S. sales represented only a small portion of world trade in these items, although corresponding trade subsidized by the EC was significantly larger.

Reports of the Protocol Committees to the Dairy Council recounted results of discussions examining the level of minimum prices and surveying government measures. Rising production costs, among other factors, were considered as justification for increasing minimum prices. ^{1/} However, consensus favored the view that market conditions, combined with the appreciation of the U.S. dollar, mitigated against raising the minimum prices at this time. Joint meetings of the Protocol Committees were held to conduct surveys of government measures to expand consumption of dairy products.

The annual report ^{2/} concluded that world output has increased but consumption has progressed less rapidly. Although international dairy trade continues a downward trend, food aid exports are increasing. Stocks held by major producers are substantially above those held in 1982 and prices continue a downward trend, except with respect to cheddar cheese. The report predicts that with some economic recovery prices may firm in coming months.

In assessing the functioning of the arrangement, the Dairy Council noted that the mechanisms of the arrangement had been tested by the economic situation in which production and stocks are increasing, whereas consumption and prices remain weak. Satisfactory performance was seen in the arrangement's contribution to better knowledge of the market and to strengthening of international cooperation.

^{1/} Minimum prices, subject to annual review, were increased slightly in 1980 to the following levels per metric ton: skimmed milk powder -- US\$500; whole milk powder -- US\$800; butter -- US\$1,000; anhydrous milk fat -- US\$1,200; and certain cheeses -- US\$900.

^{2/} World Market for Dairy Products, the fourth annual GATT Secretariat report on products under the arrangement was published in December 1983.

Other conclusions noted that better functioning could be insured if all main trading partners and greater numbers of developing countries would participate. Specific reference was made to Canada, which had been unable to join since its proposed reservations, which must be approved by consensus, had not been accepted. 1/ The Dairy Council also noted that information regarding food aid requirements and sales is vital to the effective functioning of the arrangement. 2/ Signatories can apply this information to try to avoid harmful interference with normal patterns of production, consumption, distribution, and international trade.

1/ Although art. VIII, par. 1(b) of the GATT provides that governments may make reservations at the time of acceptance to any of the protocols, some countries have not signed the arrangement since the Council has not, as yet, approved any reservations.

2/ The Protocols contain a "guarantee of supply" to importing developing countries and do not apply minimum prices to donated exports.

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CHAPTER III
TRADE AGREEMENTS ACTIVITIES OUTSIDE THE GATT

OVERVIEW

Although the General Agreement on Tariffs and Trade (GATT) provides the broad international legal framework for trade among nations, a number of other organizations and activities, also have bearing on the international trading environment. Organizations such as the Organization of Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) provide forums for general discussion and evolution of consensus on policy issues including, but not limited to, trade. In this sense, these organizations cover more ground than the GATT, but they do not aim for the same degree of specific legal obligation required of GATT members. Other bodies such as the Customs Cooperation Council and the commodity agreement organizations cover a narrower purview than GATT but do provide a legal basis for coordinating and regulating certain specific aspects of international trade. For the first time, trade in services and trade agreements relating to this sector are profiled in this chapter. Services are prominent in U.S. trade but, presently, their status in relation to GATT discipline is not clearly defined.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

In 1961, the OECD evolved from a remodeling of the Organization for European Economic Cooperation to accommodate the accession of non-European members and to bring North-South relations within its scope. ^{1/} The objective of the OECD is to facilitate cooperation on questions of common interest to policymakers of member states in order to enhance mutual economic and social welfare. This mission is promoted by first building a consensus among members on the nature of the problems of interdependence and then coordinating strategy on policies to solve those problems. Given this mandate, the OECD covers a whole host of social and economic issues. The scope of this section, however, rests with the organization's trade-related initiatives.

The mode of operation of the OECD reflects the nature of the goals it seeks to obtain. A better understanding of the problems facing member states is achieved through the conclusion of ambitious research projects to which all members contribute. In order to conduct these projects, the OECD has set up over 40 functional committees and working parties which report to the Council and are serviced by more than a dozen divisions of the Secretariat which are known as Directorates. The completed studies are then used to arrive at policy recommendations which are presented to the Council for consideration and possible adoption.

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

The Council, the decisionmaking body of the OECD, meets frequently at the Permanent Representatives' level to oversee the committee activities. The Council meets once yearly at the Ministerial level drawing upon work of the committees to arrive at a consensus on common policy goals and directions. In this fashion, the OECD promulgates policy declarations, implements work programs, and concludes prescriptive instruments to guide coordination of members' policies. 1/

Ministerial Conclusions on Trade

During the 1980's, global economic difficulties have led the OECD to grant greater attention to trade issues. Although one formal declaration on trade came forth in 1974 following the effect of the oil crisis on industrialized countries, a number of formal trade-related commitments have surfaced since 1980. 2/ Beginning with the 1980 Declaration on Trade Policy, 3/ OECD members made a commitment to avoid protectionist pressures. Follow up on trade issues at the 1982 ministerial, resulted in extensive emphasis on trade research and policy directives. In 1983, the Ministers recognized the "powerful linkages between growth, trade and debt," and the dire need not only to avoid, but to "reverse protectionist trends."

Regular review of the "main developments and issues in the fields of international trade and trade policy" was initiated by the 1980 declaration. Upon assessment of such a review submitted in 1982, the Ministers issued a communique containing a broad program of action on trade matters. The 1982 program of work mandated intensification of existing studies and initiation of new projects on the trade related aspects of investment, services, high-technology structural adjustment, domestic support measures, and restrictive business practices. In addition, in-depth analyses of protectionism, the relationship between macroeconomic policies and trade policies, and means of strengthening multilateral cooperation and consultation on trade issues were requested.

1/ Some of these instruments related to trade include the OECD Privacy and Transborder Data Flow Guidelines, OECD Standardization Schemes and Codes, the Export Credits Arrangement, the Code of Liberalization of Capital Movements, and the Code of Liberalization of Current Invisibles Operations.

2/ The Trade Declaration of 1974 urged member countries to resist the protectionist pressures from business and labor that normally accompany a recession.

3/ The 1980 declaration, also known as the Trade Pledge, called upon OECD members to avoid protectionist actions and to work toward the multilateral solution of problems not yet subject to international discipline. For further details, see OTAP, 32nd Report, 1980, p. 72.

These research projects were given a time frame of 2 to 3 years. For this reason, few major trade policy recommendations or pronouncements were issued in 1983, with the exception of the changes in the Export Credits Arrangement. OECD trade work in 1983 consisted of continuation of the ongoing studies, most of which are conducted in coordination with the Trade Committee. 1/ The research is scheduled to produce policy recommendations throughout 1984 and 1985. Progress during 1983 on some of these items will be discussed below.

At the 1983 Ministerial level meeting, the Ministers recognized a collective responsibility to coordinate policies so as to strengthen the international trading, monetary, and financial systems. As a result of discussions of the powerful linkages between growth, trade, and debt, the Ministers agreed that strengthening the open and multilateral trading system was essential to support recovery and a transition to sustained growth. Restrictive trade measures introduced in the recent period of poor economic growth were a main concern. The commitment to resolve debt problems through trade expansion led to an agreement to work toward mutually reinforcing action to establish more predictable and transparent trade regimes, to reduce trade barriers, and to pursue more market-conforming domestic structural policies, making use of the framework of existing international agreements.

Protectionism

Although a number of statements related to trade emerged from the 1983 Ministerial, probably the most significant commitment consisted of a statement in which the Ministers agreed

that the economic recovery, as it proceeds, provides favorable conditions which member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle trade restrictions and trade-distorting domestic measures, particularly those introduced over the recent period of poor growth performance. 2/

The OECD's Secretary-General has proposed followup measures that are designed to guide concrete implementation of the pledges to "reverse protectionist trends" and to "dismantle trade restrictions." Part of the aim of the proposal is to provide better information to policymakers on the costs of protectionism and the kinds of protective measures less harmful to the market. Beyond this, however, the Secretary General called for close consultation between the Secretariat and OECD members to come up with steps for meaningful implementation of the commitments.

1/ The Trade Committee was mandated in a Resolution on Trade adopted at the 1960 Ministerial meeting.

2/ From the Communique of the 1983 Council Meeting at the Ministerial Level in the OECD Observer, No. 122, May 1983, pp. 3-5.

Safeguards and restrictive business practices

Although safeguard actions are of concern to OECD members, the primary role of drawing up a code to regulate these protectionist measure is left to the GATT. The OECD is, however, examining safeguard measures in conjunction with other projects. For example, the Committee of Experts on Restrictive Business Practices has found safeguards relevant to its work on "problems arising at the frontier between competition and trade policies." Voluntary export restraint agreements, export and import cartels, and some nontariff barriers, among other issues, will be considered by the committee in terms of their relationship to trade and competition.

Export Credits Arrangement

The Arrangement on Guidelines for Officially Supported Export Credits (the arrangement) was ratified in April 1977 by 22 OECD nations with the goal of regulating subsidies on export credits. On October 15, 1983, arrangement participants succeeded in the latest attempt to update the agreement. The arrangement seeks to insure fair competition for credit terms on most exports from OECD nations by setting interest rate floors, ceilings on maturities, minimum downpayments, and maximum local-cost financing. Official export credit, one of the 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. This subsidization of the terms of export credit is one of the principal means industrialized nations use to promote exports.

Under the arrangement, interest rates and maturities vary according to the income classifications of the intended recipient: the highest rates and shortest maturities apply to buyers whose countries are classified as relatively rich (category I); progressively more lenient terms are permitted for countries classified as intermediate (category II) and relatively poor (category III). In all categories, the minimum interest rates are lower than commercial rates prevailing in most capital markets. The original terms negotiated in 1977 were not pegged to possible changes in commercial interest rates; thus, the arrangement has been adjusted from time to time, most recently in October 1983. ^{1/}

As the market rates in most industrialized nations rose in 1982, the partners to the arrangement raised the minimum interest rate in an attempt to align the rates more realistically with market rates. In 1983, following a decline in interest rates, countries complained that the minimum rate was too high and that the system lacked flexibility. On October 15, 1983, a new schedule of minimum interest rates for export credit was adopted. Table 11 below illustrates the changes.

^{1/} For details on a major 1981 revision of the arrangement see OTAP, 33rd Report, 1981, p. 76.

Table 11.--Minimum interest rate guidelines and former rates ^{1/} for officially supported export credits, by maximum repayment periods

Country type ^{2/}	2 to 5 years	5 to 8.5 years	8.5 to 10 years
I. Relatively rich-----:	12.15 (12.15)	12.40 (12.40)	-
II. Intermediate-----:	10.35 (10.85)	10.70 (11.35)	-
III. Relatively poor ^{3/} ---	9.50 (10.00)	9.50 (10.00)	9.50 (10.00)

^{1/} Former rates are shown in parenthesis.

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

^{3/} This category also includes countries eligible for concessional lending by the International Development Associations of the World Bank.

Source: The OECD Observer, No. 125, November 1983, p. 19.

Under the new terms of the arrangement, intermediate and relatively poor countries were permitted to obtain lower minimum rates of interest. For the first time, the arrangement incorporates a mechanism which automatically adjusts the minimum rates. The automatic adjustment is to occur every 6 months (in January and July) to reflect changes in the market rates of interest. The adjustments are to be measured by an international weighted average interest rate. ^{1/} In addition, a process of upward adjustment, beginning in July 1985, will begin. At that time, the minimum interest rates for countries in categories II and III will be raised. The purpose of the incremental increases is to bring the rates more in line with commercial market rates.

Another source of difficulty with the arrangement has been with countries which have commercial interest rates below the minimum rates that the arrangement prescribes. The updated arrangement addressed this issue by creating commercial interest reference rates (CIRR's). Countries with low rates shall be allowed to provide subsidized rates so long as the interest rate charged is not less than the CIRR plus 0.2 percentage points per annum.

Services

One of the results of the 1982 Ministerial level meeting of the Council was a directive to examine "ways to remove unjustified impediments to international trade in services; and to [consider] ways of improving international cooperation in this area." During 1983, work on the various elements of this examination continued to progress. The Trade Committee pressed forward on investigation of the general concepts applicable to trade in services. Though examination of trade in services is generally carried out under the auspices of the Committees on Trade and on Capital Movements and Invisible Transactions, studies which investigate specific service sectors

^{1/} An adjustment is spurred when a change of at least one half of one percent has occurred in the weighted average interest rate.

(insurance, banking, maritime transport, tourism, among others) are being conducted by other competent committees. Analysis of services issues also includes activities sponsored by the OECD Committee for Information, Computer and Communication Policies such as the Symposium on Transborder Data Flows held in November 1983.

Analytical work by the Trade Committee has covered those concepts already applied in trade of goods which can be translated to problems associated with trade in services. Such concepts have included market access, transparency, nondiscrimination, and national treatment. Further discussion has pursued an understanding of reasonable levels or degrees of regulation of trade in services. The mainly theoretical framework of the Trade Committee is expected to be synthesized with the results of the sectoral projects once all are complete some time during 1984.

The examination, in its entirety, aims to establish a set of common criteria that can provide a frame of reference for improving the relevant instruments of the OECD. Within this context, updating of the Code of Liberalization of Current Invisible Operations is one specific example. In 1984, the final report addressing means of improving international cooperation in services trade is slated for submission to the Council for consideration.

High-Technology Trade

OECD work on trade in high-technology products takes a two-part approach of assessing the interrelated policy issues of trade in and transfer of technologies. The Committee for Scientific and Technological Policy (CSTP) and the Industry Committee, have cooperated to identify those high-technology issues which have trade significance and establish a working definition of high technology products. Studies of six high technology sectors have been undertaken in order to pinpoint examples of the dominant issues. The sectors being examined are telecommunications, robotics, pharmaceuticals, machine tools, electronics, and satellites and satellite launchers. Findings which result from this joint effort will be analyzed by the Trade Committee for identification of specific trade policy problems and possible solutions.

The CSTP also worked with related committees to study the recent history of technology transfer and certain industry sectors with a view to understanding the international flow of technologies. This work will feed into progress on the OECD codes and guidelines related to technology flow which are currently undergoing updating and revision. Proposals for appropriate action are to be drawn from the studies.

Agricultural Trade

Conclusions of the 1982 OECD Ministerial directed the Committees on Agriculture and Trade to join forces to spur progress toward strengthening cooperation on agricultural trade problems and developing "practical multilateral and other solutions." Examination of the results of the research began in late 1983 and will continue through 1984. Conclusions are scheduled to be discussed toward the end of 1985. OECD work on agricultural issues, some of the most contentious in trade relations, complements that of the GATT and may contribute to related discussions in that body.

Several subjects are under analysis in the joint working party set up by the Committees on Agriculture and Trade. Some of these subjects are methods for gradual reduction of protectionism, effects of national policies on trade, and possibilities for improving the functioning of the world agricultural market. In order to assess methods to reduce protectionism, individual commodities are being studied. These commodities include cereals, meats, sugar, dairy products, certain fruits and vegetables as well as noncereal feedstuffs. National policy analyses will be conducted for certain major agricultural countries during 1984. The work, as a whole, will take into consideration means of measuring the degree of agricultural protectionism and the effects of changes in protective measures. National policies that will generally be examined may include price and income support and structural measures, market and institutional organization, consumer policies, inter alia, as well as various trade related measures affecting agriculture. In 1983 the Agriculture Committee completed the report, "Issues and Challenges for OECD Agriculture in the 1980s." The report includes trade issues in its more general assessment of the agriculture picture and adds to the overall effort in this field.

As a followup measure to implement the agriculture mandate, consultations among major OECD agricultural producing countries began in March 1983 in the Committee on Agriculture. These consultations are aimed at easing market imbalances in problem commodities.

Trade-related Investment Measures

Cooperation between the Trade Committee and the Committee on International Investment and Multinational Enterprises (CIME) has centered on scrutiny of trade-related investment measures (TRIM's). TRIM's, defined in the broadest sense, include requirements placed on investors which are either designed to or inadvertently affect trade. TRIM'S can also refer to the reverse situation--the use of trade instruments to affect investment decisions. Some examples are export performance requirements, local-content regulations, foreign-exchange regulations, licensing procedures and local equity rules applied to investments. These are recognized to result often in distortion of free-trade-market forces.

The two committees, thus far, have completed surveys of TRIM's applied by both investing and host countries. The study of the surveys, which is to be completed in 1984, should assess the effects on investment and on trade as well as the effect on OECD members of measures applied by non-OECD countries.

OECD instruments on investment will also be reviewed within the context of trade-related investment. The CIME, in conjunction with the Committee on Capital Movements and Invisible Transactions, will assess experience with application of the Declaration on International Investment, Multinational Enterprises, the Capital Movements Code and the Code of Liberalization of Current Invisible Operations. In order to measure the success of these instruments, measures including investment incentive and disincentives, discrimination against foreign and nonresident investors, and general impediments to direct investment will be surveyed.

Structural Adjustment

Several groups contribute to carrying out the Ministerial mandate to expand OECD examinations on restructuring of industrial sectors with structural problems. The Industry Committee dominates the work in this area, but the Steel Committee and the Council Working Party on Shipbuilding have intensified work on their respective sectors. The flexibility of relevant shipbuilding agreements to permit restructuring has been addressed by that working party. A Special Group on Positive Adjustment Policies of the Economic Policy Committee, which expired in 1982, also made a significant contribution to preliminary analytical work on adjustment. ^{1/} Sectors chosen by the OECD for inclusion in the study of national adjustment policies are textiles, steel, shipbuilding, manufacturing, automobiles, pulp and paper, aluminum, and petrochemicals. Analyses of these sectors are undertaken with a view to uncovering trade effects, since national policies employed in the face of structural difficulties are recognized to result in trade distortion.

During 1983 the Industry Committee completed studies on the automobile industry, the robotics industry and the aluminum industry. The automobile industry was examined with respect to its long-term prospects; the impact of robotics on manufacturing industries was examined; and the aluminum industry was analyzed in terms of the relation of energy to structural adjustment. The Industry Committee is also cooperating with the Trade Committee to come to conclusions on the interaction of short-term trade measures with structural adjustment policy.

Examination of OECD members' policy measures on steel adjustment has been stepped up under the auspices of the Steel Committee. The relationship between short-term problem-solving and serious adjustment policies is to be brought out in the Committee's discussions. Issues relating to advantages of transparency and the disadvantages of shifting the adjustment burden to other countries, principles already adopted within the OECD framework, will also be examined.

In 1983 the Steel Committee committed a substantial part of its efforts to consideration of steel trade conflicts. These discussions centered on the emergency measures the United States announced this year to curb foreign steel imports, particularly as they affected agreements and relations between the United States and the EC. The United States found it necessary to provide information on the measures and present its case for their justification at Steel Committee meetings following the July action. ^{2/}

Relations With Developing Countries

Having incorporated North-South relations into its mandate in the 1960s, the OECD undertakes a variety of activities relating to members' policies toward developing countries. With respect to trade, however, the most

^{1/} Two publications, entitled Transparency for Positive Adjustment-- Identifying and Evaluating Government Intervention and Positive Adjustment Policies: Managing Structural Change, resulted from the group's 2 1/2 years of work.

^{2/} For more information on the U.S. steel import actions see the section on import relief, ch. V of this report.

significant role of OECD is to coordinate policy positions through organizations such as UNCTAD and the GATT. In 1983, the OECD also completed an extensive study on the operation and success of the Generalized System of Preferences (GSP) throughout the past decade.

Recent initiatives of OECD in analyzing North-South relations have centered on finding avenues through which developing countries can be more fully integrated into the international trading system and adhere more fully to GATT obligations and responsibilities. This thrust entails discussion on graduating capable countries from GSP schemes, providing for fuller participation in GATT trade negotiations and adherence to GATT rules, and building the export base of the poorest of these countries. OECD expended considerable effort coordinating a common position to be adopted by OECD members at the UNCTAD VI conference. A special High Level Group on Commodities contributed to developing positions on commodity issues on the UNCTAD VI agenda.

CUSTOMS COOPERATION COUNCIL

The Customs Cooperation Council (CCC) is a 95-member intergovernmental organization with headquarters in Brussels, Belgium. It is involved only in technical aspects of customs procedures and is dedicated to obtaining high levels of harmonization and simplification of its members' customs procedures in order to facilitate trade. To achieve these ends, the CCC maintains subsidiary committees, which are directly involved in the development and administration of international instruments, and encourages the exchange of ideas and advice among its members.

Originally established by convention in 1952, the CCC has grown from a predominantly European body whose member countries sought to promote common customs practices in that region into a worldwide organization with wider goals. The United States became a member of the CCC on November 5, 1970, upon accession to the convention. All of the major trading partners of the United States, except Mexico, are members. The U.S. Government is represented on the CCC by the Customs Service.

The several administrative and technical committees of the CCC are overseen by the Council, an executive body; and the organization is assisted by a secretariat comprising international civil servants. In the administrative area, the Policy Commission and the Finance Committee assist the executive body, and in the technical area the Council's efforts are supported by six important technical committees: the Permanent Technical Committee, the Committee on Customs Enforcement, the Nomenclature Committee, the Interim Committee on the Harmonized System, the Valuation Committee, and the Technical Committee on Valuation. Most of these groups have one or more subgroups to assist as to specialized questions. The United States participates in the work of the Council and the subsidiary bodies, either as a voting member or (as in the case of the Nomenclature Committee, since the United States is not a party to the Customs Cooperation Council Nomenclature (CCCN) convention) as an observer.

During 1983, the first American to hold the post of Secretary General of the CCC was elected. G. R. Dickerson, Deputy Commissioner of Customs for International Affairs, began a 5-year term in January, 1984.

In June 1983, the Council approved the international convention to implement the Harmonized Commodity Description and Coding System (Harmonized System) and opened that instrument for signature. 1/ An in-depth review of the Explanatory Notes to the System is continuing, with completion scheduled for the summer of 1985. In other actions, the Council elevated the Committee on Customs Enforcement (mentioned above) from its prior status as an enforcement working party. The Council began work on a handbook on container control and planning for a seminar on the use of dogs trained to detect contraband articles. The Secretariat, in cooperation with Interpol, conducted a survey concerning financial transactions related to drug smuggling. In the area of valuation, the U.S. Customs Service participated in the work of the Technical Committee on Valuation, which oversees the technical aspects of the GATT international Valuation Code, by sponsoring its initial training program for foreign customs officers on implementing the new code.

On June 21, 1983, the Senate approved U.S. accession to the CCC's International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention). President Reagan signed the instrument of accession on August 16, 1983, making the Convention and 20 of its 30 annexes effective with respect to the United States on January 1, 1984. The Customs Service has also recommended U.S. accession to the CCC's International Convention on Mutual Administration Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention). The latter instrument would promote worldwide coordination of and assistance regarding customs enforcement matters.

Finally, the United States has supported the work of the Permanent Technical Committee's Working Parties on Computers and Enforcement, plays an important role in financing and managing the CCC, and has been a major contributor in the development of the Harmonized System. 2/ This new system is designed to facilitate world trade and to serve as the basis for the collection of more complete and useful trade data. In June 1983, the U.S. International Trade Commission submitted its report to the President on investigation No. 332-131, including a draft of the Tariff Schedules of the United States converted to the Nomenclature structure of the Harmonized System. This report is being reviewed by the executive branch, and further comment from Government agencies and interested parties is being sought; this process will result in a decision as to the desirability of submitting draft legislation for implementing the new tariff. The target date for implementation of the Harmonized System is January 1, 1987. Before the United States can implement the Harmonized System, Congress must also approve the U.S. becoming a contracting party to the convention.

1/ Intended to replace the CCCN, the Harmonized System is a 6-digit classification to be employed as customs tariffs, in statistical enumerations, and for transport documentation by countries adopting it.

2/ For background, see OTAP, 33rd Report, 1981, USITC Publication 1308, pp. 27-31 and OTAP, 34th Report, 1982, USITC Publication 1414, pp. 102-104.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Introduction

UNCTAD, the principal U.N. forum that seeks to advance the interests of developing countries, 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:

. . . 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.

This extensive mandate, which extends to the formulation of principles of international trade and to the negotiation of multilateral legal instruments, has never been implemented, primarily because of the nature of UNCTAD's own charter requirements. The UNCTAD Charter contains a reference which instructs the Secretary General of UNCTAD to maintain regular contact with the Director General of GATT ". . . to compare current or planned work programs with a view, wherever possible, to avoiding duplication." This jurisdictional conflict with the GATT is played out at every UNCTAD conference, ^{1/} as illustrated by a review of the results of UNCTAD VI held in June 1983.

Like the previous five sessions of the Conference, UNCTAD VI was characterized by fundamental differences between the developed and developing countries on the division of labor between UNCTAD and the GATT (Belgrade Conference). In preparation for UNCTAD's sixth session, a plan proposed by developing countries under which commodity agreements would be concluded ". . . covering only stocking arrangements and supply-management measures to control prices" was announced in January 1983. The stocking plan--designed to remedy shortfalls in export earnings of developing countries--was a key proposal at the Belgrade Conference; it included 15 major commodities exported by non-oil-developing countries; a number of these such as rubber, cocoa, sugar, and tin, were already covered by existing international buffer stock arrangements. The stocking arrangement was to cost \$9 billion and could

^{1/} The conference normally meets every 3 to 4 years. Previous conferences were held in Geneva in 1964, New Delhi in 1968, Santiago in 1972, Nairobi in 1976, and Manila in 1979. UNCTAD VI was held in Belgrade.

have been financed by the UNCTAD commodity program's common fund, 1/ if and when it became operational, or by resources from the IMF's buffer stock financing facility. It was estimated that program, if implemented, would increase non-oil-developing countries' commodity earnings by \$20 billion over a 3-year period. Other proposals advanced at the conference by developing countries involved major reform of the international monetary and trade systems, including automatic debt relief, easing of IMF loan requirements, greater access by developing nations to IMF Special Drawing Rights, the creation of a new compensatory financing facility, structural adjustment of industries worldwide, and the mandatory transfer of technology from the developed to the developing nations. The developing countries repeatedly sought specific, binding agreements in the trade area such as the stocking and monetary reform agreements described above which the developed countries vetoed, arguing that these agreements should be handled in the GATT.

UNCTAD's role in trade since its inception in 1964 has been limited largely to a forum for exchanges of views and generation of ideas among producing and consuming nations on the state of the trading system. Many producing nations find U.N. formats unsatisfactory for controlling trade and prices of the commodities on which their economies rely, and, rather than organize with consumers under U.N. auspices, have increasingly attempted to emulate the success of cartels such as OPEC. Associations such as the Organization of Wood Producing and Exporting African Countries and the Association of Iron Ore Exporting Countries are examples.

UNCTAD's headquarters are in Geneva, and its governing body is the Trade and Development Board (TDB). The committees on commodities, manufactures, and financing related to trade are three of the principal subdivisions of the TDB. The Board's various committees meet every 2 years. The TDB holds 2 or more regular sessions per year and an occasional special session. Although the TDB makes policies, those having a longer term thrust are made at the UNCTAD's conferences. The conferences also establish direction for the work of the Secretariat.

Most observers indicated that UNCTAD VI, which followed a disappointing GATT Ministerial in 1982 and an economic climate in which most developed countries were struggling to get out of the worldwide recession, was the least productive of any of the UNCTAD conferences. One representative cited "the inability to reach an agreement on IMF special drawing rights for developing countries, a future monetary conference, and other structural issues as the primary examples of a lack of productive dialogue in Belgrade." The work on trade at UNCTAD VI focused on the implementation of the Integrated Program for Commodities and the Common Fund, protectionism and structural adjustment, and trade liberalization between developed and developing countries. Progress on these issues is discussed below.

1/ For more detail on the Integrated Program for Commodities (IPC) and the Common Fund, see OTAP, 31st Report, 1979, and OTAP, 32d Report, 1980.

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) and the Common Fund 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 urge 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. The price stabilization agreement on sugar which existed prior to the IPC was renegotiated in 1983. The United States participates in international price stabilization agreements covering rubber, sugar, and coffee but not cocoa or tin. ^{2/} The 18 commodities initially identified for IPC action were bananas, bauxite, cocoa, coffee, copper, cotton, hard fibers, iron ore, jute, manganese, meat, phosphates, rubber, sugar, tea, tropical timber, tin, and vegetable oils.

New international commodity agreements of which price stabilization measures are an integral part have not been realized under the IPC, except for the natural rubber agreement, which entered into force officially for the United States on May 28, 1981. Discussions in 1983 on price stabilization did not provide a basis for negotiating agreements on cotton, tea, and bananas. On the other hand, during 1982 and 1983 a trend emerged toward agreements and arrangements incorporating non-price stabilization measures. Such agreements seek to promote research and market development in those commodities for which price stabilization agreements are not appropriate. An agreement of this nature became operational for jute on July 1, 1983, and a comparable non-price-stabilization agreement may be reached on tropical timber in 1984.

The deadline for ratification of the agreement establishing the Common Fund for Commodities, originally March 31, 1982, was extended to September 30, 1983. The Common Fund was conceived by developing countries as a mechanism to finance international buffer stock operations and to provide concessional loans or grants to third world producers for such activities as productivity improvements, research, and market promotion. As of December 31, 1983, the

^{1/} Most international commodity agreements utilize buffer stocks as their price-controlling mechanism. A "pure" buffer stock implies an internationally held and controlled stock, although variations, such as stocks held by individual producers but coordinated through the operation of an agreement, also occur. 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, at some predetermined ceiling price, the stocks are sold to support a lower price.

^{2/} For a discussion of U.S. participation in international commodity agreements, see section that follows entitled "Negotiations and Operation of International Commodity Agreements."

agreement had been signed by 110 countries, including the United States, 1/ and ratified by 68 countries. Collectively, these countries have contributed \$210 million, or 45 percent, of the 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 developing countries allocated 47 percent; developed countries, 42 percent; Eastern-bloc countries, 8 percent; and China, 3 percent. Major decisions will require a two-thirds or simple majority vote, depending on the importance of the issue.

Decisions adopted at UNCTAD VI 2/ reflect continuing broad support for the IPC; its implementation will therefore continue to be an ongoing UNCTAD activity. Resolution 155 (VI) on the implementation of the IPC in the area of stabilization and strengthening of commodity markets, calls for the finalization of the preparatory work, including consultations among interested countries, so that all 18 IPC commodities can be covered as soon as possible by international pricing agreements or arrangements. 3/

The United States has been an active participant in all of the commodity discussions under the IPC. The United States in general favors trade in commodities through free and open markets. It has built a record of cooperation with international organizations on a wide range of commodities, and it will continue to consider proposals on a case-by-case basis for economically sound, market-oriented commodity agreements that offer a balance between producer and consumer interests.

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. The United States endorsed Resolution 131 (V), which authorized the Trade and Development Board to conduct research and to make general recommendations on the issues of

1/ The United States signed the agreement on Nov. 5, 1980. Further steps toward U.S. ratification will be taken provided that a sufficient number of suitably structured commodity agreements are prepared to associate with the fund.

2/ The commodity-related resolutions were adopted without dissent, with the exception of resolution 157 on compensatory financing of export earnings shortfalls, which was adopted by a rollcall vote of 90 to 1. The United States requested the rollcall and voted against the resolution, because it contained language that appeared to prejudice the outcome of the expert-level examination of compensatory financing issues.

3/ Of the 18 commodities enumerated in the IPC, 4 commodities--coffee, cocoa, sugar, and tin--are the subject of international price stabilization agreements not related to the IPC. As of yearend 1983, the Natural Rubber Agreement was the only formal international price stabilization agreement to have been included under the IPC.

protectionism and structural adjustment. It is the U.S. position, however, that negotiations to reduce or eliminate tariffs, quantitative restrictions, and other nontariff barriers should continue to take place in the GATT. Although the UNCTAD in its work on protectionism may suggest improvement in the use of safeguard actions, the United States maintains that the establishment of criteria and procedures for safeguard actions and conclusions about compliance with existing safeguards rules are the responsibilities of the GATT. Questions of compensation and dispute settlement with respect to safeguard actions are also believed to be the exclusive responsibilities of the GATT. During 1983, UNCTAD continued its surveillance of the process of industrial restructuring and redevelopment. 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. At the conference's sixth session and at recent TDB sessions, governments exchanged views on the issues of domestic policy intervention, market disturbances, nontariff measures, preferential and nondiscriminatory treatment, transparency, and discriminatory protection.

At the conference's sixth session, a spokesman for the developing countries, in focusing on the issue of protectionism and structural adjustment, noted that ". . . the problem of lack of availability of current and relevant information on national actions has often frustrated discussions and negotiations. . ." The spokesman further noted that

. . . based on figures from the UNCTAD data base on non-tariff barriers, the extent of non-tariff protection in developed market-economy countries is dramatically large in some product sectors. The variety and incidence of NTBs is such as to effectively preclude the operation of the market mechanism. Specifically, animal products (32 percent of products subject to volume-restraining measures), textiles (31 percent), vegetable products (29 percent), and prepared foods and tobacco (28 percent) provide the most notable examples. The overall average is 19 percent. The figures provide a stark contrast to the repeated declarations of intent to uphold the principles of free trade and give an indication of the difficulties and cost associated with the desired liberalization of international trade.

Resolution 159 (VI) adopted in Belgrade authorized the Trade and Development Board to formulate a work program in the area of protectionism and structural adjustment which would include trade in services. ^{1/} Trade in services was recognized by the Conference as an activity in need of further study and understanding by the international community. It was agreed that UNCTAD will consider the role of the services sector in the development and adjustment process. A representative for the United States noted that ". . .

^{1/} The inadequacy of the resolution's treatment of the complementary work of the GATT in services led the United States to vote against the two paragraphs dealing with services, while joining the consensus on the other parts of the resolution covering protectionism, structural adjustment, preferences, and review by UNCTAD's TDB of developments in the international trading system.¹²⁰

services, which provided 88 percent of all new U.S. jobs in the 1970s, has in the 1980s replaced manufacturing as a major component of U.S. GNP."

Protectionism and structural adjustment continue to be issues of concern within UNCTAD. At the conference's sixth session the United States reiterated its position 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 others' unfair trade practices, such measures should not be viewed as protectionist.

GSP and Other Preferences vs. Trade liberalization on an MFN basis

Developed countries facilitate increased imports from developing countries generally through pursuit of liberal trade and investment policies, and specifically through their GSP. ^{1/} In order to further the implementation, maintenance, improvement, and utilization of the GSP, the TDB has established a Special Committee on Preferences. At UNCTAD's sixth session and at recent sessions of the TDB and of this committee, the developing countries continued to express their concern that the MTN tariff reductions that were agreed to in the Tokyo round negotiations were 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. ^{2/}

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. Although not part of the MTN's, the most frequently cited example of controlled trade developing countries is the Multifiber Arrangement (MFA). A representative of the developing countries noted that "there is a certain built-in disadvantage that works against trading interests of developing countries because of the nature of the products which they export, such as textiles." The representative further noted that "the MFA provides a framework for the restraint of developing countries exports in this sector."

The U.S. interpretation of the MTN codes 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. The U.S. policy is that the agreements have two purposes: (1) to

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

^{2/} A resolution calling for a special session of UNCTAD in 1984 to enable "the developing countries participating in the negotiations on a global system of trade preferences (GSTP) to continue the necessary work towards the establishment of GSTP" was approved at the conference's sixth session. Deputy Assistant Secretary of State Gordon Streeb indicated that should a GATT-compatible (GSTP) become operational, the United States under UNCTAD's contribution system may be liable for as much as 25 percent of the cost of the GSTP which, as Streeb pointed out in the conference negotiations, is a program reserved exclusively for the third world countries.

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 non-tariff, to trade in individual products. At the Conference's sixth session and at TDB sessions, the United States has consistently 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 restrictive trade practices under multilateral discipline. The United States indicated that developing countries have much to gain from the reductions of MFN rates of duty. Whereas GSP treatment is temporary and conditional, 1/ MFN-rate reductions bound in the GATT are permanent and contractual.

NEGOTIATION AND OPERATION OF INTERNATIONAL COMMODITY AGREEMENTS

International commodity agreements, negotiated between producing and consuming countries, are aimed at reducing fluctuations in the prices of the commodities, improving long-run producer earnings, and delivering a steady, adequate, and reasonably priced supply of the commodity to customers. These agreements provide for intervention in market forces by a variety of means. Buying and selling of buffer stocks to moderate price swings is one prominent method. Assigning production and export quotas is yet another. 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. In 1983, the United States continued to play a role as a participant in international commodity agreements.

Commodity agreements became an issue of great importance in international relations in the mid-1970's. This issue has been in the forefront of the North-South dialogue between industrialized, developed countries and the developing countries. UNCTAD is the forum most actively promoting international commodities policy. UNCTAD's fourth session in 1976 called for a series of commodity-pricing agreements falling under one framework and using a common fund for buffer stock financing. 2/ This framework is known as the Integrated Program for Commodities (IPC). Thus far, agreements on natural rubber and jute have been concluded under the IPC. At UNCTAD's sixth session in 1983, where commodity issues figured prominently, the United States voted against a resolution on compensatory financing of export earning shortfalls in commodity trade. This vote reflected the longstanding U.S. view that this matter is an issue falling within the province of the International Monetary Fund (IMF) and not of UNCTAD.

As in the past, the United States frequently voiced reservations concerning international price stabilization schemes on grounds that they might create long-term market distortions. In the U.S. view, world markets should be allowed to operate freely and without government interference. U.S. policy is generally to promote research and development funding rather than market intervention.

1/ See ch. I for a discussion of ongoing efforts to extend the U.S.-GSP program beyond its 1985 expiration.

2/ OTAP, 34th Report, 1982, p. 92.

Although the United States is participating in some existing commodity agreements--coffee, sugar, wheat, jute and natural rubber--it continues to advocate a greater free market orientation for the agreements. For example, in the International Natural Rubber Agreement, the United States is attempting to persuade producing country governments to remove impediments to long-term expansion of production. U.S. participation as an exporting country in the International Wheat Agreement does not involve policy conflicts; unlike other commodity agreements, this accord is not designed to control trade or prices.

In 1983, the United States joined the new coffee agreement which entered into force in September and participated in the ongoing negotiations for a new sugar agreement. In May the United States signed the International Jute Agreement under the IPC and agreed to accept its terms on a provisional basis pending final adoption. The United States decided not to join the tin and cocoa agreements because these agreements did not appear economically feasible.

A measure of economic recovery contributed to a rebound in commodity prices in 1983, after precipitous declines in the two preceding years. The IMF index of wholesale commodity prices rose by 6.7 percent during the year, following declines of 12.1 percent in 1982 and 14.6 percent in 1981. ^{1/} While marking a strong rise from 1982, when they reached their lowest level since 1976, 1983 wholesale prices were nearly 20 percent below their level in 1980 (the base year of the index.)

The 1983 index rose as a result of substantial increases in prices of agricultural raw materials (9.5 percent), food (8.8 percent), and tropical beverages (7.7 percent); in contrast, metals prices remained unchanged from 1982, at 21.9 percent below their level in 1980 in both years.

Coffee

In 1983, the terms of the International Coffee Agreement (ICA) remained essentially unchanged from those of the previous year. However, the authority of the President to implement U.S. obligations under the ICA was extended through legislation to October 1, 1985. The ICA has no provision for a buffer stock, but it does provide for export quotas. ^{2/} The agreement is administered by the International Coffee Organization (ICO) under rules and regulations established by the International Coffee Council (ICC).

In 1983, the ICC agreed to establish a global export quota of 56.2 million 60-kilogram bags (a bag is equivalent to about 132 pounds) for the 1983/84 harvest year. This global quota was made up of 53.6 million bags (up about 1.5 percent from the number in 1982) for exporting members entitled to a basic quota and 2.6 million bags (down about 19 percent from the number

^{1/} The IMF wholesale price index is a weighted average of prices for 30 commodities.

^{2/} For more details about the ICA see OTAP, 33rd Report, 1981, USITC Publication 1308, pp. 84-86.

in 1982) for exporting members exempt from the basic quota. The initial annual export quota of 53.6 million bags was to be distributed over the four quarters of coffee year 1983/84 in equal amounts of 13.4 million bags.

The trigger prices for upward and downward quota movement remained the same as in 1982. The trigger prices operate in the following manner: if the 15-day moving average of the composite indicator price is at or below \$1.20 per pound, the export quotas are reduced on a pro rata basis by an amount of 1.0 million bags; if the 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. In December 1983, the composite indicator price reached \$1.40. Consequently, the global export quota was increased by 1 million bags to 57.2 million for the 1983/84 coffee year. The export quotas may be increased or decreased further, depending on additional changes in the 15-day moving average of the composite indicator price.

Table 12 indicates that during 1979-83, the yearly average of the ICO's composite indicator price (1976 basis) ranged from \$1.70 per pound, in 1979, to \$1.15 per pound, in 1981. In 1983, the monthly average composite indicator price ranged from \$1.22 per pound, in March and April, to \$1.40 per pound, in December.

Table 12.--Green coffee: International Coffee Organization (ICO) monthly average composite indicator prices, 1/ on the basis of the 1976 agreement, 1979-83 (in cents per pound)

Period	1979	1980	1981	1982	1983
January	\$1.31	\$1.66	\$1.25	\$1.24	\$1.27
February	1.28	1.63	1.20	1.34	1.24
March	1.33	1.77	1.20	1.29	1.22
April	1.40	1.72	1.21	1.24	1.22
May	1.49	1.82	1.17	1.21	1.25
June	1.91	1.75	.99	1.21	1.23
July	2.00	1.52	1.04	1.16	1.24
August	1.90	1.34	1.07	1.17	1.25
September	1.98	1.25	1.07	1.23	1.27
October	1.93	1.26	1.18	1.29	1.36
November	1.92	1.16	1.25	1.30	1.38
December	1.86	1.20	1.23	1.31	1.40
Average	1.70	1.51	1.15	1.25	1.28

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

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

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. The principal activities of the organization consist of exchanging trade data, collecting information on food needs, and coordinating the provision of food aid to developing country members. ^{1/} It has been extended eight times; the last extension is for 3 years to June 30, 1986. Extensions of the agreement are made by virtue of the existence of a separate protocol ratified by each of the member nations and deposited at the U.S. Department of State. The last extension, signed on behalf of the United States by the Secretary of Agriculture on April 25, 1983, was submitted to the Senate on July 11, 1983, for advice and consent, and as of January 1984, had not been acted upon.

In 1983/84 the world supply of wheat continued to rise, and world wheat prices continued to be on the low side relative to those in the early 1980's. Total world production in 1983/84 was 488 million metric tons, up from 480 million tons in 1982/83. During the same period, world wheat exports remained nearly the same at about 106 million tons; consumption rose 2 percent to 480 million tons. The global wheat situation is one in which production exceeds consumption, and tight feed grain supplies (e.g., corn and grain sorghum) have resulted in a shift in consumption and trade patterns. In 1983, increasing amounts of wheat were fed to livestock. The U.S.S.R., the Republic of South Africa, Australia, India, and Argentina rebuilt their stocks, and in the EC wheat was competitively priced with barley and nongrain animal feed ingredients. All major exporters had abundant supplies in 1983. This, combined with stagnant trade, resulted in aggressive competition. The situation was exacerbated by the diminished imports of both the U.S.S.R. and the People's Republic of China, the two major importers. In 1983, wheat prices at Rotterdam, the Netherlands, a major world market, averaged about \$185 per ton (for U.S. No. 2 Dark Northern Spring wheat, 14 percent protein), about the same as in 1982.

Cocoa

The Third International Cocoa Agreement (ICCA) ^{2/} 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 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).

^{1/} For more details about the IWA, see OTAP, 33rd Report, 1981, USITC Publication 1308, pp. 89 and 90.

^{2/} The two C's in the initials for the International Cocoa Agreement (ICCA) are used to distinguish it from the International Coffee Agreement (ICA).³⁴

U.S. nonparticipation in the ICCA is based on a belief that buffer stock agreements generally do not work, that there is inadequate funding for the agreement, and that unrealistic price ranges are specified in the agreement. During 1983, the indicator price remained below the minimum price specified in the agreement. The agreement is scheduled to terminate on September 30, 1984, unless extended. During 1983, discussions took place to develop a successor agreement.

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 ISA functions through a system of buffer stocks and export quotas. They are manipulated to dampen fluctuations in the free-market price of sugar. ^{1/} The ISA has been generally ineffective in controlling the free-market price of sugar. The target price range in the ISA in 1982 and 1983 was 13 to 23 cents per pound. The monthly average price has been below that range since February 1982 (table 13).

Table 13.--Raw sugar: Monthly world market prices per 1977 agreement, ^{1/} 1978-83

(In cents per pound)							
Period	1978	1979	1980	1981	1982	1983	
January-----	8.77	7.57	17.16	27.78	12.90	6.03	
February-----	8.48	8.23	22.75	24.09	13.07	6.43	
March-----	7.74	8.46	19.64	21.81	11.26	6.20	
April-----	7.59	7.82	21.25	17.83	9.58	6.71	
May-----	7.33	7.85	30.94	15.06	8.11	9.24	
June-----	7.23	8.14	30.80	16.38	6.84	10.74	
July-----	6.43	8.52	27.70	16.34	7.80	10.53	
August-----	7.08	8.85	31.77	14.76	6.77	10.56	
September-----	8.17	9.90	34.74	11.65	5.76	9.43	
October-----	8.96	11.94	40.55	12.04	5.93	9.69	
November-----	8.01	13.68	37.81	11.97	6.52	8.33	
December-----	8.00	14.93	28.79	12.98	6.31	2/	
Average-----	7.82	9.66	28.66	16.89	8.40	2/	

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

^{2/} Not available.

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

^{1/} For additional details, see OTAP, 33rd Report, 1981, USITC Publication 1308, pp. 86-88.

The ineffectiveness of the ISA to regulate sugar prices is in large part the result of sugar's unique characteristics. Sugar is one of the most widely grown crops in the world, owing to the fact that identical refined sugar is obtained from tropically grown sugar cane and from temperate-grown sugar beets. Production and trade in sugar is also widely regulated. Relatively little sugar is traded on the so-called free market. In recent years, about 72 percent of world sugar production has been consumed in the country of origin (often at prices and quantities established by the Government) and about 8 percent has been sold in preferential markets. Hence, only about 20 percent has been traded on the free market. The free market thus bears a disproportionate share of sugar shortages and surpluses, with price instability being the result. When crop failures reduce supplies, producing countries supply their domestic needs first, preferential arrangements second, and the free-market demand last. The free-market world price often soars as a result. Similarly, when there are bumper harvests, the free market becomes a distress market and prices plummet. Furthermore, since sugar cane is a perennial crop which requires about 20 months from planting to reach full production (which then is continued for several years), the price swings usually are extended (especially on the down side).

The ISA is scheduled to terminate on December 31, 1984. During 1983, the Secretariat of the International Sugar Organization began work on drafting a new agreement. Further meetings on the subject are scheduled for the spring of 1984.

Tin

During January-June 1983, export controls that were imposed on tin producing nations in July 1982 under the provisions of the Sixth International Tin Agreement (ITA) were continued, and further attempts were made by producing countries to increase the size of the ITA buffer stock. 1/ In an effort to help stabilize tin prices, the International Tin Council agreed at its March 1983 quarterly meeting that exports should be limited to 23,200 metric tons per quarter, a level 36 percent less than that established in the base period of July-September 1981. In addition, although producers called for an increase of 10,000 metric tons in the size of the buffer stock from the ceiling of 39,666 metric tons 2/ set under the Sixth ITA, tin-consuming nations objected to the extra financing that would have been needed to buy the additional tin.

In spite of the export controls and slightly increased demand for tin, prices on major tin exchanges reflected only marginal improvement above the level in July-December 1982, when they averaged \$5.95 per pound in the New York market. In the first half of 1983, daily prices averaged \$6.24 per pound compared with the Sixth ITA established floor price of about \$5.65 per pound. 3/ When the price falls to the floor level, the Buffer Stock Manager is required to buy tin on the open market in order to sustain prices within floor and ceiling levels. The ceiling price established under the Sixth ITA was maintained at about \$7.30 per pound during 1983.

Major tin-producing nations agreed at the quarterly meeting of the Council to set up an Association of Tin Producing Countries (ATPC) to operate

1/ The United States is not a member of the Sixth ITA.

2/ Revised.

3/ Floor and ceiling prices are set by the ITA in Malaysian dollars.

independently of the International Tin Agreement. Although the ATPC does not authorize economic measures such as export controls, it does call for certain unspecified economic measures to be adopted by a conference of member nations if and when the International Tin Council fails to stabilize tin prices sufficiently. In addition, the ATPC is expected to introduce a joint marketing arrangement which seeks to secure long-term contracts between producing and consuming nations. Currently, most tin is sold on the spot market. Producing nations contend that sales on a contract basis would make them less vulnerable to volatile price movements. The ATPC had little impact on international tin markets in 1983, confining itself largely to the areas of tin research and the development of new uses for tin. Members include Malaysia, Indonesia, Thailand, Australia, Bolivia, Zaire, and Nigeria, which together accounted for about 75 percent of world tin production in 1983.

At its June 1983 quarterly meeting, ITA member nations further limited exports of producing countries to 22,000 metric tons of tin per quarter. In addition, consumer nations agreed to study a possible increase in the size of the buffer stock. Despite these new and tighter export controls, tin prices failed to rise in July-September 1983; average tin prices in this period fell to an average daily price of \$6.00 per pound compared with \$6.31 per pound in April-June 1983. It is estimated that a surplus of as much as 80,000 to 90,000 metric tons of tin, equal to about 45 percent of annual world production, existed in producer and exchange warehouses during July-September 1983. Southeast Asian mining companies reportedly evaded export controls by smuggling ore into other countries for smelting or by mislabeling their product to indicate that it came from non-ITA member sources; it is estimated by the trade press that these sales added approximately 20,000 metric tons to the market during 1983. 1/

At its December 1983 quarterly meeting, the International Tin Council decided to maintain its previous quarter level of export controls through January-March 1984. Producers again called for an increase of 10,000 metric tons in the buffer stock limit, but consumers forced this motion to be tabled until the March 1984 meeting. Tin prices in October-December 1983 remained weak, averaging \$6.08 per pound, as excess tin supplies continued to influence the market.

Another factor affecting the tin market in 1983 was the sale of surplus tin from the U.S. Government stockpile. Stockpile sales by the General Services Administration (GSA) totaled 2,865 metric tons in 1983 compared with 4,172 metric tons sold in 1982. Between July 1, 1980, when GSA first began selling tin under its current authorization program, and yearend 1983, tin sales totaled 12,977 metric tons against an authorized ceiling of 35,000 metric tons. Producing nations have called for restraint in GSA tin sales to prevent such sales from further depressing tin prices. 2/

On December 13, 1983, the United States, Malaysia, Thailand, and Indonesia signed a "memorandum of understanding" which limits U.S. stockpile sales of tin to 6,000 metric tons, retroactively, from January 1, 1983, through December 31, 1984. Under the memorandum, all signatory nations agreed that the pact would not be considered a legal commitment and that GSA would

1/ Metals Week, Sept. 19, 1983.

2/ GSA tin is offered at prices which are based on daily prices for tin quoted in the New York market.

not be bound to adhere to it if market conditions changed. In addition, the signatories agreed to "respect U.S. rights" to sell GSA tin freely anywhere in the world, no longer insisting that GSA sales be limited to the U.S. market.

Jute

The International Jute Agreement (IJA) ^{1/} is the most recent commodity agreement to be negotiated under the Integrated Program for Commodities of the UNCTAD. The objectives of the IJA, as stated in the agreement, are (a) to improve structural conditions in the jute market; (b) to enhance the competitiveness of jute and jute products; (c) to maintain and enlarge existing markets as well as to develop new markets for jute and jute products; (d) to develop production of jute and jute products with a view to improving, inter alia, their quality for the benefit of importing and exporting members; and (e) to develop production, exports, and imports of jute and jute products regarding quantity so as to meet the requirements of world demand and supply. The purpose of the IJA is not to stabilize world prices and supply with the establishment of buffer stocks, pricing levels, or export quotas; the IJA objectives are to be met, in particular, by means of research and development projects, market promotion and cost reduction.

UNCTAD has proposed the IJA, because of the importance of jute in international trade between developing and developed countries. In 1978, UNCTAD introduced the jute agreement concept and held discussions on a proposed agreement at several subsequent conferences. In September 1982, at a meeting held in Geneva, Switzerland, participating countries--jute producers/exporters and jute importers--arrived at a consensus which would establish the International Jute Organization (IJO) to oversee and operate the IJA. The agreement was made available for the signature of the participating countries at the United Nations headquarters in New York between January 2 and June 30, 1983. The United States signed the IJA on May 27, 1983, and agreed to begin accepting all of its terms on a provisional basis pending formal adoption.

The entry into force requirement, as specified in article 40 of the IJA, was not met by the required date of July 1, 1983. To activate the agreement, signatures were required for a minimum of 3 exporting countries (representing at least 80 percent of the world jute exports) and a minimum of 20 jute-importing countries (together accounting for at least 65 percent of the world jute imports). The first part of the activation requirement was fulfilled as Bangladesh, India, Nepal, and Thailand, accounting for 99 percent of world exports, became signatories; the full complement of importing signatures was not secured. Although Australia, Turkey, and the U.S.S.R., which represent more than 20 percent of total jute imports, were not signatories to the agreement as of December 31, 1983, they did announce their intentions to sign at a future date. Many signatory countries were discussing the possibility of provisionally implementing the terms of the agreement among themselves and planned to bring this up for discussion at a future meeting.

^{1/} As defined by the agreement, "jute means raw jute, kenaf, and other allied fibers, including Urena lobata, Abutilon avicennae, and Cephalonema polyandrum." It also includes jute products "made wholly or almost wholly of jute or products whose larger component by weight is jute." Jute fiber, used mostly for textile purposes, is obtained from the stem of an annual plant¹³⁸ which can be harvested for fiber and seed simultaneously.

Decisions and recommendations of the IJO will be determined by the consensus of its members. There will be a total of 2,000 votes distributed equally between the two categories of memberships--1,000 votes for the exporting membership and 1,000 votes for the importing membership. Each member Government will initially receive a specified equal number of votes. The remaining undistributed votes will then be distributed proportionally to members on the basis of the volume of their trade in jute over the preceding 3 years. Voting privileges pursuant to the IJO for the United States will be determined according to the rights of an importing government's membership.

The IJO will be financed with funds obtained from (1) the Administrative Account and (2) the Special Account. The Administrative Account will consist of initial contributions from each member and then annual contributions from each member in proportion to their number of votes. The Special Account will consist of funds received from regional and international financial institutions, such as the World Bank and Asian Development Bank, and other sources.

World production of jute fiber has shown a generally declining trend. One of the primary objectives of the IJA would be to reverse this downward trend. Production averaged 3.5 million metric tons during 1972-75, peaked at 4 million metric tons in 1978/79, but fell slightly below the 1981/82 output to 3.2 million metric tons in the 1982/83 season. India, the largest producer, provided 37 percent (1.2 million metric tons) of the total world jute output in 1982/83. Bangladesh and China were the second and third largest producers, accounting for 27 and 20 percent, respectively, of world output.

World exports of jute fiber, declining in recent years, were estimated at 503,000 metric tons in 1982/83. This figure was 4 percent below 1981/82 exports and 10 percent below the exports in 1978/79. Exports in 1982/83 were also far less than the 1972-74 average of 786,000 metric tons. Bangladesh, Burma, India, Nepal, and Thailand together account for approximately 80 percent of such total world exports. Bangladesh, the largest exporter, accounts for about two-thirds of the total.

World exports of jute products (including yarn, sacking, bags, and fabrics) also declined, to 1.2 million metric tons in 1982/83, representing a 5-percent decrease from the level in 1981/82. Exports have fluctuated slightly in other recent years but have not changed more than 10 percent from year to year. World exports of jute products averaged 1.3 million metric tons in 1972-74. As with jute fiber, Bangladesh, Burma, India, Nepal and Thailand accounted for approximately 80 percent of the total world exports. Bangladesh was responsible for about 40 percent of such exports, and India and Thailand accounted for 30 and 10 percent, respectively. The unfavorable economic conditions in general and persistent recession in developed countries, which are the primary markets for jute products, were the reasons for the most recent decline of jute and jute products in world trade.

World imports of jute fiber were estimated at about 500,000 metric tons in 1982/83. This amount was slightly less than that of the previous season and slightly less than the average annual imports for the past 5 years. Developed countries accounted for less one-half of such imports in 1982/83. The Soviet Union, the largest importer, was responsible for about 20 percent of imports by developed countries, and the United States accounted for about 10 percent.

World imports of jute products, about 1 million metric tons, declined slightly in 1982/83 from the previous annual period with developed countries importing about two-thirds of the total. Such imports were also below the average annual levels of imports in recent years. Although U.S. imports of jute products have fallen since the 1970's, the United States is still the largest importer, accounting for approximately 25 percent of developed countries' imports and about 15 percent of total world imports. Approximately 60 percent of U.S. imports consists of woven backing used to manufacture tufted carpeting.

Prices of jute fibers increased slightly in 1982/83 from those of the previous season. At the beginning of the 1982/83 season, a typical jute fiber price 1/ was \$286 per metric ton; this increased to a high of \$315 per metric ton by year's end. Since Bangladesh accounts for the bulk of world exports, they usually determine the prices for reference grades. Because of these fluctuating prices, reference grades and indicative prices are difficult to develop and establish for standard jute products. Jute products are exported by many countries, both developing and developed. Production costs of jute products vary greatly from country to country, although many products are relatively similar. However, quality differences are an important factor of consideration for the end-user. As noted, jute's greatest competition is with synthetics, mostly polypropylene. Polypropylene prices are generally higher than jute prices, but the competitive position of jute deteriorated slightly in 1983, because of the rising prices of jute and lower prices of polypropylene.

Being the largest jute product market in the world, the United States should benefit from the IJA's objectives. The trade agreement should assure purchasers the opportunity of obtaining jute products of better quality and uniform construction in a timely manner. Longer range benefits to the United States would be derived from production and processing research aimed at reducing costs and developing new end-use products.

Natural Rubber

Developing countries account for virtually all the world's production and exports of natural rubber. The purpose of the International Natural Rubber Agreement (INRA), the first commodity agreement concluded under UNCTAD's Integrated Program for Commodities, is to stabilize world prices and supply. The buffer stock established in the agreement provides the mechanism to keep prices and supply stable. 2/ INRA entered into force for the United States in May 1981. 3/

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 1983, the monthly averages, based on a five-day moving average of the daily market indicator price (DMIP) for natural rubber, started on an irregular, upward course after registering

1/ BWD grade, sight basis, f.o.b. Chittagon/Chalna.

2/ See OTAP, 32d Report, 1980, USITC Publication 1307, OTAP, 33d Report, 1981, USITC Publication 1308, and OTAP, 34th Report, 1982, USITC Publication 1414 for greater details.

3/ See OTAP, 33d Report, 1981, p. 91 for more detail.

its lowest point ever in January. Under the terms of INRA, it was not necessary for the Buffer Stock Manager to enter the market during 1983 to purchase natural rubber since the monthly DMIP averages for natural rubber moved above the "May-Buy" level of 177 Malaysian/Singapore cents per kilogram (38.3 U.S. cents per pound) and into the INRA neutral zone. 1/ Through September 1983, the average monthly DMIP for natural rubber breached its upper intervention, or "May-Sell," level of 239 Malaysian/Singapore cents per kilogram only during August when it reached 240.61 Malaysian/Singapore cents per kilogram. 2/ It was also reported that the December DMIP for natural rubber was below the "May-Sell" level. During January-September 1983, the average monthly DMIP was 221.81 Malaysian/Singapore cents per kilogram, or 25 percent higher than that in the corresponding period of 1982.

The International Natural Rubber Organization attributes the increased demand for natural rubber in the developed consuming countries in 1983 to the beginning of economic recovery. Worldwide natural rubber consumption in January-June 1983 was reported to be 5.4 percent higher than in the corresponding period of 1982. Natural rubber consumption in the major consuming countries increased substantially in January-June 1983 compared with that in January-June 1982, ranging from 5.1 percent for certain Western European countries to 10 percent for Canada. The United States enjoyed a 5.3-percent increase in natural rubber consumption in January-June 1983 compared with the level in January-June 1982. The rising demand for natural rubber, however, was not confined to the major consumers. In 1983, the U.S.S.R., the People's Republic of China, as well as India and the Republic of Korea reportedly made large purchases of natural rubber.

Worldwide production of natural rubber in 1983 was reported at 3,850,000 metric tons, representing an increase of more than 3 percent over the 3,725,000 metric tons produced in 1982. 3/ According to industry sources, natural rubber production did not keep pace with demand because many producers

1/ For a detailed explanation of "May-Buy" and similar terms, see OTAP, 33d Report, 1981, pp. 92-94.

The exchange rate incorporates a simple average of the Malaysian currency exchange rate and the Singapore currency exchange rate. The rate used is 210 Malaysian/Singapore cents for \$1.00, and is an estimate of the average exchange rate over the course of the agreement, as projected by the U.S. Department of State. Art. 30 of the agreement uses the term "cents," and requires the use of the average of Malaysian and Singapore currencies. Art. 40 of the agreement defines both the conditions which must be met and the procedure to be followed in order to revise the exchange rates.

2/ U.S. Department of State, "Status of the NR Market," Airgram A-049, Oct. 18, 1983, from the Committee on Buffer Stock Operations, 10th Meeting, Nov. 14-16, 1983; and, from information obtained by telephone from an official of the U.S. Department of Commerce.

3/ Malaysian Rubber Bureau, Natural Rubber News, Washington, D.C., August 1983, p. 6. However, production of natural rubber in the first 6 months of 1983 was 3 percent lower than in the same period of 1982, according to U.S. Department of State, "Status of the NR Market," Airgram A-049, Oct. 18, 1983, op. cit. Therefore, while worldwide demand increased in the first 6 months of 1983 by more than 5 percent compared with the comparable period in 1982, the world supply of natural rubber declined by more than 3 percent during this period. These factors, along with increased speculative interest, reportedly caused the upward movement in prices.

still lack confidence in the stability of the price of natural rubber. In times of economic downturn, it is believed by some that the price again may decline to low levels resulting in economic hardship to the small producers (whose rubber operations are referred to as small holdings). ^{1/} Worldwide consumption of natural rubber was reported to be 3,800,000 metric tons in 1983, or nearly 4 percent more than 3,660,000 metric tons in 1982. ^{2/}

The United States is the world's leading user of natural rubber, currently accounting for 16 to 17 percent of total annual consumption. Japan is the second leading market for natural rubber, accounting for about 12 percent of annual worldwide consumption.

TRADE AGREEMENTS ACTIVITIES AFFECTING SERVICES TRADE IN 1983

Introduction

The role of services in international trade has received growing attention in recent years. As the domestic service sector has grown significantly in the major industrial countries, so has its share of international trade. Services have also shared in the rapid growth of the world economy and have accompanied growing international trade in commodities and growing international investment. Due to the increasing significance of international trade in services, a section on this topic on a sector-by-sector basis is being included in this report for the first time.

This introductory section briefly defines services trade and outlines some of the analytical problems in measuring such trade. Basic industry and trade information are provided for individual service sectors that are important in U.S. trade. The regulatory environment that governs trade in each sector and trade agreements activity affecting these services are also discussed. ^{3/} Subsequent Commission reports will track trade agreements activities in services during the year under review. In general, no significant trade agreement activities were completed during 1983 in most of the service sectors under review. However, information is provided in the following industry write-ups when such activity did occur in 1983.

Based on the U.S. International Trade Commission's study on The Relationship of Exports in Selected U.S. Service Industries to U.S. Merchandise Exports, ^{4/} it is estimated that foreign revenue generated by the 14 service industries discussed in subsequent sections of this report totaled

^{1/} "Prospects for Natural Rubber," Elastomerics Extra, Nov. 25, 1983, pp. 1, 4, 7, 8, and 9; and, U.S. Department of State, "Status of the NR Market," Airgram A-049, Oct. 18, 1983. An official of the Malaysian Rubber Bureau, Washington, D.C. stated during a telephone conversation with a member of the Commission staff that "small holdings" is defined as 100 acres or less.

^{2/} Natural Rubber News, August 1983, p. 6.

^{3/} In late December 1983, the United States and other GATT Contracting Parties submitted national reports on services trade to the GATT. Results of these reports will be assessed by the GATT in December 1984 to determine what action is appropriate and desirable to achieve fairer grounds rules to govern world trade in services.

^{4/} U.S. International Trade Commission, The Relationship of Exports in Selected Service Industries to U.S. Merchandise Exports, USITC Publication 1290, September 1982, pp. 412.

\$135.7 billion in 1982. Selection of the 14 service industries covered in this report is based on a general consensus among U.S. trade policymaking agencies that these 14 constitute a major portion of international trade in services. Of these, the four service industries generating the largest foreign revenues 1/ in 1983 were financial services (\$75.0 billion), equipment leasing and rental (\$17.1 billion), insurance (\$7.0 billion), equipment leasing and rental (\$17.1 billion), insurance (\$7.0 billion), and air transportation (\$6.0 billion).

Definitions

Because service industries generally produce intangible products, services trade is known as invisibles trade. Since services trade is invisible, the actual point of trade or exchange between countries is not as easy to identify as in merchandise trade, where a tangible object can be seen as it crosses a country border. Traded services may be sold either to a foreign resident currently in the exporting country (e.g., tourism) or to a foreign resident through an affiliate or representative in the foreign country (e.g., banking services). Because many services, such as automobile repair, require the recipient to be present in the country where the service is produced, they are rarely traded internationally. However, these services may be provided within the host country by a foreign-based service organization.

Like domestic services, services that are traded include a heterogeneous group of economic activities. U.S. service industries important in international trade include banking, communications, computer services, construction and engineering, consulting and management, education services, equipment leasing, franchising, health services, insurance services, motion pictures and television, shipping and air transport, and hotels and motels. Trade developments in these service industries are discussed in subsequent sections.

Several factors are responsible for the growing importance of services trade. First, modern technology permits less expensive communication between the headquarters of multinational firms and their foreign affiliates. Second, manufacturing industries are expanding into foreign markets, and services often accompany merchandise trade. For instance, the sales of sophisticated equipment like computers and airplanes may include training of personnel to maintain and operate the equipment. Third, service industries often follow the foreign direct investment of their domestic clients by opening their own foreign affiliates, as have insurance and banking services. Fourth, demand for services usually rises more rapidly than income. Consequently, in developing countries the demand for services is growing rapidly.

Classification of services

In U.S. Government statistics, services are defined as intangible economic goods sold by establishments. The requirement that they be sold by

1/ "Foreign revenue" is the total non-U.S. sales of U.S.-owned firms or their foreign affiliates in an industry. Balance-of-payments data showing the exports of services industries on a sector-by-sector basis is generally not available.

establishments highlights the somewhat arbitrary nature of the definition. For example, although all labor is a service, only that labor sold by an establishment (which may be a sole proprietorship) in the services sector is counted as a service. Thus, a factory worker who sells his labor is counted in the manufacturing sector and so is a lawyer who is employed by the same manufacturing firm. But if that lawyer establishes his own practice and is retained by the manufacturing firm, he will then be considered a part of the services sector because his practice is an establishment.

To preserve this distinction, services not sold by establishments are often called factor services, and services sold by establishments are often called nonfactor services. Factor services are services performed by a specific factor of production. Examples of factor services include interest paid for the use of foreign capital and wages paid to foreign labor. Nonfactor services are services that require a combination of intermediate inputs with labor and capital to produce a distinct form of output separate from the services of individual factors of production used to produce that output. Examples of nonfactor services are electricity, insurance, and government services.

Most often, statistics of international trade in services include factor and nonfactor services. Nonfactor services are approximately 20 percent of total U.S. exports of services and approximately 11 percent of U.S. imports of services. U.S. trade policy is currently concerned primarily with trade in nonfactor services.

Activities classified as services for statistical purposes are susceptible to the various accounting practices of different reporters and statistical agencies. Because of these differences, revenues derived from an activity may be classified as a factor service, a nonfactor service, or even as part of the expense for a commodity. In the last case, the payment for the service is recorded as part of the merchandise trade account. Additional problems of statistical coverage include the lack of comprehensive recording mechanisms, inconsistent coverage of trade data, and the inadequacy of disaggregated industry-by-industry data on the sales of services overseas.

Services in the balance of payments

The exchange of services between countries is difficult to observe but must be measured for balance of payments purposes. In the balance of payments, four broad categories record most of the trade in services: (1) transportation; (2) travel and passenger fares; (3) other services; (4) fees and royalties; and (5) interest, profits, and dividends. Unfortunately, these categories do not accurately measure services trade and are generally believed to understate trade in services. Several categories contain entries unrelated to services, some services are actually reported under merchandise trade, and many categories do not cover all facets of services trade and cannot be disaggregated for industry specific data.

Transportation and passenger fares include receipts and expenditures by a country's shipping and airline industries. Examples include export and import shipments, passenger tickets sold to U.S. and foreign residents, mail and charter services, and port and landing services charged to domestic and

foreign vessels and airlines. Expenditures by residents of one country while visiting another country are included in the travel category. The U.S. surplus for all services-related accounts in the balance of payments has grown in recent years because of growth in the interest, profits, and dividends category. ^{1/} Earnings from interest, profits, and dividends consist primarily of income from direct foreign investment and from interest and dividends paid by foreign companies. Other services that are covered in the balance of payments are included as "other private services." Examples of such services include the foreign receipts and expenditures of film companies, insurance companies, (reinsurance only), and communications carriers; and receipts from foreign contract operations for construction and engineering firms and consulting companies. Banking operations are included in "other private receipts and payments" on U.S. and foreign assets.

Because many of these other services are provided on a contractual basis, the receipts and expenditures are often called fees and royalties by the reporting firms. Unfortunately, much of the income reported as fees and royalties represents income remitted by foreign affiliates of U.S. nonservice industries. Although services may be involved, they are not provided by industries normally classified as services. Comparisons of traded and nontraded services may be misleading if these statistical differences are not recognized.

International agreements

Currently, no comprehensive mechanism, system, or institution exists to facilitate international services trade. Instead, services trade is covered in bilateral agreements, multilateral agreements, and codes to liberalize trade. In the past, the United States relied on Treaties of Friendship, Commerce, and Navigation to liberalize services trade. Under these treaties, service industries receive the same treatment as other foreign businesses unless more specific provisions that restrict the coverage of services have been added. In 1981, the United States began to negotiate bilateral investment treaties that are designed to provide certain guarantees and protections for foreign investors. The guarantees cover four main areas: national and most-favored-nation treatment; compensation in the event of expropriation; transfers of profits and other funds; and dispute settlement procedures. These treaties apply to all industries and services, although exceptions are permitted. Current treaties include exceptions for most major service sectors.

Services that require technical and regulatory compatibility are often covered in bilateral agreements. These bilateral treaties exist in specific service areas like civil aviation, shipping, telecommunications, and information exchanges. These agreements generally reflect a desire to establish technical standards, to insure foreign access to local markets, and to provide compatible equipment and operating procedures.

^{1/} Trade in business services categories has declined in recent years. Many of the services covered in this category are discussed in the following subsections.

Several multilateral agreements have also been negotiated in services trade. Most multilateral agreements are sector specific in such areas as aviation, shipping, and telecommunications. Countries often enter these multilateral agreements to provide commercial opportunities for their services industries, to limit abuses and restrictions on those opportunities, and to establish standards and regulations.

The OECD has developed codes to liberalize trade in services and to liberalize capital flows. ^{1/} In practice, these codes have been implemented slowly. Although all OECD members have acceded to the codes, their effectiveness has been limited through member reservations and derogations, and the codes are limited to only a subset of the existing restrictions on services trade. Also, the OECD codes contain little formal dispute resolution procedures, and the OECD does not have any enforcement mechanism.

Following recommendations contained in the GATT Ministerial statement of November 1982, the United States conducted a broad examination of the issues confronting services trade. Its report was released in December 1983 and is intended to stimulate broad international discussion of the issues in services trade and to present U.S. objectives for any new round of multilateral trade negotiations. Among the general principles discussed are national treatment; least restrictive regulations; nondiscrimination; the right to sell; transparency in regulations; and dispute settlement. In light of these principles, the U.S. report also examines the potential for extending individual GATT articles to services. The United States does not, however, suggest that any particular type of arrangement for services trade be established. The report also includes trade statistics for services trade of 107 countries and discusses 12 services sectors in depth.

Because of the diversity of these international agreements, no uniform pattern of their effects on services trade emerges. For this reason, individual service sectors that are important in U.S. trade are next examined, and the effects of these agreements on these sectors are discussed.

Communication Services

The industry

The communication services industry made up of companies and establishments which provide point-to-point communication services, radio and television broadcasting, and services which involve the exchange or recording of messages. There are currently approximately 10,000 U.S. establishments providing communication services, with about 75 percent of these firms providing radio broadcasting services. The remainder of the industry is divided into groups of firms which provide various communication services, including television broadcasting, telephone and telegraph services, and international record-carrying services. Some firms provide more than one of these services. Companies and establishments engaged in these services are covered by Standard Industrial Classification categories 4811 (telephone services), 4821 (telegraph services), 4832 (radio broadcasting), 4833 (television broadcasting), and 4800 (other communication services, including cablevision, missile-tracking, phototransmission, and stock ticker services).

^{1/} See section on OECD earlier in this chapter.

International transmission of communication services is performed by a small number of firms, each composed of an international consortium of firms that connect U.S. communications systems to foreign systems. Sharing of facilities and equipment is subject to agreements between U.S. communications carriers and foreign entities which provide communication services in foreign countries. Except for a single U.S.-based telephone company's activities in Southwest Canada, U.S. carriers do not operate in foreign countries. The markets in the industrialized nations are served, in most cases, by government owned or government-controlled communications industries. 1/

Trade

The estimated value of certain communications services is covered in the U.S. international transactions accounts under "other private services," for which communications exports and imports are separately identified. Only the payment (imports) by a U.S. carrier to the foreign carrier for its transmission services is included in transactions between U.S. and foreign communications companies. Similarly, receipts (exports) of U.S. carriers for carrying transmissions received from foreign carriers to U.S. destinations are included. The estimates also include receipts and payments between Intelsat and foreign communications companies for the leasing of satellite circuits. Communications receipts rose to \$1.7 billion and payments to \$2.1 billion in 1982, reflecting a trade deficit of about \$400 million in this aspect of international communication services. 2/ Annual payments frequently exceed receipts, because more communications between U.S. and foreign residents originate in the United States than abroad.

Net domestic revenues of the U.S. communication services industry grew to an estimated \$95.0 billion in 1982. International revenues (after settlement) increased to an estimated \$3.2 billion in 1982, representing about 3 percent of domestic revenues. Revenue generated by U.S. communication services companies in foreign markets is expected to remain at about this level in the foreseeable future. The steady international growth of the U.S. industry, on the basis of its competitive advantage in technology, investment, and service capability, is believed to provide a positive overall U.S. trade balance in a broader context than reflected in the more limited U.S. international transactions data, but by no more than approximately \$50 million.

The largest potential markets for services-generated merchandise are developed countries, where communications systems are well developed; however, since these markets currently are virtually closed to U.S. exports, developing countries entering into the rapidly expanding communications age are probably the best prospects of sales for U.S. telecommunications hardware and services. In the case of both developed and developing country markets, the high-technology products of U.S. firms are utilized to a limited degree--in the former markets, because of access problems, and in the latter markets,

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 9.

2/ U.S. Department of Commerce, Bureau of Economic Analysis; communications estimates measure settlement transactions between U.S. and foreign communications companies. They do not represent the value of transmissions from points of origin to points of destination.

although purchases are greater, because competition is intense. 1/ U.S. firms face competition in developing countries principally from foreign companies located in Japan and Sweden.

Regulatory environment

Within the United States, interstate transmission of telephone and telegraph, and radio and television broadcasting signals is regulated by the Federal Communications Commission (FCC). The FCC also limits the electromagnetic radiation emission from large transmitters and certain receivers and insures that communicators adhere to the frequency standards allocated to them.

Certain aspects of telecommunications (such as taxes, regulations, and standards) and information exchanges between countries are regulated through bilateral agreements. 2/ Some of these are government-to-government, whereas others are commercial contracts between private entities and governments, government agencies, or government-owned or government-controlled monopolies. Parties to such agreements consider them necessary in part to set tariffs on telecommunication services bought and sold internationally or to maintain control over the types of equipment which can be "plugged in" to their basic communication system. On a more general basis, the current bilateral treaties of Friendship, Commerce and Navigation and Bilateral Investment Treaties (discussed in the introduction to the services section) exempt certain vital activities such as communications, radio and television broadcasting, and satellite communications from national treatment provisions.

On a multilateral basis, international regulation of communication services falls under the purview of a number of international organizations as well as the governments of individual country markets. The development of international standards and regulations has fallen principally to the International Telecommunications Union (ITU), the International Standards Organization, and the International Satellite Communication Organization (Intelsat). The ITU has become the key organization working to establish multilateral agreements covering communications standards and regulations. The ITU has four principal organs that provide recommendations on technical issues and on standards to facilitate worldwide electromagnetic equipment compatibility and to establish international telecommunications services. Although the ITU makes recommendations which are not legally binding and has no dispute mechanism to promote their enforcement, its recommendations generally receive widespread support. Failure to support the ITU would make it difficult for countries to export their services or to link into the international communications system. 3/

1/ Inv. no. 332-132, USITC Publication 1290, p. 12.

2/ U.S. Trade Representative, U.S. National Study on Trade in Services, December 1983, pp. 75-78 and pp. 84 and 85.

3/ U.S. Trade Representative, op. cit., pp. 28-35.

INTELSAT is a consortium of approximately 106 countries whose goal is to develop a global telecommunications system. INTELSAT currently has 16 communications satellites in operation. These satellites supply nearly two-thirds of world overseas communications. Intercontinental telephone services provide approximately 85 percent of INTELSAT's revenues. Television transmission revenues provide an additional 5 percent. The Communications Satellite Corp. (COMSAT) represents the United States in the management of INTELSAT. COMSAT, which was formed under congressional authority, acts as a U.S. intermediary with INTELSAT but also operates its own satellites (called COMSTAR). 1/

According to industry sources, the principal barrier to international trade in communication services is the organization of the communications industries which are government owned or controlled in most countries. Thus, international communications traffic is a matter of the communications network of one country being hooked up with the communications network of another country. As previously noted, the existence of barriers to telephone and telegraph traffic is a prime example of barriers caused by government ownership. Barriers also extend to radio and television broadcasting, wherein nations seek to curtail or prevent incursion into their airways by broadcasts from other countries. 2/ However, some countries such as the United Kingdom, Japan, and Australia are experimenting with, or considering the reduction of, regulation and the imposition of greater free-market competition in an effort to lower costs. 3/

A particularly difficult barrier to international trade in communication services is the attempt by some governments to restrict or otherwise interrupt the flow of data between computers and computer terminals. These data, often proprietary in nature, link multinational businesses and organizations. The restriction or interruption may result in a disruption of business activity or otherwise compromise proprietary information. The industry points out that the situation is further exacerbated by generally weak or unenforceable patent and copyright laws in many countries. Thus, compromise of proprietary information could result in severe financial losses. 4/

Computer and Data Processing Services

The industry

The computer and data processing services industry includes establishments providing computer programming, systems design and analysis, and other computer software data processing, such as time sharing, calculating and key punching; rental and leasing (except by the manufacturer or sales office of the manufacturer); and maintenance. These service activities are covered by Standard Industrial Classification categories 7372, 7374, and 7379.

1/ Telephone Engineer & Management, March 1, 1984, p. 55.

2/ Inv. No. 332-132, USITC Publication 1290, p. 15.

3/ U.S. Trade Representative, op. cit., p. 189.

4/ Further detail on trade issues of concern to the telecommunications services industry is covered in the U.S. Trade Representative, op. cit., pp. 183-193.

The industry consists of a variety of firms, ranging from very small to very large, most of which do not manufacture computers or peripherals. However, manufacturers of computers are among the leading suppliers of computer and data processing services. Many of the firms providing services either purchase, lease, or rent computers for the purpose of processing data on demand. Others specialize in writing programs to enable computers to perform specific or customized tasks. Firms which obtain computers from manufacturers for the purpose of renting or leasing and firms which specialize in maintenance are probably not large in number, but they do account for a large share of services revenue. Computer services firms augment the services provided by computer hardware producers, and industry sources estimate that up to a total of 500 subsidiaries of U.S. firms provide these services in foreign markets; 6 of the top 10 suppliers of services in the Western European market are U.S.-owned firms. Computer and data processing services are also provided from the United States by communication networks. 1/

Trade

The total domestic and international revenues generated by U.S. computer and data processing services is estimated to be \$31.3 billion in 1983 2/ Of this amount, it is estimated that \$5.0 billion, or 16 percent, is represented by U.S. exports. 3/ In addition, it is estimated that \$3.5 billion in U.S. merchandise exports were generated as a result of U.S. computer and data processing activities abroad in 1982. The principal type of exports required to support these service activities were identified as data processing (computing) equipment and office machines. 4/ U.S. imports of computer and data processing services are negligible. 5/ Despite the current lack of official statistics on U.S. trade in computer and data processing services, it is believed that the United States is currently enjoying a favorable trade balance despite efforts by foreign firms to penetrate the large U.S. market.

Regulatory environment

International trade in computer and data processing services is regulated by national governments and private organizations. Foreign governments

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 19.

2/ According to David R. Brousell, derived from Electronic News, Jan. 2, 1984, p. 31.

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

4/ Inv. No. 332-132, USITC Publication no. 1290, pp. 28-29.

5/ However, trade reports suggest that firms in the Far East are making intensive efforts to penetrate the U.S. market for computer and data processing hardware and software. Their success thus far has been marginal, primarily because of language conversion (translation) difficulties, although several Japanese producers have contracted with U.S. software firms to provide programs which will be compatible with U.S. and Japanese-produced computers. The European and other world suppliers of computers and data processing services have not yet provided serious competition to U.S. producers. A partial explanation for this is believed to be because most major U.S. producers of computer and data processing services own, or have working relationships with, similar producers in European countries.

frequently limit or deny U.S. firms the right to provide these services in their countries. In Japan, the United Kingdom, France, and West Germany, Government agencies at the Ministerial level control or regulate these services. There is some, but not complete, unanimity in trade regulations and barriers practiced by individual members of the EC. Other EC countries have only minor international trade in computer and data processing services at this time, but have government regulatory offices similar to those in Japan and the other EC member countries mentioned.

As a result of the merger of computer and communication technologies for transmitting information, transborder data flows have become an issue. Many countries have adopted policy measures that either prohibit the inflow and outflow of certain kinds of information or which effectively raise the cost of transmitting information across national borders. Another reason for imposing restrictions on transborder information flows has been data protection to insure privacy of individuals. In addition, a number of countries have adopted or are considering legislation that would restrict the use of computer facilities located in other countries, either for data processing or for information retrieval. Such regulatory measures adversely affect the ability of U.S. firms to conduct business internationally and involve loss of technological advantages and additional costs when service firms must duplicate their equipment and data processing facilities in each foreign processing center. 1/

There are few specific trade agreements among countries involved in these services. 2/ Certain aspects of data processing and information exchanges between countries are regulated through bilateral agreements. Some of these are government-to-government, others are commercial contracts between private entities and governments, government agencies, or government-owned or government-controlled monopolies. Parties to such agreements consider them necessary in part in order to maintain control over the types of equipment which can be "plugged in" to their basic communication system.

On a multilateral level, some basis exists for international cooperation on knowledge-based services, particularly within the context of the World Intellectual Property Organization (WIPO). The WIPO is examining the feasibility of an international treaty for the protection of computer software and for the development of better contractual arrangements protecting inventions of joint enterprises. The WIPO also is working to improve patent information and classification and to develop a registration and classification system for trademarks covering goods and services. In the field of copyrights, the WIPO has focused on the relationship between copyrights and computers and possible remedies to the piracy of intellectual property. Additionally, in conjunction with UNESCO, WIPO is trying to facilitate developing countries' access to works protected by copyright.

Work also is underway in several other international organizations to develop international agreements on the handling of information that flows over communication networks. For example, in January 1981 the Council of Europe adopted a Convention for the Protection of Individual Privacy which

1/ United States Trade Representative, U.S. National Study on Trade in Services, December 1983, pp. 184 and 186.

2/ Information which follows on bilateral and multilateral activities related to computer and data processing services is contained in the USTR report, ibid., pp. 78, 83, and 85.

relates to Automatic Processing of Personal Privacy Guidelines. In addition, the United Nations Center on Transnational Corporations has given substantial consideration to the sociopolitical and economic aspects of transborder data flows. However, their efforts have not yet led to any specific international, multilateral accords or guidelines. The Intergovernmental Bureau for Informatics (IBI) may devote attention to the impact of transborder data flows on labor and technology in the future, but as yet has not come out with any multilateral guidelines relevant to data flows and services.

In foreign markets, subsidiaries of U.S. firms usually do not face the barriers which often confront efforts of U.S.-based service firms--such as favoritism for local suppliers and barriers to communications. The major restrictive measures impeding international expansion of trade in computer and data processing services are the alleged activities by foreign governments which restrict trade in the hardware associated with the services. In addition, there are barriers related to the right of establishment, local purchase requirements, government procurement, and foreign-exchange controls. Thus, countries which support their computer and computer peripheral industry reduce the export potential of U.S.-produced hardware and services. U.S. firms indicate that the reduction of these trade barriers would significantly increase international revenues, especially in Latin America, Mexico, and Canada. ^{1/} Further, foreign governments generally have weak or ineffective copyright and patent infringement laws which affect the U.S. computer and data processing services industry. Insufficient protection of proprietary information could result in considerable loss of revenues through piracy of programs worth large sums at retail. Industry sources further point out that international barriers to the flow of communication services adversely affect U.S. trade in computer services in that data processing and software are frequently transmitted by radio across national boundaries. ^{2/}

International trade agreements in 1983

There were no changes in the regulatory environment and no significant trade agreement activity in 1983 in the specific area of computer and data processing services. However, in a related area, the U.S. and Japanese Governments have proposed to eliminate import duties on semiconductors, including microprocessors, effective April 1, 1984. This agreement, initiated in 1983, is subject to the passage of appropriate laws by the U.S. Congress and the Japanese Diet; U.S. Government and industry sources believe that this bilateral proposal will be implemented.

Construction and Engineering Services

The industry

The construction and engineering services industry consists of firms engaged in the design and construction of industrial facilities and Government-sponsored projects, as well as those which offer construction management services. According to industry sources, over 70,000 U.S.

^{1/} For a list of restrictive measures, see Inv. no. 332-132, USITC Publication 1290, p. 33 and Trade Barriers to Telecommunications Data and Information Services, United States Trade Representative Computer Group, Nov. 14, 1980.

^{2/} Ibid., pp. 31 and 32.

establishments provide these services both in the United States and abroad, ranging in size from 2-man partnerships to multinational firms employing up to 20,000 persons. Of this total, about 400 to 500 firms have dominated the industry in both domestic and international contracts. The industry is basically organized for both domestic and foreign business according to services provided: design and architectural, engineering, pure construction, and construction management. 1/

The U.S. Department of Commerce classifies construction and engineering services in several sections of the Standard Industrial Classification (SIC). "Engineering, Architecture, and Surveying Services" are classified in SIC category 8911 along with design services. Construction services related to energy are included in SIC category 162 as "Heavy Construction, Except Highway and Street Construction." However, certain specific services such as electrical work, concrete work, and water-well drilling (for cooling purposes) may be classified as "Special Trade Contractors" in SIC major group 17, if not done as part of a larger service project.

Trade

The value of construction and engineering services is covered in the U.S. international transactions accounts in "private miscellaneous services," and is separately identified only as net receipts from foreign contract operations. Receipts of all engineering, design, and related construction service activities in foreign markets during 1982 accounted for nearly \$1.4 billion. 2/ Since U.S. firms have dominated domestic construction and engineering contracts, the U.S. trade balance probably favors the United States.

The principal measure of growth for U.S. firms in the international construction and engineering services industry is the value of foreign contracts awarded. However, these contracts usually cover the period during which the services are being performed, making foreign revenue data earned from these contracts on an annual basis unavailable. It should also be noted that, according to industry sources, the total value of work performed by a U.S. construction/engineering firm in a foreign country may not be reflected in the U.S. balance of payments, since much of the value of the contracts would be paid directly to foreign workers and foreign equipment suppliers. In 1982, U.S. companies' foreign contract awards fell approximately 13 percent, from \$52.0 billion in 1981 to \$45.3 billion. 3/ According to industry sources, U.S. foreign contract awards may have decreased further in 1983 due to intense competition in major U.S. export markets. 4/

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 43.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

3/ "The Top 499 Contractors," Engineering News Record, Apr. 28, 1983, pp. 68-72, and "Weak Markets, Competition Keep Specialties Hungry for Work," Engineering News Record, Aug. 25, 1983, pp. 54-61.

4/ During the 1970's, the U.S. share of the international construction market was 50 percent; by 1982, the share had fallen to 30 percent. See "Sagging Service Exports: What Happened," Dunn's Business Month, September 1983, pp. 38 and 39.

The construction and engineering services industry also generated an estimated \$35 billion in merchandise export trade in 1982 as a result of its activities in foreign markets. Most of these exports consist of construction machinery and material handling equipment, electrical power generation and distribution equipment, and industrial paperboard and packaging material. 1/

Foreign markets, particularly in developing nations, have accounted for a significant share of the revenues of large construction and engineering firms. Industry officials indicate that U.S. construction companies operating abroad collectively receive from one-fifth to one-third of their total billings from foreign sources. 2/ In 1982, total billings from overseas operations were estimated at \$5.8 billion, representing about 37 percent of domestic billings and about 27 percent of total industry billings. 3/

Foreign firms offering construction and engineering services internationally are estimated to total more than 250,000 companies. U.S. firms face major competition from companies located in Korea, India, Brazil, France, Italy, and West Germany. Major regional markets for U.S. firms are the Middle East, the Far East, and Africa. 4/

Regulatory environment

Currently, there are almost no formal multilateral mechanisms which can be used to resolve trade problems in the construction, engineering, and related consulting services fields. To the extent that a portion of international construction and engineering projects include trade in goods, that aspect of the sector is covered by the General Agreement on Tariffs and Trade. However, no international guidelines exist to govern trade conduct in the services component of this industry. In general, problems have been resolved by legal representatives of individual firms or bilaterally between governments. However, even bilateral discussions have been hampered by the absence of internationally accepted principles in the construction and engineering services industry. 5/

There are numerous barriers to international trade in the construction and engineering services industry, many of which are similar to those that restrict trade in goods. 6/ The most important of these is a wide variety of foreign government subsidies for export of those services to third country markets. In addition, there are a number of impediments imposed by host countries, including licensing requirements, currency restrictions, discriminatory taxation, joint-venture requirements, wide variations in national bidding procedures, barriers of trade directly affecting provisions

1/ Inv. no. 332-132, USITC Publication 1290, p. 64.

2/ U.S. Department of Commerce, Current Developments in U.S. International Service Industries, March 1980, p. 51.

3/ Inv. no. 332-132, USITC Publication 1290, p. 55.

4/ Ibid, pp. 57-59.

5/ U.S. Trade Representative, op. cit., p. 201.

6/ Further detail on trade barriers and issues in the construction and engineering services industry are covered in Inv. no. 332-132, USITC Publication 1290, p. 69) and in U.S. Trade Representative, op. cit., p. 194).

of goods, and countertrade requirements. Construction and engineering firms indicate that the reduction of these trade barriers would increase international revenues, especially in the Middle East, the Far East, Africa, and Latin America. 1/

Consulting and Management Services

The industry

Management and consulting is a service provided for a fee by independent professional people who assist in analyzing the management and operating problems associated with the goals, objectives, policies, and principal functional operating areas of an organization. Management consultants recommend solutions to the problem and may assist in implementation. U.S. establishments providing management and consulting services currently number over 22,000. This industry is part of SIC 7392, which includes establishments primarily engaged in furnishing general or specialized management, consulting, or public relations services. 2/

Foreign establishments of U.S. management and consulting firms are located worldwide; at least 75 to 80 U.S. firms have offices overseas at the present time. According to industry sources, management and consulting firms are emphasizing specialization and internationalization in their operations. U.S. firms in this service industry conduct overseas projects through U.S.-based offices or foreign business operations established through foreign affiliates, subsidiaries or branches, joint ventures, franchising, and licensing. 3/

Trade

The value of consulting and management services is covered in the U.S. international transactions accounts in "other private services," and is separately identified only as net receipts for consulting services provided to foreign residents. Receipts involving foreign consulting services during 1982 accounted for \$125 million. 4/ U.S. management and consulting firms are generally the primary suppliers of this service to the international market. This leadership is due to two principal factors, commonly referred to as American knowhow--extensive experience and expertise in their field(s)--and highly qualified and well-educated personnel. Due to U.S. management and consulting firms' prominence in the international market and the scarcity of

1/ Inv. no. 332-132, USITC Publication 1290, p. 78.

2/ Additional information concerning the nature of management and consulting operations in the U.S. and foreign markets is provided in Inv. no. 332-132, USITC Publication 1290, p. 91.

3/ There are four basic types of management and consulting firms: independent consultants are unrelated to other business services and range in size from individual consultants to large companies; some consultants operate with Certified Public Accounting firms; a university professor may work as a consultant on a part-time basis; and internal consultants work in a management and consulting department within an organization or company.

4/ Inv. no. 332-132, USITC Publication 1290, p. 97.

foreign competition in the U.S. market, the United States is believed to have a trade surplus in this service industry. Total foreign revenue generated by the U.S. management and consulting service industry was an estimated \$1.2 billion in 1982, which represents about 7 percent of this industry's estimated total revenues of approximately \$16.7 billion in 1982. 1/

The consulting and management services industry generated an estimated \$51 million in merchandise export trade in 1982 as a result of its overseas activities. These product exports principally consist of computers and office furniture, construction machinery and equipment, measuring and checking instruments, and telecommunications equipment.

Regulatory environment

Trade in professional services, including management and consulting, is believed to be regulated by national governments, either as the result of protectionist sentiments or of government measures designed to achieve legitimate economic and social goals. 2/ There are currently no established internationally agreed upon rules or procedures which effectively address all of the professional services trade problems. However, professional services are included in the Organization for Economic Cooperation and Development (OECD) Code of Liberalization of Current Invisible Operations, which sets out member obligations to eliminate restrictions on current invisible transactions and transfers. In addition, many treaties of Friendship, Commerce, and Navigation contain language concerning market access of professionals. 3/

There are allegedly certain barriers to trade in services that inhibit the establishment and growth of U.S. consulting and management firms abroad. These restrictions fall into several major categories, including discriminatory taxation, such as tax withholding that places U.S. firms at a cost disadvantage. Such restrictive taxation policies reportedly are found in Latin America and the Netherlands. Discriminatory foreign-exchange and remittance requirements, which exist in some countries such as Spain, inhibit foreign currency removal from the host country and limit repatriation of profits. In some instances government regulations link the allowable amount of repatriation during a given time period to the amount of a company's local capital assets. Such regulations are extremely restrictive for labor intensive industries such as consulting where capital assets are small compared with most goods-producing operations. 4/ Personnel restrictions create delays in hiring personnel. Policies such as majority ownership by the host country and contract registration, place U.S.-owned foreign operations at a competitive disadvantage compared with the position of national firms. A strong preference for national firms exists in Latin America; consequently, U.S. firms or their foreign operations are required to register their contracts with those foreign governments. 5/ Consulting and management firms operating overseas indicate that reduction or removal of these trade barriers would have a significant positive effect on foreign revenues, particularly in Latin America and Europe. 6/

1/ Ibid., p. 101.

2/ U.S. Trade Representative, op. cit., p. 237.

3/ Ibid., p. 238.

4/ Ibid., pp. 232 and 233.

5/ Further discussion of these restrictions and their consequences are addressed in the Commission report previously cited, p. 102.

6/ Ibid., p. 105.

Educational Services

The industry

The educational services industry includes public and private nonprofit schools, colleges, universities, and other institutions of higher learning, libraries, and privately owned (proprietary) technical, trade, and commercial schools, as well as those management/consulting proprietary firms (some of which may be composed of a single person) specializing in education or vocational training. The U.S. educational service industry's primary foreign business operations involve attracting foreign students to study in the United States. Second, the industry's foreign operations include the provision abroad of training, development assistance, language instruction, teaching, and the supplying of educational services through textbooks published abroad.

There are considerable differences in the market organization of the educational services industry. The 337,000 foreign university students in the United States in school year 1982/83 studied at over 3,000 colleges, universities, and trade schools. Proprietary trade schools number about 10,000 within the United States; they include a wide diversity of schools teaching subjects ranging from English to auto mechanics and enroll an estimated 2 million to 3 million students of whom probably 1 to 2 percent are foreign. Overseas operations by the proprietary schools amount to less than an estimated 200 schools and correspondence courses offered there by these organizations. Other U.S. firms provide professional services for education or training which include development of technical facilities and schools abroad, teaching English or other academic subjects, providing vocational development or training, supplying curricula or textbooks published abroad, and supplying educational testing services. A number of U.S. management/consulting firms specialize in the training of foreign students in vocational skills, generally on a contractual basis to a foreign government and often in a developing country. 1/

The U.S. Department of Commerce includes the private educational industry primarily under SIC Group 82 (Private Educational Services), SIC Group 7392 (Management and Public Relations), and SIC Group 8331 (Job Training and Related Services).

Trade

According to the Commission's service industries study, 2/ foreign revenues generated by U.S. educational service establishments were estimated at \$2.1 billion in 1982, representing 1.5 percent of total domestic expenditures of \$140 billion. The United States is believed to have a trade surplus in educational services of \$1.9 billion, with the value of imported services being an estimated \$200 million. The principal component of foreign revenues for U.S. educational services is measured by using the annual survey data from the Institute of International Education (IIE). 3/ This survey

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 115.

2/ Ibid, pp. 124 and 125.

3/ Institute of International Education, Open Doors, published annually.

shows the expenditures and number of foreign students in the United States at over 3,000 U.S. colleges, universities, and vocational schools. In school year 1982/83, these foreign students spent an estimated \$1.7 billion solely for educational expenses. The funds were derived from foreign sources and spent on educational fees and living costs at universities and colleges. The IIE also reports the origin of foreign students' revenues by foreign and domestic sources. Foreign student educational expenditures in the United States account for about three quarters of total estimated foreign revenues for the educational services industry.

In 1982/83, expenditures in the United States by foreign university students created an estimated 43,000 jobs, according to industry sources, and an estimated 10,000 Americans were employed abroad in educational activities. Foreign students in 1982/83 constituted about 3 percent of all enrolled students in U.S. universities and colleges. 1/

The United States competes with other countries such as Japan and the EC in offering educational services. However, owing to U.S. technological expertise, foreign demand for U.S. education is high and competition with other countries for foreign students is limited. Although some developed areas such as Japan, the EC, and Canada send significant numbers of students to the United States, the primary markets for U.S. educational services are the developing and the OPEC countries. The Middle East, Far East, and Latin America are identified by the industry as the most significant foreign markets for U.S. educational service activity. The Far East represents an important growth region with the Japanese market most frequently cited by the industry. 2/

Regulatory environment

Although no formal organization or body exists for the purpose of regulating trade in educational services, the industry is affected by local and national government decisions concerning such issues as curricula control, right of establishment, and direct government financing. Significant trade barriers to U.S. educational services in foreign countries have been the commercial counterfeiting of domestic educational materials or curriculum. These problems have persisted despite efforts by the United Nations Educational, Scientific, and Cultural Organization and by the International Publishers Association to encourage authors of textbooks or other educational material to share their products internationally by having countries respect foreign authors' legal (copyright) and intellectual rights. Currency exchange controls by foreign governments, which often interfere with remittances of U.S. educational firms operating abroad, and barriers to rights of establishment such as restrictive employment regulations (e.g., local labor requirements) and administrative/ownership restrictions are also frequently cited by industry sources as hampering operations in foreign markets. The industry reports that the reduction or removal of trade barriers would have a positive affect on foreign revenues, particularly in the Far East and Africa. 3/ On the other hand, foreign governments are actively involved in purchasing educational services, and their annual expenditures in the United

1/ National Center for Educational Statistics, U.S. Department of Education.

2/ Inv. no. 332-132, USITC Publication 1290.

3/ Ibid., p. 133.

States for educating foreign students range from \$1.5 million spent by Sweden to \$150 million spent by Venezuela. Additionally, domestic foreign government funding for U.S.-supplied services in the areas of vocational training and development of educational programs and facilities is substantial.

Equipment Leasing

The industry

There are approximately 32,000 U.S. establishments currently operating in the equipment-leasing industry, with about 50 of them operating internationally. Establishments engaged primarily in renting or leasing are included under Standard Industrial Classification categories 6159 and 7394. Financial institutions make up about two-thirds of the total number of equipment leasing firms, and the remaining firms are independent leasing companies. Leasing companies are generally incorporated as limited liability corporations with specific powers to engage in the leasing (hiring) of equipment and/or to provide various forms of asset financing. Equipment leased by these companies includes such products as motor vehicles, trailers and containers used for the transport of cargo, machinery and industrial equipment, business machines, oceangoing vessels, aircraft, railway rolling stock, and medical equipment. 1/

Trade

In 1982, domestic revenues generated by the U.S. leasing services industry were estimated to be \$60.7 billion. 2/ Foreign revenues were an estimated \$17.1 billion, and compared with those of the U.S. market represent 28 percent of domestic revenue. U.S. foreign leasing activities generate revenue not only from leasing transactions, but also from exports of U.S.-made merchandise resulting from those transactions. The primary articles exported by U.S. companies for international leasing operations are transportation equipment, industrial equipment, and medical equipment. In 1980, exports of U.S. merchandise generated by U.S. leasing services abroad were estimated at \$851 million. 3/

There are very few foreign leasing firms operating in the United States, primarily because of high interest rates and a general lack of funding. However, in the international market, France, Japan, and the United Kingdom all have leasing firms which effectively compete with U.S. leasing firms. The primary markets in which these leasing firms compete are Western Europe, Central and South America, and the Far East.

Regulatory environment

There are few international trade agreements or guidelines covering the leasing services industry. Most existing technical and regulatory cooperation

1/ Further details concerning the industry profile and operating structure are contained Inv. no. 332-132, USITC Publication 1290, p. 143.

2/ Ibid., p. 151.

3/ Inv. no. 332-132, USITC Publication 1290, p. 156.

and coordination agreements affect leasing in some way. U.S. leasing companies usually establish agreements on a country-to-country basis. Different agreements may exist from company to company, depending on the type and length of lease, the type of equipment leased, and the companies' prior experience in a particular country.

Few prominent nontariff barriers to trade in leasing services are found in foreign markets. However, each country has its own requirements, regulations, and tax laws which tend to impede trade. Leasing contracts are subject to different laws and requirements abroad, which makes it difficult for U.S. firms to enter foreign markets. Generally, nontariff measures limiting U.S. leasing activities abroad include (1) restrictive practices (i.e. on capital structure, marketing practices, operating provisions) tolerated by governments; (2) quantitative restrictions and import licensing; (3) exchange controls; (4) discriminatory sourcing; (5) tax laws; and (6) discriminatory credit restrictions. ^{1/} Notwithstanding these impediments, industry sources have indicated that the lack of expertise in foreign leasing matters is the major factor limiting U.S. leasing activity in foreign countries. U.S. leasing activity is most prevalent in the United Kingdom, Italy, Mexico, Canada, Brazil, and the Republic of Korea.

International trade agreements in 1983

The Agreement on Government Procurement under the GATT MTN Codes, for which renegotiation with signatories was underway during 1983, provides potential coverage of leasing contracts. This is the only MTN code that specifically requires signatories to consider developing rules for trade in services. Services are indirectly covered by the government procurement agreement when they are incidental to the supply of goods purchased by code-covered entities. This is only so long as the value of these incidental services does not exceed the value of the procured products. Service contracts per se are not covered. Although leasing is not specifically covered in the Government procurement code, the United States sought agreement by the signatories to interpret the agreement to cover leasing service contracts because, in lieu of such coverage, signatories could purchase goods through leasing contracts while circumventing the requirements of government procurement contained in the code. Signatories have not yet agreed to interpret the agreements in this way with respect to leasing, but coverage of leasing will be discussed in the renegotiations currently underway.

Financial Services

The industry

Financial services are those provided by the banking industry which include many services relating to money, its use and distribution, as well as other fiduciary activities. The banking industry is composed principally of commercial banks (SIC 60), and investment banks (SIC 62). Commercial banks are establishments which perform intermediation, i.e., the bringing together of borrowers and lenders for a fee. Such banks accept deposits and make loans.

^{1/} Ibid., p. 158.

On the other hand, investment banks deal in the issuance of securities (stocks and bonds) and act as underwriters (buyers of issues for distribution in primary or secondary markets). U.S. establishments of Federally insured banks currently number over 14,416; investment firms number about 390 (New York Stock Exchange operations), with nearly 4,170 sales offices operating domestically.

Because of the number of services offered, their geographical location, and regulations under which they operate, international banks vary in organizational structure and physical presence. The structure of the banks may be based on product line, geographical activity, or a combination of the two. Physical presence ranges from representative offices, in which bankers act as analysts and coordinators of deals, to subsidiaries or branches performing full-service banking activities. The services offered by banks in the international market are diverse. Typical services offered include issuing letters of credit and accepting medium- to long-term loans, interbank loans, finance leasing, financial analysis, and issuance of securities. 1/

Trade

The value of certain financial services is partially covered in the U.S. international transactions accounts in "other receipts or payments" on U.S. or foreign assets, and shows a U.S. trade surplus of \$14.7 billion in 1982. Receipts of U.S. banks, which consist of interest on loans, deposits, and other claims on foreigners were \$40.0 billion in 1982 and accounted for 70 percent of the total private investment income receipts. Interest payments by U.S. banks on liabilities to foreigners were \$25.3 billion in 1982 and accounted for 75 percent of the total private investment income payments. 2/ Traditionally, and through January-March 1983, U.S. banks had been a net source of funds to the rest of the world aiding in the redistribution of OPEC dollars. Though U.S. banks' external liabilities had risen to \$253 billion in January-March 1983, their gross external assets increased even faster, to \$383 billion. However, in April-June 1983, U.S. banks reversed their role as suppliers of funds to become net borrowers. U.S. banks' net absorption of international funds continued to rise during July-September 1983, from \$4.3 billion to \$10.3 billion. The Bank for International Settlements (BIS), the leading monitor of international banking flows, suggests the turnaround occurred because of a continued slowdown in lending by U.S. banks to developing countries burdened with debt-repayment problems and because of the growth in importance of international banking facilities (IBF's) in the United States, combined with the factors favoring the United States as the country of issue of the currency in which most international debt is denominated.

Revenues for U.S. commercial banking operations in foreign markets in 1982 totaled an estimated \$75 billion compared with domestic revenues of about \$240 billion and accounted for 31 percent of these revenues. 3/ The major U.S. banking activity outside of the United States, as reflected by claims on foreign countries, indicates that the "group of ten" 4/ and Switzerland were

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 167.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

3/ Ibid., p. 178.

4/ The "group of ten" are Belgium-Luxembourg, France, Germany, Italy, Netherlands, Sweden, United Kingdom, Canada, Japan, and the United States.

the major trading markets for 1982, followed by non-OPEC developing countries. Of the latter group, Brazil and Mexico were the leading countries in which U.S. bank lending occurred. International financial service operations by U.S. banks also generated an estimated \$9 billion in merchandise trade exports from the United States in 1982. Most of the export items consist of merchandise considered to be high-technology products, such as telecommunications equipment and data processing (computing) equipment. 1/

Regulatory environment

The international banking industry is highly regulated by governments so that they may control the soundness of their banking sector and so that they may control the flow of funds into and out of their economies. In the United States, regulatory responsibility for banking activities is shared by three institutions---the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The Federal Reserve and State Banking Agencies jointly oversee State-chartered banks that are members of the Federal Reserve System. Recent legislation requires that all State banks must maintain reserves with the Federal Reserve System. The Federal Reserve is also the principal regulator of international activities of State-chartered banks that are members of the Federal Reserve System. Similarly, the Office of the Comptroller of the Currency regulates federally chartered U.S. commercial banks and is the principal overseer of international branches and subsidiaries of national banks. The Federal Deposit Insurance Corporation and State banking agencies jointly regulate State-chartered, non-Federal Reserve members which are Federally insured. 2/

In the different international markets, the approach to regulations varies greatly from country to country and includes techniques such as defining financial institutions in various ways, partial public ownership of the banking sector, and restricting foreign bank establishment or operation activity. Either the central bank or the ministry of finance is typically identified as the regulatory body in a country.

Existing international service understandings at the bilateral level, such as Treaties of Friendship, Commerce, and Navigation, and Bilateral Investment Treaties, although emphasizing right of establishment and private foreign investment, largely exempt coverage of banking functions. 3/ Few international finance agreements exist, since countries will not allow their monetary policies or bank supervisory role to be subject to international administration. Some international agreements do exist, however. International banking supervisory matters are discussed at the Bank of International Settlements (BIS). Also, the International Monetary Fund serves as a forum for discussions dealing with monetary system support and solvency. Private commercial banks maintain the Society for Worldwide Interbank Financial Transfers to facilitate international banking transactions. In addition, the OECD has attempted to liberalize regulations

1/ Inv. no. 332-132, USITC Publication 1290, p. 185.

2/ Additional information is contained in a report issued by the U.S. Trade Representative, op. cit., pp. 36-42.

3/ U.S. Trade Representative, op. cit., pp. 76 and 77.

that hamper the flow of funds across national borders through the "Code of Liberalization of Current Invisible Operations" and the "Code of Liberalization of Capital Movements." 1/

Restrictions to trade most often cited by U.S. banks fall in three broad categories--restriction on entry, discriminatory regulations, and nondiscriminatory regulations which affect bankers but are aimed at the nonbanking sectors. The following is a listing of typical restrictions that illustrate the three categories mentioned above: 2/

1. Restrictions on entry

- Prohibition on establishment
- Limited establishment (i.e., correspondent or representative offices only)
- Restrictions on takeover of domestic banks by foreign banks
- Limited equity participation allowed for foreign banks
- Limit on types of services offered by foreign banks

2. Discriminatory regulations (that impose added costs to foreign bank operations or that deny foreign banks competitive opportunities)

- Higher reserve requirements
- Higher capital/asset ratio requirements on lending
- Higher taxation
- Limits on Government deposits in foreign banks
- Prohibition or restricted participation in Government backed export credit programs
- Inability to use the central bank's rediscounting facilities
- Restriction on the ability of insurance companies to deposit funds in foreign banks
- Restrictions on retail banking activities (e.g., not allowed to accept local demand deposits)

3. Nondiscriminatory regulations

- Exchange controls
- Immigration controls
- Professional licensing requirements

Financial service firms operating internationally indicate that their activities overseas and their revenues would increase as a result of reducing or eliminating these existing international barriers, especially in the Far East and Latin America. 3/

The regulatory environment of the U.S. banking industry could change dramatically in the near future. A Federal task force has proposed the creation of a new U.S. banking agency that would streamline the rulemaking and examining functions of the present regulatory institutions. Under the plan, the Federal Reserve Board, State regulators, and the Federal Deposit Insurance Corporation would turn over certain regulatory powers to the new agency, and the position of the Comptroller of the Currency would be eliminated. Though there has been no agreement to set up such an agency, a task force meeting in

1/ Ibid., p. 83 and pp. 85-88.

2/ Ibid., pp. 212-214.

3/ U.S. Trade Representative, op. cit., p. 190.

December 1983 resulted in agreement that the Justice Department would handle antitrust analysis in the banking industry (presently, this task is shared between the regulatory institutions mentioned above) and that the Securities and Exchange Commission would handle all securities activity of banks instead of sharing that responsibility with bank regulators as is currently done.

International trade agreements in 1983

Although there have been no specific trade agreements related to financial services entered into during 1983, bilateral investment treaties, which may partially encompass facets of financial services, were under negotiation with 11 countries during the year.

Franchising

The industry

Franchising is a form of distribution that involves a licensing agreement between the franchisor, or owner of a product, service, or tradename, and the franchisee, or affiliated dealer, to market the franchisor's goods or services. There are two basic types of franchising—product and tradename franchising and business format franchising. Product and tradename franchising generally involves identification of the franchisee with the franchisor's product; the franchisee may be relatively independent in marketing the product or service. Business format franchising is a more integrated distribution system where the agreement between the franchisor and franchisee generally includes a marketing strategy, uniform products, standardized operating procedures, quality control measures, and managerial and technical assistance from the franchisor.

Franchising comprises a large variety of products and services. Product and tradename franchising, which is the more traditional form, consists primarily of automobile and truck dealers, gasoline service stations, and soft drink bottlers. Sales by these establishments account for about three-fourths of total U.S. domestic franchise sales. Business format franchising, which is a relatively new form, accounts for the remainder of total franchise sales and includes retailing, restaurants, automotive products and services, convenience stores, and many others. In 1982, there were 1,770 franchisors and 439,384 franchising establishments in the United States, with sales totaling \$376 billion. 1/

Business format franchising is the principal type of U.S. operation in foreign markets and offers a wide variety of products and services as in the domestic market. Most U.S. franchisors operate in foreign markets through foreign franchise-owned establishments. 2/ In 1982, there were 295 U.S. franchisors with 23,524 franchising establishments in foreign countries. The major countries where these establishments were located are Canada, Japan, and the United Kingdom. 3/

1/ U.S. Department of Commerce, Franchising in the Economy 1982-1984.

2/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC 1290, p. 199.

3/ U.S. Department of Commerce, op. cit.

Franchising is included in the Standard Industrial Classification Group 6794. The individual businesses and services that franchising comprises are classified under various other SIC groups.

Trade

Although U.S. trade balance data for the franchising industry are not available, a substantial U.S. trade surplus is believed to exist. Also, U.S. industry expansion into international markets is outpacing domestic growth. During a recent 5-year period, the total number of foreign establishments associated with U.S. franchising firms increased at an average annual rate of about 13 percent compared with a rate of less than 1 percent for domestic establishments. ^{1/} Foreign revenues generated by U.S. franchisors abroad are estimated at \$3.4 billion in 1982 and represent about 7 percent of total domestic revenue estimated to be about \$49 billion. Government statistics indicate that foreign operations generally provide a relatively small share (usually less than 4 percent) of total income for U.S. franchisors, especially since most foreign outlets are owned by franchisees that pay a fee and/or royalty on their sales.

Franchising by U.S. firms generated an estimated \$517 million in merchandise trade exports from the United States in 1982. ^{2/} Most of the export items consisted of machinery and equipment, including data processing equipment, motor vehicles, automotive products, and food service and related equipment. Major foreign markets for U.S. franchisors included Canada, the United Kingdom, Australia, and Japan.

Regulatory environment

There are no bodies that regulate international trade related to franchising, and no specific trade agreements exist concerning franchising. However, national franchising disclosure laws exist in the United States (16 CFR 436) and are under consideration in other countries such as Canada, although such laws generally do not restrict trade. Also, antitrust considerations may affect franchising operations in countries such as the United States, Canada, and the United Kingdom. Furthermore, U.S. franchisors operate in numerous foreign markets that present a diverse range of conditions and requirements. Impediments do exist that affect all types of U.S. business operations abroad, and these may adversely affect the entry or expansion of U.S. franchising activities in certain foreign markets. The full scope of the impediments to international franchising is not known, but selected problem areas have been identified in the inventory of service trade barriers developed by the United States Trade Representative. Also, the American Bar Association has published an extensive survey of foreign laws and regulations affecting international franchising. These include limitations on the payment of licensing fees, royalties, or profits; restrictions on foreign investment and ownership; requirements to utilize local resources such as labor, raw

^{1/} Ibid., p. 206.

^{2/} Inv. no. 332-132, USITC Publication 1290, p. 211.

materials, and capital goods; lack of copyright and trademark protection; price controls; and import restrictions and controls. 1/ The major markets where such laws and requirements hamper U.S. franchisors include Canada, Japan, the United Kingdom, Australia, Mexico, and Brazil. U.S. franchisors report that their foreign franchising operations would increase rather significantly with the reduction or removal of such barriers, especially in Canada and the Far East. 2/

Health Services

The industry

Hospitals account for almost one-half of the total expenditures for health services (the remainder is largely composed of physicians' services, nursing home care, and dentists' services) and represent nearly all of the U.S. industry's activity in foreign countries. The Standard Industrial Classification of health services is SIC 80. Hospitals that are managed for a fee by hospital management companies are believed to be classified under SIC 7392, a segment of business services, although the hospital operations themselves are covered by SIC 806.

Investor-owned (or for-profit) hospitals, operated by 45 hospital management companies (HMC's), began foreign operations in the early 1970's and, though relatively small and currently limited to only about 7 firms, have grown rapidly from 7 foreign hospitals in 1978 to 56 in 1983. 3/ In addition, these companies managed 21 foreign hospitals under contract. The major methods of operating internationally are through service contracts to manage hospitals for foreign governments, development projects to construct and manage foreign hospitals, and ancillary services including the operation of equipment and training facilities. 4/

Trade

The United States is believed to have a positive trade balance in health services on the basis of foreign earnings of U.S. hospital management companies estimated at about \$50 million in 1982 5/ compared with estimated earnings of about \$6 million for foreign health services firms with U.S. investments. Though small in magnitude, the hospital management industry is also making a positive contribution to the U.S. balance of payments. In merchandise trade, the international operations of U.S. health services firms generated an estimated \$75 million in U.S. exports in 1982. Most of the exports consist of medical instruments, equipment, and supplies, such as X-ray machines and surgical equipment and supplies, and other medical appliances. 6/

1/ Ibid., p. 214. See also a submission by the United States Government to the General Agreement on Tariffs and Trade, U.S. Trade Representative, op. cit., p. 274.

2/ Inv. no. 332-132, USITC Publication 1290, p. 220.

3/ 1984 Directory, Investor-Owned Hospitals and Hospital Management Companies, published by FAH Review, Inc., Little Rock, Ark. p. 22.

4/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 231.

5/ Companies' financial reports and industry spokesmen.

6/ Ibid., pp. 243 and 244.

Gross domestic revenues of the U.S. hospital management companies reached about \$26 billion in 1982 compared with revenues from foreign operations amounting to about \$700 million and representing 3 percent of domestic operations. The U.S.-owned and U.S.-managed hospitals, with 8,497 beds, are located in the United Kingdom, Australia, Saudi Arabia, Brazil, Switzerland, France, Spain, and six other countries. Five additional foreign hospitals that are owned or operated by U.S. HMC's are under construction. Foreign competition to U.S. hospital management companies' international operations was limited until recently, because the hospital management field is relatively new, and U.S. companies entered first and developed a strong leadership position. However, industry sources indicate that this competition is becoming more serious, since foreign governments are allegedly sponsoring and offering favorable financing terms to their nationals for entering foreign markets. For example, U.S. HMC's have been unable to match interest rates offered by British firms in the Middle East and French companies in Latin America. In addition, Taiwan, Jordan, Korea, Japan, and Bangladesh are recent entries that may gain advantage through financial leverage, and local competition in the important Saudi Arabian market is emerging.

Regulatory environment

No formal organizations exist for the purpose of regulating trade in the hospital management field. In every country, government bodies decide when and where new hospitals are needed and whether existing hospitals are meeting health standards. In this context, certain foreign countries have reportedly employed various barriers to investment and ownership and to hospital operations. These include the banning of investor-owned hospitals in Japan, difficulty in expanding operations in West Germany, limitations on shares of foreign ownership in several countries, limitations on repatriation of profits in Latin America and part of Asia, local-content requirements on hospital equipment in certain countries, and limitations on employment of U.S. nationals in several countries. Nevertheless, despite the number of foreign trade restrictions identified by industry sources, their overall impact on the total volume of foreign trade appears to be rather minimal, although a limited number of firms indicate that removal of barriers could increase revenues in the Far East, Middle East, and Latin America. ^{1/}

Hotel-Motel Services

The industry

The hotel-motel service industry reports that approximately 33,000 establishments--which employed some 1.2 million workers during 1983--are operating in the United States. ^{2/} Additionally, there are approximately 40 U.S.-based hotel-motel chains operating internationally. The hotels and motels that are most successful provide special services--namely, currency exchange, language assistance, banquet and convention facilities, and entertainment and recreation facilities--and cater to a variety of customers, including business travelers, convention attendees, and tourists.

The operating structure of hotel-motels that generate the most revenue, both domestically and internationally, are those which are operated by

^{1/} Ibid., pp. 250 and 251.

^{2/} U.S. Department of Commerce, 1984 U.S. Industrial Outlook, 25th annual edition, p. 52-20.

management contracts, franchise agreements, or a combination of the two. Management contracts are agreements made by hotel management companies or hotel chains that offer management services to owners/investors to manage their hotel-motels for certain financial considerations. Franchise arrangements are contractual agreements made between hotel-motel chains or parent companies (franchisor) and owners/investors or the franchise holder (franchisee). Under the franchise arrangement, the franchisor receives an initial fee and a share of gross room receipts from the franchisee in return for the right to sell goods and services under the company name or logo. 1/

The hotel-motel service sector, which is a vital part of the tourism industry, is listed under Standard Industrial Classification (SIC) 7011. The SIC 7011 group covers all commercial establishments known as hotels, motels, motor hotels, and tourist courts which are open to the general public on a seasonal or year-round basis. In addition to lodging, these facilities may provide meals, entertainment, and other services.

Trade

Even though small when compared with the aggregate trade balance, the hotel-motel sector has contributed positively to the U.S. balance of trade. This is because of the relatively few foreign hotel-motel establishments--primarily French, British, and Canadian in origin--which are located and operating in the United States and the 40 or so U.S. hotel-motel chains operating worldwide, which account for about \$2.5 billion in international revenue, or about 9 percent of total domestic revenue for this industry.

Domestic sales for this service sector were estimated at \$29 billion in 1983, up 6 percent compared with those of the prior year. Hotel room rates increased from an average of \$62 per day in 1982 to \$68 per day in 1983; motel room rates also increased from \$41 per day in 1982 to \$44 per day in 1983. Occupancy rates were estimated at 66 percent in 1983, up from 63.5 percent in 1982. 2/

Exports of U.S. merchandise needed to operate U.S.-based hotel-motels around the world totaled an estimated \$49 million in 1982. Most of the export items consisted of machinery and equipment, agricultural products, and textile and apparel items. 3/ Major foreign markets for U.S.-based hotels are Europe, the Middle East, and the Far East.

The U.S. Travel and Tourism Administration of the U.S. Department of Commerce initiated an "In-Flight Survey" during October-December 1982. It was originally administered to foreign travelers leaving the United States; in January 1983, the survey was expanded to cover U.S. citizens. The survey provides information regarding total expenditures, such as those expenses incurred by travelers for lodging, transportation, meals, entertainment, and gifts. The information obtained through the survey is sold on a subscription basis, primarily to businesses and tourism promotion agencies of State, local, and foreign governments.

1/ Further details concerning the industry profile and operating structure are contained in, The Relationship of Exports in Selected U.S. Service Industries to U.S. Merchandise Exports, USITC Publication 1290, September 1982, p. 266.

2/ 1984 U.S. Industrial Outlook, op. cit., p. 52.

3/ Inv. no. 332-132, USITC Publication 1290, p. 275.

Regulatory environment

No formal organization or body exists for the purpose of regulating trade in the hotel-motel industry. However, business practices in the sector are restricted, as several nations (excluding the United States) have employed certain types of nontariff barriers to trade in order to protect and foster their domestic hotel-motel industry. 1/ Among the nontariff measures most commonly cited by U.S.-based firms as hampering operations in foreign markets are the following:

1. Restrictions on remittances and foreign-exchange controls which delay payment from the host country to the franchisor for franchise fees and other services;
2. Host-country requirements for employing domestic personnel and restrictions on use of U.S. personnel;
3. Restrictive import practices which prevent or delay acquisition of needed equipment from the United States and which often encourage the use of substandard equipment.
4. Laws requiring a relatively large minimum level of local equity participation;
5. Laws requiring at least partial ownership by an international company as a condition for obtaining a hotel management contract.
6. Laws requiring government approval of the contract duration, fees, and the percentage of earnings that may be repatriated; and
7. Lack of adequate legal protection for trademarks, trade names, service marks and copyrights; discriminatory taxation, which in part applies unreasonably high taxes on dividends, management and technical service fees; restrictions against U.S. insurance carriers which result in more expensive coverage subject to more restrictive conditions; lack of equal access to local credit sources; and hotel rates fixed by host governments at unrealistic high levels.

The industry reports that the reduction or removal of such trade barriers would result in a significant increase in revenue, especially in Latin America, Canada, and Mexico. 2/

Insurance Services

The industry

Approximately 5,000 companies in the United States provide some form of insurance. The bulk of all insurance is sold by about 1,000 companies that operate in nearly all States. The insurance industry, as well as international insurance operations, can generally be divided into two major segments: life insurance and general insurance. Nearly 2,000 companies provide life insurance, and many of these companies underwrite a substantial

1/ Further details are available in U.S. Trade Representative, op. cit., pp. 289-297.

2/ Inv. no. 332-132, USITC Publication 1290, p. 281.

amount of health and accident insurance and also operate a variety of pension plans, covering an estimated 28 million people in 1983. 1/ The general insurance industry includes all other types of insurance, particularly property and casualty insurance, including fire, marine, surety, title, product liability, and automobile insurance. Many domestic insurance carriers are also involved in selling reinsurance and political risk insurance, either on a domestic or international basis.

On the international level, U.S. companies sell insurance in a foreign market either as an admitted or nonadmitted insurer. Admitted insurers are companies licensed or registered to do business in the country where the property or risk is located; nonadmitted insurers are not formally licensed or registered, although they may legally sell insurance in this manner in some countries. For most major international insurers, the method of operation in foreign markets is moving towards joint venture or affiliated companies, especially in Third World Markets. Most countries have detailed regulations as to the total percentage of any local company that can be owned by a foreign or multinational company; however, the U.S. company is normally the major reinsurer of the portfolio of the national insurance company. 2/

Insurance is covered under the provisions of group 63 of the Standard Industrial Classification which covers life insurance, accident and health insurance, fire, marine, and casualty insurance, surety insurance, title insurance, and other insurance operations.

Trade

The value of insurance services is partially covered in the U.S. international transactions accounts under "other private services," which provides separate identification only for exports and imports of reinsurance. Reinsurance transactions include transactions related to the transfer of risk insurance between U.S. and foreign insurance companies. Net export premiums received for reinsurance totaled \$1.7 billion in 1982, whereas net import premiums paid accounted for \$706 million, providing a trade surplus for this type of insurance coverage. 3/ The U.S. insurance industry is important in the international market. For 1983, revenues for U.S. insurance operations in foreign markets totaled an estimated \$8 billion compared with domestic industry receivables of \$80 billion to \$85 billion, and account for about 10 percent of domestic revenues. 4/ Foreign direct investment by the insurance industry totaled approximately \$6.5 billion in 1982. 5/ The insurance industry as a whole is believed to make a positive contribution to the trade balance, since there are only a small number of known foreign firms operating in the U.S. market.

1/ U.S. Department of Commerce, 1984 U.S. Industrial Outlook, op. cit.

2/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, p. 291.

3/ U.S. Department of Commerce, Bureau of Economic Analysis; exports include premiums received less losses paid, and imports include premiums paid less losses recovered.

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

5/ Survey of Current Business, August 1983, vol. 63, No. 8, p. 35.

Certain aspects of the insurance industry are considered to be inherently "international," i.e., (1) transport insurance, including marine and aviation; (2) political risk insurance; (3) insurance of very large risks; and (4) reinsurance. ^{1/} The U.S. insurance industry is most active in Europe, North America, and South America, and the principal competition comes from European insurance companies, especially those in Great Britain, France, and West Germany.

Regulatory environment

Insurance operations are regulated individually by the 50 States in the United States, many of which have independent boards or commissions to monitor the industry. State regulation is coordinated to some degree, principally through the National Association of Insurance Commissioners, an unincorporated voluntary organization of regulatory officials without any statutory powers. States generally classify firms on the basis of the jurisdiction or foreign country in which they were formed and the treatment for all is similar. There are a number of regulations based on the way the insurance company does business, such as minimum capital and surplus requirements, deposit requirements, restrictions on ownership and ability to diversify into other types of business, and also on the types of insurance (life versus nonlife) that a carrier may provide. There are also special requirements for reinsurance, agents, brokers, and other intermediaries and on foreign insurers that wish to establish subsidiaries incorporated in the United States. Within these broad categories of regulation, there is variation in specific regulations among the States. ^{2/}

The insurance industry is generally covered by existing international understandings at the bilateral level under longstanding Treaties of Friendship, Commerce, and Navigation, and Bilateral Investment Treaties. However, these agreements subject insurance to special requirements and include partial or complete national treatment exceptions. ^{3/} Very little in the way of international insurance agreements exists. Generally, most countries do not allow their monetary or financial operation to be administered on an international level. However, on a multilateral level, OECD is studying international insurance issues, and UNCTAD's Committee on Invisibles and Financing is working to strengthen insurance markets in developing countries.

Some measures of liberalization to trade in insurance services are specified in the Organization for Economic Cooperation and Development (OECD) Code of Liberalization of Current Invisibles Operations and the Code of Liberalization of Capital Movements. The current effort in the OECD to revise the insurance Annex of the Invisibles Code addresses the issues of choice in operating structures to be established; transparency concerning authorization procedures, market-needs tests, and cause for refusal of authorization; and deadlines for action on applications for authorization. In addition, the

^{1/} Inv. no. 332-132, USITC Publication 1290, p. 292.

^{2/} Additional information is contained in a report issued by the U.S. Trade Representative, op. cit., pp. 42-50.

^{3/} Ibid., pp. 76 and 77.

basis for further work on the issue of right of establishment is the OECD Code of Capital Movements, along with the information generated by the OECD Insurance Committee concerning the difficulties in performing insurance business abroad. 1/ Although international agreements have yet to be developed, increasing attention has been given to international insurance operations in recent years, in part as a result of this industry's subjection to an increased degree of national regulation affecting the ability of insurance companies to provide their services in the global marketplace. 2/

There are a variety of major international service trade barriers to international trade in insurance. Many countries have nationalized all financially-related operations or assumed majority control of the local operations. There may also be restrictions on access to market and establishment in a particular country, such as requiring local citizens to purchase insurance from a State-owned insurance agency or by refusing to allow residents to charge premiums paid to foreign insurers as tax deductible business expenses. Restrictions on transactions and financial operations frequently impede the remittance of funds by insurers to their home office. Additional restrictions on competitive equality are becoming more prevalent as foreign governments attempt to develop their domestic insurance industries. These restrictions include such things as requirements that a certain number of local residents be employed or delays in obtaining work permits for U.S. citizens employed by that company. The industry reports that the reduction or removal of trade barriers would have a positive effect on foreign revenues, especially in Latin America, Canada, and the Middle East. 3/

International trade agreements in 1983

Although there have been no significant changes in the regulatory environment regarding insurance during 1983, bilateral investment treaties, which partially encompass facets of insurance services, were being negotiated by 11 countries during the year.

Motion-Picture Services

The industry

Motion-picture services refers to those establishments and their allied services which produce or distribute recorded films or tapes to exhibitors such as theaters and television stations. Motion-picture services are listed under Standard Industrial Classification categories 781 (pt.) and 782. There are about 20 large motion picture producers and 6 or 7 of these together account for approximately 80 percent of industry earnings. The bulk of the remaining 20 percent of earnings is accounted for by about 10 large independent film companies, with the rest accounted for by dozens of smaller independent film companies. Some of the larger independents have their own distribution systems, but they and the other independent production companies

1/ U.S. Trade Representative, op. cit., pp. 228 and 229.

2/ Ibid., pp. 82 and 83.

3/ Inv. 332-132, USITC Publication 1290, pp. 304-309.

often rely on the major U.S. studios for foreign distribution. Foreign establishments consist principally of film exchange offices of major U.S. studios located in some 47 countries. The major studios also help with financing and domestic distribution for some of the independents. 1/

Trade

The value of motion-picture services (film and television rentals) is classified in U.S. international payments accounts as part of two separate categories; fees and royalties from affiliated foreigners, and other private services. Receipts from foreign operations for film and television rentals within these two line items totaled about \$655 million in 1982. 2/ Payments for foreign film and television rentals accounted for about \$94 million. The positive balance of trade in motion-picture services can be attributed to the vast distribution system of the U.S. industry, the market experience of U.S. producers, and the transnational character of many U.S. films and tapes. Receipts from international operations equal about 6 percent of total domestic revenue for this industry. Estimated domestic receipts were \$10.6 billion in 1982 for motion-picture and allied services, of which \$3.7 billion was taken in at the box office.

There are approximately 75 countries to which the United States exports motion-picture films, the most important being the major industrialized nations, which together account for an estimated 45 percent of total foreign remittances. The top 15 markets for U.S. film exports together accounted for about 75 percent of remittances from foreign film rentals in 1982, and it is estimated that this remained unchanged in 1983. 3/

Regulatory environment

No specific formal organization or body exists for the purpose of regulating trade in motion picture services. Although U.S. motion picture films occupy approximately 40 percent of free world screen time, trade restrictions in some areas of the world have hampered service trade expansion. Quotas form one of the major barriers to U.S. film exports. A quota may restrict either the level of film imports, as in Brazil and India, or it may allocate screen time among domestic and foreign film products as in the United Kingdom, Canada, and France. The latter barrier, known as screen quotas, is sanctioned for theatrical films in article 1V of the GATT and for both films and television programming in annex A of the OECD's "Code of Liberalization of Current Invisible Operations." In essence, these provisions recognize the cultural character of motion pictures and television programming, and so declare that screen quotas may be applied as a means of preserving and developing the national culture. 4/

1/ Further details concerning the industry profile and operating structure are contained in, Inv. 332-132, USITC Publication 1290, September 1982, p. 319.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

3/ U.S. Department of Commerce, 1982 U.S. Industrial Outlook, p. 421.

4/ U.S. Trade Representative, op. cit., p. 256.

Restrictions on remittances limit repatriation of earnings by foreign film companies. Brazil and the Philippines are among the countries employing these types of restraints, and there is some concern within the industry that more countries will move to enact such barriers. Another restrictive device, used particularly in many Latin American countries, consists of local work requirements in which local actors, technicians, film companies and laboratories may be required to comprise a certain percentage of the work force. These requirements limit a film company's control over production and promotion of its products.

Many foreign governments allegedly subsidize local film companies, with the justification that the domestic market alone cannot sustain a domestic film industry. Subsidies are alleged to benefit film producers in Australia, Argentina, Belgium, Canada, and other countries through reduced financial risk and creditor requirements. Monopoly controls, reported in use largely in Communist and developing countries, result when governments prohibit foreign distributorship; this is frequently achieved through creation of local film-importing agencies which can lower rental prices and selectively admit films. Television programming is especially troubled by monopoly controls, because in many countries television is either partly or wholly government-owned and/or government-operated.

Piracy is another difficult problem for the U.S. motion-picture industry. Although not a new problem, piracy has increased at home and abroad due to the growth of video cassettes. In Central and South America, the Middle East, and the United Kingdom, pirated video cassettes are widespread and are attributed in part to inadequate patent and trademark definitions and a lack of enforcement abroad. U.S. motion-picture producers report that the reduction or removal of these trade barriers would increase foreign revenues, especially in the Middle East, Latin America, and the Far East. 1/

International trade agreements in 1983

Future international trade in motion pictures should benefit from the proposed elimination of tariffs on motion-picture film that is part of a recent international agreement to which the United States is a signatory. The United States is a member of the Florence Agreement, and as such, allows duty-free entry of visual or auditory material of an educational, scientific, or cultural character as specified in the agreement. In the fall of 1981, the United States signed the Nairobi Protocol to broaden the coverage of articles eligible for duty-free treatment under the Florence Agreement to include motion-picture films. On December 21, 1982, the U.S. Congress passed implementing legislation which President Reagan signed into law in January 1983, committing the United States to the Protocol until August 1985. The U.S. Congress is withholding the permanent instrument of ratification until similar action is taken by its major trading partners.

1/ Inv. no. 332-132, USITC Publication 1290, p. 334 and U.S. Trade Representative, op. cit., p. 247, which covers in further detail, beginning on p. 247, trade issues of concern to the motion picture industry.

Transportation Services (Air)

The industry

The air transportation industry consists primarily of U.S. certificated scheduled airlines carrying passengers and freight. This service industry also includes certificated supplemental air carriers and noncertificated airlines, air taxis, and general aviation. The industry provides domestic and foreign air transportation of freight and passengers, operates and maintains terminal facilities, and coordinates handling services for freight and passengers at airports. U.S. scheduled airlines numbered 95 at the end of 1983, and there were several hundred commuter, air taxi, general aviation, and charter operators. Internationally, air transportation is provided principally by nine major airlines, and as of 1983, by a number of smaller airlines providing service to a limited number of international points. U.S. carriers with international operations conduct business with approximately 85 foreign countries throughout the world. 1/

Transportation by air is classified in SIC category 45 which includes, SIC 4511 (Air Transportation--Certificated Carriers), SIC 4521 (Air Transportation Noncertificated Carriers), SIC 4582 (Airports and Flying Fields), and SIC 4583 (Airport Terminal Services).

Trade

The business of international air transportation is identified in the U.S. international transactions accounts as exports or imports of passenger fares, and goods and services under the category of "other transportation." Freight receipts of U.S. airline operators and U.S. receipts for port services provided to foreign airline operators, along with comparable U.S. airline payments for freight and port services, are separately reported. 2/ The U.S. trade balance for international transportation services was a negative \$972 million in 1982. This trade balance represents the difference between over \$7.3 billion in exports (receipts of U.S. carriers from foreigners) and about \$8.2 billion in imports (payments by U.S. citizens to foreign carriers) for freight, passenger fares, and port expenditures. Foreign operations of U.S. airline carriers generate an estimated \$40 million to \$70 million annually in merchandise trade exports from the United States, mainly for the airlines' own consumption. Most of the exports consist of aircraft and parts, other machinery and equipment, and printed matter. 3/ Advertising promotions by U.S. international airlines and U.S. Government export promotion of travel and tourism around the world also resulted in foreigners spending an estimated \$13.8 billion in the United States in 1983, largely on U.S. air tickets, hotel, food, and ground transportation, according to the U.S. Travel and Tourism Administration of the U.S. Department of Commerce.

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, September 1982, p. 345.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

3/ Inv. no. 332-132, USITC Publication 1290, p. 354.

International revenue generated by U.S. scheduled airlines is an estimated \$6.7 billion in 1983 of which about \$2.6 billion was received from foreign nationals traveling on U.S.-flag carriers. These revenues from overseas operations account for 21 percent of an estimated \$32 billion in domestic revenue for this industry. The U.S.-flag carriers share of the market was 49 percent of the estimated 50 million international air passengers. The largest markets were Europe (accounting for 31 percent of total passengers), Canada (19 percent), Central America and Mexico (15 percent), the Caribbean (14 percent), Japan and other Far East (11 percent), and the Middle East, Africa, Oceania and South America (10 percent).

Regulatory environment

Regulation of U.S. international aviation is concentrated at the Federal level principally in two authorities: the Federal Aviation Administration (FAA) and the Civil Aeronautics Board (CAB). FAA regulations set requirements for the design and certification of aircraft types and for the safe operation of aircraft within the national airspace. The FAA also issues and enforces aircraft noise standards, engine emission standards and the safe transportation of hazardous material by air. CAB regulation is concerned primarily with issues of reciprocity between U.S. and foreign carriers, the economic fitness of the foreign carrier and the protection of consumer interest regarding the rates, routes, and business practices of carriers. Local governments and airport authorities also add certain requirements in regulation of foreign carriers, primarily through airport landing fee and use agreements. Since the Airline Deregulation Act of 1978, U.S. carriers operating domestically are free to determine which points to serve and the fares and rates to be charged. Foreign air transportation is still subject to CAB authority. Although the CAB will go out of existence on December 31, 1984, the functions regulating international air transportation will be transferred to the Department of Transportation. 1/

International business operations of the U.S. air transportation industry in approximately 85 countries are largely controlled by bilateral agreements. The Bermuda I agreements, which are periodically updated, largely cover landing rights and fare structures. These agreements represent a compromise between regulation and open competition. The Bermuda II agreement with the United Kingdom provided more open access in routes between the countries and triggered a turning point in U.S. international aviation policy. The International Air Transportation Act of 1979 deregulated the international aviation market through the adoption of an "open skies policy," resulting in more liberalized agreements with 15 countries. Through the open skies policy, the United States has sought to negotiate procompetitive bilateral agreements that remove or limit restrictions on airline capacity, fares, and the number of airlines permitted to fly a given route. The United States has also supported efforts to increase the number of routes between the United States and other countries. Most nations have been unwilling to allow open commercial competition for route access given the governments' view of the industry as critical to sovereignty and security.

1/ Further details on regulation and the trade agreements activities which follow are contained in a report issued by the U.S. Trade Representative, op. cit., pp. 54-60 and pp. 77-80.

On a multilateral basis, the 1944 Chicago Convention on International Civil Aviation established the International Civil Aviation Organization (ICAO) and provided for national treatment regarding use of facilities, and charges for such facilities and for the use of airports. It also provided certain rights for nonscheduled air services covering overland flight and landing, and for the taking on and discharging of passengers, cargo, or mail. There is also considerable multilateral aviation cooperation through the International Air Transport Association (IATA) concerning technical issues, fares, rates and charges for air navigation and ground facilities, and levels of commissions on sales. Significantly, since 1978, IATA, in conjunction with the International Chamber of Commerce, has been examining the potential application of multilateral concepts of the type employed by GATT to certain aspects of air transportation. Further, some measures of liberalization to trade in air transport are addressed in subannexes to Annex A to the Code of Liberalization of Current Invisible Operations of the Organization for Economic Cooperation and Development. 1/

Industry sources believe the U.S. airline carriers face economically significant restrictions to free trade in international markets and estimate that the elimination of these nontariff trade barriers could add potentially \$100 million annually to the net earnings of U.S. international air carriers. 2/ Some of the most significant restrictions identified in providing service to foreign routes are the discriminatory access to computer reservation systems when in competition with national carriers such as in Europe, South America, and the Caribbean; unreasonable charges for use of airports and enroute navigation systems in Europe; restrictions of operations such as access rights, capacity limitations, restrictions on advertising, and pricing in Brazil, Japan, the United Kingdom, and some Latin American countries; and restrictive ground-handling labor rules and personnel hiring requirements which prevent U.S. carriers from competing freely with national carriers especially in the South American markets. 3/

International trade agreements in 1983

The FAA's Office of International Aviation reports no significant changes during 1983 in FAA regulations with respect to international aviation. However, FAA initiated discussions during 1983 with all foreign airlines concerning conformance with the environmental engine noise code (pt. 36, FAA Regulations) by January 1, 1985. During 1983, the CAB instituted several significant regulatory changes, such as revision of charter rules for international and domestic carriers (completed); revisions to overbooking rules (completed); an investigation and ruling concerning international cargo rate flexibility (completed); a ruling on the adherence to the Montreal

1/ U.S. Trade Representative, op. cit., p. 87.

2/ Inv. 332-132, USITC Publication 1290, p. 358.

3/ Further detail on trade barriers and issues of concern to the airline industry are covered in Inv. no. 332-132, USITC Publication 1290, p. 356.

Agreement for Passenger Liability (completed); establishing policy concerning temporary certificates for foreign air routes (in-process); completing an investigation of computer reservation systems in international air travel (completed); and rules determining the continuation of air carrier service after a bilateral agreement has expired (in process).

According to the Office of Aviation, U.S. Department of State, the United States has not concluded/signed any major bilateral agreement during 1983. However, there were a number of letter of agreements (which are legally binding) negotiated and signed during 1983 between the United States and other countries. These agreements were concluded with Scandinavia (concerning fares and charters), Fiji (route agreement), Venezuela (routes), the Philippines (fares and the limiting of U.S. carrier entries), Malaysia (routes), and Japan (routes, and review of the entire bilateral agreement to be negotiated in 1984). In addition, agreements were concluded with countries which had attempted to resist the more liberalized open skies policy being pursued by the United States as a result of the International Air Transportation Act of 1979. These agreements included Israel (limiting capacity to Israel), Jamaica and the Netherland Antilles (route protection and fares). Also during 1983, a number of agreements were under negotiation which principally concerned minor modification to existing bilateral agreements with regard to route rights and fares in Europe (United Kingdom, West Germany, Switzerland, France, Italy, Ireland, Spain, and the Netherlands), Asia (Thailand, the People's Republic of China), Australia, Canada, and others (Peru, Sri Lanka, Panama, Trinidad-Tobago, Jamaica and El Salvador).

Transportation Services (Maritime)

The industry

The U.S. maritime transportation industry consists essentially of liner or scheduled service; nonliner or tramp service; and tanker service. This report principally covers the privately owned U.S.-flag, deep-draft oceangoing and intermodal merchant fleet providing freight and passenger transportation services on international deep-sea water ways. ^{1/} The corresponding Standard Industrial Classification category is 441 (Deep Sea Foreign Transportation). An estimated 37 major maritime firms are believed to be operating internationally.

Among the typical services that U.S.-flag shipping companies offer are the transport of containerized cargoes, dry bulk freight (coal, grain, ores), tanker cargoes (petroleum and liquefied natural gas), and passengers. Compared with other merchant fleets of the world in 1981 (the latest year for which data are available), the U.S. fleet ranked 8th on a deadweight basis and 11th in terms of number of ships. ^{2/} In contrast, Greece is now the world leader, with 2,928 oceangoing ships, closely followed by the Soviet Union, with 2,530 ships.

^{1/} Maritime services, generated by "Flag of Convenience" vessels that registered with such countries as Liberia and Panama are not included because there is limited information openly available. The privately-owned U.S.-flag carriers represent 49 percent (573 ships) of the total merchant fleet of 1,175 ships which includes 602 flags of convenience.

^{2/} U.S. Department of Transportation, MARAD 81, p. 17.

The U.S. shipping industry operates in an intensely competitive world market which is further complicated for certain segments that operate in a conference system. The bulk trades largely operate as a free-market system whereas the liner trade operates through a conference system, characterized by industry sources as a legalized cartel wherein foreign carriers allegedly enjoy certain advantages, such as rebating and an ability to avoid filing tariffs, which place U.S. carriers at a competitive disadvantage.

The so called "closed" conferences were formed to bring an order to an industry whose savage price wars were threatening international trade; today there are nearly 400 of them. Conference members meet to discuss rates, coordinate sailing schedules, decide whose ships will serve which ports on what dates, and pool cargoes. Currently, many conferences in trades outside the United States are closed, with the result that the United States is denied membership and, thus, is effectively denied access to the transporting of specific types of cargo. U.S. scheduled liner trade, according to industry sources, is vitally affected by closed market activity and intense rate competition, particularly in trade in Northern Europe and the Far East. In the "open" conference system applicable to many U.S. carriers, independent (foreign) carriers can enter ships to compete for cargo originating from the United States, whereas in "closed" conferences the historical participants figure up anticipated tonnage and allocate among members, with stringent restrictions on expansion, and virtually no opportunity exists for entry of other carriers. 1/

Trade

The value of maritime transportation services is classified in U.S. international transactions accounts in exports and imports of goods and services under the category of "other transportation." Freight receipts of U.S. ocean vessel operators and U.S. receipts for port services provided to foreign vessel operators, along with comparable U.S. payments for freight and port services, are separately reported. 2/ In 1982, total U.S. exports, consisting of ocean freight and port services receipts, amounted to about \$7.6 billion, or \$200 million more than the \$7.4 billion reported for U.S. imports, consisting of ocean freight and port services payments. The international freight receivables revenue generated by the maritime service industry in 1982 (including earnings on transportation of U.S. import freight not included in international payment data) is estimated to be \$6 billion, or 57 percent of the estimated total 1982 foreign and domestic freight receivables of \$10.5 billion for this industry. The 1982 domestic freight receivables revenue is estimated to be \$4.5 billion.

Regulatory environment

A high level of government participation and regulation characterize the maritime transportation industry. In particular, the U.S. Government provides subsidies with which come a host of special tax and depreciation regulations.

1/ Further details concerning the industry profile and operating structure are contained in Inv. no. 332-132, USITC Publication 1290, pp. 363-389.

2/ U.S. Department of Commerce, Bureau of Economic Analysis.

In addition, there are four different types of carrier agreements sanctioned by law which provide authority for the industry to fix prices, pool cargoes, share equipment, and book cargo on a reciprocal basis. 1/ The evaluation and approval of such carrier agreements is one of the major tasks of the U.S. Federal Maritime Commission (FMC). Specifically, the FMC has a relatively large degree of latitude in approving maritime agreements and will expressly disapprove those that are unjustly discriminatory or unfair detrimental to the commerce of the United States; contrary to the public interest or in violation of the Shipping Act of 1916. 2/ Still other U.S. Government regulatory activity involves regulation of the tariffs charged for transportation to and from the United States and foreign ports, certification of financial ability to meet liability for water pollution, and licensing of independent ocean freight forwarders.

The industry is also faced with regulation in the international marketplace. Currently, the United States has bilateral maritime agreements with Argentina, Brazil, the Soviet Union, 3/ and the People's Republic of China (PRC). Basically these agreements facilitate U.S.-flag participation in bilateral trade. The agreements with Argentina and Brazil, for example, insure that the fleets of both nations have equal access to those "government impelled" cargoes moving in bilateral trade. The agreements themselves have no provisions which implement cargo sharing, rather, they depend on commercial arrangement such as conferences and pools for their implementation. 4/ The bilateral agreement with the U.S.S.R. insures the U.S.-flag vessels carry a certain percentage of grain to the Soviet Union; this would not have occurred without the agreement.

In addition to bilateral arrangements, U.S.-flag companies operate under two major multilateral shipping arrangements. One arrangement is a series of conventions worked out by the International Maritime Organization (IMO) and focused on safety at sea, marine pollution, and the like. IMO agreements, although affecting the U.S. industry, touch only marginally on the commercial and trade aspects of shipping. A second significant multilateral shipping arrangement is the United Nations Code of Conduct for Liner Shipping developed in the UNCTAD. The Liner Code is one of the most comprehensive multilateral understandings affecting a service sector. Article 2:13 of the Code, for example, is clearly trade restrictive in that it provides for an absolute requirement of a 40-40-20 division of conference cargoes: 40 percent for each national line and 20 percent for independent or "cross-trading" carriers. 5/ In short, the Liner Code has been criticized because its provisions encourage the continuation of "closed" conferences that would effectively exclude U.S. participation.

Other major restrictive measures impeding foreign service operations of the U.S. maritime industry include commercial cargo preference schemes, currency-exchange and repatriation constraints, and restrictions on the use of certain equipment such as containers and barges. Such discriminatory

1/ For further information see, U.S. Trade Representative, op. cit., pp. 62 and 63.

2/ U.S. Trade Representative, op. cit., p. 63.

3/ U.S. Department of Transportation, MARAD 81, pp. 17 and 18.

4/ U.S. Trade Representative, op. cit., p. 77.

5/ U.S. Trade Representative, op. cit., pp/80-82.

practices have adversely affected the U.S. maritime industry while foreign carriers have virtually unrestricted access to transporting U.S. cargoes and a competitive advantage to "draw off" foreign commerce of the United States. The U.S. maritime industry reports that the reduction or removal of trade barriers would have a positive effect on foreign revenues, especially in the Middle East, Far East, and Latin America. 1/

According to industry sources, one development likely to have had a dampening effect on revenues generated in 1982 and 1983 is the reduced participation of U.S. shipowners in major conferences. For example, U.S. shipowners in the Far Eastern Freight Conference have slipped from carrying almost 85 percent of cargo between Northern Europe and the Far East in 1975 to less than 70 percent in recent years. In the North Atlantic Conference, U.S. members' trade dropped from almost 60 to about 45 percent. This trend is expected to continue, thus moderating revenues generated.

International trade agreements in 1983

There have been no additional significant trade agreements relating to U.S. maritime services other than those previously mentioned. However, the implementation of the UNCTAD Liner Code in late 1983 may require the United States to reach understandings with both Code and non-Code nations for which the primary vehicle would be additional bilateral agreements in coming years. 2/

1/ Inv. 332-132, USITC Publication 1290, p. 381 and U.S. Trade Representative, op. cit., pp. 204-211.

2/ U.S. Trade Representative, op. cit., p. 78.

CHAPTER IV
DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

OVERVIEW

This chapter discusses the economic performance of major U.S. trading partners, U.S. trade with those countries, and important bilateral trade and investment issues in 1983. U.S. relations with the European Community, Canada, Japan, Mexico, and some of the newly industrializing countries are discussed.

In 1983, the United States saw a dramatic worsening in its trade performance relative to these partners. For the first time, the United States experienced a trade deficit with all of these countries simultaneously, with notable turnarounds in trade with the European Community and Mexico. U.S. exports to virtually each major market declined; imports rose dramatically. The decline affected every category of exports, but particularly manufactured goods (SITC 6, 7, and 8). Rapid growth in the United States fueled demand for all products, including those from foreign sources, and slower growth in U.S. export markets diminished opportunities for overseas sales. The strong U.S. dollar lessened the price competitiveness of U.S. exports and heightened the attractiveness of imported goods in the U.S. market. Meanwhile, more countries resorted to protection to achieve industrial policy goals.

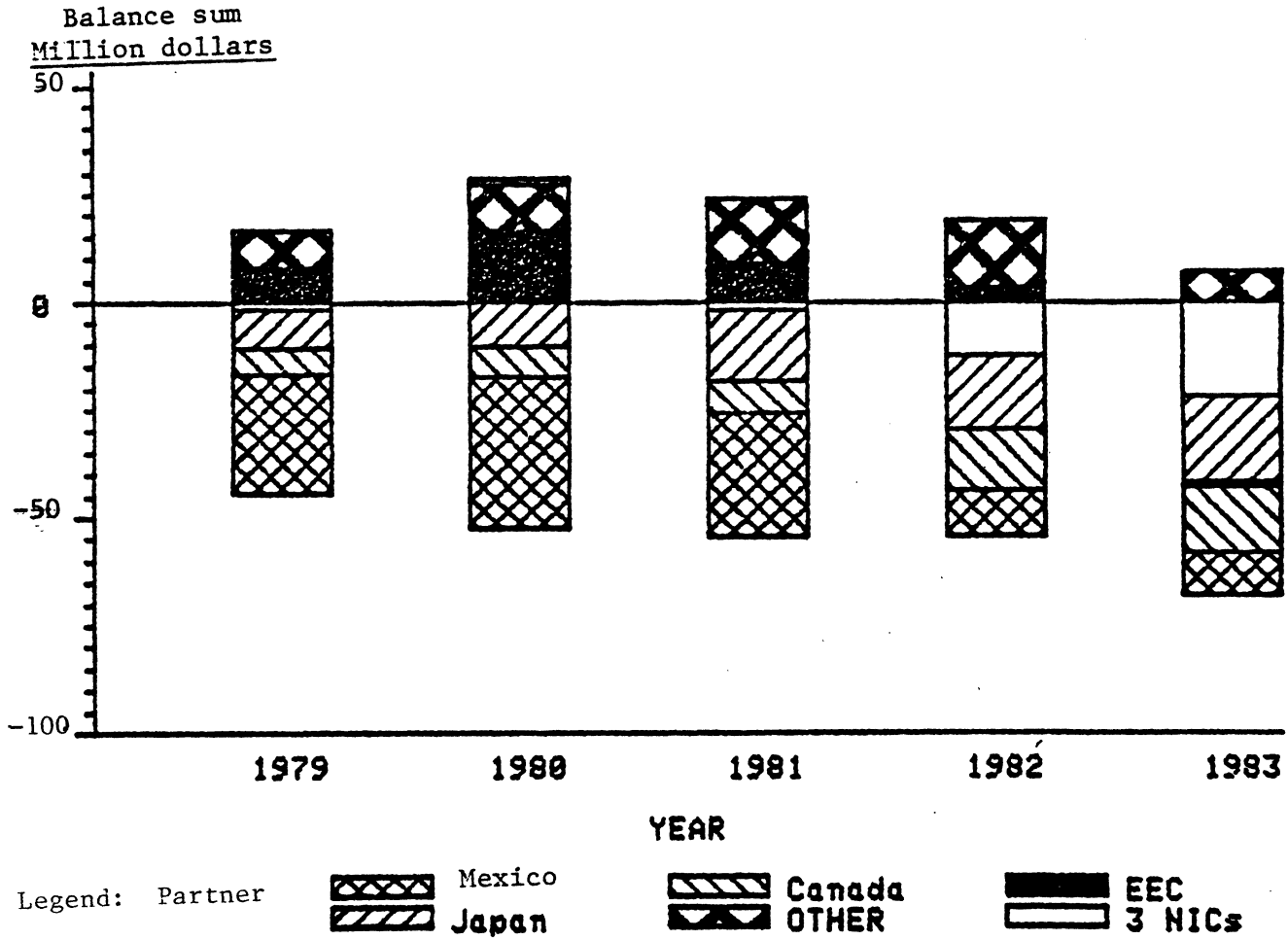
In 1983, the European Community struggled to regain competitiveness under the weight of slow growth, unemployment, and inflation. U.S. trade relations with the European Community were strained, as major conflicts in traditional industries such as steel and agriculture continued to test wills on both sides of the Atlantic. Canada and the United States, on the other hand, improved their relationship. Conflicts over Canadian restrictions on U.S. investment were minimized, and Canada took the initiative in proposing a new sectoral free trade program with the United States. U.S.-Japanese trade relations also improved, despite a substantial--nearly 16 percent--increase in U.S. imports from Japan. Major steps were taken during the year to remove Japanese "red tape" barriers to trade and to improve U.S. opportunities to sell in the Japanese market. In an effort to bring its debt under control, Mexico cut Government spending, imports, and credit in 1983, putting severe deflationary pressure on the economy. U.S. exports to Mexico dropped precipitously. Mexico's trade relations with the United States were fairly calm during the year, despite the fact that extremely difficult problems were at hand.

Some newly industrializing countries (NIC's)--Taiwan, the Republic of Korea (Korea), and Brazil--are covered in this report for the first time. They have come to represent an increasingly important market for U.S. products and a major source of imports over the past decade. Each of these countries has diversified its economy in the 1970's and 1980's, with both output and income increasingly derived from manufactured exports.

U.S. trade relations with these countries were difficult in 1983. Because they are still considered developing countries, they have generally not accepted, or been subjected to, the normal rules of the game as defined in the GATT. Taiwan, Korea, and Brazil have each restricted imports into their markets, imposed investment performance requirements (such as local content and minimum export rules), and heavily subsidized their manufacturing industries. In response, U.S. firms have frequently sought recourse under U.S. countervailing and other import relief statutes. The affected exporters have complained that the United States is denying them the opportunity to grow and develop. Some U.S. domestic interests, meanwhile, argue that the United States cannot sustain a "one-way street" for much longer. These disputes have taken on more importance as debt problems essentially force the NICs to count on export growth to fuel their development programs.

In the sections which follow, data on U.S. trade with particular country partners is based on that reported by the Census Bureau of the U.S. Department of Commerce. Data on the partners' trade with third countries is based on the International Monetary Fund's Direction of Trade statistics. Certain discrepancies exist between the two series because the timing, valuation, and currency bases are different. Therefore, the data is not directly comparable. Figure 2 shows the contribution of each of these partners to the U.S. trade deficit in the past 5 years.

Figure 2.—U.S. merchandise trade balance, by partners, 1979–83.



THE EUROPEAN COMMUNITY 1/

The Economic Situation in 1983

In October-December 1982, the European Community (EC) began a slow recovery from a 3-year economic recession--the worst in the postwar period. The EC's 1983 economic recovery was unevenly distributed among the member states and significantly weaker than in the United States and Japan. Although the United Kingdom and West Germany enjoyed some economic growth, France, Italy, and Belgium, the Netherlands, and Luxembourg (BENELUX) experienced stagnation or decline. 2/

In 1983, the EC registered a 0.8 percent growth in real gross domestic product (GDP), up from 0.2 percent in 1982, which was attributed to a pickup in private consumption, housebuilding, and inventories. 3/ Economic growth during 1983 was constrained by stagnation in export markets both within and outside the EC and an international climate of high interest rates, exchange rate fluctuations, and Third World debt. British growth of 2.8 percent and West German growth of 1.3 percent during 1983 provided some steam to the EC economy. Real GDP declined in both France and Italy by about 0.2 percent and 1.0 percent, respectively. Stagnation in France resulted from a temporary wage-price freeze in 1982 and the austerity package adopted by the government in conjunction with European Monetary System (EMS) realignment in March. Italy's stagnation resulted from high real interest rates and declining exports. 4/

EC industrial production rose 2.0 percent in 1983, up from a decline of 1.7 percent in 1982. 5/ Industrial production rose about 6.0 percent in Ireland, between 2.5 and 3.0 percent in Belgium, Denmark, and the United Kingdom, and between 0.5 and 1.5 percent in the other member countries, with the exception of Italy, where industrial production fell by 5.0 percent. EC production of consumer goods in 1983 rose by 1.2 percent and production of intermediate goods by 1.0 percent. EC production of capital goods dropped in 1983 by 2.6 percent. 6/ Net government investment as a share of GDP in the EC decreased from 7.1 percent in 1982 to 6.7 percent in 1983.

1/ The EC refers to the 10 members of the European Community and their common institutions. In 1967, the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community (EURATOM) were merged into the European Communities (EC) under a single Commission. EC members include BENELUX, Denmark, France, Greece, Ireland, Italy, United Kingdom, and West Germany.

2/ For an analysis of the structural impediments to sustained recovery in the EC see Stephen Morris, "Why Europe's Recovery is Lagging Behind," Europe, March 1984, pp. 14-16.

3/ See Commission of the European Communities, European Economy: Annual Economic Review, 1983-84, No. 18, November 1983, and European Economy: Supplement A, February 1984.

4/ World Financial Markets, December 1983, p. 3.

5/ The Commission of the EC, European Economy, op. cit., p. 64.

6/ On the basis of estimates made by the Statistical Office of the EC.

The EC inflation rate for 1983 averaged about 8.0 percent, down from 8.7 percent in 1982. ^{1/} The 1983 inflation rate was about 3.0 percent for West Germany; 5.0 percent for the United Kingdom; 9.5 percent for France; and 13.6 percent for Italy. EC consumer prices rose at about 8.0 percent in 1983, up from 10.9 percent in 1982. Consumer prices rose by 2.5 percent in West Germany, 4.5 percent in the United Kingdom, 10 percent in France, and 12.5 percent in Italy.

There were 12 million persons unemployed in the EC during 1983, bringing the unemployment rate to 10.6 percent, up from 9.5 percent in 1982. Unemployment was recorded at 11.7 percent in the United Kingdom, 10.7 percent in Italy, 8.9 in France, and 8.4 percent in West Germany.

International Economic Performance

Balance of payments

Expressed as a share of GDP, the EC's aggregate current account deficit decreased from 0.5 percent in 1982 to 0.1 percent in 1983. ^{1/} The current payments deficit as a share of GDP was 1.7 percent for France and 0.2 percent for Italy. The United Kingdom and West Germany each recorded current account surpluses of 0.7 percent. The strong U.S. dollar, weak domestic demand, and a decline in oil prices were responsible in large part for the improvement in the EC's payments position in 1983. Total public sector deficit for the EC in 1983 amounted to 5.4 percent of GDP, up from 5.7 percent in 1982. The public sector deficit as a share of GDP was 2.2 percent for the United Kingdom, 3.1 percent for France, 3.3 percent for West Germany, and 11.9 percent for Italy.

Merchandise trade with major trading partners

Table 14 shows the EC's trade and trade balances by selected trading partners during 1981-83. Total EC imports fell 10 percent from \$312.4 billion in 1982 to \$281.5 billion in 1983. Exports dropped 7 percent from \$281.6 billion in 1982 to \$262.6 billion in 1983. The EC recorded an \$78.9 billion trade deficit in 1983, a major improvement over \$38.3 and \$30.8 billion deficits in 1981 and 1982, respectively.

^{1/} Ibid.

^{2/} The Commission of the EC, European Economy, op. cit., p. 137. Although the EC's current deficit has now been almost eliminated, the deficits accumulated in recent years have been aggravated by a heavy net outflow of autonomous capital. The resulting basic deficit has been financed by large-scale official borrowing and an inflow of short-term banking capital. In some member states, this has produced a situation in which debt service now constitutes a serious and persistent drain on resources. Several member countries have also had to draw upon their official reserves and the ratio of reserves to imports has fallen to a level that is low by historical standards.

Table 14.--The European Community's trade and trade balances, by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Canada-----	4,895	4,398	4,932
Japan-----	6,247	6,219	6,473
United States-----	40,875	41,333	44,153
Other-----	76,312	74,467	72,361
Subtotal-----	128,329	126,417	127,919
Developing countries:			
Oil-exporting countries-----	58,827	54,273	43,140
Mexico-----	3,537	2,435	1,500
Other-----	81,186	75,570	67,333
Subtotal-----	143,550	132,278	111,973
Nonmarket economy countries:			
China-----	2,130	1,983	2,225
U.S.S.R-----	8,799	8,780	9,891
Other-----	14,875	12,172	10,636
Subtotal-----	25,804	22,935	22,752
Total-----	297,683	281,630	262,644
Imports			
Industrialized countries:			
Canada-----	7,621	6,626	5,837
Japan-----	18,283	17,971	18,873
United States-----	54,759	50,916	47,411
Other-----	71,762	68,958	70,869
Subtotal-----	152,425	144,471	142,990
Developing countries:			
Oil-exporting countries-----	82,881	69,504	49,552
Mexico-----	2,115	2,362	2,364
Other-----	70,003	65,891	59,105
Subtotal-----	154,999	137,757	111,021
Nonmarket economy countries:			
China-----	2,555	2,323	2,250
U.S.S.R-----	14,752	16,866	14,761
Other-----	11,216	10,988	10,560
Subtotal-----	28,523	30,177	27,571
Total-----	335,947	312,405	281,582

Table 14.--The European Community's trade, and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)

Trading partner	1981	1982	1983
	Trade balance		
Industrialized countries:			
Canada-----	-2,726	-2,228	-905
Japan-----	-12,036	-11,752	-12,400
United States-----	-13,884	-9,583	-3,258
Other-----	4,550	5,509	1,492
Subtotal-----	-24,096	-18,054	-15,071
Developing countries:			
Oil-exporting countries-----	-24,054	-15,231	-6,412
Mexico-----	1,422	73	-864
Other-----	11,183	9,679	8,228
Subtotal-----	-11,449	-5,479	952
Nonmarket economy countries:			
China-----	-425	-340	-25
U.S.S.R-----	-5,953	-8,086	-4,870
Other-----	3,659	1,184	76
Subtotal-----	-2,719	-7,242	-4,819
Total-----	-38,264	-30,775	-18,938

Source: Compiled from the International Monetary Fund Direction of Trade data.

The slowdown in international trade had a strong depressing effect on the EC economy, where exports are a larger component of GDP than in the United States or Japan. ^{1/} The effect of the depreciation of European currencies during 1983 enabled EC countries to make increased inroads into foreign markets. The largest export markets in 1983 were the United States, Canada, and Japan. Elsewhere, EC export markets remained weak. This is especially true of developing countries, which together constitute a much larger market for EC exports than North America. EC exports to developing countries dropped to \$112.0 billion in 1983, down from \$132.3 billion in 1982. In 1983, the United States--by a slight margin--became the largest market for EC merchandise exports, followed by the oil-exporting countries. In previous years, the oil-exporting countries far exceeded the United States as the largest market for EC merchandise exports. During 1983, the oil-exporting countries cut back spending in the wake of declining oil prices and their shift into current account deficit. They took \$43.1 billion in EC exports, down from \$54.3 billion in 1982. EC exports to Latin America fell sharply as the debt crisis forced austerity. EC exports to the nonmarket economy countries remained small in comparison to exports to industrial and developing countries.

EC imports in 1983 from the industrial countries dropped slightly, from \$144.5 billion in 1982 to \$143.0 billion in 1983. The largest suppliers to the EC in 1983 were the United States (\$47.4 billion) and the oil-exporting countries (\$49.5 billion). EC imports from the nonmarket economy countries remained small compared with imports from industrial and developing countries.

U.S. trade with the EC

In 1983, the United States recorded a \$1.35 billion merchandise trade deficit with the EC. This was the first time in over a decade that the U.S. trade balance with the EC registered a deficit. The United States recorded trade surpluses of \$3.42 billion in 1982 and \$9.19 billion in 1981. The revival of the U.S. economy, which started earlier than in Europe, encouraged an increase in the level of imports from the EC and the EC itself imported less from the United States. The level of the U.S. dollar remained high, which made imports relatively cheap and exports relatively expensive. ^{2/}

In 1983, U.S. exports to the EC dropped \$3.3 billion and imports from the EC increased \$1.5 billion. U.S. exports to the EC as a unit represent about 22 percent of total U.S. exports. The EC is the largest single market for U.S. merchandise exports. The United States is a slightly larger import market for Canadian merchandise trade than it is for EC merchandise exports. U.S. imports of \$52.0 billion from Canada in 1983 exceeded U.S. imports of \$43.8 billion from the EC. Such imports from the EC constitute about 17 percent of total U.S. imports.

^{1/} World Financial Markets, December 1983, p. 4.

^{2/} Ibid., op. cit.

U.S. trade with the EC is broken down into broad industrial categories in table 15. 1/ The table illustrates that U.S. imports from the EC increased \$1.47 billion in 1983, whereas U.S. exports to the EC dropped by \$3.3 billion. 2/ U.S. exports to the EC in 1983 dropped in SITC sections while U.S. imports from the EC increased in 8 SITC sections. Figure 3 depicts the value of U.S. trade with the EC during 1979-83. Tables A-1 and A-2 in the appendix of this report show the leading export and import items in U.S. trade with the EC in 1983.

Major Policy Developments Affecting Trade

The agricultural crisis

During the past several years, the EC has gone from a net importer of food products to the world's second largest exporter of food products after the United States. The original aims of the Common Agricultural Policy (CAP) to achieve food self-sufficiency and to become a major world agricultural exporter have been achieved. The EC is either self-sufficient or oversupplied with products such as meats, milk, sugar, fresh fruits and vegetables, wine, and olive oil. The CAP's success in achieving its food self-sufficiency and export goals has made reform necessary. The costs of supporting European agriculture have become so prohibitive that about 70 percent of the EC's total budget is swallowed up by CAP expenditures. One estimate puts total EC farm spending on all agricultural products at \$13.5 billion in 1983. There is a growing consensus in the EC that reform of the CAP is mandatory, but there is little consensus among the member Governments on how, where, and by whom sacrifices should be made to undertake it. 3/

The CAP supports farm income and insulates it from foreign competition by (1) providing high price support levels for most EC farm output; (2) guaranteeing farmers high prices by buying surplus produce; (3) providing export subsidies to bridge the gap between high internal prices and usually lower world market prices; and (4) protecting farmers against cheap imports

1/ Certain discrepancies exist between official U.S. Department of Commerce statistics and those of the International Monetary Fund contained in table 14.

2/ With the exception of U.S. farm sales to the EC, the composition of U.S.-EC trade reveals the each side sells complimentary products to the other. For further information see John Starrels, "Strengthening a Vital Partnership: There is a Huge Volume of Transatlantic Trade which is not in Dispute," Europe, March 1984, pp. 12-14.

3/ Changes in the CAP are difficult to achieve because it was part of the bargain that created the European Economic Community in 1957. France's compensation for the risks it took in allowing West German industry to enter its market duty-free was creation of the CAP.

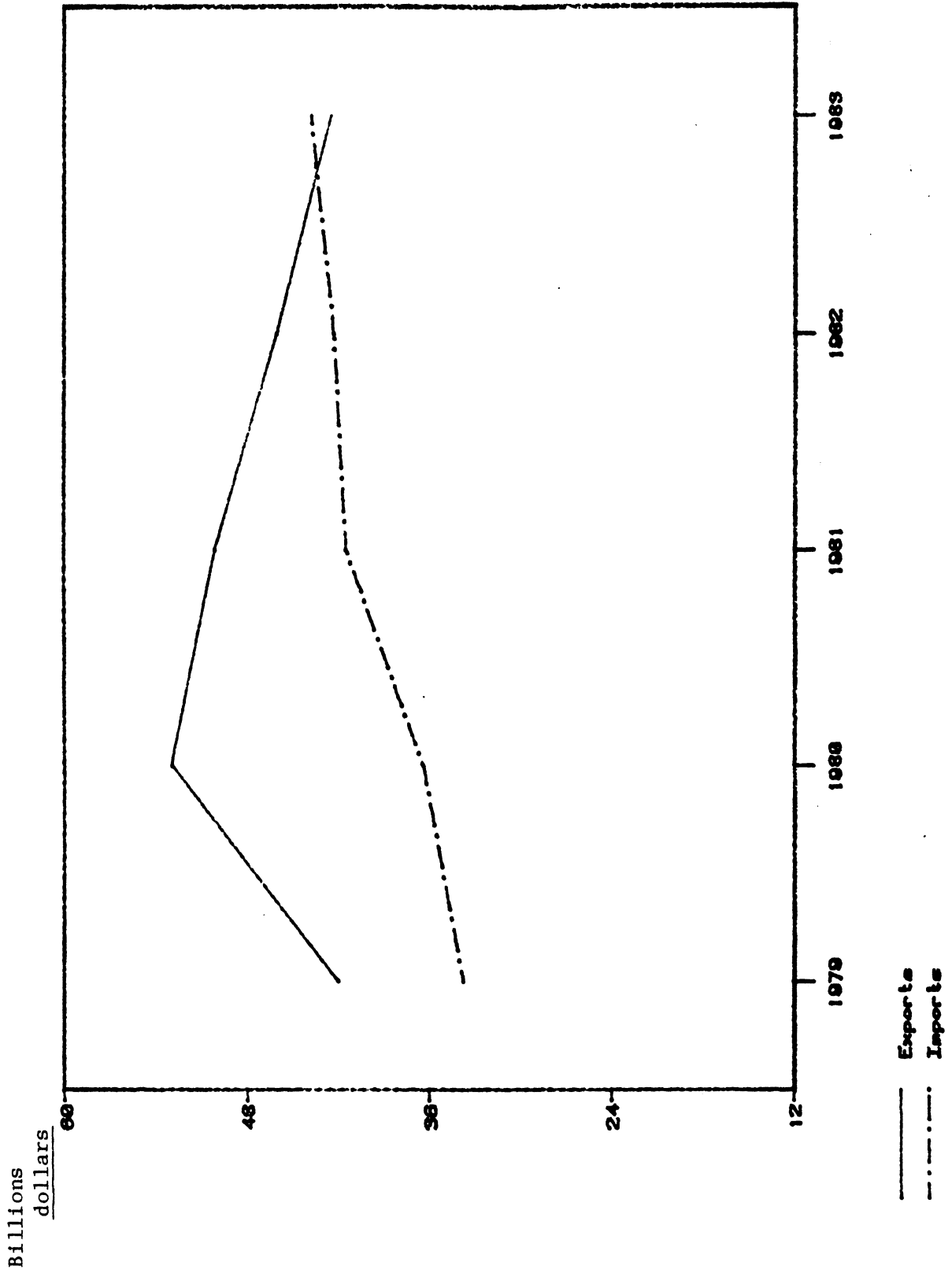
Table 15.--U.S. merchandise trade with the EC, by SITC 1/ Nos. (Revision 2), 1981-83
(In thousands of dollars)

SITC Section No.	Description	1981	1982	1983
U.S. exports				
0	Food and live animals	4,717,945	4,005,931	3,785,054
1	Beverages and tobacco	885,488	908,497	845,275
2	Crude materials--inedible, except fuel	6,384,959	5,960,724	5,335,237
3	Mineral fuels, lubricants, etc	3,128,893	3,764,593	2,218,133
4	Oils and fats--animal and vegetable	282,297	248,468	197,814
5	Chemicals	5,202,671	4,962,724	4,852,351
6	Manufactured goods classified by chief material	3,673,424	3,132,115	2,796,959
7	Machinery and transportation equipment	19,220,839	17,548,041	17,460,516
8	Miscellaneous manufactured articles	4,672,113	4,480,514	4,268,182
9	Commodities and transactions not elsewhere classified	2,456,992	711,615	660,863
	Total, all items exported to EC	50,625,620	45,723,222	42,420,383
U.S. imports				
0	Food and live animals	965,465	1,098,839	1,300,235
1	Beverages and tobacco	1,805,943	1,869,993	2,015,813
2	Crude materials--inedible, except fuel	615,465	478,274	552,156
3	Mineral fuels, lubricants, etc	6,111,426	6,638,707	5,642,403
4	Oils and fats--animal and vegetable	46,083	48,318	48,902
5	Chemicals	3,303,489	3,515,384	4,275,207
6	Manufactured goods classified by chief material	8,066,936	7,385,027	7,404,053
7	Machinery and transportation equipment	14,833,773	14,756,742	15,582,138
8	Miscellaneous manufactured articles	4,449,576	4,967,366	5,493,175
9	Commodities and transactions not elsewhere classified	1,261,239	1,541,555	1,453,643
	Total	41,459,395	42,300,204	43,767,725
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 3.--U.S. trade with the European Community, 1979-83.



— Exports
- . - . Imports

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

through levies and quotas. 1/ When world market prices are below the EC-established minimum import prices, the EC imposes variable import levies that make imported products more expensive or harder to obtain than domestic items. Conversely, when EC products are exported outside the EC, export subsidies--the EC calls them restitutions--are granted to exporters to make their products competitive. Export subsidies are also used to dispose of products held in stockpile and to export excess market surplus to maintain domestic prices at desired market levels and avoid accumulation of surpluses. Over one-half of all CAP spending is consumed by the cost of export subsidies. The spiraling costs of the CAP threw the EC into a serious financial crisis in late 1983 and throughout the early months of 1984. Lack of progress on CAP reform, on reducing the costs running the EC, and on a British budget rebate stymied the member Governments. 2/

CAP prices

During the 1983-84 marketing year, the EC increased farm prices (on most products) on average by 5.5 percent in national currency terms (4.2 percent in European currency units). 3/ The EC's 1983-84 farm price package gave farmers one of their lowest annual price increases in EC history. The target and

1/ About 72 percent of EC farm products (including soft wheat, barley, rye, corn, rice, sugar, dairy products, beef, sheepmeat, pork, some fruits and vegetables, and some table wine) enjoy support prices that carry either a permanent or conditional guarantee of price and sale. When market prices fall below a certain level and other conditions are fulfilled, the intervention authorities buy the product offered to them and stock or sell it according to EC rules. The market can also be supported by more flexible means, such as storage aids and subsidies for wine distillation. About 25 percent of production (eggs, poultry, some cereals, wine, and fruits and vegetables) are protected only by measures to prevent low-price imports from outside the EC. Direct subsidies apply to 2.5 percent of production (hard wheat, olive oil, certain other oils, and tobacco). Flat rate aid by hectare or quantity produced covers 0.5 percent of production (cotton seed, flax, hemp, hops, silkworms, seed, and dehydrated fodder).

2/ The EC is running very close to its financial limits. By law, the EC is forbidden to run a budget deficit.

3/ The European currency unit (ECU) is a basket of currencies of the EC members. The ECU is discussed in the section on the European Monetary System in this chapter. The support price, termed intervention price in the EC, is the level at which member countries' intervention agencies are obligated to purchase all quantities of the product offered to them. The target price is the level the EC wants the market price to approximate. The minimum import price, also referred to as the threshold price, is derived from the target price. The difference between the target and threshold price is in transport and marketing costs. For example, the threshold price is to ensure that the price of imported product in the EC is above the intervention price level.

support prices for milk and other dairy products rose by 2.3 percent. 1/ The target and support prices for wheat, barley, rye, corn, rice, and sugar rose by 3.0-5.5 percent. Guide prices for table wine rose by 5.5 percent. Guide and support prices for beef, veal, sheepmeat, and pigmeat rose by 5.5 percent. Olive oil target and support prices rose by 5.5 percent. Target, support, and guide prices for oilseeds rose between 4.0 and 6.5 percent. Guide prices for cotton rose by 8.0 percent. Other price increases included raw tobacco (4.0-8.5 percent) and fruit and vegetables (3.5-6.5 percent). 2/

CAP reform

No previous attempts to reform the CAP have made much headway despite the fact that its shortcomings have been widely recognized by most Europeans for many years. The Commission's previous proposals to modify the CAP were not acted on. Set against this backdrop, the Commission sent proposals to the Council on CAP reform in mid-1983. The proposals included imposing a consumption tax on non-butter vegetable oils and fat, restricting imports of nongrain feed ingredients (NGFI's), dismantling the monetary compensatory amounts (MCA's), and freezing support prices for farm products that are in surplus supply.

Proposed consumption tax on non-butter vegetable oils and fats.--In 1983, a consumption tax of 75 ECU's per ton 3/ on imported and home-produced non-butter vegetable oils and fats was proposed by the Commission to (1) finance Spanish accession; (2) reduce the EC's huge olive oil surplus, particularly after Spanish accession, by limiting consumption and imports; (3)

1/ Dairy farmers were again required to contribute to the cost of disposing surplus milk products by paying a co-responsibility levy equal to 2.0 percent of the milk target price. The levy covers 10 percent of surplus disposal costs.

2/ On March 31, 1984 the EC adopted its 1984/85 farm price package. Average common farm prices in 1984-85 were decreased by 0.5 percent when expressed in ECU's. In national currency terms, average prices were increased by 3.3 percent. The EC's price decisions were influenced by the need to discourage surplus production and restrict CAP spending. The milk target price remained unchanged from last year; the intervention price for butter dropped by 10.6 percent but increased between 5.7 and 10.9 percent for skimmed-milk powder and cheese. The target and intervention prices for wheat, barley, rye, and corn either dropped, remained unchanged from last year, or increased only slightly. Rice target and intervention prices were increased between 2.5 to 3.1 percent. Sugar prices remained unchanged from last year. Cotton guide prices rose by 1.5 percent. Prices for table wine, raw tobacco, and fruit and vegetables dropped between 1.0 and 3.0 percent.

3/ In 1983, one ECU was equal to about .89 cents; in 1982, .98 cents; in 1981, \$1.12; and in 1980, \$1.39.

promote butter consumption for which the EC has a large surplus; and (4) reduce the CAP's skyrocketing costs. 1/ The Commission feels that if butter production is to be limited by CAP reform, oils and fats should not be immune. Italy, which supports the tax, feels that without it, funds available to its olive oil industry will be cut once Spain enters the EC. The EC imports nonbutter vegetable oils and fats at a zero duty rate bound by the GATT during the Kennedy round. The Commission feels that since the purpose of the proposed tax is to earn revenue, it will not erode the value of existing tariff bindings. A consumption tax, if adopted, would enable the EC to restrict imports without impairing its zero rate duty, according to the Commission. The Commission says that the proposed tax would neither discriminate against imports nor affect the present duty-free entry of soybeans into the EC because it is not directed specifically at imports. It doubts if the tax would negatively affect imports because the low rate of tax proposed is not likely to alter consumption of oil and margarine.

Adoption of the tax is not expected to be approved by the Council in the near future. The United Kingdom, the Netherlands, West Germany, and Denmark oppose it on the grounds that it will collect a large amount of revenue at the expense of consumers and that its protectionist nature will elicit retaliatory action by the United States.

Proposed import restrictions on NGFI's.---The Commission has received a Council mandate empowering it to enter into negotiations under article XXVIII of the GATT to renegotiate the EC's zero duty-rate on imported NGFI's. 3/ The EC granted a zero-tariff rate on NGFI's as a concession to the United States during the Dillon and Kennedy rounds of GATT trade negotiations. The Commission is considering the adoption of a quota based on 1981 import levels. When imports exceed this quota, they would be subject to a levy. The rising costs of supporting CAP programs for surplus dairy and grain products have led to various efforts to encourage use of EC-grown products and stem the flow of imports of foreign produced feeds. The first such effort came in April 1982 when the Commission requested a mandate from the Council to negotiate a 3.0 million ton tariff-quota on corn gluten feed imports. Strong pressure applied by the United States persuaded the Commission to shelve the mandate request and instead substitute GATT article XXII consultations in late 1982.

In recent years, EC imports of NGFI's have grown rapidly. Rising corn gluten feed imports, which the Commission says have displaced use of internally produced grains in livestock feed in the EC, have led EC grain producers to demand import limits on this and other NGFI's. U.S. exports of NGFI's to the EC jumped from \$95 million (about 700,000 tons) in 1975 to

1/ The idea of a tax on imports of vegetable oils was first tabled in the EC in 1971.

2/ The Commission's request from the Council to enter into GATT talks to limit NGFI imports was made in mid-1983 in the context of its CAP reform proposals. On Mar. 31, 1984 the Council approved the Commission's request.

approximately \$700 million in 1983 (over 3 million tons). U.S. corn gluten feed is sold to EC farmers, particularly in the United Kingdom and the Netherlands, at prices well below those of European-grown cereals. The EC would like to restrict--the Commission says stabilize--NGFI imports to (1) reform the CAP; (2) reduce the need to subsidize surplus grain exports, thus decrease the CAP's soaring costs to the EC's budget; (3) move EC internal grain prices closer to world levels; (4) protect the domestic grains industry from fast-growing imports of cheap feedgrain substitutes and thus increase the use of EC-grown grains in animal feed; and (5) show EC farmers that the burden of CAP reform is not falling on their shoulders alone. The EC already took steps in 1983 to limit imports of bran and manioc from the Far East as part of this effort.

Since EC-grown grains enjoy a much higher internal market price, grain exports are subsidized to make up the difference between the higher domestic price and the lower world market price. The Commission claims that because EC imports of U.S. corn gluten feed displace consumption of domestically grown grain, the EC is forced to sell more of its grain, using export subsidies, in markets outside the EC. The EC wants to make its grain products more competitive and to eliminate the price advantage now enjoyed by imports in comparison with domestic grains. For example, EC production costs for broilers are inflated by the prices poultry breeders have to pay for their EC-grown feedgrains, currently at a premium of 60 percent over world prices. Without generous EC subsidies, poultry consumption would drop. The Commission also asserts that the reduced cost of livestock feeds in the EC, made possible in large part by the use of inexpensive NGFI's, contributed to increased EC poultry production. This excess poultry production, far above that required for consumption in the EC, is also exported with the aid of subsidies. The same case is found in the dairy sector.

Import restrictions on NGFI's have been opposed by West Germany, the Netherlands, and the United Kingdom. France, the EC's largest grain producer, is the chief EC proponent for restricting NGFI imports.

Dismantling the MCA's.--To allow the EC's common farm price mechanisms to operate uniformly, the EC fixes common guaranteed prices for all the member countries each year. Currency fluctuations that occur after common prices have been set result in farm prices that can vary substantially from one member to another. Monetary instability since 1969 has led to the introduction of MCA's to compensate farmers in a number of member countries for the effect on common farm prices of fluctuations in national currencies. MCA's are border taxes, subsidizing farm exports in strong currency countries, such as West Germany and the Netherlands. When weak currency countries devalue their currencies, it has a negative affect on the competitiveness of intra-EC farm exports from the strong currency countries.

The Commission has proposed that MCA's be dismantled in two equal stages at the beginning of the next two marketing years. Its previous attempts to eliminate MCA's have failed. West German and Dutch farmers oppose the plan on the grounds that their income will decrease as a result. West Germany fears as much as a 16 to 18 percent drop in its farm income if MCA's are eliminated. France has demanded the elimination of the MCA's. 1/

1/ On Mar. 31, 1984, the Council agreed to a phased dismantling of existing MCA's to restore price unity in the EC agricultural market. 197

Price and surplus production controls.--The EC has surpluses of dairy products, cereals, wine, tomatoes, olive oil, and rapeseed. 1/ To reduce surplus production, the Commission has proposed to apply guarantee thresholds to most surplus farm products. Guaranteed thresholds place a strict ceiling on the amount of a given crop farmers may produce without having to contribute to the cost of disposing the surplus, thus discouraging them from overproducing. The Commission believes it is no longer reasonable or possible to provide an open-ended guarantee to farmers when market outlets no longer exist.

For the past two years, sugar producers have been required to pay the full cost of disposing their surplus production. The Commission's proposal would extend its system of guaranteed thresholds to durum wheat, sunflower seeds, and raisins. 2/ For milk, which accounts for one-third of the EC's current farm price support spending, the Commission has recommended that producers be required to pay a supplementary levy on the amount of milk they produce exceeding 101 percent of their 1981 production. This supplementary levy would be equal to 75 percent of the EC's milk target price. In addition, the Commission has proposed a further 4 percent levy on all milk produced on intensive dairy farms. 3/

Industrial policy

The EC does not have an industrial policy outside the coal and steel sectors. Although the 1951 Paris Treaty which founded the European Coal and Steel Community (ECSC) provides for a well-formed industrial policy and substantial government intervention in the members' coal and steel sectors, the 1957 Rome Treaty which founded the European Economic Community (EEC) does not provide for a common industrial policy. 4/ The Rome Treaty gives extensive powers to the EC to intervene in the agricultural economy of the member states but no such powers extend to the member states' industrial sectors. Non-ECSC industrial policy in Europe largely remains under the

1/ The EC's self-sufficiency rates in these farm products range between 90-125 percent, excluding milk products for which the EC rate is about 341 percent.

2/ On Mar. 31, 1984, the Council approved these measures.

3/ On Mar. 31, 1984, the Council set production of quotas on milk production for 5 years at 1 percent above 1981 milk deliveries, with exceptions made for Ireland and Italy. Fines will be levied against those that exceed their limits. As a transitional measure, member states are allowed to produce additional quantities of milk in 1984-85. To cover this cost, the co-responsibility levy that dairy farmers now pay as part of the EC's program to discourage surplus production quota for 1984-85 was set at 99.6 million tons. The council also placed production curbs on wine and reduced various production of consumption subsidies in the livestock, butter, and fruit and vegetable sectors.

4/ Whenever the Commission believes that a serious market imbalance or clear crisis requires regulatory intervention, it may subject the coal and steel industries to mandatory Europeanwide price, production, and trade restrictions. Under these circumstances, EC-member states almost totally surrender their rights to independent coal and steel policies. Since 1980 the EC steel sector has remained regulated under this authority.

purview of the national governments. However, the EC does influence the member states' industrial policies because it is charged by the Rome Treaty to administer, regulate, and develop the common market. 1/

In the absence of a common industrial policy, the EC has a patchwork of instruments and programs that affect industrial policy in the member states. Taken together, these instruments and programs do not constitute an industrial policy that is common to all of the member states in non-ECSC sectors. The EC's various instruments and programs which touch upon industrial policy are implemented in a more piecemeal than integrated fashion. They include the Common External Tariff (CET), foreign trade policy, the common competition policy (CCP), and subsidized loans and grants. The EC gives or approves aids designed to further certain industrial policy goals, such as promoting industrial R. & D., helping small- and medium-sized enterprises, fostering energy independence, restructuring troubled industries, and encouraging growth in depressed regions. 2/ A brief discussion of the EC's industrial policy instruments follows.

The CET has been used by the EC to extend home-market protection to the steel and textile industries. 3/ This protection has been extended through import quotas, voluntary restraint agreements, minimum import prices, preferential trade arrangements, or antidumping duties. Since the EC regulates the subsidies that its member states grant their industries, it has an important role in affecting industrial policies throughout its membership. The EC's competition policy powers authorize it to disapprove aids to industry granted by its member states, if the aids distort competition within the EC. Any aid granted by a member Government that distorts competition by favoring certain firms or production of certain goods is incompatible with the provisions of the Rome Treaty. The Commission may disapprove or force modification of state aids that do not satisfy a strict set of guidelines. The Commission has developed specific codes of aid for the steel, coal, textiles and clothing, synthetic fibers, and shipbuilding industries that define permissible state aids. Without aid codes regulating Government subsidies to these industries, many of the aids given would be illegal under EC law. The aid codes are designed to allow Governments to provide certain

1/ For more information on EC industrial strategy, see investigation No. 332-162, Foreign Industrial Targeting and its Effects on U.S. Industries: Phase II, the European Community and Member States, USITC Publication no. 1517, May 1984, pp. 33-35. During 1980-83, the EC Commission put forth a number of proposals designed to give the EC a common industrial strategy. The proposed strategy is something less than a common supranational policy but more than just passive industrial cooperation among the members. The Commission's proposals have concentrated on monetary integration, on eliminating intra-EC trade barriers, and on R. & D. policy. However, the Council has not acted on many of the proposals because member Governments are not in agreement on the direction, efficacy, and costs of a common industrial policy.

2/ For a detailed discussion of the application of the EC's industrial policy instruments to various industrial sectors and other recipients in the member states, see Investigation No. 332-162, on foreign industrial targeting, pp. 27-70.

3/ For further information see the discussion on "steel" and "textiles" later in this section.

subsidies to troubled industries for only limited periods of time. When they expire and are not renewed, the EC's strict competition rules regulate state aids. These aids must be accompanied by plans to restructure and reduce capacity, and they must avoid distorting trade among the member states. Some state aids escape the Commission's scrutiny. However, state aids that clearly benefit an industry in one member state to the detriment of a competing industry in another member state are often brought to the Commission's attention. In this way, the Commission may at least be able to keep abreast of the most visibly offensive state aids.

The EC provides a wide variety of subsidized loans, loan guarantees, and grants to most industries in the member states. Subsidized loans and grants to aid the EC's less developed regions through the European Investment Bank and the European Regional Development Fund enable the EC to assist member states in their own regional policies. Grants from the European Social Fund offer assistance to redundant workers in the member states by offering reemployment and resettlement financing. EURATOM loans fund projects which reduce the EC's dependence on energy imports and improve energy use and efficiency. The ECSC provides the member countries with an extensive set of grants and loans for industrial investment and conversion in their coal and steel industries. The EC also provides loans and grants for industrial research and development which stretch across all major European industries. The EC funds R. & D. projects, in whole or in part, covering coal, steel, textiles, footwear, data processing, information technologies, biotechnology, nuclear and solar energy, nuclear fusion, and telecommunications.

Perhaps the most significant event during 1983 in the EC's R. & D. effort came in the area of information technologies (IT). ^{1/} The EC instituted a novel approach to IT research and development, called the European Strategic Program for Research and Development in Information Technologies (ESPRIT). For ESPRIT's purposes, the IT industry is divided into five areas: advanced microelectronics, software technology, advanced information processing, office automation, and computer-integrated manufacturing. ESPRIT was created to help reverse Europe's third place finish--after the United States and Japan--in R. & D. and commercial exploitation of IT products. ESPRIT is designed to help the EC's IT industry improve its competitiveness in domestic and foreign markets. The EC has been concerned about its growing trade deficit in IT products with the United States and Japan. One estimate puts the EC's trade deficit in 1982 for all IT products at \$10 billion. The Commission feels that member Governments and companies cannot individually reverse the widening trade deficit in IT products because their scale of resources committed to R. & D. is too small to be effective. There is a consensus in Europe that IT is an area where EC industry must be competitive enough to win a significant share of its own market and increase its foreign-market shares. The EC believes that IT will be its largest manufacturing industry by 1990. ESPRIT is part of the EC's overall R. & D. strategy to rebuild Europe's industrial momentum.

^{1/} IT refers to those industries whose products process or transmit information.

ESPRIT began on January 1, 1983, with a 1-year pilot program followed in 1984 with the first 5-year phase of a 10-year program. The Commission contributes 50 percent (or more in some cases) to the cost of individual research projects. The 1983 pilot phase of ESPRIT cost the EC \$10.23 million. The first 5-year phase of ESPRIT (1984-88) will cost a total of \$1.3 billion, of which \$650 million will be paid directly by the EC. The novel approach to R. & D. taken in this project is that in order to encourage cross-frontier R. & D. and business collaboration among the members--something that the common market has not yet fully accomplished--most projects must be shared by companies or research centers from at least two different member states.

The steel crisis

The EC's steel crisis continued throughout 1983. Employment dropped from 796,085 in 1974 to under 500,000 in June 1983. Another 150,000 steel workers are expected to lose their jobs between 1983 and 1986. The employment drop is largely attributed to EC attempts to reduce capacity through plant closures. The EC steel sector ran at about 50 percent of capacity for finished products in 1983. The EC Statistical Office estimated 1983 EC production at 108.5 million tons of crude steel, down from 110.0 million tons in 1982 and 125.0 million tons in 1981. ^{1/}

Within the EC steel market, the ECSC controls prices and levels of shipments and orchestrates restructuring, modernization, and rationalization of steel production. Since May 1977, these measures have been carried out through the Davignon Plan. Since October 1980, the EC steel industry has been operating under a "crisis cartel" where mandatory price and production controls have been implemented. Imports are restricted by either voluntary restraint agreements with the EC's 14 leading steel suppliers or by minimum import prices. In mid-1983, member Governments agreed to their shares of an EC-wide capacity reduction plan of 27.6 million tons to be reached by the end of 1985. At that time, all state aids to steel firms must be abolished. In spite of the EC's efforts to reduce capacity, most informed sources predict that the members will not reduce enough capacity to meet the December 1985 deadline. During 1983, the Commission levied fines on firms for exceeding their production and delivery quotas in the EC. Companies fined by the Commission may appeal to the European Court of Justice (ECJ). Members argued with one another and the Commission over their shares of the capacity reduction and, when disagreement could not be resolved, they were referred to the ECJ for adjudication.

The following outline briefly traces the various steps taken by the EC to intervene in the steel sector from 1977 to date.

- o In May 1977, the Commission set mandatory minimum internal prices for some steel products and voluntary guide prices for others to avoid price undercutting in the EC. Enforcement of guide prices proved to be a difficult task for the Commission because persistent excess capacity put pressure on steel firms to cut prices in order to increase sales. Violators of guide prices remain subject to EC sanctions.

^{1/} Excludes Greek production.

- o To prevent foreign suppliers from undercutting the minimum internal prices and thus divert sales from EC producers, the EC implemented two methods of controlling the volume and prices of imported steel. Beginning in 1977, it negotiated bilateral trade accords with its major supplier countries and imposed minimum import prices on other supplier countries.
- o In 1978, the Davignon Plan instituted voluntary internal production quotas.
- o In 1980, EC steel shipments were subject to mandatory controls. A firm's intra-EC deliveries may not exceed the amount set by its assigned ratio of EC shipments to total production. For products subject to production quotas, a firm's deliveries may not exceed the limit set by its assigned ratio of EC shipments to total production.
- o In February 1980, the Commission introduced its first code of aids regulating state aid for the steel industry. The purpose of the Commission's intervention was to insure that the use of state aids was accompanied by effective plans for restructuring to reduce or eliminate capacity. Under the code, the Commission permitted specific aids to be granted to the steel industry if the aid simultaneously provided for restructuring, was restricted in duration and intensity, and did not unacceptably distort competition. Prior to the implementation of the aids code, most of the member Governments' subsidies to their steel industries were not accompanied by reductions in capacity.
- o Worsening market conditions in October 1980 prompted the Commission to invoke article 58 of the Paris Treaty and declare a "state of manifest crisis" in the steel industry for the first time in EC history. Steel firms were not abiding by the voluntary restraint measures introduced earlier by the Commission. A mandatory production quota system for most steel products was set up to distribute the burden of job losses and plant closures resulting from the EC's efforts to cut surplus steel production capacity, and to counteract the drop in production and prices. Four product categories are subject to production quotas: coil and strip rolled on special mills, heavy and universal plate, and heavy and light sections. Firms that exceed their production quotas could be fined. The quotas were to have achieved their objectives by June 30, 1981.

o In August 1981, the Commission replaced its first steel aids code with a stricter set of rules designed to phase out subsidies by December 31, 1985. The second aids code established strict rules that outline allowable state aids and the conditions under which they may be made and implemented. The code links the EC's approval of state aids to steel firms to restructuring. Member states are required to notify the Commission and to receive approval for aid granted for investment, closure of plants, emergency purposes, R. & D., and other projects by certain deadlines in 1982. The Commission notified the member states of its decision on these aid requests during the course of 1983. The second aids code extended the manifest crisis and established mandatory quotas for some products and voluntary quotas for others. Restructuring and capacity reductions were to be carried out with greater rapidity than under the previous code scheme. The Commission wanted to insure that all aids to the steel industry were treated uniformly within a single procedural framework.

o The production quota system was modified in July 1982 when the number of products included in the quota was increased to cover about 70 percent of total finished steel production in the EC.

o In November 1982, the Commission set up a system of guide prices for the main steel products for the purpose of providing more financial support for producers to finance their own restructuring programs. A year later market prices were far lower than the guide prices and the official list prices published by steel companies.

o In June 1983, the EC agreed to a total reduction in steel capacity of 26.7 million tons by December 31, 1985, and gave member Governments until January 31, 1984, to submit plans for their share of the capacity reduction. The capacity reduction target is linked to the approval of state aids. Member Governments' subsidies to their steel industries will not be approved by the Commission unless they submit plans for meeting their share of the capacity reduction.

o In December 1983, the Commission took tougher measures to enforce established minimum internal prices. At that time, some EC producers were cutting prices in an attempt to improve shrinking profit margins by selling more steel. The Commission maintained that its goal to cut production capacity by 26.7 million tons and eliminate 100,000 steel jobs could be accomplished only if steel prices were high enough to yield profits to producers.

New minimum prices were set on January 1, 1984, and a stringent price control plan was proposed. ^{1/} Under this plan, shipments will be accompanied by certificates stating the steel's origin, and steel companies will be required to post a security deposit of \$38.00/ton against their steel sales within the EC. As a result, within 15 days of the publication of quarterly trade statistics, a country will be able to lodge a complaint with the Commission against an exporting company, and the Commission will have the power to collect the deposits if the complaint is proved valid.

The textile and synthetic fiber industries

The EC's textile and synthetic fiber industries are confronted with the problem of overcapacity leading to low prices and huge losses. Direct EC intervention in these sectors to control imports, reduce capacity, regulate competition, and funnel aid has been extensive during the past 5 years.

As a signatory to the Multifiber Arrangement (MFA), the EC may control third-country imports. The EC's preferential trade accords with the Mediterranean and African, Caribbean, and Pacific (ACP) countries are subject to a safeguard clause that allows the EC to restrict imports, including textiles, under certain circumstances.

The EC textile industry has been subject to a code of aids since 1970. The code stipulates that any state aid for the sector should be temporary and decrease over time. The code prohibits aid that might distort competition by favoring selected domestic firms. The EC synthetic fiber industry is also subject to an aids code which calls for a capacity reduction of 300,000 tons by 1986. Consequently, the Commission scrutinizes all state aid plans that are likely to increase the production capacity of individual producers.

Enlargement

Negotiations regarding the accession of Portugal and Spain to the EC moved very slowly during 1983. The EC countries are clearly in favor of enlargement because it is expected to solidify the democratic movements in the applicant states. However, France and Italy are concerned that a flood of Mediterranean-type farm products, such as olive oil, fresh fruits and vegetables, and table wine will enter the EC once accession takes place and compete with their own producers. The biggest problem for both sides is the integration of Portuguese and Spanish agriculture into the EC. As a result, negotiations have been held the length of the transition period during which

^{1/} Each steelmaker would pay the guaranteed bond to the EC member state where its steel was produced. The bond would be returned if the steel producer complied with the minimum price and production quotas requirement. A portion of the guaranteed bond could be frozen at the Commission's request if the steel producer appeared to have violated this requirement.

agricultural markets will be integrated that will accommodate concerns of all parties involved. Farm trade will gradually be liberalized from the moment of accession but the Commission believes the transition period should be fairly lengthy, anywhere from 7 to 10 years or more, before the new members fully accede to the acquis communautaire (the body of EC rules and laws). Spain and Portugal must accept in its entirety the acquis communautaire as a precondition for membership. Finally, accession negotiations have been held hostage to discussion in the EC for CAP reform that Italy and France say must be made prior to, not after, enlargement. Portugal and Spain are not expected to join the EC before 1986 given the slow pace and complexity of the accession negotiations. 1/

Portuguese accession negotiations

Portugal applied for EC membership in March 1977 and accession negotiations began in October 1978. Portugal's accession negotiations are almost completed on the customs union, industrial goods, ECSC, EURATOM, and external trade. Portugal and the EC have agreed to a long two-stage transition period for Portuguese agriculture, but are still negotiating fisheries. The EC has offered Portugal a 10-year aid program valued at about \$590 million to help restructure its farms. Only a few difficult points remain to be settled before accession negotiations are completed. They include free access of Portuguese port wine and tomato concentrates to the other EC members, certain social benefits for Portuguese migrant workers, and Portugal's contribution to the EC budget. A 7-year transition period has been agreed upon during which Portugal will abolish its existing customs duties and fully accede to the CET. Portugal's biggest fear in its bid for membership is that it will be tied to Spain's accession and the much more complex problems Spanish membership poses for the EC than Portuguese membership. Because Portugal is a small country whose effect on the EC as a member will be minimal, accession negotiations have moved faster than Spain's negotiations with the EC.

Spanish accession negotiations

Spain applied for EC membership in July 1977 and accession negotiations began in February 1979. Since Spanish agriculture presents much more serious problems to the EC, accession negotiations with Spain have moved more slowly than negotiations with Portugal. Spain's wine, olive oil, fresh fruits and vegetables, and other Mediterranean-type farm products will add to the EC's oversupply of these same products. In fact, the chief problem of Spanish and Portuguese accession facing the EC is that a significant proportion of Spanish and Portuguese exports to the EC are in product areas where the EC already suffers from permanent overproduction. Import controls have already been imposed on Spanish and Portuguese textiles, steel, and Mediterranean-type farm products. Enlargement will increase the number of EC farmers by 38 percent and its area under cultivation by 34 percent. Spanish accession alone will increase EC vegetable production by 25 percent, fruit by 48 percent, and olive

1/ The EC has announced that accession negotiations with Portugal and Spain should be completed by September 1984 in order to ensure that both countries accede to the EC by January 1, 1986.

oil by 59 percent, resulting in a substantial increase in the EC's degree of self-supply in these areas, and the possibility of a sharp increase in CAP expenditures. Southern regions in the existing members are particularly worried about competition from farm products from the prospective members. As a result, special arrangements have already been agreed to stagger the opening of EC borders to Spanish and Portuguese textiles and avoid disruption of the market. Negotiations over agriculture have been delayed by the EC's own failure to agree on new rules for Mediterranean farm products, which France has insisted should be settled before opening farm talks with Spain. France and Italy have the most at stake in the agricultural negotiations, and have thus pressed for a long transition period of 10 to 12 years for Spain's most competitive farm products. Spain must dismantle a highly protectionist taxation and trading system, including customs duties and import quotas. Transition will be eased in certain cases by limits for a number of years on the volume of imports of a number of farms products from the EC. During the first stage of 4 to 6 years, these products would be totally excluded from the CAP. During the second stage, they would be slowly integrated. The Commission has proposed that olive oil be excluded altogether for the first 10 years of membership, thus reducing an estimated annual cost of about \$800 million to the EC.

Operation of the European Monetary System

The European Monetary System (EMS) was instituted in March 1979 to improve exchange-rate stability among the EC members. EMS participants include EC members with the exceptions of the United Kingdom and Greece. 1/ EMS links the currencies of member countries within narrow margins. The currencies may fluctuate in a joint float against nonmember currencies, such as the U.S. dollar. Any fluctuations exceeding those limits is restrained by intervention in currency markets by the members' central banks. EMS is viewed as a mechanism through which economic policies among EC members may be coordinated to avoid widely differing inflation rates and trade performances that cause currency changes. EMS operates on the basis of the European Currency Unit (ECU) and the exchange rate and intervention mechanisms. 2/

European Currency Unit

The ECU is equal to the sum of the fixed value of the EC currencies, with the exception of the Greek drachma which will not be included until December 1, 1985. Member currencies are given a fixed but adjustable value in the composition of the ECU called central rates. The ratio between these values and the value of the ECU varies in line with exchange rate fluctuations among EC currencies. The ECU serves as the (1) unit of account for the EMS

1/ The United Kingdom again stated in 1983 that it will remain outside the EMS. The British pound, however, is included in the basket of currencies that comprise the ECU. EMS members want the United Kingdom to become a full EMS member which would give the ECU further international credibility and acceptability.

2/ In addition, the EMS credit facility provides short- and medium-term financing for members who are experiencing serious payments difficulties and provides 3 percent interest rate subsidies on European Investment Bank loans for development projects in Italy and Ireland.

exchange rate and intervention mechanisms and for the central rates; (2) basis of other financial transactions; (3) official currency of the EC; and (4) as the reserve of central banks which use it to settle debts with one another on what they had borrowed or lent to intervene in the currency markets. Participating central banks hold 20 percent of their gold and dollar reserves in ECU's. Opinions differ on the ECU's success to date. 1/

Exchange rate and intervention mechanisms

The system's fixed but adjustable exchange rates may fluctuate by 2.25 percent above or below their bilateral central rates relative to other EMS currencies. The Italian lira observes a wider margin of 6 percent above or below its assigned central rate. The margins set the limits at which official exchange market intervention is obligatory, although intervention within the margins is not excluded. In addition to the grid of central rates, there is a divergence indicator, which serves as an early warning device signaling when a currency diverges in its development from the average of the others. Intervention by the participating central banks to keep the exchange rates of their currencies within the margins is obligatory in EMS currencies. Intervention in other currencies, chiefly in U.S. dollars, is allowed and has been undertaken on a substantial scale.

1/ Some experts claim that usage of the ECU is still limited. They note that since ECU's carry an interest rate that is the weighted average of the discount rates of the EMS countries--which is lower than market rates--there is no incentive for central banks to hold them. Central banks' intervention in the foreign exchange market remains mostly in U.S. dollars. Creditor central banks only have to accept repayment of 50 percent of their claims in ECU's. Others state that in private markets the ECU is becoming more widely used. Within the EMS, the ECU is extensively used by participating central banks. Outside the EMS, about 200 commercial banks in Europe now accept deposits and make loans in ECU's. By mid-1983, outstanding bank loans in ECU's exceeded \$880 million, with several times that amount being lent for trade credit. Five percent of all Eurobond issues in 1983 were denominated in ECU's. A large number of commercial banks in the EC now provide all the normal services for ECU-denominated accounts. After the U.S. dollar and the German mark, the ECU is now the world's third major currency on the Eurobond market and the size of the ECU bond market has now reached over 2 billion ECU's. Member Governments and the European Investment Bank issue bonds in ECU's. ECU proponents say the ECU is increasingly being used as an invoicing unit for transactions within and between companies, especially multinationals operating in Europe. For more information see "Toward European Financial Union," Europe, July 1983, pp. 28-30.

Although members can alter exchange rates when they get out of line, the central idea behind EMS is that membership should force countries to try to keep their currencies in line by insuring that inflation is low and trade accounts healthy. The variability of EMS exchange rates appears to have declined since EMS was introduced, compared with a number of non-EMS currencies in and outside Europe. ^{1/} Although other currencies have fluctuated widely against each other, the EMS currencies have changed relatively little against each other. For example, whereas the monthly variability of the French, Italian, Dutch, and Belgian currencies against the German mark ranged between 0.5 percent and 0.8 percent from 1979 to 1983, their monthly variability against the U.S. dollar, Japanese yen, and British sterling was between 2.4 and 2.7 percent.

Exchange-rate instability forced members to realign the value of their currencies on March 21, 1983. It was the seventh realignment since the establishment of EMS and the first to have affected all the members. The realignment devalued the French franc by 2.5 percent and revalued the German mark by 5.5 percent. The Italian and Irish currencies were devalued and the Danish and BENELUX currencies revalued. The realignment was one of the most difficult to achieve, owing to the debate between the undervalued French franc and the overvalued German mark. France and West Germany were at odds over which partner should take responsibility to realign and by how much. To ward off a third devaluation of the French franc in 18 months, France urged West Germany to revalue the mark. West Germany feared such action would curtail exports, add to its growing unemployment rate, and damage its hopes for economic recovery. West Germany felt France must share the burden and accept another cut in the franc's value. France, in turn, blamed Europe's monetary problems on the strength of the German mark. The skirmishes subsided when the partners agreed to the March realignment.

Relations with nonmembers

The EC has an extensive network of preferential trade contracts with developing countries and well-developed trade links with developed countries. ^{2/} Former colonies with whom the EC has close commercial and historical ties are the most favored by its system of tariff reductions. The EC grants the 66 African, Caribbean, and Pacific (ACP) members of the Lomé Convention nonreciprocal duty-free trade access for almost all their exports in addition to development aid packages. Through its Mediterranean Policy, the EC grants nonmember Mediterranean countries duty-free access for industrial products and generous tariff preferences for certain horticultural products as a means to secure its own market outlets and foster good relations

^{1/} European Report, Feb. 29, 1984, p. 2.

^{2/} For an updated list and description of the EC's trade agreements with nonmembers see Accords et Autres Engagements Bilatéraux Qui Lient Les Communautés A Des Pays Tiers, Commission of the European Communities, Brussels, January, 1984.

in the region. Developing countries outside the ACP and Mediterranean countries benefit from the EC's Generalized System of Preferences. 1/

The EC also maintains close ties with the developed countries. On January 1, 1984, the last barriers to complete industrial free trade between the EC and the European Free Trade Association (EFTA) were removed. 2/ A discussion of the Lomé Convention, the Mediterranean Policy, and EC-Japanese relations follows.

Lomé Convention

The 66 ACP members of the Lomé Convention enjoy the most extensive set of trade-and-aid benefits granted by the EC to any group of developing countries. The Lomé Convention obligates the EC to (1) provide duty-free access for 99.6 percent of the ACP countries' exports to the EC (only farm imports which are covered by the CAP face restrictions); (2) provide guaranteed prices for certain exports of tropical and mineral products from the ACP States, within prescribed limits, when market demand or world market prices drop; and (3) provide economic assistance through grants from the European Regional Development Fund and soft loans from the European Investment Bank. 3/

The first Lomé Convention was in effect from 1975 to 1980. The current Lomé Convention (Lomé-II) is in effect until February 28, 1985. Negotiations between the EC and ACP countries for Lomé-III began in October 1983. The EC's generosity in the new convention will be heavily taxed by its own internal budgetary constraints. At the same time, the EC will be heavily lobbied by the ACP States which are seeking to extract more aid from Europe.

Mediterranean policy

The EC has a well-defined policy towards the nonmember Mediterranean countries. It uses tariff preferences and development aid to further its own economic security interests in the volatile Mediterranean region. The EC has bilateral association agreements with Cyprus, Malta, and Turkey that provide for the progressive establishment of a customs union and possible EC membership. The EC also has bilateral preferential trade or cooperation agreements with all other Mediterranean countries with the exceptions of Libya and Albania. These accords include provisions for free access to the EC market for industrial products and preferential treatment for agricultural products in addition to protocols aimed at commercial, industrial, technical,

1/ The EC grants GSP to 126 countries.

2/ EFTA, which consists of Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland, is an industrial free trade bloc of countries which prefer not to join the EC. Most industrial goods have been moving freely between the EC and EFTA since 1980, but on Jan. 1 the remaining tariffs and quotas were lifted on trade in newsprint and other paper products.

3/ While there is no reciprocal duty-free access for EC exports to the ACP countries, the latter must extend any trade benefits granted to other developed countries, such as the United States or Japan, to the EC.

social, and financial cooperation. 1/ Through all of its Mediterranean trade accords, the EC offers assistance through loans and grants for economic development. The EC's trade concessions are generally not reciprocal. However, at least one Mediterranean country--Israel--will begin to offer reciprocal industrial free trade with the EC during an agreed transition period.

When Spain and Portugal join the EC, the nonmember Mediterranean countries will renegotiate the terms of their trade agreements with the EC. Renegotiations will occur since the (1) new EC members must by law accede to each of the Mediterranean accords; (2) EC will be under heavy pressure from its Mediterranean trading partners to maintain their historical market shares in the EC of horticultural products, such as citrus fruits, wine, and olive oil--the very products for which the EC will be oversupplied after Portuguese and Spanish accession.

Relations with Japan

EC-Japanese relations were strained during 1983 over the EC's worsening trade deficit with Japan and EC complaints that Japan limit the level of its imports by using tariff and nontariff barriers. 2/ Strained relations during 1983 were symbolized by French actions to restrict imports of Japanese video tape recorders (VTR's). The EC trade deficit with Japan during 1983 was about \$10 billion down from \$11.7 billion in 1982.

During 1983, the EC pressed Japan to increase imports of its manufactured products. In order to ease strained relations with the EC and to secure the withdrawal of a VTR antidumping suit filed against Japan at the end of 1982, Japan agreed, on February 12, 1983, to restrain exports to the EC of 10 sensitive products: machine tools, motor vehicles, motorcycles, light commercial vehicles, fork-lift trucks, watches, stereo equipment, color

1/ The EC restricts agricultural imports from the Mediterranean basin if they are covered by the CAP.

2/ To underscore the EC's general discontent with Japan's import and export policy, it requested the establishment of a GATT working party to examine its complaint on April 20, 1983. The EC wants to pressure Japan to encourage imports and further moderate exports. If accepted, the working party could carry out a full examination of the complaint. In response, Japan sent a strong letter of protest to the EC Commission, claiming that the series of measures it has taken to reduce both tariffs and nontariff barriers to imports, and the undertaking to limit exports of certain products, were intended to improve relations with the EC. Japan viewed the EC request to be against the agreement it reached with the EC in February 1983.

televisions, color television tubes, and VTR's. Quantitative limits were placed on VTR's and color television tubes. Continued "moderation" was promised for passenger cars, color television receivers, and machine tools. Imports of these products from Japan have been subject to EC import surveillance and Japanese commitments to practice moderation since the beginning of 1981. Japan also agreed to pursue moderation for shipments of four new products: forklift trucks, motorcycles, light commercial vehicles, and quartz watches. Moderation was generally interpreted to mean that Japan should keep its shipment of these products to the EC at or below 1982 levels.

Restraints on shipments of numerically controlled machine tools, initiated in 1982, were extended until yearend 1983. The Japanese producers maintained their export cartel and the Ministry of International Trade and Industry (MITI) agreed to increase the floor price for exports of machine tools to the EC by about 30 percent during 1983. The agreement on VTR's is novel in bilateral relations. Japan agreed to provide a guaranteed market for European VTR producers and to follow a pricing formula set by them. In addition, overall limits are placed on Japan's shipments of completed VTR's and VTR kits. The agreement has three elements (1) Japanese shipments of VTR's will be limited to 4.55 million units in 1983, including about 600,000 sets exported in kit form for final assembly at Japanese VTR plants in the United Kingdom, West Germany, and France; (2) European manufacturers are guaranteed sales of 1.2 million units in the EC market in 1983; 1/ and (3) Japanese VTR's are sold above a certain base price that will be determined by the EC base price. Japanese prices are raised or lowered as necessary to assure EC producers' sales of 1.2 million units.

Although exports of certain autos have been under voluntary restraint since 1981, the new agreement marks the first time that limits apply to all exports of Japanese motor vehicles to the EC. Currently, France and Italy maintain unilateral restrictions on imports of certain automobiles from Japan. Japan agreed to limit shipments of large color television tubes to 900,000 units during 1983-85. Japan and the EC have yet to agree to import levels for other color television tubes. The Japanese extended their existing moderation agreement for color televisions through 1984.

Late in November 1983, Japan agreed to continue monitoring shipments to the EC of the 10 manufactured goods covered by the arrangement. Under the November agreement, EC producers were guaranteed the first 1.3 million units in sales. Quantitative limits on completed VTR's were cut by 12 percent to 3.95 million units and those on VTR kits were nearly doubled to 1.1 million units. Prices will continue to be based on those prices charged by European manufacturers. Quantitative limits will remain at last year's level for color television sets and picture tubes, and Japan will continue to monitor shipments of passenger cars, machine tools, forklift trucks, motorcycles,

1/ If EC consumption of VTR's falls below 5.75 million units during 1983, Japan's shipments are cut back below the agreed quota level

light commercial vehicles, and quartz watches. Although this monitoring scheme was generally interpreted by the Europeans to mean that Japanese producers would moderate their shipments of these items, exports have increased rapidly in some cases. For example, by yearend 1983 the level of Japan's shipments of cars, light commercial vehicles, forklift trucks, and quartz watches to the EC rose between 20 to 75 percent over the previous year's levels. 1/

In mid-December 1983, the EC announced that it would double its tariff on compact disc players, a revolutionary made-in-Japan consumer electronics product expected to be very popular in 1984. Japan shipped less than 100,000 compact disc players to the EC in 1983, but exports to the EC are expected to double in 1984 as the price per unit falls. By taking the recent move, the EC is apparently seeking to protect its flagging consumer electronics makers from further inroads by Japanese producers and to shield domestic industry from Japanese competition. As of January 1, 1984, the EC tariff on compact disc players was set at 19.5 percent and will remain in effect through 1986. It will then be progressively reduced to its former level by 1989. Since the tariff is bound in the GATT, the EC withdrew its tariff concession on that item and offered to eliminate its tariffs on reel-to-reel tape recorders as compensation. However, Japan has disputed the legitimacy of the EC action, claiming that the EC improperly used the provisions governing withdrawal of tariff concessions contained in article XXVIII of the GATT. Japan requested that the EC action be studied by a GATT working party. The Japanese complaint was referred to the Committee on Tariff Concessions. Japan is concerned about the precedent set by the EC move. By effectively imposing prohibitive duties on newly developed products that have yet to make a significant dent in its market, the EC may be setting the stage for similar unilateral measures in the future. Such "preventive protectionism" poses a new threat to free trade, Japan claims. 2/

U.S.-EC Bilateral Trade Issues

The most contentious bilateral issues between the United States and EC during 1983 again centered around farm and steel trade. These trade disputes are as old as the EC itself. The U.S. complains about the CAP's export subsidies, import levies, price support levels, tariff preferences, and

1/ Also under the November accord, Japanese VTR firms investing a minimum of \$3.0 million in a joint venture with an EC company would be allowed to sell the coproduced VTR's in the European market outside the 3.95 million unit limit. VTR's would have to contain a proportion of EC-made equipment in the first half of 1984 and an even greater proportion in the remainder of 1984 and 1985.

2/ The EC informed Japan at the end of 1983 that it was interested in seeing export restraints on another group of items. The new items include photocopiers, personal computers, electric typewriters, excavators, hand tractors, and power lawnmowers. However, no agreement has been reached on these products.

subsidized export credits. 1/ The EC vociferously defends the CAP which it considers crucial to its own survival. The EC counterclaims that the United States itself supports farmers to the detriment of its trading partners. 2/ Steel trade is a troubled bilateral issue because both sides suffer from the same problems of unemployment, plant closures, reduced demand, competition from NICs, and the social implications of these developments. The U.S. steel industry continues to take issue with EC subsidies that the Europeans claim are designed to restructure their ailing steel industry. Disputes in these and other product areas are expected to remain unresolved so long as both sides produce the same products, compete for the same market outlets, and disagree on the level and type of government support for industry.

Agriculture

During 1983, the United States reacted strongly to the effects of some of the Commission's CAP reform proposals on its farm exports to the EC, claiming that they shift the burden of adjustment away from the EC and on to foreign producers. The EC response has been that its farmers will bear the major brunt of the CAP reforms, that soybean exports will not be affected by the proposed tax on vegetable oils and fats, and that "stabilization" of NGFI imports will be implemented in compliance with GATT rules. The Commission maintains that a consumption tax on non-butter oils and fats and import restrictions on NGFI's are part of its overall program to reform the CAP.

1/ According to the United States, EC export subsidies cause overproduction, depress world prices, and put U.S. exports at a comparative disadvantage in third-country markets. The EC is accused of violating a GATT agreement not to use export subsidies to unfairly capture third markets beyond traditional shares. The United States complains that the EC's high import levies shield the EC from world market forces and make U.S. exports to it more costly; and that high price support levels on open-ended farm production, often set above world prices, lead to surpluses that are then subsidized for export. The EC grants substantial reductions on import levies for horticultural products from the nonmember Mediterranean countries. The United States claims that these preferences discriminate against its exports to the EC of Mediterranean-type farm products, particularly citrus fruits. The United States and EC disagree on new ground rules for official export financing. For an analysis of U.S.-EC farm trade disputes, see Roy H. Ginsberg, "The European Community and the United States," Institutions and Policies of the European Community, London, St. Martin's Press, 1983, pp. 168-190.

2/ Ibid. Both the United States and EC support farm income but do so in different ways and for different reasons based on agriculture's historical role in their respective societies. The CAP, viewed as a social policy to support low rural incomes, guarantees a return to profit for EC farmers. Since the EC's 7.8 million farmers are considered smaller and less efficient than the 3.3 million U.S. farmers, the EC sees the CAP as promoting structural transformation. The much less encompassing U.S. farm price support program only guarantees a return to the cost of production for participating farmers. The United States separates its rural, social, and economic problems from farm support policy.

Since EC farmers are being asked to make considerable sacrifices under this reform, the Commission feels that it is not unreasonable to review the treatment of competing imports, provided this is done in strict accordance with GATT rules. U.S. sales of soybeans and NGFI's represent about 60 percent of all annual U.S. farm sales to the EC. A discussion of these and other outstanding farm trade problems between the United States and the EC follows.

Proposed consumption tax on nonbutter vegetable oils and fats

The United States firmly opposes the proposed tax on the grounds that it could be the first step in limiting its sales of soybeans to the EC, worth \$3.7 billion annually. U.S. soybean shipments to the EC account for 95 percent of the EC's total soybean purchases. The EC applies a GATT-bound zero duty rate on soybean imports.

Proposed import quotas on NGFI's

The Commission says that by encouraging consumption of home-grown grains in animal feeds, the EC will export less subsidized grains to third country markets, which would be in the interests of the United States. EC supporters of a new quota claim that the United States shares responsibility for overproduction of EC livestock products due to its unwillingness to limit NGFI exports to the EC. U.S. sales of corn gluten feed and citrus pellets in the EC amount to about \$700 million annually. The United States says the import levy proposal is another EC attempt to transfer the costs of the CAP onto foreign suppliers. The United States contends that the cause of the EC's problems 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 for EC agricultural markets are what is needed, not more protection.

EC wine exports to the United States

The EC has voiced its strong opposition to the Wine Equity Act that was introduced in both the U.S. House and U.S. Senate in 1983. The bill seeks to secure access to foreign markets for U.S. wine "substantially equivalent to the market access afforded to foreign wine by the United States." Under the proposed law, the President would direct the United States Trade Representative to negotiate the reduction and elimination of trade barriers on wine with countries that either produce or export wine. If they do not reduce barriers to U.S.-proposed wine within a designated time, the President would have the authority to impose comparable tariff and nontariff barriers on wine imported from that country. The EC claims that the proposed law violates the postwar international trade maxim that nations should seek an overall balance of trade interests and avoid reciprocity in each sector. It says that bilateral reciprocity by sector conflicts with GATT rules.

Supporters of the proposed legislation claim that U.S. producers are faced with a maze of restrictive or prohibitive trade barriers in foreign markets where; foreign wines do not face similar restrictions in the U.S. market. U.S. wine producers have stated their concern over the imbalance in wine trade with the EC. In 1981/82, the EC exported 4.0 million hectoliters to the United States, whereas it imported only 75,000 hectoliters from the United States. The Reagan Administration opposes the bill, arguing that its passage could spark retaliation against other U.S. farm products by the EC. The U.S. wine industry itself is divided over the proposed law.

Trade experts on both sides of the Atlantic have drawn a parallel between the EC's complaint about possible U.S. restrictive action on its wine exports and the U.S. complaint about EC restrictive action on its corn gluten feed and other NGFI exports. Both have a lot at stake should import restrictions be erected. Both are sensitive to any cuts in traditional export sales since EC wine and U.S. corn gluten feed share roughly similar trade values. As a result, the chance of retaliation should one side take restrictive action against the other is highly possible. Exports of wine, the largest single EC farm product exported to the United States, amounted to \$668 million in 1983. The EC is the major supplier of wine to the United States, accounting for 92 percent of total imports. 1/ Similarly, U.S. exports of NGFI's to the EC, which amounted to about \$700 million in 1983, are among the largest farm export items to the EC. The United States is the major supplier of corn gluten feed to the EC, accounting for 96 percent of total imports.

Export subsidies

Possibly the most contentious issue for the United States in trade with the EC is the latter's use of export subsidies. The United States claims that the EC's export subsidies unfairly bias world trade in favor of EC farm products in violation of the GATT subsidies code. 2/ The United States has been pushing for elimination of such subsidies, but the EC has resisted U.S. attempts. 3/

Most of EC's CAP expenditures are used to subsidize the disposal of surplus products. The unit cost of these subsidies is often equivalent to a substantial part of the price received by the producer. In some cases, the real cost of the subsidy exceeds the producer price. The cost of agricultural

1/ On January 27, 1984 the U.S. International Trade Commission instituted preliminary countervailing duty and antidumping investigations to determine if the U.S. wine industry is materially injured by certain still wine imports from France and Italy on which grants are alleged to be paid. The petition was filed by the American Grape Growers Alliance for Fair Trade. In March the Commission made a negative determination in these investigations.

2/ The GATT subsidies code allows export subsidies on primary products if they do not result in the displacement of the exports of another country that adheres to the code.

3/ For more information on U.S. complaints to the GATT under the subsidies code see the section on subsidies and countervailing duties in Chapter II and the section on certain practices of foreign governments and instrumentalities in ch. V of this report. Also see section on "Subsidized Agricultural exports--legal issues," ch. I, OTAP 34th Report, 1982.

market support has risen to the point that it is now the equivalent of 10 percent of the value of agricultural output--double the proportion it took a decade ago. 1/

U.S. subsidized wheat flour sales to Egypt

On January 18, 1983, the United States sold 1 million tons of wheat flour at a subsidized rate of \$155/ton to Egypt under Public Law 480, below the prevailing world market price. The United States viewed the sale as a warning to the EC that export subsidies can be used by the United States as an excuse to corner foreign markets and to persuade the EC to stop subsidizing exports. The U.S. sale was intended to counter EC subsidies that it feels have given EC exporters unfair advantages to third markets.

The EC says it has been the primary commercial supplier of wheat flour to Egypt for the past 20 years. During the year under review, the Commission expressed its deep concern over the sale. Loss of the Egyptian market particularly worries French millers. In early 1983, the EC Commission complained to the GATT that it believed the U.S.-Egyptian wheat flour sale violated GATT rules. It claimed \$31 million in compensation to cover losses that EC farmers sustained. 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. 2/ These measures would include a block on import of U.S. farm products.

Steel

EC specialty steel exports to the U.S. were the major source of friction in U.S.-EC steel trade during 1983. Specialty steel producers on both sides of the Atlantic have been hard hit by several years of recession. Specialty steel is particularly vulnerable to recession because demand for its products comes from industries that produce durable goods, i.e., goods whose purchase consumers can easily postpone during periods of economic difficulty. Trade in specialty steel is not covered by the 1982 U.S.-EC Carbon Steel Arrangement. 3/

1/ In response to a question posed by a member of the European Parliament in August 1983 concerning the cost of disposing EC farm surpluses, the Commission stated that it is generally cheaper for the EC budget to dispose of surplus production by exports rather than by promoting further domestic sales due to the high cost of selling additional quantities in the EC's own market.

2/ The race to capture the Egyptian market for wheat flour--the world's fastest growing--is not expected to relent. Egypt buys almost 25 percent of world imports of flour.

3/ This Arrangement provides for a temporary voluntary restraint of EC exports of certain steel products at a level linked to projected levels of apparent U.S. consumption of those products through December 31, 1985. Under the Arrangement, participating U.S. steel firms agreed to withdraw their 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. In return, the EC is afforded more time to continue its efforts to restructure its steel industry--which it feels requires the use of temporary subsidies--without the threat of U.S. retaliatory action. For more information on the U.S.-EC Carbon Steel Arrangement see ch. IV, OTAP, 34th Report, 1984, pp. 124-127.

On July 20, 1983 the U.S. invoked Section 201 of the 1974 Act and took safeguard action to restrict imports of certain specialty steel products from the EC and other countries. 1/ In response, the EC stated that (1) the problems facing the U.S. steel industry are the result of decreased steel consumption worldwide and the dollar's strength and not imports from the EC; (2) the U.S. measures will cause considerable injury to EC specialty steel exporters; (3) the U.S. measures are not in conformity with GATT article XIX, invoked by the United States; (4) it will not bargain with the United States for a share of the overall U.S. quota (as seven other countries have done) but instead file a grievance under GATT article XIX procedures seeking \$570 million in compensation from the United States. Although both sides negotiated under GATT article XIX from August 1983 to February 1984 to reach an agreement on U.S. compensation, they could not reach a definitive agreement. The two sides also attempted, but could not reach agreement on what share of the global quota tonnage would be allocated by the United States for the EC. 2/

1/ For more information see ch. V in this report on U.S. actions under provisions for import relief.

2/ As a result, on March 1, 1984, the EC imposed retaliatory quotas on U.S. imports of styrene (25.6 million ECU's), polyethylene (13.6 million ECU's), guns and hunting rifles (7.4 million ECU's), athletic gymnastic equipment and snow skis (7.5 million ECU's), and new tariffs on methanol and vinyl acetate (increase of 6.4 percent) and anti-theft and fire alarms (6.7 percent increase). The EC's compensation measures are in effect for the duration of the U.S. restrictions on specialty steel. The EC says its retaliatory tariffs will net about \$119 million annually. The United States felt that the retaliation was excessive and that it was based on statistical discrepancies concerning the value of those U.S. exports to the EC which were to be hit by EC retaliation, denomination of the quotas in value terms without taking into account exchange rate changes, and tariff increases on U.S. products that will have a significantly more restrictive effect than the U.S. tariff action is having on EC products.

CANADA

The Economic Situation in 1983

Canada shared with the United States the distinction of being a leader among industrial countries in real growth during 1983. Having fared the worst among the Organization for Economic Cooperation and Development (OECD) countries in 1982, in terms of economic growth, the Canadian economy began to turn around in 1983. Real gross national product (GNP) (seasonally adjusted at annual rates) rose by 1.8 percent in both January-March and April-June 1983. The upswing was confirmed by an increase of 2.0 percent in July-September. Although the fourth quarter (October-December) increase was only 0.9 percent, real GNP for the year as a whole still registered a healthy 3.0-percent increase. This is in sharp contrast to the 4.4 percent decline of 1982. The 1983 figure is in contrast to 6.2 percent in the United States, and to 3.5 percent in Japan, and only 0.8 percent in the European Community. 2/

Although the Canadian economic recovery was broadly based, performance in two sectors is notable: the volume of merchandise exports increased 9.0 percent during the year, and residential construction was up by 27.6 percent. The latter reflected both the stimulus provided by temporary government incentive programs and a significant drop in mortgage rates.

A turnaround in inventory has provided the major boost to the Canadian economy. More than half of the growth in GNP for the year was attributable to the increase in inventories that took place. Approximately two-thirds of the 1982 decline in output was due to inventory liquidation.

The recession-high rate of unemployment in Canada was 12.8 percent at yearend (December) 1982. This was the highest unemployment rate since the Depression. Although the upturn during 1983 restored about three-quarters of the jobs that had been lost during the recession, population increases meant that the size of the unemployed labor force was larger than before the onset of economic problems. The rate of 11.9 percent for the year 1983 was still higher than the rate for the previous year (11.0 percent).

The rate of inflation fell as the rise in consumer prices declined from 10.8 percent in 1982 to 5.8 percent in 1983. The decline in inflation was aided by the Government's program of limiting the increases in wages for Federal employees to 6 percent for 1983 and to 5 percent for 1984. A number of provincial governments instituted similar wage restraint programs. Wage increases in private sector labor markets were down significantly in 1983 from that of earlier levels. Whether the progress in inflation can be maintained remains to be seen. The pattern of quarterly increases in the Consumer Price

1/ William Diebold, Industrial Policy as an International Issue, 1980s Project/Council on Foreign Relations, p. 230.

2/ By yearend 1983, the recovery being experienced in the United States and Canada was in the process of spreading to Europe.

Index (CPI) during 1983 (3.0, 4.2, 6.5, and 4.2 percents) raises the possibility that price increases in the future will be sharper as labor and management attempt to recover previous levels of profits and nominal wages.

In 1983 the exchange rate between the Canadian dollar and the U.S. dollar was relatively stable. The Canadian dollar was worth 81.34 U.S. cents at the start of the year and 80.36 U.S. cents at yearend. The strength of the Canadian dollar in 1983, after a year of considerable depreciation, 1/ was the result of strong domestic growth, the second consecutive year of a favorable trade balance, and the rapidly declining rate of inflation.

Finding it unnecessary to defend the dollar by the manipulation of interest rates, the Bank of Canada decided in 1983 to parallel the interest rate movements in the United States. The interest rate differential between U.S. and Canadian money-market rates narrowed during the year, as shown in the following tabulation 2/:

	<u>Annual</u>	<u>Jan.-</u>	<u>Apr.-</u>	<u>July-</u>	<u>Oct.-</u>	<u>Annual</u>
	<u>1982</u>	<u>Mar.</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>	<u>1983</u>
		<u>1983</u>	<u>1983</u>	<u>1983</u>	<u>1983</u>	
United States	12.4	8.5	8.8	9.6	9.4	9.1
Canada	14.4	9.8	9.4	9.4	9.5	9.5

The prime rate of Canadian banks peaked at 18.25 percent in June 1982, coinciding with the nadir of the Canadian dollar. At the beginning of 1983 the rate was 12 percent, and it finished the year at 11 percent.

International Economic Performance

In 1983 Canada's foreign trade flows amounted to \$73.3 billion in exports and \$66.8 billion in imports (table 16). Fueled by the U.S. recovery, the value of Canadian exports to the world increased 8.1 percent (exports to the United States increased 6 percent). As the Canadian economy itself improved during the year, demand was sparked and imports into Canada increased 12.3 percent. Increasing exports and imports resulted in a slight decrease in the merchandise trade balance--from the record \$8.4 billion surplus of 1982, to a \$6.6 billion surplus in 1983. 3/ The major contributors to the surplus were forest products, cereal and cereal preparations, natural gas, and motor-vehicle products.

1/ The year 1982 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 1982.

2/ Federal Reserve Board.

3/ Canada's 1983 merchandise trade surplus with the United States accounted for 79 percent of its total merchandise surplus. This contrasts with shares of 64 and 51 percent in the previous 2 years.

Table 16.--Canada's trade and trade balances, by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Japan-----	3,647	3,712	3,869
United States-----	46,454	46,528	53,847
EC-----	7,246	6,104	5,514
Other-----	1,862	1,532	1,234
Subtotal-----	59,209	57,876	64,464
Developing countries:			
Oil-exporting countries-----	2,040	2,108	1,560
Mexico-----	609	369	309
Other-----	4,110	4,147	3,969
Subtotal-----	6,759	6,624	5,838
Nonmarket economy countries:			
China-----	776	1,005	1,189
U.S.S.R-----	1,491	1,665	1,430
Other-----	764	657	416
Subtotal-----	3,031	3,327	3,035
Total-----	68,999	67,827	73,337
Imports			
Industrialized countries:			
Japan-----	3,705	3,149	3,934
United States-----	49,746	42,371	48,627
EC-----	5,783	5,094	5,263
Other-----	1,930	1,637	1,794
Subtotal-----	61,164	52,251	59,618
Developing countries:			
Oil-exporting countries-----	5,174	2,746	1,873
Mexico-----	876	886	962
Other-----	3,550	3,088	3,840
Subtotal-----	9,600	6,720	6,675
Nonmarket economy countries:			
China-----	201	181	219
U.S.S.R-----	67	38	31
Other-----	409	250	218
Subtotal-----	677	469	468
Total-----	71,441	59,440	66,761

Table 16.--Canada's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)

Trading partner	1981	1982	1983
	Trade balance		
Industrialized countries:			
Japan-----	-58	563	-65
United States-----	-3,292	4,157	5,220
EC-----	1,463	1,010	251
Other-----	-68	-105	-560
Subtotal-----	-1,955	5,625	4,846
Developing countries:			
Oil-exporting countries-----	-3,134	-638	-313
Mexico-----	-267	-517	-653
Other-----	560	1,059	129
Subtotal-----	-2,841	-96	-837
Nonmarket economy countries:			
China-----	575	824	970
U.S.S.R-----	1,424	1,627	1,399
Other-----	355	407	198
Subtotal-----	2,354	2,858	2,567
Total-----	-2,442	8,387	6,576

Source: Compiled from International Monetary Fund Direction of Trade data.

Although Canada's trade with some industrial countries fell noticeably, the United States position as Canada's most important trading partner intensified during the year: 73 percent of Canadian exports were purchased by the United States, which also supplied 72 percent of Canada's imports. ^{1/}

Exports of passenger cars through November 1983 were 25 percent higher on a monthly average than the record highs established in 1982.

^{1/} Exports to Canada constituted 18.6 percent of total U.S. exports in 1983; imports from Canada were 20.3 percent of total U.S. imports for the year.

In 1983, Canada's current account registered a surplus of Can\$1.6 billion, down from the record Can\$3.0 billion surplus of 1982. The shift was principally accounted for by an increase in the nonmerchandise trade deficit, the merchandise trade surplus declining only slightly from 1982 to 1983.

Merchandise trade with the United States

The bilateral trading relationship between the United States and Canada is marked by the largest volume of trade between any two countries in the world. Although most Americans think of Japan or the European Community in the context of U.S. trade partners, trade with Canada is twice as large as that with any other country. The near 90 billion dollars in two-way trade is approximately equal to that between the United States and the EC. The U.S. relationship with Canada contrasts sharply with the U.S.-EC relationship. Although U.S.-EC relations were marked by a number of trade conflicts in 1983, U.S.-Canadian trade relations, given the volume of commerce involved, were decidedly upbeat and free of serious disputes.

In 1983, the United States recorded a \$15 billion merchandise trade deficit with Canada (table 17). ^{2/} This was a record high, surpassing the previous high of nearly \$14 billion in 1982--a level substantially greater than the traditional U.S. deficit in bilateral trade with Canada. The bilateral deficit was \$5.6 billion in 1979 and has grown each year since. The 1983 deficit of \$15.4 billion accounted for over one-fourth of the total U.S. merchandise trade deficit. Figure 4 shows bilateral trade between the United States and Canada during the 5 year period, 1979-83.

The value of U.S. exports to Canada increased 11.3 percent in 1983, after falling by 15.0 percent in the previous year. The 1983 level of exports--\$36.5 billion--is still 4.2 percent below the 1981 level.

U.S. imports from Canada were valued at \$52.0 billion in 1983, representing an 11-percent increase over that of 1982. This was the highest amount recorded for any trading partner in 1983 and the highest level ever recorded with Canada. The 11-percent increase in 1983 contrasts sharply with the 1.2 percent increase recorded for the year before.

Table 17 breaks down U.S. trade with Canada into broad industrial categories. The table illustrates that U.S. exports to Canada in 1983 rose in 9 of 10 SITC sections. The one section to register a decline was mineral fuels. This reflects the drop in shipments of petroleum and petroleum products to Canada in 1983. U.S. shipments of coal to Canada, also included in this broad category, declined from that of shipments in 1982.

^{1/} Certain discrepancies exist between official U.S. Department of Commerce statistics and those of the International Monetary Fund contained in table IV-3.

Table 17.--U.S. trade with Canada, by SITC 1/ Nos. (Revision 2), 1981-83
(In thousands of dollars)

SITC Section No.	Description	1981	1982	1983
		U.S. exports		
0	Food and live animals	1,629,517	1,487,984	1,495,885
1	Beverages and tobacco	49,679	62,462	68,135
2	Crude materials--inedible, except fuel	1,814,506	1,351,641	1,587,717
3	Mineral fuels, lubricants, etc	1,904,719	1,927,733	1,692,125
4	Oils and fats--animal and vegetable	35,011	30,681	32,956
5	Chemicals	2,576,826	2,252,967	2,639,724
6	Manufactured goods classified by chief material			
		4,586,613	3,497,891	3,896,939
7	Machinery and transportation equipment	20,771,457	17,726,254	20,646,148
8	Miscellaneous manufactured articles	2,670,030	2,505,232	2,637,037
9	Commodities and transactions not elsewhere classified	2,095,162	1,572,412	1,848,230
	Total	38,133,519	32,415,257	36,544,897
		U.S. imports		
0	Food and live animals	1,615,717	1,868,992	1,979,138
1	Beverages and tobacco	408,922	436,122	470,173
2	Crude materials--inedible, except fuel	5,239,329	4,290,441	5,287,095
3	Mineral fuels, lubricants, etc	7,426,721	7,877,057	8,111,519
4	Oils and fats--animal and vegetable	7,276	6,608	8,995
5	Chemicals	2,815,959	2,675,750	2,469,012
6	Manufactured goods classified by chief material			
		8,730,729	7,636,780	8,551,611
7	Machinery and transportation equipment	14,961,027	16,992,389	20,116,063
8	Miscellaneous manufactured articles	1,599,914	1,612,297	1,959,109
9	Commodities and transactions not elsewhere classified	2,970,424	2,932,075	3,029,633
	Total	45,776,018	46,328,510	51,982,346

1/ Standard International Trade Classification.

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

Figure 4.--U.S. trade with Canada, 1979-83.



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

Machinery and transportation equipment, section 7, is the major area of bilateral trade between the United States and Canada. Trade in this sector accounted for 56.5 percent of overall shipments to Canada and 38.7 percent of goods received from Canada in 1983. ^{1/} Trade in motor vehicles accounted for 59.7 percent of bilateral trade in section 7. This trade is largely governed by a 1965 bilateral agreement that provides for duty-free treatment of imports of specified automotive products. ^{2/} U.S. imports of road vehicles from Canada climbed to a record level during the year--\$14 billion--and accounted for over 25 percent of total imports from Canada.

With the exception of chemicals, all categories of U.S. imports from Canada increased in 1983. The 7.7 percent decline in chemicals is principally the result of a significant decline in imports of inorganic chemicals in the radio-active and associated materials subgroup.

The major items of bilateral trade are highlighted in appendix tables A-3 and A-4. The top 20 export items shown account for 48.6 percent of all U.S. goods shipped to Canada in 1983, and the leading import items cover 64.5 percent of the total. The following tabulation shows the five leading items exported to Canada from the United States (in billions of U.S. dollars):

<u>Description</u>	<u>1982</u>	<u>1983</u>
Certain parts of motor vehicles except chassis and bodies-----	4.1	4.8
Passenger cars-----	2.4	3.9
Coal-----	1.1	1.0
Piston-type engines-----	.8	.8
General merchandise, less than \$500--	.8	.8

The five leading items were unchanged from 1982. Exports of all the items but coal increased from 1982 to 1983. Other significant U.S. exports included gold or silver bullion, parts of office machinery, digital central-processing units, trucks, and parts of engines.

The five leading items imported from Canada in 1983 were as follows (in billions of U.S. dollars):

<u>Description</u>	<u>1982</u>	<u>1983</u>
Passenger automobiles-----	5.8	7.3
Natural gas, methane, ethane, propane, butane-----	4.8	4.3
Parts of motor vehicles-----	1.8	2.8
Trucks valued at \$1,000 or more-----	2.6	2.7
Standard newsprint paper-----	2.7	2.7

^{1/} Increases over the 1982 shares of 54.7 percent for U.S. exports to Canada and 36.7 percent of U.S. imports from Canada.

^{2/} U.S.-Canadian trade in motor vehicles is discussed below in the section on the operation of the Automotive Products Trade Agreement. 225

These five items accounted for 38.1 percent of total U.S. imports from Canada, and are the same items which led the list of imports from Canada in 1982. Imports of all five, except natural gas, ethane, and so forth increased between 1982 and 1983.

In Canada, foreign trade is acting as the motor for the recovery of the Canadian economy. At a time when the Canadian dollar is worth approximately 80 U.S. cents, the Canadians have not found it too difficult to take advantage of larger markets in an expanding U.S. economy. As Canadian sales to the United States have grown, sales to West Germany, France, and Great Britain have been contracting. Canada's 1983 surplus with the United States was largely counterbalanced by a deterioration in trade with other countries.

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 that removed duties on trade in new motor vehicles and original-equipment parts between the two countries. In effect, the agreement created the basis for an integrated automobile industry in North America. 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

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).

import statistics to report its exports. ^{1/} The result is the "import/import" method of reporting automotive trade used in table 18.

Table 18.--U.S.-Canadian automotive trade, 1964-83

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports ^{1/}	Canadian imports less U.S. imports
1964	76	640	563
1965	231	889	658
1966	819	1,375	556
1967	1,406	1,889	483
1968	2,274	2,634	360
1969	3,061	3,144	83
1970	3,132	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,023
1978	10,493	10,964	471
1979	9,715	12,274	2,559
1980	8,780	10,552	1,773
1981	10,618	12,055	1,437
1982	13,292	10,971	-2,321
1983	16,940	14,779	-2,161

^{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.

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

Since the inception of the agreement, the value of two-way trade in automotive products between the United States and Canada has increased nearly 43 times in nominal dollars and approximately 12 times after adjustment for inflation. In 1983, U.S. shipments of automotive products to Canada increased 35 percent to \$14.8 billion (table 18). Assembled vehicles accounted for 33 percent of shipments, up from 28 percent in 1982. Dutiable imports into Canada of automotive products were valued at \$741 million in 1983, representing 5 percent of total U.S. automotive product exports to Canada (table 19).

Table 19.--U.S.-Canadian automotive trade, by specified products, 1982 and 1983

(In millions of U.S. dollars)

Item	1982	1983
U.S. imports from Canada: <u>1/</u>		
Duty free: <u>2/</u>		
Passenger cars-----	5,783.1	7,255.3
Trucks, buses, and chassis-----	3,142.5	3,575.6
Parts and accessories-----	3,475.6	5,181.4
Total-----	12,401.2	16,012.3
Dutiable:		
Passenger cars-----	21.7	22.6
Trucks, buses, and chassis-----	53.8	23.4
Parts and accessories-----	487.4	542.5
Tires and tubes-----	327.9	339.7
Total-----	890.8	928.2
Total:		
Passenger cars-----	5,804.8	7,277.9
Trucks, buses, and chassis-----	3,196.3	3,599.0
Parts and accessories-----	3,963.0	5,723.9
Tires and tubes-----	327.9	339.7
Total-----	13,292.0	16,940.4
Canadian imports from the United States: <u>3/</u>		
Duty free: <u>2/</u>		
Passenger cars-----	2,265.4	3,856.5
Trucks, buses, and chassis-----	681.7	859.4
Parts and accessories-----	7,458.0	9,322.2
Total-----	10,405.1	14,038.1

See footnotes at end of table.

Table 19.--U.S.-Canadian automotive trade, by specified products,
1982 and 1983--continued

(In millions of U.S. dollars)

Item	1982	1983
Canadian imports from the United States: <u>3/</u>		
Duty free: <u>2/</u> --continued		
Dutiable:		
Passenger cars-----	58.2	91.2
Trucks, buses, and chassis-----	24.2	48.1
Parts and accessories-----	365.8	412.3
Tires and tubes-----	117.8	189.5
Total-----	566.0	741.1
Total:		
Passenger cars-----	2,323.6	3,947.7
Trucks, buses, and chassis-----	705.9	907.5
Parts and accessories-----	7,823.8	9,734.5
Tires and tubes-----	117.8	189.5
Total-----	10,971.1	14,779.2
U.S. trade balance-----	-2,320.9	-2,161.3

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: 1982, Can\$1.00= US\$0.80743; 1983, Can\$1.00= US\$0.80199.

Source: 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.

Canadian shipments of automotive products to the United States increased 27 percent in 1983 to \$16.9 billion. Assembled vehicles accounted for 64 percent of shipments, down 4 percentage points from the share of the previous year. Dutiable imports of automotive products were valued at \$928 million, or nearly 5 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.

In 1982, for the first time in 10 years, the United States had a deficit in automotive trade with Canada. This deficit recurred in 1983, as Canadian automobile manufacturers were able to take advantage of the increased demand in the United States for larger cars. 1/ The United States normally has an overall automotive trade surplus, with the surplus in the skill-intensive, high-technology parts sector being lessened by the deficit in trade in assembled vehicles. Although Canada's auto parts deficit has increased, in the last 2 years, its surplus in trade in vehicles has been more than enough to override, resulting in an overall automotive trade surplus.

A task force to assess the future of Canada's automotive industry was announced in late 1982. The nongovernmental group issued its report in May 1983. Although the report called for extension of the trade agreement to all firms selling autos in Canada as well as increases in the local content requirements of the pact, the Government did not take immediate action on the recommendations. 2/ U.S. spokesmen, citing official opposition to automobile local content legislation before the Congress, expressed concern at the Canadian task force proposals. It was reported that one of the reasons for increased Canadian sensitivity to the issue resulted from Japan's large and increasing share of the Canadian automobile market, 3/ coupled with Japanese auto manufacturers' willingness to invest in the United States and apparently not in Canada.

1/ Larger cars account for a disproportionately high share of Canadian automotive production. The production of larger cars has been encouraged by the commitments of Canadian motor-vehicle manufacturers to increase Canadian value added. Although Canada accounted for 12.9 percent of overall North American assembly capacity in the 1982 model year, its assembly capacity for larger cars was 22.8 percent of the total, and only 5.7 percent of North American capacity for small cars. Thus, when gasoline prices began falling in 1982 and U.S. consumer demand shifted toward larger cars, U.S. manufacturers had to rely heavily on their Canadian assembly operations.

2/ In October it was announced that any decisions on the task force proposals would be deferred until spring 1984, pending bilateral negotiations between Canada and Japan on increased Japanese investment in the automotive sector.

3/ In 1982, Canada imported \$1.6 billion in automotive products from countries other than the United States. Japan is the source for 70 percent of these imports. Following the extension of the voluntary export restraint agreement between Canada and Japan, the Japanese share of the Canadian new passenger car market fell from 25.0 percent in 1982 to 20.9 percent in 1983. The European share over the same period decreased from 6.4 to 5.0 percent.

Major Policy Developments Affecting Trade

Foreign Investment Review Agency 1/

A longstanding bilateral dispute between the United States and Canada moved a step closer to settlement during 1983 through the mid-year release of the report of the GATT panel established to consider the matter.

The United States has long contended that certain aspects of Canada's Foreign Investment Review Agency (FIRA) policy violate provisions of the General agreement. Neither the sovereign right of any country to establish laws regulating foreign direct investment, nor the basic validity of FIRA, was ever questioned by the United States. The difficulty arose when Canadian regulations governing investment made approval of certain investments conditional upon written purchase and export commitments. Specifically, the United States maintained that Canada's investment policies were trade distorting and violated article III of the GATT, which requires that imported articles be accorded the same treatment as those of national origin insofar as internal regulation is concerned.

The GATT panel found that FIRA requirements under which foreign investors were required to purchase goods of Canadian origin resulted in imported products being treated less favorably than domestic products, and that this was inconsistent with the GATT.

The panel did not agree with all the arguments proffered by the United States. The panel rejected the contention that purchase commitments restrict imports of products into Canada and are thus a violation of article XI. It concluded that purchase undertakings as such do not prevent the importation of goods; therefore such undertakings would not be inconsistent with article XI. Similarly, the panel did not agree that FIRA's requirement that firm's promise to export a certain amount of their Canadian production were in violation of the GATT.

The panel emphasized that its findings in the case applied only to developed countries, because under article XVIII special considerations would have to be taken into account if a developing country were promoting the establishment of a particular industry.

1/ The agency was established in 1973 by the Foreign Investment Review Act to screen new foreign investments and acquisitions in Canada to determine if they offer "significant benefit" 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 share 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.

In an effort to resolve the dispute, the panel suggested that the administration of the FIRA could be changed to remove the implication that imported products are treated less favorably than domestic products. The report did not contain specific suggestions for making the administrative practices under the FIRA conform with Canada's obligations under the General Agreement. The report suggested that all future purchase undertakings take the panel's findings into account. It was recognized that, although the findings also apply to existing undertakings, resolution of the problem may cause considerable administrative difficulty. The report suggested that Canada be invited to report back to the GATT before 1986 on its efforts to bring existing purchase undertakings into conformity with the GATT.

The panel to consider the long-simmering dispute between the United States and Canada was set up in March 1982 and began its work in November of that year. The finding will not become official until it is endorsed by the GATT Council. ^{1/} Bilateral negotiations to develop a mutually satisfactory solution proceeded during the year. The climate in which the negotiations were conducted was considerably different than it was when the problem surfaced early in 1982. At that time, a wave of Canadian nationalism was being expressed by a number of policies particularly aimed at foreign economic interests. Since that time, difficult economic conditions have resulted in an easing of the earlier stance against foreign companies. The FIRA process of reviewing application for investment in Canada has speeded up, and now some applications that previously might have taken up to 6 months to be reviewed are being approved within 30 days of submission. Because a sought-after bilateral solution to the FIRA matter eluded the two concerned parties, the GATT panel's report was awaiting transmittal to the Council at yearend.

In its annual report on the FIRA, the Government of Canada reported that it had two priorities concerning the act for fiscal year 1983: "to streamline its administration and to clarify its interpretation." ^{2/} The Government acknowledged that FIRA "needed important reforms in order to be effective and timely."

Among the actions taken to address the problem was a streamlining of the review procedure by which more proposals were able to qualify for a shorter and simpler review procedure. The annual report highlights the impact of the reforms: the number of cases decided in FY 83 increased by two-thirds over the previous period and the backlog of outstanding cases was reduced by 55 percent. Of the cases decided during fiscal year 1983 (the fiscal year ends on Mar. 31), 94 percent were approved. This compares with an 86-percent approval rate in the 594 cases decided during fiscal year 1982, and with an

^{1/} The Council accepted the panel's report in early 1984. For additional treatment of this topic, see discussion in ch. II, "Conciliation and Dispute Settlement."

^{2/} Foreign Investment Review Agency, Ninth Annual Report, Foreign Investment Review Act, 1982-83, p.1.

88-percent approval rate in the 511 cases decided during fiscal year 1981. 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 20 summarizes the actions taken by FIRA on applications for investment in Canada from the United States and Western Europe during fiscal years 1982 and 1983.

Table 20.--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 1982 and 1983

(In percent)					
Type of application	United States		Western Europe		
	1982	1983	1982	1983	
Acquisitions in Canada:					
Share of applications-----	58.0	63.7	34.6	28.1	
Approval rate-----	74.0	91.6	84.9	88.0	
Share of value of assets-----	64.1	47.7	25.7	34.0	
Investment in new business in					
Canada:					
Share of applications-----	57.3	57.0	27.7	31.5	
Approval rate-----	66.4	78.4	77.2	84.6	
Share of value of assets-----	19.6	7.6	30.5	18.8	

Source: Foreign Investment Review Agency, Ninth Annual Report, Foreign Investment Review Act, 1982-83.

Comprehensive review of trade policy

Following the release of a trade policy discussion paper in September 1983 by the External Affairs Department, the Canadian Government announced its intention to conduct a major review of trade policy. The discussion paper recognized the importance of exports to the Canadian economy, citing foreign sales as "one of the main engines of growth and job creation . . ." and "the key to further economic development." Exports currently account for nearly 30 percent of Canada's GNP.

The United States is Canada's major trading partner, and relations with the United States will figure prominently in the policy review. In the most open affirmation of close economic ties between the North American neighbors in a decade, the discussion paper recognized the significance of the U.S.-Canadian trading relationship, stating that its successful management "is fundamental to the achievement of Canada's economic objectives and to the success of all of our trading relationships."

An analysis of various possible bilateral initiatives is taking place in Canada. Canadians agree that a radical shift in current trade policy, such as creating a full free trade area or a customs union, is not needed. Longstanding Canadian sensitivity to the issues of sovereignty and self-determination precludes any suggestion for economic union with the United States. However, the discussion paper called for "careful consideration to the advantages and disadvantages of limited free-trade arrangements in particular sectors."

The U.S.-Canadian Automotive Products Trade Agreement (APTA) currently provides for free trade between the two countries in new motor vehicles and original-equipment parts. Automotive trade accounted for 36 percent of the \$90 billion in two-way trade in 1983. APTA could possibly be used as the model for any new sectoral trade agreement between Canada and the United States.

Among the sectors where free trade arrangements are being considered out are urban mass-transit equipment, textiles and clothing, petrochemicals, specialty steel, and fisheries. The Canadians are currently exploring the possibility of taking initiatives in certain sectors, and the United States, for its part, has begun an interagency review of areas where such agreements may be possible, so that substantive discussion can proceed should the Canadians come forward with specific proposals. ^{1/}

The textile and clothing sector was specifically mentioned in the Canadian discussion paper as one in which Canadian producers could significantly improve their efficiency as a result of freer access to the large U.S. market. The Canadian Government is currently examining the implications of an open-border policy on clothing and textiles traded between the two countries.

New trade legislation

Although bilateral negotiations with the United States on sectoral free trade arrangements continue, the Canadian Government is considering changes in its trade laws that would, among other things, change the scope of its current antidumping and countervailing duty (CVD) statutes. Legislation was introduced in Parliament in late 1983 that would allow the Government to take swift action in a number of situations where Canadian commercial interests are determined to be adversely affected by imports.

^{1/} In February 1984, after a meeting between the United States Trade Representative and the Canadian Minister of Trade, it was announced that sectoral trade negotiations would be pursued. Each side agreed to set up working groups to explore the opportunities for trade liberalization before reporting back to their counterparts.

The draft legislation strengthens the rules used to impose antidumping and countervailing duties. The basis for levying countervailing duties would be expanded from the current one involving a strict injury determination to one where injury is "likely" or where Canadian industrial growth has been disrupted, hindered, or retarded. The new laws would also expand the coverage of CVD and antidumping actions to include leased or rented goods as well as services imports.

The bill would allow action to be taken against imports made from subsidized inputs. This feature addresses the phenomenon of so-called upstream subsidization, which is also being considered in legislation currently before the U.S. Congress. Upstream subsidization refers to either of two trading circumstances: subsidization within a country (e.g., subsidized iron ore in country A is used in the production of steel, which is then exported to country B); or subsidization between countries (e.g., subsidized iron ore from country A is used in the production of steel in country B, which is then exported to country C). In this latter case, the country A subsidy can affect the final price of the downstream product shipped from country B to country C. Under the proposed Canadian legislation, exports of the steel to Canada in either case would be subject to CVD action.

The bill also introduces a number of changes to Canadian trade procedures. It would repeal the Antidumping Act and replace the Antidumping Tribunal with an Import Tribunal, which would handle both CVD and antidumping cases. (The responsibility for import administration would be shared with the Department of National Revenue. This division of responsibility is not unlike that in the United States between the U.S. International Trade Commission and the Department of Commerce.) The measures would also amend the customs tariff and other Canadian trade-related laws.

Although dumping and CVD cases are its main focus, the proposals also include measures to increase Canadian flexibility under trade agreements and to address Canadian rights to take safeguard actions against injurious imports that are neither dumped nor subsidized. Existing trade agreements would be cancelled and quotas or higher tariffs (up to 1/3 above existing levels) imposed in cases where a country has violated international agreements or has pursued policies that threaten or injure Canadian interests.

The bill has been reported out of a House of Commons subcommittee, and full Parliamentary action is anticipated. Passage is considered likely.

Canadian grain supply agreements

During 1983 Canada continued to strengthen its position among major grain-exporting countries. For the 1982/83 marketing year (August-July) Canadian exports of grain and oilseeds rose to a level in excess of 29 million tons. This was about 2 million tons greater than the record level of exports for the 1981/82 marketing year. Canada plans to increase exports of grain and grain products to 30 million tons for the 1985/86 crop year and 36 million tons by 1990/91. The 1982/83 performance would indicate that these ambitious goals are easily within reach.

Grain supply agreements between governments are the basis for most of the sales of Canadian grains abroad. The 3-year agreement with the Soviet Union will expire in 1985. It calls for a minimum of 4.5 million tons to be supplied annually by Canada to the U.S.S.R. The bilateral agreement with China has a range of allowable sales from 3.5 to 4.2 million tons annually. It began in August 1982 and covers the 3-year period August-July 1982/83 to 1984/85. Other agreements are in effect with Algeria, Brazil, Ghana, Iraq, Jamaica, Lebanon, Mexico, and Poland.

Customs territory extension

In January 1983, the Canadian Government announced its intention to introduce legislation that would extend its customs territory to 200 miles or more offshore. The measure was directed only at goods and equipment used in resource exploration and development. It would thus directly affect oil drilling and other exploration off the Canadian coast. The majority of goods that would be covered by the new legislation would probably originate in the United States. The purpose of the measure was to "increase opportunities for Canadian producers to supply specialized goods required for offshore resource development." It would particularly promote industrial and employment opportunities in the Canadian shipbuilding and ship repair industries. The proposal was not intended to cover vessels or equipment used in fishing. Recent discoveries of natural gas oil resources off Nova Scotia and Newfoundland have resulted in political pressure for the Government to take action to assure that the gains from offshore development would be retained by Canadian industry. The customs territory extension was put into effect by mid-year 1983.

Under previous law, offshore oil rigs were considered to be vessels subject to a 25-percent duty only when they were used within the 12-mile limit of customs jurisdiction then claimed by Canada. The new measures levy duties on all goods and equipment used in oil industry and resource development within the 200-mile limit.

The Canadian Department of Finance has estimated that the alteration of customs territory could result in \$3 billion in new business for Canadian suppliers over the next 10 years, as the use of foreign-produced ships and equipment is discouraged. The United States is still studying the implications of the Canadian action.

U.S.-Canadian Bilateral Trade Issues

Despite an annual trade volume greater than that between any other two countries, U.S.-Canadian trade disputes in 1983 continued to be aggravated by recessions on both sides of the border. A certain number of trade issues between the two countries remained unresolved at yearend 1982 and were thus still on the agenda in early 1983. Among these issues were the following: 1/

1/ Background information on specific bilateral issues can be found in last year's OTAP report, viz. OTAP, 34th Report, 1982, pp. 147-155.

U.S. unfair trade cases involving subway cars and softwood lumber from Canada; the resolution of the issue of compensation for Canada's imposing a surtax on yellow onions; the sale of alcoholic beverages in Canada; and the treatment of U.S. products by provincial liquor boards. The matters of subway cars and lumber were resolved by the completion of U.S. action on statutory investigations of those products. The other pending issues were the subject of bilateral discussions during 1983. A number of new issues came to the fore during the year as well. All of these topics are discussed in the following section.

Subway cars

At the beginning of 1983, the major activity in the case involving the alleged subsidization of subway cars had already taken place. Following normal U.S. administrative procedures, the Commission and the Department of Commerce made preliminary decisions on the likelihood of injury and the fact of subsidization, respectively. 1/ In February 1983, the Department of Commerce found that unfair subsidies in the amount of \$91.2 million had been provided to the Canadian manufacturer by the Export Development Corporation, the Canadian equivalent of the Eximbank. Following Commerce action, the U.S. petitioner, Budd Co., withdrew its petition, and the U.S. International Trade Commission terminated its injury investigation without making a final determination. An affirmative finding on the Commission's part would have effectively meant that the U.S. purchaser of Canadian subway cars (the New York City Metropolitan Transit Authority (MTA)) would have to pay the increased duties resulting from the foreign export credit subsidy. 2/ In withdrawing its petition, Budd argued that the principle of "fairness in the marketplace" had been established. The action also meant that the City of New York would not be subject to the punitive damages that could have resulted from the finding of illegal subsidization.

1/ The International Trade Commission decision was made in August, (see Certain Rail Passenger Cars and Parts Thereof From Canada . . . , Investigation No. 701-TA-182 (Preliminary) . . ., USITC Publication 1277, August 1982; Commerce decided in November 1982. These preliminary decisions allowed the case to continue pending final action. Countervailing duties cannot be levied until a final determination on the level of subsidization is taken by Commerce and the International Trade Commission confirms that injury has occurred to the U.S. domestic industry as a result of the subsidy.

2/ The Commerce Department final ruling could have resulted in an average duty of \$110,565 being levied on each subway car purchased by the MTA, or a total of \$91.2 million.

Softwood lumber

A countervailing duty case brought by the United States Coalition for Fair Canadian Lumber Imports 1/ had not been completely resolved at yearend 1982. The case--the largest CVD investigation ever, covering nearly \$2 billion in imports 2/--charged that 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, were injurious to the U.S. softwood lumber industry. A major contention in the case was that the Canadian practice of selling stumpage by allocation 3/ 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 1981-82 downturn in housing construction alone. About 30 percent of the softwood lumber sold in the United States comes from Canada. The coalition contended that a duty of 65 percent would be needed to offset the effects of Canadian subsidization.

In May 1983, the Commerce Department, reinforcing its preliminary decision of the previous March, found that although Canadian subsidies on softwood lumber, fencing, shingles, and shades did in fact exist, they amounted on average, to less than 0.5 percent of the value of U.S. imports from Canada. Such minimal subsidization did not require that countervailing duties be imposed. With the decision that Canadian stumpage programs do not constitute an export subsidy, the highly controversial case was terminated. 4/

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/ A figure exceeded only by automotive products and pulp and paper imports from Canada. Imports of softwood lumber decreased from 10.9 billion board feet (\$2.7 billion) in 1979 to 9.0 billion board feet (\$1.6 billion) in 1982. Canada accounted for over 99 percent of softwood lumber imports during 1979-82, with the ratio of imports to U.S. consumption going from 28.1 percent to 30.0 percent during this period. Imports of softwood shakes and shingles decreased from 3.9 million squares (\$164.5 million) in 1979 to 3.2 million squares (\$109.2 million) in 1982. Softwood fence imports increased from \$27.6 million in 1979 to \$31.3 million in 1982.

3/ The system of pricing lumber from Provincial lands in Canada is explained in greater detail in last year's report, OTAP, 34th Report, 1982, p. 153 and 154.

4/ The March action by the Department of Commerce was challenged by the coalition of U.S. producers in the U.S. Court of International Trade, but the case was dismissed in April 1983.

According to Business America, a publication of the Department of Commerce, "The 1983 Canadian lumber investigation involved the largest and most complex set of countervailing duty allegations ever addressed. . . . They involved over 1,800 Canadian lumber producers and \$1.8 billion in imported wood products." Apr. 2, 1984, pp. 17-18.

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.

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.

At yearend 1982, a dispute between the United States and Canada on the handling of imported wines by Provincial liquor boards remained unresolved. The dispute stemmed principally from the 1981 action by the Liquor Control Board of Ontario establishing a program to assist Canadian wine producers. The special handling charge for imported wines was argued to violate the Tokyo round commitment. Numerous consultations between the United States and Canadian officials took place during 1982 and early in 1983. The U.S. wine industry pointed to section 854(f) of the Trade Agreements Act of 1979, which requires that the United States retaliate against any country that does not satisfactorily implement its MTN concessions on alcoholic beverages. ^{2/} U.S. retaliation could come in the form of increased tariffs on alcoholic beverages. Imports of such beverages from Canada amounted to nearly \$420 million in 1983.

During 1983 the Ontario board, in partial recognition of the trade dispute, agreed to retain U.S. wines on its stock lists even though some were scheduled to be removed as a result of failure to achieve minimum sale levels. The price discrimination was ended when Ontario officials announced in March that the special handling charge in effect against U.S. wines was being eliminated. Effective July 1, the charge against North American wines was removed; the charge on all other wines was removed effective August 15.

^{1/} The package of reciprocal concessions included the elimination of the "wine gallon" method of tax assessment for Canadian whiskey by the United States.

^{2/} The U.S. domestic wine industry increased efforts to protect itself against "unfair foreign competition" in export and import trade. See discussion on the Wine Equity Act in above section on the European Community.

The Liquor Control Board made up the revenues lost from the elimination of the handling charge by increasing its markup for both domestic and imported wines. A reference pricing system under which minimum purchase prices for listed wines were established was set up in August. The system was designed in such a way as to protect Provincial wines from lower priced European imports.

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 of a "fast-track" import-relief system for certain horticultural crops contained in a law that became effective in 1979. 2/ 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/

On December 17, 1982, the Canadian Government announced that the surtax was being extended for an additional 3 months through March 15, 1983.

At the beginning of 1983, discussions between the U.S. and Canadian Governments concerning compensation for the Canadian action took place. The United States sought compensation in the form of duty relief on agricultural products in an amount equal to the surtax. If agreement on compensation could not be reached, the United States threatened to suspend substantially equivalent concessions in accordance with article XIX, paragraph 3(a). 4/

Potatoes

A delicate area in U.S.-Canadian agricultural trade involves potatoes. The two countries engage in a substantial amount of two-way trade in potatoes. The United States exports potatoes from Idaho, Montana and Washington into Western Canada; the United States imports potatoes from the Maritime Provinces into New England and the Middle Atlantic states.

1/ The surtax was to apply from Oct. 15 to Dec. 31, 1982.

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 not 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/ The U.S. position is that since the surtax system is based on changes in price rather than changes (i.e. increases) in the quantity of imports, as article XIX requires, the Canadian surtax system is inconsistent with the General Agreement.

4/ It is noted that Canada conducted an investigation into alleged dumping of U.S. potatoes into British Columbia, and concluded in March 1984 that such dumping was in fact occurring. The investigation must result in a finding of injury to Canadian industry before the dumping duties become permanent.

It was argued that the relatively low value of the Canadian dollar, coupled with a Canadian program to improve the certification and quality of potatoes from Eastern Canada, intensified the competition between Canadian potatoes and those grown in Maine, a traditional supplier for the Northeastern U.S. market. This increased competition resulted in political pressure to assist Maine producers. 1/

On February 9, 1983, the Maine Potato Council filed a petition with the Commission and the Department of Commerce alleging that imports of fresh potatoes from Canada were being sold in the United States at less than fair value. In accordance with statutorily-defined time frames, the U.S. International Trade Commission ruled in March that imports of fresh potatoes from Canada may be injuring domestic producers. The possibility left open by the Commission finding was enhanced by a preliminary Department of Commerce finding of a dumping margin of 17.3 percent. This initial margin was subsequently raised to 36.1 percent by Commerce's final ruling in November. 2/ The Commerce decision meant that an import duty in the amount of the dumping margin would be levied provisionally on round white potatoes imported from Canada. The duty would only become permanent if the Commission found that the U.S. industry had been injured as a result of the less-than-fair-value sales.

In December, the U.S. International Trade Commission's final ruling determined unanimously that no dumping-induced injury had taken place. Although problems with the industry were substantiated 3/, the cause of the difficulties was determined to be other than imports. The Commission's finding resulted in the lifting of the temporary duty on Canadian potatoes, originally imposed as a result of the decision by the Department of Commerce. 4/

1/ See OTAP, 34th Report, 1982, pp. 151-52 for a discussion of the 1982 U.S. International Trade Commission study on the competitive conditions affecting the Maine potato industry.

2/ In the interim, the Canadian Department of National Revenue, Customs and Excise initiated an antidumping investigation dealing with U.S. exports of certain potatoes entered into British Columbia.

3/ Two commissioners found that "the regional domestic industry . . . is experiencing material injury. . . ."

4/ The duties collected between July (17 percent finding), November (36 percent finding), and the Commission ruling were held in escrow pending the final decision. The negative determination resulted in the money being returned.

In early 1984, the Maine Potato Council announced its intention to appeal the International Trade Commission ruling with the U.S. Court of International Trade.

JAPAN

The Economic Situation in 1983

The Japanese economy has been growing at around 3 percent annually in inflation-adjusted terms since the second oil shock in 1979. Although this represents a considerable slowing of growth from the pre-1980 period, Japan's resilience in the face of a major worldwide recession of 1981-82 indicates its steady, if slowed, growth potential.

Japan's GNP after adjustment for inflation, rose by 3.0 percent in 1983 1/--less than the growth of the U.S. economy, but higher than the growth of the economies of Western Europe and Canada. Rising exports were the primary engine of growth during the year, with exports to the United States rising faster than those to all other major markets.

Japan's economic recovery gained strength and became more broad based as the year progressed. Both industrial production and capital investment rose decisively in the final quarters of 1983. Growth is expected to accelerate in 1984, as exports continue to rise, consumer spending responds to increased real earnings, and capital investment turns upwards. Although the prospects for growth are slightly dampened by weak demand for housing and restrained government expenditures, most analysts 2/ predict that Japan's real GNP will increase by between 4.0 and 4.5 percent in 1984.

Unemployment and inflation both edged lower in 1983. Consumer prices rose by less than 2 percent, whereas unemployment stood at 2.7 percent. Lower inflation reflected steadily declining prices for crude oil and raw materials. The yen was stable in 1983, depreciating slightly against the U.S. dollar, and gaining sharply against most major European currencies (the German mark, British pound, and Swiss franc). 3/

Monetary policy was moderately expansionary during the year. The money supply expanded at a rate of about 6 to 7 percent in 1983, and the Bank of Japan lowered its official discount rate by half a percentage point, to 5.0 percent, late in the year in an effort to stimulate the economy. Money market interest rates averaged 6.8 percent, equal to the average rate during 1982 and lower than the rate in 1981.

1/ Economic Planning Agency of Japan, as cited in Japan Times, March 18, 1984.

2/ Sumitomo Bank, Chemical Bank, Nikko Securities, Bank of Tokyo.

3/ According to the IMF, International Financial Statistics, March 1984, the average yen/dollar exchange rate in 1983 was 238 yen=\$1. In 1982, it was 249; in 1981, 221; in 1980, 227; in 1979, 219; in 1978, 210; and in 1977, 269.

Fiscal policy did little to spur growth in 1983. As part of the Government's budget-cutting effort, expenditures remained constant or declined in most major areas except defense. The Government adopted a fiscal stimulus package in October which included a tax cut and some trade elements as well as stepped up support for small business, public works, and housing. (The trade elements of that package are discussed in the "Major Policy Developments" section, below.) The program was adopted to boost the economy in the second half of the fiscal year in order to meet the Economic Planning Agency's official growth target of 3.4 percent for fiscal 1983. However, it is not expected to have much effect on overall growth. Table 21 shows economic data for Japan for 1980 to 1983.

Table 21.--The Japanese economy: Selected data, 1980-83

(In percent)					
Item	1980	1981	1982	1983	
Real GNP growth <u>1</u> /-----	4.8	3.8	3.0	3.0	<u>2</u> /
Industrial production increase <u>3</u> /-----	4.7	1.0	0.4	3.5	
Consumer price increase <u>3</u> /-----	8.0	4.9	2.6	1.8	
Unemployment rate <u>4</u> /-----	2.0	2.2	2.4	2.7	
Money-market interest rates <u>5</u> /-----	11.4	7.5	6.8	6.8	

1/ Chemical Bank, Weekly Economic Report, February 3, 1984, p. 9-10.

2/ Economic Planning Agency of Japan.

3/ U.S. Central Intelligence Agency, Economic and Energy Indicators, January 20, 1984.

4/ Bureau of Labor Statistics, U.S. Department of Labor, February 1984.

5/ Federal Reserve Board.

International Economic Performance

Balance of payments

Japan's current account surplus in 1983 was \$21.0 billion, more than triple the \$6.9 billion surplus it had in 1982. The expansion of Japan's current account surplus reflected both a substantial increase in net exports and a further small reduction in the services and transfers deficit. Japan's merchandise trade surplus rose markedly to nearly \$32 billion, as exports rebounded and imports continued to decline (see table 22). The services and transfers deficit narrowed further, largely due to an increase in investment income.

Net long-term capital outflows accelerated in 1983. Although inflows of foreign capital rose, outflows increased by an even greater amount. Higher Japanese purchases of foreign securities, which rose from \$9.7 billion in 1982 to \$16.0 billion in 1983, contributed to the capital outflows. Capital inflows rose because of the rise in Japanese bond issues in foreign markets and a significant increase in foreign purchases of Japanese securities--from \$0.9 billion in 1982 to \$8.5 billion in 1983. Japanese bank lending abroad also increased, from \$7.9 billion in 1982 to \$8.4 billion in 1983.

Table 22.--Japan's current account in 1982 and 1983.

Item	1982	1983	Percentage change, 1983 from 1982
----- Billion dollars -----			
Current account balance-----	6.9	21.0	204.3
Trade balance-----	18.1	31.6	74.6
Exports-----	137.7	145.4	5.6
Imports-----	119.6	113.8	-4.8
Services and transfers-----	-11.2	-10.6	5.4

Source: Ministry of Finance, as cited in Tokyo 02025, Feb. 11, 1984.

Merchandise trade with major trading partners

At \$31.65 billion, the trade surplus set another record in 1983 (see table 23). Exports rose by 6 percent; imports declined by 5 percent. The uptick in exports was largely due to a dramatic rise in shipments to the United States, up nearly 19 percent from 1982. Imports from the United States, however, only rose by 3 percent, reflecting the continued strength of the dollar vis-à-vis the yen. Western Europe managed to slightly narrow its trade deficit with Japan, as Japanese imports from that region rose by 8 percent and exports increased 9 percent. Japan's imports from developing countries fell markedly, by more than 8 percent, whereas shipments fell by less than 2 percent. Meanwhile, Japan's trade surplus with communist countries nearly doubled, largely due to a dramatic surge in the value of shipments to China.

Table 23.--Japan's trade and trade balances, by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Canada-----	3,387	2,851	3,625
United States-----	38,882	36,546	43,338
EC-----	18,833	17,018	18,529
Other-----	9,999	9,635	9,509
Subtotal-----	71,101	66,050	75,001

Table 23.--Japan's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports--continued			
Developing countries:			
Oil-exporting countries	22,819	21,767	19,072
Mexico	1,699	974	579
Other	40,051	36,598	38,736
Subtotal	64,569	59,339	58,387
Nonmarket economy countries:			
China	5,076	3,500	4,917
U.S.S.R.	3,253	3,893	2,821
Other	1,349	970	1,016
Subtotal	9,678	8,363	8,754
Total	145,348	133,752	142,142
Imports			
Industrialized countries:			
Canada	4,448	4,425	4,428
United States	25,274	24,185	24,794
EC	8,565	7,530	8,121
Other	11,096	10,223	10,375
Subtotal	49,383	46,363	47,718
Developing countries:			
Oil-exporting countries	54,861	48,463	42,196
Mexico	1,435	1,520	1,889
Other	26,791	25,258	24,962
Subtotal	83,087	75,241	69,047
Nonmarket economy countries:			
China	5,283	5,337	5,088
U.S.S.R.	2,019	1,668	1,457
Other	547	489	549
Subtotal	7,849	7,494	7,094
Total	140,319	129,098	123,859

Table 23.--Japan's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
	Trade balance		
Industrialized countries:			
Canada-----	-1,061	-1,574	-803
United States-----	13,608	12,361	18,544
EC-----	10,268	9,488	10,408
Other-----	-1,097	-588	-866
Subtotal-----	21,718	19,687	27,283
Developing countries:			
Oil-exporting countries-----	-32,042	-26,696	-23,124
Mexico-----	264	-546	-1,310
Other-----	13,260	11,340	13,774
Subtotal-----	-18,518	-15,902	-10,660
Nonmarket economy countries:			
China-----	-207	-1,837	-171
U.S.S.R-----	1,234	2,225	1,364
Other-----	802	481	467
Subtotal-----	1,829	869	1,660
Total-----	5,029	4,654	18,283

Source: Compiled from International Monetary Fund, Direction of Trade data.

Japan increased the value of its overseas shipments of machinery, passenger cars, and chemicals in 1983 (see table 24). However, exports of motorcycles, steel, and ships all fell markedly. Imports of soybeans, machinery, and petroleum products moved significantly higher, but purchases of lumber, iron ore, and coal declined by a large margin.

Merchandise trade with the United States

The United States is the largest market for Japanese goods, accounting for 41 billion dollars' worth of shipments in 1983. Japan is the second largest customer for U.S. products, and in 1983, it purchased 22 billion dollars' worth of American goods. The United States had a \$19 billion trade deficit with Japan in 1983. This large and growing bilateral trade deficit (fig. 5) served to increase efforts by U.S. negotiators to secure greater opportunities for American firms to compete in the Japanese market.

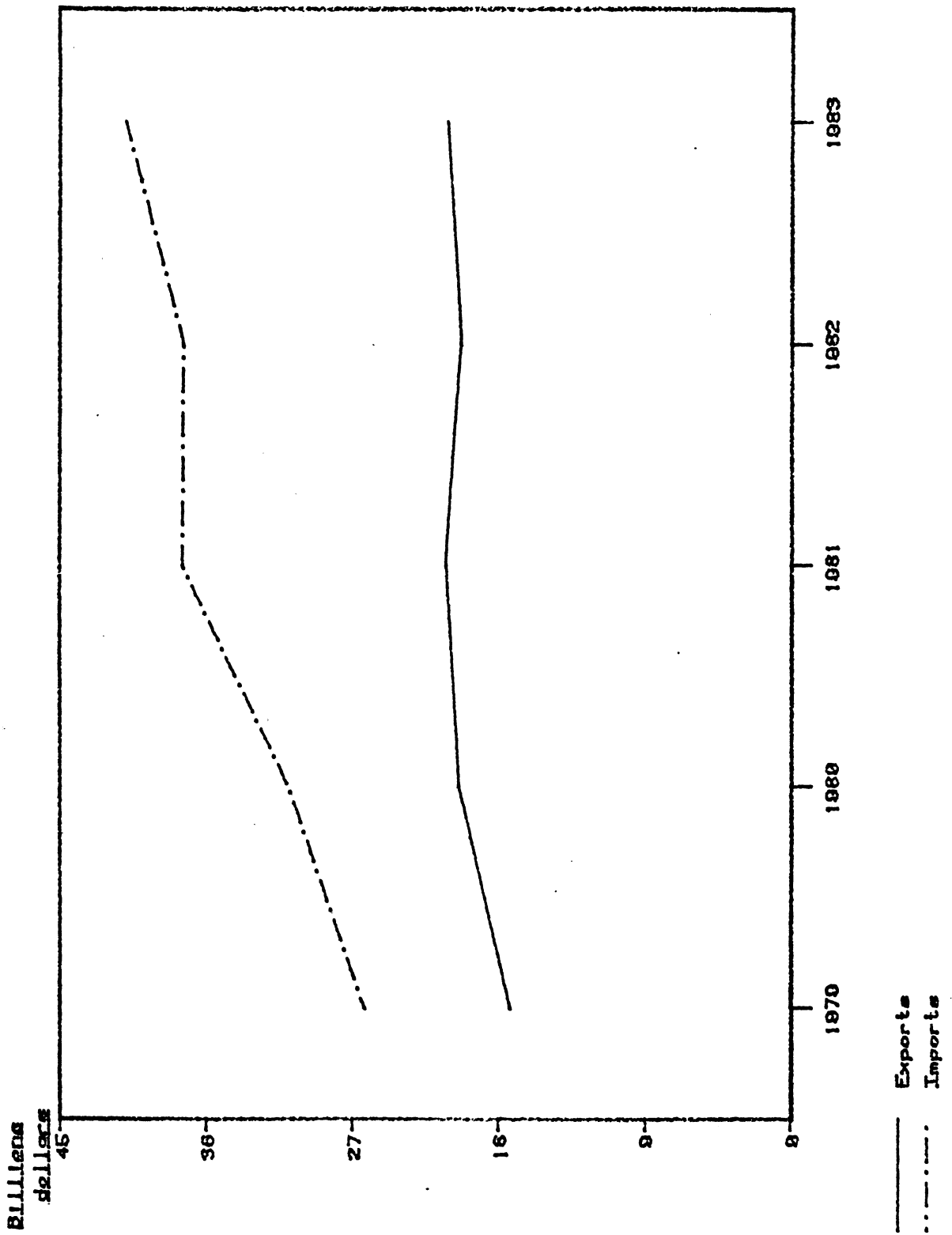
Table 24.--Japan's trade by commodity, 1983 (preliminary)

Item	1983	Year-to-year change
	<u>Billion</u>	<u>Percent</u>
	<u>dollars</u>	
Total exports <u>1/</u> -----	146.9	5.8
Transportation equipment-----	39.2	2.9
Motor vehicles-----	26.1	6.4
Passenger cars-----	19.5	8.5
Motorcycles-----	2.1	-19.5
Ships-----	6.0	-12.7
Nonelectric machinery-----	23.1	13.7
Electric machinery-----	22.9	16.1
Other machinery-----	14.4	15.9
Iron and steel-----	12.8	-17.9
Chemicals-----	7.0	9.7
Total imports <u>2/</u> -----	126.5	-4.1
Foodstuffs-----	14.9	2.5
Mineral materials-----	6.5	-3.6
Iron ore-----	3.1	-13.3
Other raw materials-----	9.6	-2.1
Soybeans-----	1.4	19.0
Lumber-----	3.9	-14.5
Mineral fuels-----	58.9	-10.2
Crude oil-----	40.1	-13.4
Coal-----	4.9	-15.6
Petroleum products-----	5.6	9.8
Liquefied petroleum gas-----	3.3	2.1
Liquefied natural gas-----	5.1	-2.6
Machinery-----	10.4	14.7

1/ F.o.b. basis.2/ C.i.f. basis.

Source: CERP 0102, Tokyo 01010, Jan. 18, 1984.

Figure 5.--U.S. trade with Japan, 1979-83.



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

— Exports
- · - Imports

(Japan's exports to the United States have been increasing at a significantly greater pace than its imports from the United States since the mid-1970's. 1/)

Table 25 shows U.S. trade with Japan by major commodity groups. 2/ The value of U.S. imports from Japan increased by \$3.5 billion, or more than 9 percent, compared with that in 1982. The value of U.S. exports to Japan stood at \$21.2 billion, 4 percent higher than it was in 1982. The trade deficit as a percent of turnover stood at 32 percent, up from 30 percent in 1982.

Tables A-5 and A-6 show the leading U.S. exports to and imports from Japan in 1983. With the exception of computers and aircraft, most of the leading U.S. exports to Japan in 1983 were raw materials: corn, soybeans, coal, logs, wheat, cotton, fish, aluminum, tobacco, wood pulp, and beef. In contrast, all of the leading imports from Japan were manufactured products, including motor vehicles, tape recorders, trucks, office machines, integrated circuits, steel, cameras, motorcycles, and televisions. The increase in U.S. exports in 1983 was attributable to substantial increases in the value of aircraft, corn, and soybean shipments.

Exports

U.S. exports to Japan were concentrated in 3 major categories: food and live animals (SITC 0), beverages and tobacco (SITC 1), and machinery and transportation equipment (SITC 7). The values of U.S. exports of machinery and transportation equipment increased by 17 percent, over 1982; while shipments of crude materials rose by nearly 6 percent and food and live animals, by 9 percent. In the food and live animals category, shipments of meat, barley, corn, fruits, nuts, animal feed, and wheat all rose, and shipments of fish and other seafood, unmilled cereals, and preserved fruits declined. The value of crude materials shipments rose on the strength of an 11 percent increase in the value of U.S. shipments of wood pulp. Log exports, on the other hand, fell by nearly 17 percent. The advance in machinery and transportation equipment sales was due in large measure to a 48 percent jump in the value of sales of aircraft and associated equipment. Increases were also registered in shipments of electrical machines, office equipment, engines and motors, and telecommunications equipment.

1/ Last year's report contains data on U.S. exports to, imports from, and trade balance with Japan from 1965. The data show that U.S. exports to Japan have, on average, been declining since the mid-1970's while the growth in U.S. imports from Japan has accelerated. See OTAP 34th Report, 1982, p. 163-165.

2/ Certain discrepancies exist between official U.S. Department of Commerce statistics and those of the International Monetary Fund contained in table 25.

Table 25.--U.S. trade with Japan, by SITC 1/ Nos. (Revision 2), 1981-83

		(In thousands of dollars)		
SITC Section No.	Description	1981	1982	1983
			U.S. exports	
0	Food and live animals	4,686,428	3,915,960	4,269,160
1	Beverages and tobacco	391,515	399,567	442,402
2	Crude materials--inedible, except fuel	4,401,810	4,052,160	4,183,200
3	Mineral fuels, lubricants, etc	2,098,841	2,441,187	1,995,147
4	Oils and fats--animal and vegetable	94,194	86,585	65,454
5	Chemicals	2,380,015	2,568,001	2,655,973
6	Manufactured goods classified by chief material	1,416,012	1,338,772	1,381,670
7	Machinery and transportation equipment	4,385,383	4,068,060	4,754,585
8	Miscellaneous manufactured articles	1,367,383	1,400,292	1,357,736
9	Commodities and transactions not elsewhere classified	111,316	96,187	120,422
	Total	21,332,897	20,366,770	21,225,749
			U.S. imports	
0	Food and live animals	266,611	277,459	337,247
1	Beverages and tobacco	14,104	14,809	22,264
2	Crude materials--inedible, except fuel	69,558	69,573	93,949
3	Mineral fuels, lubricants, etc	37,454	27,141	11,614
4	Oils and fats--animal and vegetable	5,901	5,969	6,986
5	Chemicals	930,133	859,291	1,077,242
6	Manufactured goods classified by chief material	7,006,125	6,827,125	5,271,866
7	Machinery and transportation equipment	25,462,402	25,667,101	29,928,613
8	Miscellaneous manufactured articles	3,399,895	3,402,314	3,780,098
9	Commodities and transactions not elsewhere classified	279,188	270,813	357,426
	Total	37,471,371	37,421,594	40,887,306
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.

Imports

U.S. imports from Japan were overwhelmingly concentrated in the machinery and transportation equipment category (SITC 7). Automobiles, lightweight trucks, and motorcycles were the leading items in this category. The value of automobile imports rose markedly, as did purchases of auto parts and railway vehicles. Large increases were also registered in imports of tractors, textile machinery, metalworking machine tools, office machines, automatic data processing equipment and parts, phonographs, medical equipment, consumer electronic appliances, and cathode-ray tubes. However, the value of motorcycle shipments fell markedly, largely due to import restrictions imposed by the United States in 1983 (see section on U.S. import restrictions on Japanese products).

The value of imports in manufactured goods classified by chief material (SITC 6) fell and those of chemicals (SITC 5) and miscellaneous manufactured articles (SITC 8) rose. The decline in SITC 6 was due to a large drop in shipments of iron and steel and metal manufactures (mainly pipes and tubes--again due to new import restrictions in the United States). Shipments of rubber manufactures, paper and paperboard, wood veneers and plywood, textile yarn and fabrics (particularly woven manmade fabric), aluminum and nonmetallic mineral manufactures (mostly pottery, pearls and glassware) all rose. The rise in SITC 8 was due to higher shipments of apparel, optical instruments, medical instruments, measuring and testing apparatus, photographic equipment, optical goods, watches and clocks, and musical instruments. In SITC 5, imports of pharmaceuticals, organic and inorganic chemicals, dyestuffs, and artificial resins and plastics rose.

Major Policy Developments Affecting Trade

Japan took a number of initiatives in 1983 to make its market more open to foreign goods. Among other things, it began to liberalize distribution of imported tobacco products and agreed to ease "red tape" barriers to foreign goods.

Japan attempted to diffuse trade frictions with its major trading partners by announcing on January 13 and October 21, 1983, "packages" of measures designed to further open its market to foreign competition. The major elements of those packages were promises to: (1) remove regulatory barriers to trade within its standards certification system; (2) improve marketing and distribution of imported tobacco products (particularly cigarettes); (3) reduce tariffs on semiconductors and several other important products; (4) take steps to internationalize the yen and further open Japan's capital markets to foreign participation; and (5) increase imports by overcoming administrative barriers and setting up "import promotion" missions. These changes are discussed in greater detail below.

Standards and certification 1/

The most important element of the January 13 package was Japan's commitment to treat foreign manufacturers the same as Japanese producers when certifying conformity of their products with Japanese health, safety, and performance standards. As a result of that commitment, major changes were made in the laws governing Japan's standards certification system 2/ in 1983.

For years, Japanese standards and certification practices have been a major source of trade friction with both the United States and the EC because more burdensome procedures were used to certify imported goods. Before the 1983 changes were implemented, roughly 60 percent of U.S. manufactured exports to Japan were subject to "on the dock" inspection to determine whether they had met Japanese standards. U.S. exporters complained that these procedures were time consuming, arbitrary, and costly.

There are over 30 laws establishing certification systems in Japan. For Japanese products, three different inspection methods can be used: (1) individual inspection of every product, (2) lot inspection, or inspection of a sample from each lot of products; and, (3) type-approval based on factory inspection and product testing. Once type-approval is received, the manufacturer can apply certification marks at the factory, subject to spot checks by regulatory officials.

Japanese manufacturers usually seek type-approval because it is more cost-efficient and less time-consuming. However, until 1983, imported products were forced to undergo lot inspection. Foreign suppliers were also required to work through an import agent to obtain approval. Transferring approvals if import agents changed or if the company that produced the product changed--for example, by changing from a joint venture to a wholly owned subsidiary--was not possible for certain types of products. Instead, the product had to be completely reregistered, a process that could take 2 years or more. Firms which changed their ownership ratios as a result of investment liberalization in 1973 have been particularly affected by the transfer restrictions. (Foreign firms were generally not allowed to have wholly owned subsidiaries in Japan until 1973.)

1/ Standards are established for various reasons, such as for environmental protection or for the preservation of public safety and health. Standards are specific, written descriptions of special characteristics or parameters of products; they establish quality, performance, safety, measurement, and other characteristics of products. Mandatory standards are those which must legally be met in order to sell the products. Voluntary standards are those which are not legally required. The GATT standards code was adopted in 1980 to ensure that standards do not impose unnecessary obstacles to trade (see section on the GATT's standards code section in ch. II of this report).

2/ Generally speaking, certification systems are procedures for testing certain products to see if they meet standards. Usually, some sort of mark or label showing proof of conformity to the standards is then fixed to the products after this testing is completed. These procedures--from application, to inspection, to receiving product approval marks, and the regulations governing these procedures--are called certification systems.

Action in 1983

As a result of its January 13 commitment, a Cabinet-level group was set up to review Japan's standards certification systems and to recommend revisions to existing laws and regulations. In April, the Cabinet proposed changes in 16 different statutes that were designed to provide foreign suppliers with equal treatment under the law. ^{1/} The measures were approved by the Diet in May 1983. Imports of a number of products--including electrical and electronic goods, agricultural and industrial chemicals, consumer products, processed foods, pressure vessels, cosmetics, pharmaceuticals, medical devices, and motor vehicles--will be affected by the changes.

Assessment and follow-up

The 1983 revisions to Japan's standards certification laws establish legal equality between foreign and domestic suppliers under Japan's product certification systems. As a result of the new, liberalized procedures adopted in 1983, foreign manufacturers can now apply directly to the appropriate ministry in the Japanese Government for approvals, eliminating the need for an import agent to be the legal holder of the approval. (However, they still must have a representative in Japan to handle complaints about noncompliance.) By allowing foreign factories to be registered and their products approved, the revisions allow foreign firms to have access to type approval for the first time. By some estimates, these changes could eventually mean about \$5 billion in increased U.S. manufactured goods exports to Japan. However, it could take a year or more to put the mechanisms in place to actually achieve that goal.

Despite the legal changes made in 1983, obtaining "type approval" is still more difficult for foreign producers. Part of this difficulty is related to cost: foreign suppliers often do not sell sufficient quantities of the affected products in Japan to justify the expense involved in securing type approval under current conditions. The regulatory statutes that were revised in 1983 require Japanese regulators to visit a supplier's facilities as well as approve the goods themselves. This is costly for foreign firms. Some U.S. firms also worry that important product and process know-how obtained through such inspections may be leaked to their Japanese competitors. As an alternative, the United States would like to have U.S. testing organizations conduct factory inspections and test products directly for the Japanese Government. At a minimum, it wants the Japanese Government to accept more U.S.-generated test data.

^{1/} The January package also contained information on other, product-specific standards issues. However, only the commitment to allow easier transfer of approvals for medical devices and pharmaceuticals represented a major new change that could significantly benefit U.S. suppliers (see bilateral standards issues section, below, for more information).

Allowing U.S.-testing organizations to inspect U.S. factories and test U.S. products would solve two basic problems in implementing the new system by lowering the cost of obtaining type approval and minimizing communications problems between American firms and Japanese testing organizations. At this point, Japan appears willing to work with the United States and other major trading partners to develop simple and fair procedures for inspection of foreign goods. Translating the legal changes made in 1983 into actual U.S. shipments is likely to be a slow and difficult process, however.

Tobacco

The marketing of foreign tobacco in Japan has been a persistent trade problem. Japan's tariffs on manufactured tobacco imports are high and the manufacture, import, and distribution and price of tobacco products are controlled by a Government monopoly, the Japan Tobacco and Salt Corp. (JTS). Intensive discussions during 1982 and 1983 resulted in Japanese action to reduce tariffs and to relax certain restrictions on marketing, advertising, and distribution of imported cigarettes.

An important element of the January 13 package was Japan's commitment to allow more retail outlets to sell foreign cigarettes. Retailers in all major cities except Tokyo and Osaka were allowed to sell foreign cigarettes as of March 31, 1983. Outlets in Tokyo and Osaka were opened to foreign manufacturers on October 31, 1983. The Government promised to make its best efforts to open all other retail outlets by March 1985, a year earlier than was previously announced. According to U.S. industry sources, some 36,000 outlets were handling imported cigarettes as of June 1983.

On December 25, 1982, 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. Although smaller than desired by the U.S. industry, the tariff cuts were significant. In May 1983, however, a tax surcharge of 20 yen per pack was imposed on both domestic and foreign cigarettes. As a result, the price differential between the most popular domestic brands and imported cigarettes was reduced, but by less than the full amount of the tariff cut. This price differential is viewed as the major stumbling block to increasing sales of foreign cigarettes in Japan.

Despite the steps taken in 1983, significant nontariff barriers to tobacco imports remain. JTS tightly controls most aspects of marketing, advertising, and distribution. This greatly hampers efforts to sell imported tobacco products in Japan. For example, JTS requires foreign cigarette producers to test new brands under more restrictive conditions than those covering JTS's own brands. Advertising expenditures for new brands are also restricted. Because of the way JTS formulates prices, foreign brands are significantly more expensive than Japanese cigarettes at the retail level. Finally, foreign brands are delivered less frequently by JTS than domestic brands, resulting in supply shortages at retail outlets.

In the January package, the Government also promised to study the possibility of establishing private importation and distribution of foreign tobacco products. However, the package did not indicate whether JTS's monopoly over the manufacture, distribution, and marketing of domestic tobacco

products would end any time soon. 1/ Meanwhile, JTS is expected to create an export company on March 31, 1984, to supply India, Pakistan, Malaysia, and other Southeast Asian countries. The United States is concerned that subsidized sales by JTS may undermine the position of U.S. cigarette makers in those markets.

Tariffs

In its October 21 package, Japan promised to lower its tariffs on a number of goods. 2/ First, Japan agreed to unilaterally accelerate by one year its Tokyo round tariff cuts on 1200 items. In addition, Japan announced that if other major industrialized countries agree to accelerate their MTN tariff reductions, Japan would be willing to further accelerate its cuts on industrial products.

Individual tariff cuts on 44 items were also announced. These included 14 items of interest to the United States. The most important of these was the elimination of duties on semiconductors, as agreed by the United States and Japan in the High-Technology Work Group in July 1983. The elimination was contingent on reciprocal action by the United States. (Legislation to eliminate U.S. duties on semiconductors was introduced in the U.S. Congress, but action was not completed in 1983.) Tariff cuts were also announced for excavating machinery, tractors, combines, cash registers, adding machines, catalysts and regulators for automobiles, and a number of other items. The United States is seeking further tariff cuts on alcoholic beverages, forest products, farm machinery, agricultural produce, and paper products. 3/

Capital markets

During 1983, the United States urged Japan to relax restrictions on foreign participation in its capital markets and to take steps that would allow the yen to become a more widely used reserve currency. The United States feels such steps could take pressure off the dollar in foreign exchange markets and allow the international financial system to operate more efficiently. During President Reagan's visit in November, Japan promised to open its financial system and the two leaders agreed to create a task force to propose ways to achieve this goal.

1/ As part of Japan's effort to turn certain government services over to the private sector--the so-called administrative reform movement--several bills were being considered by the Japanese Diet in the spring of 1984, including one which would authorize private distribution of manufactured tobacco products.

2/ On Jan. 13, Japan officially announced that it would cut its tariffs on 47 agricultural and 28 industrial items. However, those tariff reductions were previously announced on Dec. 25, 1982. They are covered in more detail in the OTAP 34th Report, 1982, USITC Publication 1414, 1983, p. 170.

3/ Specifically, it would like Japan to make major reductions in tariffs on veneer, softwood plywood, particleboard, kraft linerboard, solid bleach board, sack kraft and saturating kraft, wine, whiskey, beer, color photographic paper, and hay balers. Other items that have been mentioned include computers and computer parts, central processing units, packing and aerating machinery, silicones, auto parts, and photographic enlargers and parts. For agricultural requests see "Agriculture" section, below.

Since 1973, the Japanese capital market has undergone significant liberalization. 1/ As a result of a new Foreign Exchange Control Law that took effect at the end of 1980, foreigners were allowed much more open access to Japan's capital markets than before. But foreign firms still have less access to yen funds in Japan than Japanese companies do. For example, Japanese firms can raise money in Japan at prevailing interest rates for direct investment abroad, but foreign companies cannot (this is true of both the bond market and bank loans). Foreign-affiliated banks in Japan also face more restrictions when raising and lending money. Access to funds is limited by controls on interest rates, maturities, or supply for particular instruments. Moreover, a myriad of regulations keeps foreign banks from playing a major role in certain types of financial transactions in which they are very competitive. 2/ For example, foreign banks are not allowed to manage Japan's large and growing pension funds.

In November, the United States and Japan agreed to set up a joint committee to study ways to open Japan's capital markets and internationalize the yen. The group is co-chaired by Japan's Minister of Finance and the U.S. Secretary of the Treasury, and is expected to develop some concrete suggestions by mid-1984. Among the changes being considered are--3/

(1) eliminating the "real demand" rule for forward exchange transactions. Currently, forward transactions can be carried out only in cases where an actual trade transaction is involved. In other words, a company must prove that a "real" need exists for foreign exchange by submitting import documents or the like;

(2) allowing higher levels of foreign investment in 11 designated companies. Foreign investment and acquisition of stock in those companies is currently restricted on national security grounds;

1/ For a brief recap of those changes see, "Japan's Changing Financial System Gives More Scope to Market Forces," in the IMF Survey, Apr. 19, 1984. The article concludes, "[O]ver the past decade the Japanese financial system has been transformed from a highly regulated system subject to limited foreign influence into one in which market forces, both domestic and international, play an important role in the mobilization and allocation of funds. . . . Progress has been slower insofar as the operation of the banking system is concerned. The banks and other specialized institutions remain subject to official interest regulation on deposits, and a high degree of compartmentalization of the roles of various financial institutions persists."

2/ Edward Lincoln, Japan Economic Institute, JEI Report, No. 10A, Mar. 9, 1984, p. 7.

3/ Far Eastern Economic Review, March 8, 1984, p. 89, The Oriental Economist December 1983, p. 2, 3, and 5.

- (3) issuing Japanese Government bonds abroad;
- (4) lowering the minimum denomination of certificates of deposit (CD's) and increasing the total amounts that each bank can issue. Foreign banks frequently use CD's to obtain yen deposits in Japan;
- (5) raising the limits on Euroyen bond issues by Japanese companies. Currently, only six Euroyen bond issues are allowed each year, and only international organizations and government bodies qualify for the issues; ^{1/} In addition, a withholding tax on interest revenues on Euroyen bonds held by nonresidents is applied.
- (6) establishing a market for trade-related bankers' acceptances denominated in yen.

Since Japan's savings rate has traditionally been high, lifting restrictions may result in higher capital outflows, which could actually weaken the yen. Despite this possibility, the United States believes that it is in the long-term interest of both countries to reduce impediments to capital flows. Removing those restrictions will provide important benefits to foreign firms by allowing them easier access to Japan's vast pool of savings.

Import promotion measures

Another measure designed to resolve market access problems was the Government's announcement on October 21 that it would strengthen the Office of the Trade Ombudsman (OTO) by appointing a high-level advisory council and improving procedures for handling complaints. (The OTO was created in 1981 to provide improved, centralized handling of trade-related complaints.) The importance of this measure may be slight, however, since it appears OTO will not be given the authority to resolve problems by overruling ministry decisions.

The Government also announced that the Export-Import Bank of Japan will make low-interest loans available to finance imports of manufactured goods. Up to now, import financing has generally been used to purchase energy and resources from abroad. The Export-Import Bank of Japan was given an

^{1/} According to the Journal of Commerce, March 30, 1984, the Japanese Government may also partially relax restrictions on issuance of yen-denominated convertible bonds. (Such bonds are convertible into common stock and ordinary bonds on the Euroyen market.) The Finance Ministry estimates that as a result about 90 Japanese corporations, mainly multinational firms, would be eligible to offer yen-denominated convertible bonds, and 30 firms could be eligible to float ordinary bonds on Euroyen markets.

additional 20 billion yen (approximately \$86 million) for fiscal year 1983 to finance imports of manufactures. The Government also is offering short-term loans denominated in yen to finance imports. 1/

Japan also announced that it would strengthen the import promotion function of the Japan External Trade Organization (JETRO). As part of that effort, JETRO created Centers for Industrial and Technological Cooperation in five major cities in the United States (New York, San Francisco, Chicago, Houston, and Los Angeles) to promote greater flows of investment and technology between Japan and the United States. Several trade missions were also organized, and November 1983 was designated as an import promotion month.

U.S.-Japanese Bilateral Trade Issues

Despite continued disagreement in several key areas, 1983 was a fairly good year for U.S.-Japan trade relations. The two countries made slow but steady progress in removing Japan's nontariff barriers to trade and in fostering cooperation in high-technology industries. 2/ Renewed economic growth in the United States and the strong dollar led to a record increase in the global U.S. trade deficit (over 67 percent), and the U.S. deficit with Japan also increased by a fairly large margin, rising by 18 percent from 1982. U.S. exports to Japan were essentially flat, while U.S. imports from Japan increased dramatically. Partially as a result of these imports, the U.S. government was forced to handle major trade cases in the specialty steel, motorcycle, and machine tool industries.

During the year, the United States continued to press for improved opportunities for U.S. firms to compete in the Japanese market, keeping steady pressure in areas where little success had been achieved and carefully monitoring recent market-opening measures by Japan. Meanwhile, Japan took actions to improve its standards and certification systems (see "Major Policy Developments" section, above) and renewed its commitment to move towards a more open government procurement system, two issues of primary importance to

1/ The so-called yen import bill settlement system was reactivated on November 16, 1983. Under this system, the Bank of Japan lends yen to banks secured by qualified yen-denominated import bills at the official discount rate (now set at 5.0 percent). Eligible Japanese importers will be able to borrow these funds from commercial banks at about 5.5 percent. These funds will be converted into foreign currency to pay for imports. The program is designed to help small- and medium-sized businesses increase their imports of manufactures. The total credit line is about \$1.4 billion. The scheme had been previously introduced in May 1978, but was suspended in 1979, when Japan experienced a dramatic worsening of its trade account as a result of the second oil shock.

2/ There are currently a number of official U.S.-Japan trade forums, including: U.S.-Japan Trade Subcommittee, U.S.-Japan Working Group on High Technology; U.S.-Japan Economic Subcabinet; the Trade Facilitation Committee; the U.S.-Japan Committee on Industry-Related Policies and their Effect on Trade; U.S.-Japan Committee on Investment; and U.S.-Japan Bilateral Forest Products Committee.

the United States. However, Japan continues to protect its agriculture industry and to promote, and sometimes shelter, its high-technology industries from foreign competition.

Trade matters were a key element of discussions between President Reagan and Prime Minister Nakasone during the President's November visit to Japan. The two leaders agreed to support a new round of multilateral trade negotiations; to create a committee to find ways to liberalize Japan's rules on foreign investment in that country and to make the yen a more widely-used international currency; to continue cooperation in high technology; and to further open Japan's market to imports. 1/

The United States has pressed Japan to remove barriers to imports because it believes that foreign firms should be allowed to compete on an equal footing with domestic firms in the Japanese market for goods, services, and investment. Largely as a result of these efforts, many barriers have been removed over the past decade. However, trade friction exists in a number of important areas. Major bilateral issues in 1983 are discussed in greater depth below.

Agriculture

Japan is the world's largest importer of agricultural products and the United States is its most important source. In 1982, the United States supplied 42 percent of Japan's total agricultural imports and up to 90 percent of key commodities such as corn, wheat, and soybeans.

Japan is by far the largest single-country market for U.S. agricultural products, accounting for \$6.24 billion, or roughly 15 percent, of total U.S. overseas sales in 1983 (see table 26). 2/ But restrictive quotas, high tariffs, and difficult import distribution procedures have dampened U.S. shipments to Japan in 22 categories of products, covering over a hundred items, including beef and citrus.

1/ Edward Leslie, "Trade Gap with Japan to Widen despite higher U.S. exports in '84," U.S. Department of Commerce, Business America, February 20, 1984, p. 38-39.

2/ According to the U.S. Department of State, "U.S. Foreign Policy and Agricultural Policy," Current Policy Brief No. 535, Jan. 10, 1984: "Japan is either our first or second largest customer in almost all categories of bulk agricultural commodities. In 1982, Japan bought 23 percent of all U.S. corn exports, 16 percent of our soybeans, 26 percent of our cotton, 20 percent of our tobacco, 23 percent of our feed grains, and 30 percent our grain sorghums. Even in those product areas where we still have problems with the Japanese--such as beef and citrus--the Japanese are among our best customers. In 1982 Japan purchased 64 percent of all U.S. beef and veal exports, 26 percent of our oranges and tangerines, 48 percent of our grapefruit, and 82 percent of our lemon and lime exports."

Table 26.--Selected U.S. agricultural exports to Japan, 1982 and 1983

Commodity	Value (1,000 dollars)	
	1982	1983
Grain and feed-----	\$2,234,109	\$2,639,590
Course grains and products-----	1,514,625	1,878,855
Wheat and flour products--	563,754	589,599
Oilseed products-----	1,072,587	1,293,338
Soybeans and products----	1,005,430	1,228,331
Tobacco products-----	309,920	338,480
Fresh beef, chilled and frozen, without bone----	220,142	244,137
Fresh fruits, citrus-----	167,737	185,824
Lemons, fresh-----	69,050	74,210
Grapefruit, fresh-----	47,340	59,668
Oranges, fresh-----	49,522	49,959
Chickens, cut-up, pieces----	57,757	79,800
	Quantity (metric tons)	
Grain and feed-----	17,809,159	18,479,191
Course grains and products-----	13,551,075	14,006,608
Wheat and flour products--	3,345,651	3,465,300
Oilseed products-----	4,275,420	4,695,129
Soybeans and products----	4,152,784	4,591,449
Tobacco-----	50,041	51,791
Chilled beef, chilled and frozen, without bone----	49,520	57,606
Fresh fruits, citrus-----	330,149	378,647
Lemons, fresh-----	107,283	120,167
Grapefruit, fresh-----	139,792	168,545
Oranges, fresh, -----	79,670	85,293
Grapefruit juice, not concentrated-----	972,750	1,020,369
Chickens, cut-up, pieces----	48,269	58,227

Source: U.S. Department of Agriculture.

Note.--The quantity of certain commodities (e.g., beef, oranges, and orange juice) do not match the quota levels agreed to by the United States and Japan, as shown in tables IV-16, 17, 18. This discrepancy is due to a difference in the way each nation defines the commodity and its subgroups. In the case of beef, for example, Japan and the United States define "high quality beef" differently.

Like many other countries, Japan uses price supports and import restrictions to protect its agricultural sector. Approximately 78 percent of the value of its agricultural production was subject to price supports in 1982. 1/ These supports have had the effect of forcing Japanese consumers to pay very high prices for food--more than double world prices for some commodities. Japan also has quantitative restrictions on 22 categories of imports, and exerts special Government control over 3 additional categories. 2/ Despite these restrictions, Japan's agricultural imports have steadily risen over the past decade, both in absolute terms and as a share of domestic production. 3/

Japan disinvoked its balance-of-payments justification for all of its import restrictions in 1963, and since then it has never sought or received a GATT waiver for them. The United States has continuously pressed Japan to liberalize trade in agricultural products under these quotas.

Japan claims that its flexibility in dealing with the agriculture issue is very limited, however. Citing fears about the security of food supplies, the strong political influence of Japanese farmers, and a desire to preserve the rural family and village, Japan claims that it must maintain some import restrictions in agriculture. It has sought to defuse trade tensions by reaching bilateral understandings which guarantee small, but steady, increases in imports of particular products.

The United States entered into such an understanding with Japan during the Tokyo round of the MTN. The 4-year agreement provides for annual increases in Japan's quota levels for beef, oranges, and citrus juice. 4/ In return, the United States waived its right to challenge the GATT consistency of quotas and other restrictions on these products until the agreement expires on March 31, 1984.

1/ This compares with 49 percent in the United States and 91 percent in the EC. Japanese Ministry of Agriculture, Forestry, and Fisheries, Annual Report on Agriculture - 1982, July 1983, p. 28.

2/ Wheat, barley, and rice imports are regulated by the food control law, which was enacted to govern Japanese rice production, distribution, and trade. The production, import, and price of wheat and wheat products are linked to rice under the law's price management program.

3/ The volume of imports increased by 4 percent annually during the 1970's, and the ratio of imports to domestic production was 38.9 percent in 1981, up more than 10 percentage points from that of 1970. The volume of beef and citrus imports increased by more than 10 percent annually during the decade. Imports of beef increased by 10.2 percent each year from 1970-81, imports of citrus products grew by 18.5 percent annually over the same time period. All data compiled from Japanese Ministry of Agriculture, Forestry, and Fisheries, Annual Report on Agriculture - 1982, July 1983, p. 31.

4/ In the agreement, the Japanese Government agreed to increase, over the life of the agreement, its import quotas on high quality beef (U.S.D.A. prime and choice) by 14,000 metric tons, on fresh oranges by 30,000 metric tons, on concentrated orange juice by 20,000 metric tons. Quotas on grapefruit juice will be increased by 1,000 metric tons annually.

Since the agreement was signed in 1979, the United States has become increasingly frustrated with Japan's quotas. Faced with record merchandise trade deficits with Japan, boom U.S. agricultural harvests, and falling U.S. farm incomes, the United States pressed Japan throughout 1982 and 1983 to remove some of its restrictions on farm imports. Expanding quotas on farm products, particularly beef and citrus, was the United States' top priority agricultural issue with Japan in 1983.

Beef and citrus

In October 1982, the United States and Japan began consultations on beef and citrus. The U.S. side initially demanded complete elimination of the quotas on beef and citrus, but Japan rejected this demand outright. Bilateral negotiations continued in 1983. The American side moderated its stand, seeking a formal timetable for removal of the quotas and a lowering of tariffs on those items. However, Japan's negotiators refused to commit their Government to immediate or even eventual removal of the quotas. Instead, they proposed a 4-year extension of the MTN agreement which would involve limited expansions of the quotas. Negotiations continued into 1984 in hopes of reaching an agreement on an acceptable replacement to the MTN beef and citrus accord. ^{1/}

Following is a summary of Japan's restrictions on beef, oranges, and citrus juice.

Beef.--Imports account for about one-third of the beef consumed in Japan each year. Australia supplies the lion's share (71 percent) of that amount; the United States accounts for most of the remaining 29 percent. A 25 percent ad valorem duty is levied on beef imported into Japan, and restrictive quotas are in effect (see table 27). Beef imports are distributed by the

Table 27.--Japan's high quality beef import quotas, 1979-83

(In metric tons)				
Year ^{1/}	Total quota	Actual increase	Percent increase	
1979-----	16,800	-	-	-
1980-----	20,800	4,000	23.8	
1981-----	24,100	3,300	15.9	
1982-----	27,500	3,400	14.1	
1983-----	30,800	3,300	12.0	
Total-----	^{2/}	14,000	83.3	

^{1/} Japanese fiscal year (Apr. 1-Mar. 31).

^{2/} Not applicable.

Source: U.S. Department of Agriculture.

^{1/} On Apr. 7, 1984, the United States and Japan reached agreement on a new accord covering beef and citrus which provides for a near doubling of quota levels for beef over a 4-year period. The quota on beef will increase by 6,900 metric tons annually and those on oranges will rise by 11,000 metric tons each year. Washington Post, Apr. 8, 1984, p. A-1.

Livestock Industry Promotion Council (LIPC), which purchases imported beef at a much lower price than it sells it for in Japan. The LIPC uses the profits from the sale of imported beef to underwrite its domestic price support system.

Oranges.--Virtually all of Japan's imports of fresh oranges (99.7 percent) come from the United States. Imports, however, account for only 3 percent of domestic consumption. Japan maintains a number of barriers in this area, including special seasonal and "annual" citrus quotas (see table 28) and tariffs. From June to November tariffs are only 20 percent because of the low availability of Japanese oranges. From December to May, when domestic oranges are abundant, tariffs are doubled.

Table 28.--Japan's import quotas ^{1/} for oranges, 1980-83
(In metric tons)

Year	Off season (June-August)	General (January-December)	Annual ceiling
1980-----	35,000	33,000	68,000
1981-----	38,000	34,000	72,000
1982-----	42,000	35,000	77,000
1983-----	45,500	36,000	81,500

^{1/} Japan has two kinds of quotas on oranges, general and seasonal. The general quota can be drawn against throughout the year. The seasonal quota, on the other hand, supplements the general quota and is in effect when Japanese oranges are in short supply.

Orange juice.--Orange juice is another area of contention in U.S.-Japan trade. Currently, all orange juice in Japan must be made with at least 50 percent Japanese orange juice. Quotas are also in effect (see table 29).

Table 29.--Japan's orange juice import quotas, 1980-83

Year	Annual
1980-----	5,000
1981-----	5,500
1982-----	6,000
1983-----	6,500

Other agricultural products

At U.S. request, the U.S.-Japan Trade Subcommittee created a special working group in 1982 to examine all of Japan's import restrictions on

agriculture. The working group met for 12 months, 1/ but the negotiations reached a standstill in April 1983. U.S. negotiators asked for a commitment from Japan that it would eventually eliminate all of its quotas on agricultural goods. The Japanese side refused. The United States turned to the GATT to break the impasse, filing a formal complaint under article XXIII in July 1983.

The complaint covered 13 categories of agricultural products restricted by import quotas. 2/ (It did not cover beef and citrus because of the waiver clause in that agreement). Consultations in the GATT began on July 11, 1983. At the consultations, the United States inquired about Japanese import procedures for quota items. Japan responded to questions in early August, revealing quota levels on some products for the first time. 3/ This step was welcomed by the United States because it represented a move toward greater transparency in administration of Japan's agricultural quotas. 4/ Consultations continued on September 8-9, 1983, but no settlement was reached by yearend.

The United States also believes that high tariffs are a significant barrier for a number of agricultural commodities. The United States asked Japan to lower its tariffs on over 90 items in May 1982. The Japanese Government lowered duties on about 75 items as of April 1, 1983, affecting agricultural imports worth \$276 million in 1981 (approximately 57 of those items were on the official U.S. request list). In its October 21 market access package, Japan pledged to cut duties on chicken meat, another item of interest to the United States. The United States reiterated its interest in tariff reductions for a number of agricultural items--notably fresh grapefruit, pistachios, walnuts, poultry meat, feed corn, electrolyzed whey, and peanut butter--during consultations late in the year. However, in 1983 only nine items were unilaterally reduced below the final MTN rate and numerous high priority items were not acted upon.

1/ The working group met on Apr. 12-13, May 5, June 9, Oct. 1, Dec. 3-4, and Dec. 17, 1982 and Apr. 26-27, 1983.

2/ The products were preserved milk and cream; processed cheese; dried leguminous vegetables; provisionally preserved oranges and tangerines; starch and insulin; unroasted peanuts for human consumption; prepared and preserved beef and pork in airtight containers; grape sugar and other sugars; fruit paste and puree; canned pineapple and fruit pulp; noncitrus juices; tomato juice, sauce and ketchup; and other food preparations.

3/ The products were noncitrus fruit juices; fruit pastes and purees; and tomato juice, ketchup, and sauce.

4/ Japan's import licensing practices for products under quota, including agricultural products, were the subject of much discussion at the Oct. 6, 1983, meeting of the GATT licensing code. Several Contracting Parties, including the United States and the EC, complained that Japan's licensing practices further limit imports of items under quota. Often, Japan does not publish quota amounts for individual products, and private individuals, end users, or retail outlets are generally not able to get import licenses. Unused import licenses are not reallocated, so if an importer goes out of business or a particular end use is no longer practicable, trade is lost.

Leather

In 1977, the U.S. Tanners Council had filed a petition under section 301 of the Trade Act of 1974, claiming that Japanese import quotas unreasonably restrict U.S. exports of leather. In 1979, after 2 years of unsuccessful negotiations, the United States requested the formation of a GATT panel under article XXIII to investigate Japan's leather quota system. A few months later, the United States withdrew its request and concluded a 3-year bilateral leather understanding with Japan, hoping it would increase sales of finished U.S. leather in Japan. The agreement established new quotas for finished leather and wet blue hides effective through March 31, 1982. During this 3-year period, a significant increase in sales of U.S. leather to Japan did not occur. In fact, on average U.S. exporters filled only 23 percent of the small quota allotted to them.

In November 1982, the United States reinstated its GATT complaint. Consultations were held on December 14 and 15, 1982, and on January 27 and 28, 1983. At the January discussions, Japan presented a proposal that was identical to one rejected by the United States in September 1982. The two sides met again on March 30 and April 12 and 13, 1983, but the Japanese continuously failed to discuss the elimination of quotas and barriers to market access. The United States is asking Japan to agree to adopt a timetable for elimination of the quotas; administer the quotas in an open and nondiscriminatory manner (i.e., publish the total quota, license holders, and their allocations); reform the system for allocating import licenses; and finally, reduce tariffs on finished leather goods.

In April 1983, the United States requested formation of a GATT dispute settlement panel. At the first panel meeting in September, Australia, Canada, the EC, India, New Zealand, Pakistan, and Spain presented briefs as "interested parties" stating that they also have faced difficulties in marketing leather in Japan under the existing quota system. On December 20, 1983, the Japanese Government presented another settlement proposal to the United States. The United States rejected the proposal as inadequate. The panel should release its findings in mid-1984.

Government procurement

The U.S.-Japan agreement on Nippon Telephone and Telegraph (NTT) covers procurement by Nippon Telephone and Telegraph Public Corp., a Government-run corporation responsible for developing and operating Japan's domestic telecommunications system. The agreement commits NTT to treat bids from foreign firms equally with bids from domestic firms in making specified purchases, and it establishes nondiscriminatory procurement procedures NTT must follow in conducting these procurements. Since the U.S. telecommunications industry is among the world's most competitive, especially in very high-technology equipment, the U.S. Government had expected American

suppliers to make major sales of high technology equipment during the 3-year life of the original agreement. However, these sales did not materialize. 1/

Purchases of foreign equipment have totaled only about 5 percent of the \$3 billion in annual orders over the past few years. Although only \$20 million in equipment orders were placed with foreign suppliers in fiscal 1981, the figure more than doubled in fiscal 1982 to roughly \$44 million, and more than tripled from 1982 to 1983. Nearly all of NTT's foreign purchases are from U.S. suppliers.

Nevertheless, the United States was disappointed with both the value and the composition of NTT purchases in the first 3 years of open international bidding. U.S. sales under the agreement totaled only \$15 million in 1981, \$40 million in 1982, and \$142 million in 1983. Furthermore, NTT has not purchased high-technology goods such as central office switches from U.S. firms.

Some analysts believe that American firms have not taken full advantage of the long-term opportunities the NTT market provides. 2/ They note in particular that U.S. firms have not made sufficient efforts to sell to NTT and that when they do, the products often do not meet standards set by NTT. 3/ Although NTT uses unusual and complicated procurement procedures, these analysts argue, lack of knowledge about NTT, by both U.S. Government and industry officials, led to inflated expectations about initial sales. Continued efforts to better understand the system over the past 3 years have yielded positive results, however.

In the past year, NTT has taken many measures to help American firms bid on NTT contracts. On March 7, 1983, NTT said that it was making several policy changes designed to further open its procurement to foreigners. It will now (a) accept applications in English; (b) accept applications in its New York office; (c) extend the application period by 2 to 3 months for big-ticket items; (d) be more flexible in formulating specifications for products it wishes to procure; (e) open more procurement to foreign bidders by ordering several years' supply of particular equipment at a time; and (f) make procurement announcements simultaneously in the United States and Japan.

1/ The NTT agreement resulted from U.S. insistence during the MTN that Japan offer coverage of NTT's purchases under the Government procurement code. After a protracted negotiation, Japan agreed to apply the full requirements of the code to NTT but not to include it in its covered entity list. U.S. General Accounting Office, Assessment of Bilateral Telecommunications Agreements With Japan, Oct. 7, 1983.

2/ See, for example, testimony of Undersecretary of Commerce for International Trade Lionel Olmer before the Subcommittee on Telecommunications, Consumer Protection and Finance of the House Energy and Commerce Committee on March 7, 1984.

3/ NTT sets the standards for virtually all communications equipment in Japan and it sets standards not only for the actual product, but for all of its components. It is thus important for U.S. firms to adapt their standards to NTT's specifications. If they do not, they may foreclose opportunities to supply not only NTT, but NTT's suppliers as well. For example, if a U.S. firm's semiconductors do not conform to NTT's standards, it may not be able to sell them to Fujitsu because Fujitsu may plan to use them in a computer or other product it sells to NTT.

NTT's New York office was also very active in seeking potential suppliers in the United States. In late June, NTT sent a procurement mission to United States and dispatched a team of lecturers to the United States to participate in seminars on NTT procurement. The seminars, which were sponsored by the House Ways and Means Subcommittee on International Trade, were given in five U.S. cities.

NTT signed a memorandum with the U.S. National Bureau of Standards (NBS) in early June on technology exchange. Under the memorandum, NTT and NBS will share papers on basic scientific and technological themes and promote exchange of researchers. NTT and NBS may also inaugurate joint R & D projects on specific subjects. The memorandum, effective for a year, is renewable upon regular reviews by the two parties.

The United States Trade Representative held hearings in the fall of 1983 to determine whether American firms and workers wanted to see the NTT agreement renewed. All the firms that testified at the hearing favored renewing the agreement. In the renewal negotiations, the United States has stressed that it would like to see U.S. firms make significant and increasing sales of high technology equipment and particularly equipment involving long-term supplier relationships. U.S. negotiators also made several specific requests:

(1) They asked that U.S. firms be allowed to participate in NTT-sponsored R. & D. NTT is a major generator of technology in the telecommunications, computer, and semiconductor sectors. Important products have resulted from such research. For instance, those research projects have resulted in the development of 64 and 256K RAM semiconductors, fiber optic cable, data transmission systems, high-capacity pagers, and cellular radios.

(2) They asked NTT to simplify and shorten its contracts.

(3) They wanted NTT to take steps to make sure that proprietary information given to it by suppliers is protected from copying and release to other companies.

(4) They sought a commitment by NTT to avoid making specifications for products that require foreign firms to substantially rework existing products.

In mid-December, the United States asked Japan for a 90-day delay for renewing the NTT Agreement because it was still concerned about NTT's failure to acquire higher technology equipment and its unwillingness to allow American firms to participate in NTT-sponsored research on new products. Japan ultimately agreed to formalize the procedural changes made in 1983 and to open some NTT research projects to U.S. firms. As a result, the United States renewed the bilateral NTT agreement with Japan for another 3 years on January 30, 1984. In doing so, the U.S. side noted that bureaucratic resistance in Japan has worn down, more open and accessible bidding procedures have been implemented, and many U.S. suppliers still would like a chance to penetrate Japan's lucrative telecommunications market.

High technology

The United States and Japan are the world's two leading high-technology producers and the two largest markets for high-technology goods. Over the past several years, competition between the two countries has become intense, particularly in industries such as semiconductors and sophisticated machine tools. Yet both sides stand to gain by pursuing a policy of free trade in this important sector. The United States and Japan formed the U.S.-Japan Work Group on High-Technology Industries in 1982 to discuss ways to further open their markets to high-technology goods and know-how, to resolve current problems in high-technology trade, and to forestall future tensions in this vital area. 1/

Recommendations of the High-Tech Work Group

After extensive negotiations, the Work Group developed two sets of recommendations designed to improve U.S.-Japan trade and investment relations in high technology, which were later endorsed by both Governments. In February 1983, the Group recommended establishing of a system to monitor semiconductor trade flows, setting up formal channels to exchange information on government-sponsored R. & D. projects, and creating a mechanism to handle business inquiries concerning patent and technology exchange. The two sides also suggested that the Japanese Government take measures that would make it easier for U.S. companies to license Japanese Government-held patents and technology.

In November, the United States and Japan agreed to further liberalize two-way trade in semiconductors by eliminating tariffs and taking measures to discourage the copying of semiconductor products. As noted previously, the tariff elimination has yet to be approved by the U.S. Congress. 2/ In November, the United States and Japan established a framework for transferring military technology. U.S. firms are particularly interested in communications and electronics technologies developed by Japanese firms.

Protectionist moves taken by Japan in the high technology sphere in late 1983, however, seriously undermined progress made during the year. Japan took steps in 1983 that could limit access to its market for U.S. makers of satellites, computers, and telecommunications services. 3/

Satellites

Japan is in the process of upgrading its communications system, an effort that will ultimately create a multibillion dollar market for new equipment. But, U.S. suppliers stand to be locked out of an important element of Japan's new communications system, its communication satellite market. Late in 1983, the Japanese Government made it plain that it would no longer purchase

1/ The U.S. side is co-chaired by the Department of Commerce and the United States Trade Representative's Office. The Japanese side is chaired by the Ministry of International Trade and Industry.

2/ U.S. Department of Commerce, Business America, Dec. 12, 1983.

3/ The New York Times, Jan. 18, 1984, p. D-22; Financial Times, Feb. 24, 1984, p. 8; The Economist, Jan. 28, 1984, p. 17; the Far Eastern Economic Review, Mar. 1, 1984, p. 52-55.

communications satellites from foreign suppliers because it wants to develop an independent satellite industry. However, it was still interested in acquiring know-how for satellite production from American suppliers.

Japanese negotiators argued that Japan was exercising its sovereign right to pursue industrial policy goals within the constraints of its international obligations. They then pointed out that the ban does not violate existing international agreements: communications satellites are purchased by the National Space Development Agency, which is not covered under the GATT Government Procurement Agreement or the bilateral NTT accord. Thus, Japan is not obligated to open contracts from that agency to foreign suppliers.

The United States has not asked Japan to abandon its plans to autonomously produce communication satellites, but it has urged Japan to lift the procurement ban and to make a public commitment that it will not close its market, either directly or indirectly, as a means to achieve industrial policy goals. Japan has made no promises.

Computer software

In late 1983, MITI was drafting legislation that would eliminate copyright protection for computer software in Japan. Instead, software would be given patent protection, which would effectively reduce the protection given to software developers from 50 to 15 years.

Under the draft rules, MITI could compel licensing of software and require software vendors to reveal secret details of their programs in order to be granted even limited protection. The effect of these rules would be twofold. First, they would diminish import competition in both computer hardware and software. American software vendors would be wary of selling their programs in Japan and hardware vendors would think twice before delivering computers, since operating systems and other software needed to run them would no longer be protected. Second, it could allow Japanese suppliers to copy software from their competitors, thus helping them to rapidly catch up in the area of computer technology where they are weakest. U.S. firms worry that Japanese competitors could then use this new-found knowledge to conquer domestic and third-country markets.

MITI is facing opposition to its proposals from the Ministry of Education. That agency argues that the proposed changes would discourage foreign firms from selling state-of-the-art software in Japan, and as a result, the country generally and computer hardware makers in particular would be hurt. The fate of the proposed law is uncertain at this point, but all nonbudget bills had to be submitted to the Diet by March 27, 1984, to ensure final action in 1984. 1/

1/ As of that date, no bill was submitted to the Diet. However, the Diet extended its 1984 session. As a result, the issue still could be acted upon in 1984.

Data processing services

The Ministry of Posts and Telecommunications (MPT) was also drafting legislation in 1983 that could affect high-technology firms. The legislation would create "domestic content" requirements for value-added data processing networks (VAN's), such as credit card checking systems and airline reservation systems. In some instances it would limit foreign ownership of companies that perform data processing services to 50 percent. The effect of the action would be to bar existing wholly owned subsidiaries of foreign companies in Japan, such as IBM Japan and Texas Instruments Japan, from offering certain data processing services. They could, however, form joint ventures with Japanese firms to offer such services.

The proposed legislation would actually represent a liberalization of access to the VAN market in Japan. At present, no private firms are allowed to offer VAN services; under the proposed legislation they would be. The United States is thus welcoming the opening of the VAN market to private firms, but protesting any restrictions on foreign ownership of those firms. Once again, the legislation must be submitted to the Diet by March 27 in order to be acted upon in 1984. 1/

Industrial policy

In 1983, Japan's industrial "targeting" practices came under attack by a host of U.S. firms, trade associations, and workers groups. They argued that the Japanese Government's industrial targeting policies give affected firms unfair competitive advantages in both its own and other markets, resulting in lost sales for American firms and fewer jobs in the United States.

Japan has used import protection, tax exemptions, low- or no-interest loans, research and development grants, and Government-sanctioned cartels and cooperative associations to help its industries become more competitive. However, Japan believes that such policies are within its sovereign rights so long as they do not violate international agreements. The United States has accepted that premise, but feels that certain practices should be examined further to make sure they do not have the effect of harming foreign commercial interests. In particular, the United States remains concerned that some of those policies may have the effect, if not the intent, of severely limiting sales of foreign products in Japan, as in the case of communications satellites.

1/ The proposed legislation was approved by the Cabinet and forwarded to the Diet on Apr. 6, 1984. Many of the provisions that were offensive to the United States appear to have been removed. However, U.S. officials have indicated that they plan to closely monitor the situation to ensure that the implementing regulations do not disadvantage foreign firms. The Washington Post, Apr. 8, 1984, p. A-16.

The U.S.-Japan Committee on Industry-Related Policies and Their Effects on Trade was established in February 1983 to discuss these issues. Intensive discussions took place in May, July, August, and September of 1983. The United States is using information gathered in the Committee to decide whether Japan's industrial targeting practices harm U.S. commercial interests, and if so, what the U.S. policy response should be. The U.S. side of the group intends to submit a report to the Congress in late 1984.

The impetus for creating the group came from allegations by a U.S. machine tool manufacturer (see machine tools section, below) which raised numerous questions about the effects of Japan's industrial policies on the competitiveness of U.S. firms in that industry. The U.S. Congress also devoted considerable attention to this issue in 1983, reflecting its concern about the effects of Japan's industrial policies on the U.S. machine tool and semiconductor industries, among others. Many industries were suggesting that Japan's "targeting" practices were responsible for rapid increases in market penetration in the United States. The Subcommittee on International Trade of House Ways and Means Committee asked the U.S. International Trade Commission to do a study on targeting practices used by foreign governments and how they affect U.S. industries. 1/

The Ways and Means Committee was also considering a proposal to cover industrial targeting practices under U.S. countervailing duty laws. However, the Administration is concerned that any such measure, no matter how carefully crafted, would be contrary to U.S. obligations under the GATT.

Machine tools

Houdaille Industries, an American producer of numerically controlled machine tools, filed a petition with the United States Trade Representative in 1982 seeking denial of investment tax credits for purchasers of certain Japanese machine tools. Citing a previously unused provision of the Revenue Act of 1971, the company charged that the Japanese Government unjustifiably restricted U.S. commerce by tolerating an international cartel.

The Houdaille case focused on the actions of the Japanese Government in creating and encouraging a cartel-like arrangement in the machine tool industry. Houdaille claimed that since the early 1950's MITI had used

1/ The Commission divided the study into country phases covering Japan, the EC, Mexico, Canada, Taiwan, Korea, and Brazil. The first phase, covering Japan, was completed in October 1983. In the study, the Commission detailed the practices used in nine industries and provided a discussion of U.S.-Japan competition in those industries. Methods that could be used to analyze the effect of those practices were also outlined. Current legislative proposals to cover these practices under U.S. trade laws also were evaluated. See Foreign Industrial Targeting and Its Effects on U.S. Industries; Phase I: Japan, . . . , USITC Publication 1437, October 1983, p. 123.

administrative guidance to increase specialization by Japanese firms and the technological level of Japanese machine tools. It also provided import protection, special tax benefits, concessionary loans, and R. & D. subsidies and grants to machine tool makers, Houdaille asserted. Those actions were directly responsible, the U.S. maker argued, for the rapid increase in market penetration by Japanese suppliers in the U.S. market since the mid-1970's. (Japanese suppliers accounted for nearly half of the 37 percent share of the U.S. market taken by imports in 1983, up from 27 percent in 1982; its penetration in advanced machine tools was far higher. In the first six months of 1983, 78 percent of the numerically-controlled machining centers sold in the United States were Japanese-made.) 1/

An interagency group determined that the Japanese Government had adopted a policy to target the machine tool industry for development. This policy was in place for 25 years, and involved the use of a number of practices--including protection from imports, cartel-like arrangements, tax breaks, and subsidies--to help the industry become internationally competitive. Despite these findings, on April 22, 1983, the President decided not to give the industry the relief requested by Houdaille. However, a working-level task force was formed to discuss the impact of Government policies on trade in machine tools. The task force operates under the umbrella of the Industrial Policy Group discussed earlier. The industry's trade association, the National Machine Tool Builders Association, later sought to limit imports on national security grounds under section 232 of the Trade Expansion Act of 1962. 2/

Standards

American firms believe that Japan's standards practices have been a major barrier to imports in a number of areas. U.S. firms complain that it is often difficult to have their products officially approved and/or certified in Japan and they often cannot provide input when standards are initially being formulated. Furthermore, the Japanese Government often refuses to accept foreign-generated test data and internationally recognized scientific guidelines. Changes in Japan's certification system in 1983 (discussed in the "Major Policy Developments" section, above) could resolve some of these problems by providing direct access to its regulatory schemes. However, the United States would like Japan to take further steps to ensure that those changes are translated into increased U.S. sales in the Japanese market. U.S. exporters also have some specific complaints about Japanese standards that were not resolved by the changes. These issues are discussed briefly below.

1/ See U.S. International Trade Commission, Competitive Assessment of the U.S. Metalworking Machine Tool Industry, USITC Publication 1428, September 1983.

2/ See ch. V. of this report.

Auto certification

As part of the changes made in 1983, inspection procedures for imported automobiles were simplified. Foreign manufacturers can now obtain "type approval" for the first time (for a brief explanation of the types of inspection procedures used see the "Standards" portion of the Major Policy Developments section earlier in this chapter). To do so, they would have to submit a prototype for inspection up to 6 months in advance of the first shipment to Japan. In May 1982, the Government had agreed to simplify documentation and testing for low-volume (100 or fewer units) shipments of automobiles. In 1983, it expanded the threshold to 300 units.

However, the proposed changes stopped short of allowing foreign manufacturers to self-certify that their cars meet Japanese standards, a change that the United States has been eager to have implemented because of the political importance of auto trade. In effect, the United States has asked Japan for "reciprocity" in auto standards certification. (Foreign manufacturers can self-certify compliance with American standards). Japan says that it is treating foreign firms the same as domestic firms, since Japanese car companies also must use the "type approval" system. American car companies have now agreed to test the new system for the 1985 model year before passing judgment on it. Some European manufacturers, which are subject to a "type approval" system in their own countries, have welcomed the Japanese move.

Health care products

As a result of the standards reform activities in 1983, foreign suppliers of health care products--pharmaceuticals, medical devices, and cosmetics--can apply directly for approval to the Ministry of Health and Welfare (MHW). MHW also allows transfer of product approvals in some cases. However, U.S. suppliers would like to see more changes in Japan's approval process for imported health care products. Specifically, they want a minimization of red tape in the application process, increased acceptance of foreign generated test data, and easier transfer of product approvals. For example, the recent concessions permitted the use of foreign generated test data from animal tests, but data from clinical tests are still not acceptable. U.S. suppliers complain that this requires costly duplicative testing in Japan.

Food additives

Two 10-year old Diet resolutions strictly limit the ability of Japanese Government officials to consider foreign test data and international recommendations when reviewing requests for approvals of new food additives. Furthermore, Japanese policy is to approve only one food additive for a given purpose. In the past, requests by U.S. producers of processed food for the approval of new additives were systematically rejected. Requests for the approval of new uses for already approved additives were delayed for over 5 years.

In November 1982, the United States asked Japan to reconsider its rejection of 90 food additives that had been approved by the international "Codex Alimentarius" (a group consisting of representatives of the Food and Agriculture Organization and the World Health Organization) and by the U.S. Food and Drug Administration. The Ministry of Health and Welfare approved 11 of those new food additives towards the end of August.

Standards development

Japanese Government ministries usually contract with private industrial organizations to draft standards which are later officially approved and enforced by the Government. These organizations often do not allow foreigners to participate in standards-drafting activities. Foreign producers, therefore, often cannot influence standards at the crucial initial drafting stages.

The Government of Japan agreed in May 1982 to examine, on a case-by-case basis, requests from foreigners to participate in drafting activities of private industrial organizations. At that time, the Government agreed to allow interested foreigners to participate in standards drafting committees upon request as long as they are qualified by virtue of their knowledge and experience. Such participation, at appropriate levels and under flexible rules, could lead to a significant reduction in standards related problems in the long term.

However, the Japanese Government has not lived up to this promise. It has often refused to officially supply information on planned standards-drafting activities. Such information is necessary if foreigners are expected to request to participate in them. And only one Ministry, MITI, has developed formal criteria for deciding whether a foreign representative can participate in standards-drafting activities. Those criteria are very restrictive in some areas, while failing to provide clear-cut guidelines for judging whether a foreign representative is "competent" to serve on the committee.

Metal bats

In August 1982, the U.S. Government initiated a standards code dispute settlement case based on Japanese certification practices for U.S. aluminum softball bats. The essence of the complaint was that the Japanese Government did not provide foreign producers access to its certification system on the same basis as provided to Japanese producers.

Metal bats are among several consumer products for which the Japanese government has developed standards for safety reasons. These products must be inspected and certified by the Government before they can be sold. Imports were given certification marks after they were inspected individually upon arrival in Japan (i.e., "lot inspected") and destructive testing of 12 out of every 1,000 bats was done. However, domestically produced bats were certified at the factory after they were "type approved" by the Government. In 1980, U.S. metal bat manufacturers began to complain that Japanese Government standards and certification procedures for bats discriminated against them because "lot inspection" was more time-consuming and costly than "type approval".

U.S. negotiators attempted to resolve the problem through bilateral consultations. Those consultations came to a standstill in mid-1982. The United States filed a formal complaint under the standards code in August 1982, arguing that metal bats were just one example of how Japan's standards and certification system discriminated against foreign suppliers and effectively blocked import competition.

Both Governments conducted intense discussions to resolve the disagreement, and on March 13, 1983, the United States suspended its standards code case based upon a solution proposed by the Japanese Government. The proposal removed the obstacles to official approval by the Government as well as voluntary approval by the baseball league. (The United States reserved its rights under the agreement to resubmit its request to the committee). The solution allows U.S. suppliers to have access, on the same conditions as Japanese firms, to all certifications systems for metal bats in Japan. In other words, U.S. producers can now obtain "type approval" by the Japanese Government. By yearend, two U.S. producers had received "type approval" and obtained the required safety certification mark. They were also the first foreign producers to ever receive a private safety mark from the baseball league.

Services

The United States has a major interest in several service industries in Japan. Regulations governing banking and capital markets (discussed above) have limited the ability of U.S.-affiliated banks to offer certain services in Japan. Airline services are governed by a bilateral civil aviation agreement inked in 1952. Japan and the United States opened new routes to each others' airlines in 1983. U.S. companies are now attempting to enter the legal and shipping service markets in Japan. Developments in each sector are discussed in greater detail below.

Civil aviation agreement

In 1981, divergent philosophies on civil aviation policy in Japan and the United States led to intensified conflict over the 1952 agreement governing civil air traffic between the two countries. Japan favors government regulation of air traffic and fares (to protect its aviation industry, which is far less competitive than the U.S. aviation industry), and objects strongly to what it views as high-handed U.S. attempts to force regulatory policy changes on other countries. The United States has been pushing for less government regulation of civil aviation worldwide, especially since deregulation of the U.S. aviation system in the late 1970's.

Japan wants the rights to fly to more U.S. cities, additional rights to fly beyond the United States to other countries, continued government control of fare prices, and increased capacity restrictions on airline routes. The United States, on the other hand, says that its routes and charter flights to Japan have been severely limited. The United States also wants its carriers to have the freedom to set lower air fares, a policy opposed by Japan. In July 1981, Japan had refused to approve a request by United Air Lines for

certain landing rights in Japan. This refusal led to a series of retaliatory steps by both countries. 1/

Finally, on June 2, 1982, the United States and Japan agreed to amendments to the 1952 civil aviation agreement. The changes, which went into effect on April 1, 1983, allowed United Airlines to have access to the Japanese market out of Seattle and Portland. Japan secured "beyond" rights to Latin America through Los Angeles. 2/ Japan Air Lines was also allowed to serve Chicago via Seattle, and to carry passengers between Anchorage and Tokyo as part of their European service. 3/ The two countries also agreed in 1983 to undertake a series of four consultations over the next two years to discuss further amendments to the 1952 agreement (United Airlines would like to serve Seoul, Korea through Tokyo). The first consultation was slated for March 1984. 4/

Legal services

A number of U.S. law firms would like to act as consultants to Japanese clients on foreign (primarily U.S.) law and on international trade. Japanese rules of practice for lawyers, however, are preventing U.S. international law firms from entering the Japanese legal services market.

At the urging of both Governments, representatives of the American Bar Association and the Japan Federation of Bar Associations (JFBA) met in November 1982 to discuss the rules of practice in Japan for foreign lawyers. The U.S. side urged their JFBA counterparts and Japanese Government officials to make whatever changes in Japanese law and regulations would be needed to permit foreign lawyers to practice some forms of law in Japan, particularly to act as consultants. The U.S. Government raised the issue at December 1982 and July 1983 bilateral trade discussions. However, it is likely to take some time to build consensus on amending the 1955 lawyers' law, which spells out Japan's rules of practice for lawyers.

Shipping services

Although the United States supplies half of Japan's raw tobacco, until recently, none of it was shipped on U.S. ships. After persistent efforts on the part of the U.S. Government, two U.S. shipping firms were awarded trial shipments of four containers of yellow-leaf tobacco. Trial shipments were to continue for three years. These trial shipments were necessary because the Japan Tobacco and Salt Corp. had a number of concerns because the U.S. companies use different procedures for shipping tobacco. Thus far, the trial shipments have gone well. They will continue for another year.

1/ For a more detailed treatment of these steps see OTAP 33rd Report, 1981, pp. 164-5.

2/ The right to fly beyond a city to other places is called a "beyond" right in aviation negotiations.

3/ In other words, to take passengers from Tokyo to Anchorage and from Anchorage to Tokyo, but not to take passengers to Europe from Anchorage or vice versa.

4/ The first round of consultations were held in late Mar. 1984 and set up a framework for the future consultations. The second round is slated for Sept. 1984.

U.S. import restrictions on Japanese products

In 1982, quantitative limits were set for several major products imported into the United States from Japan. Japan agreed to continue its voluntary restraints on automobiles for another year and to cap specialty steel exports for 4 years. Formal or informal trade restraints are now in effect for at least 40 Japanese products, ranging from textiles to typewriters and to telecommunications apparatus, including 12 of the 20 leading U.S. import items in 1983 (see table 30). Most of these cases are discussed in greater detail in Chapter V of this Report.

Table 30.--U.S. imports from Japan under restraint in 1983 1/

Product	TSUS/TSUSA Nos.	Type of action	Date began
Acrylic sheet-----	771.4100	AD duties	8/30/76
	771.4500		
	and 771.5500		
Autos-----	692.1005, .1010, .1015	VER	4/1/81
	.1030, .1035		
Bicycle speedometers.	732.9820	AD duties	11/22/72
Cadmium-----	632.1440	AD duties	8/4/72
Calcium pantothenate.	437.8225	AD duties	1/17/74
Carbon steel plate:	608.8420	AD duties	5/31/78
Clothespins <u>2/</u> ----	790.05	201 quotas	2/79
Color television receivers.	<u>3/</u>	Consent order	7/29/77
Coin-operated audio visual games.	734.2003	Cease and desist order	11/1/83
Cube puzzles-----	<u>3/</u>	Exclusion order	12/29/81
Cyanauric acid and its chlorinated derivatives.	425.1050	AD duties	11/18/83
Doorskins-----	240.1420, .1440, .1460	AD duties	2/18/76
Dot matrix line printers.	<u>3/</u>	Consent order	3/14/84
Electric slow cookers.	<u>3/</u>	Exclusion order	2/9/78
Electric motors----	682.41 -.50	AD duties	2/22/80
Expanded metal----	652.80	AD duties	11/16/74
Fasteners-----	646.1700, .4000, .4100, .4920	CVD duties	5/26/83
	.4940, .5100, .5300, .5800		
	.6020, .6040, .6320, .6340		
	.6500, .7200, .7400, .7500		
	and .7800		
Ferrite cores-----	535.1240	AD duties	3/13/71
Fishnetting-----	355.4520	AD duties	6/9/72
High power amplifiers.	685.2900	AD duties	7/20/82
Impression fabrics:	338.5001, .5002, 347.6020	AD duties	5/25/78

Table 30.--U.S. imports from Japan under formal or informal restraint in 1983--continued

Product	TSUS Nos.	Type of action	Date began
Melamine in crystal form.	425.10	AD duties	2/2/77
Molded golf balls--	<u>3/</u>	Exclusion order	7/6/77
Motorcycles-----	692.50	201 duties/quota	4/16/83
Nonelectric cook-ware. <u>4/</u>	654.02	201 duties	11/79
Pagers-----	685.24, .2475, .2480, .7035	AD duties	8/16/83
Portable electric typewriters.	676.0510, .0540	AD duties	5/9/80
Polychloroprene rubber.	446.1521, .2000	AD duties	12/6/73
Roller chain-----	652.1300-.3800	AD duties	4/12/73
Silica-coated lead chromate pigment:	<u>3/</u>	Exclusion order	4/21/82
Spun acrylic yarn--	310.5049, .5015	AD duties	4/8/80
Stainless and alloy tool steel.	:606.95,607.28,607.34,607.46 :607.54,607.72,607.76,607.88 :607.90,608.29,608.34,608.43 :608.49,608.57,609.45	Tariff-rate quotas/OMA's	7/83
Steel clad plate--	607.94	AD duties	8/6/82
Steel pipes and tubes.	610.5229, .5205, .5234 .5206, .5208, .5230	AD duties	8/25/82
Steel wire rope---	642.12, .14-.17	AD duties	10/17/74
Steel wire strand--	642.1120	AD duties	10/6/83
Swimming pools----	657.2560	AD duties	9/7/77
Synthetic methionine.	425.0420	AD duties	7/23/73
Tapered roller bearings.	680.3934, .3936, .3932	AD duties	8/18/76
Television receivers.	685.1103-48, 685.1300 and 685.1455-60	AD duties	3/10/71
Tempered sheet glass.	544.3100	AD duties	8/15/72
Transformers-----	682.0765 and 682.0775	AD duties	8/15/72
Tuners-----	685.1700 and .2976	AD duties	12/12/70

1/ Does not include settlement or licensing agreements reached as a result of Section 337 investigations.

2/ Terminated on February 22, 1984.

3/ Not available.

4/ Terminated on January 16, 1984.

Motorcycles

Faced with rapid growth in heavyweight motorcycle imports and the quadrupling of U.S. inventories of imported motorcycles between 1977 and 1982, the Harley-Davidson Motor Co. petitioned the U.S. International Trade Commission in 1982 for relief under section 201 of the Trade Act of 1974. The petition covered heavyweight motorcycles and power train subassemblies.

On February 1, 1983, the Commission found that heavyweight motorcycles with an engine displacement over 700 cubic centimeters, but not subassemblies, were being imported into the United States in such increased quantities as to threaten the U.S. motorcycle industry with serious injury. The Commission recommended that the tariff on such motorcycles be increased for a period of 5 years in order to offset this threat.

On April 1, 1983, the President adopted the Commission's recommendations, with several changes. The President's action increased tariffs on heavyweight motorcycles by 45 percent ad valorem in the first year, declining to 35, 20, 15, and 10 percent in the next 4 years. The action also included tariff rate quotas which allot a yearly number of motorcycles to be imported without the increased duty. The President set a 5-year tariff-rate quota for Japan at 6,000 units (increasing by 1,000 units yearly). In addition, President Reagan directed the United States Trade Representative to review the case within two years to determine whether the industry still required the prescribed level of import relief.

The Japanese Government objected to the decision and requested formal consultations under GATT article XIX. The consultations were held on July 13, 1983, in Geneva. ^{1/} Japan criticized the U.S. action as being (1) inconsistent with recent multilateral statements opposing protectionism; (2) inappropriate because of its magnitude and ineffectiveness; (3) inconsistent with GATT article XIX because of the lack of causal link between imports and injury, and; (4) inconsistent with GATT article XIII because it discriminates against Japan. Regarding the final point, the Japanese claim that the U.S. action was clearly discriminatory because the tariff quota allows 3 percent of Japan's average exports to enter the United States without the increased penalty, whereas the Federal Republic of Germany and other countries have quotas that permit them to export more than they have in the past. Discussions are continuing on this subject. Thus far, the Japanese Government has not formally requested compensation.

Specialty steel

On July 5, 1983, the President announced his decision to grant 4 years of import relief to the specialty steel industry under section 201 of the Trade Act of 1974. Relief was granted in the form of higher tariffs on stainless steel sheet, strip, and plate and in the form of quotas for stainless steel bar, rod, and alloy tool steel.

Import quotas had been placed on specialty steel in 1976, when imports were found to be causing serious injury to the U.S. specialty steel industry. Those quotas expired in 1979. In the ensuing period, other foreign manufacturers began to make inroads in the U.S. market. Late in 1982, the Commission instituted an "escape clause" investigation on specialty steel under section 201 of the Trade Act of 1974. In July, following an affirmative injury determination by the Commission, the President granted the specialty steel industry relief in the form of tariffs and quotas.

^{1/} Further negotiations took place on Apr. 12, 1984.

The President's announcement resulted in an uncharacteristically harsh reaction from Japan. Japanese producers claimed that they had exerted self-restraint in both prices and quantity since 1979, while other producers began to sell massive quantities at low prices. Japan initially sought compensation under article XIX of the GATT. After preliminary consultations, Japan decided to seek a country allocation within the overall U.S. quota, and reserve its right to seek compensation in the GATT.

The result of the negotiation was a formal orderly marketing agreement (OMA) announced on October 19, 1983. The OMA forced cuts in its shipments of specialty steel, but it gives Japan a larger share of the U.S. import market. Under the agreement, in effect until mid-1987, Japanese shipments of stainless steel bar will be limited to 12,500 tons. This is a 28.5 percent cut from that of 1982, representing 46.3 percent of the imported bar market, up 2.7 percent from that of 1982. The same type of agreement was made for alloy tool steel. In absolute terms, Japan will ship less to the United States, but her share of the import market will increase, from 12.8 percent in 1982 to 18.2 percent, under the new agreement. In the stainless steel bar market, Japan increased its allocation in both relative and absolute terms. Japan will be permitted to export 5,600 tons (a 29.3 percent share of the import market) compared with 4,613 tons, or 21.1 percent in 1982.

Automobiles

Japan has voluntarily restrained auto shipments to the United States since April 1981. Japan agreed to cap its U.S.-bound shipments of autos at 1.68 million units in fiscal years (April 1-March 31) 1981 and 1982. ^{1/} The restraints continued to be the dominant factor affecting U.S.-Japanese automobile trade in 1983. Actual U.S. imports from Japan in calendar 1983 were 1.87 million units ^{2/} (table 31). In early 1983, it became apparent that

^{1/} 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 its shipments of autos to the United States for 2 years, beginning Apr. 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. In early 1982, Japan announced that it would limit its shipments in the second year of the program to the previous years' level of 1.68 million units. In early 1983, Japan agreed to extend the voluntary export restraint (VER) for a third year and to keep shipments at 1.68 million units. Japan also has separate, additional ceilings on shipments of certain types of vehicles, such as 4-wheel drive, station wagons and small trucks. These shipments are classified by the United States under TSUSA item 692.1005. Japan limited such shipments to 82,500 units during fiscal 1981 through 1983. Limits are also in effect for Japanese car shipments to Puerto Rico.

^{2/} The discrepancy between the voluntary restraint level and actual shipments can be explained by several factors: restraints are set for fiscal, not calendar years; the U.S. counts Japan's shipments to Puerto Rico as imports, but Japan has a separate, additional VER for those shipments; and the United States also classifies four-wheel station wagons (TSUSA No. 692.1005) as automobiles, but Japan does not. 280

^{3/} 12th Monthly Auto Report. . ., USITC Publication 1489, p. 2.

Table 31.--U.S. imports of Japanese automobiles: 1981-83

Category	1981	1982	1983
Imports:			
Quantity, actual---million units---	1.88	1.80	1.87
Value, actual-----1,000 dollars---	9,491,000	9,608,020	10,756,000
Market share-----percent---	22.3	23.7	22.0
Unit value-----dollars---	5,031	5,332	5,746

the U.S. industry had not significantly recovered and Japan, therefore, ultimately agreed to restrict its exports to 1.68 units for the 1983 fiscal year, ended on March 31, 1984.

Because Japan was able to keep the quantities of autos shipped constant while demand for domestic autos was lagging, it actually increased its market share in 1982 to 23.7 percent, up from 22.3 percent in 1981. But in mid-1983, the market began to favor domestic producers. Japan lost some of the market share it had previously captured, and accounted for just about 22.0 percent of U.S. car sales during the entire year.

The voluntary export restraints (VER) have had other effects on the auto industry. In 1983, prices and profits in the U.S. auto industry reached record levels. With the loss of market share and the number of cars it can ship limited, Japan now produces cars of higher value in order to keep profit margins up. The unit value of Japanese autos imported into the United States has steadily risen since the VER has been in effect. In 1983, the unit value was \$5,746 up from \$5,332 in 1982 and \$5,031 during the previous year. U.S. automakers have also introduced cars with higher price tags. Some attribute the higher priced cars to renewed demand for larger models.

Congressional action has resulted in two domestic content bills. The House of Representatives passed the Fair Practices in Automotive Products Act, H.R. 1234, on November 3, 1983. The bill would establish domestic content (i.e., required U.S. value-added) ratios depending on model year and the number of automobiles produced and sold in the United States. Ultimately, the bill would require that companies that ship more than 900,000 to the United States have a minimum domestic content of 90 percent. A similar piece of legislation, S. 707, was introduced in the Senate on March 8, 1983. That bill was not reported out of committee by yearend.

On November 1, 1983, even before the House passed its domestic content bill, Japan renewed and extended the VER for a fourth year. Under the new agreement for 1984, Japan will increase the number of units it exports to the United States to 1.85 million units, or by 10 percent. However, because car sales in the United States are likely to grow more than 10 percent, Japan is expected to lose some of its market share in 1984.

Some of Japan's largest automakers may see their market share reduced further, depending on how the quota is allocated by the Japanese Government. For the past 3 years, quotas have been allocated on the basis of the 1979

market shares. This system has worked in favor of then-dominant Toyota, Nissan, and Honda by preventing other Japanese companies from increasing their U.S. sales. Quota allocations will be announced by MITI in early 1984. 1/

Another development in 1983 was the proposed cooperative venture between General Motors (GM) and Toyota. The venture is to produce approximately 250,000 small cars in Fremont, Ca., beginning in 1984. GM also plans to import small cars from Isuzu and Suzuki. If approved by the U.S. Federal Trade Commission, the joint venture will be the first time two major competitors in the U.S. market--one foreign and another domestic--are joining forces to build a new line of cars in the United States. 2/

MEXICO

The Economic Situation in 1983

In 1983, Mexico made a remarkable recovery from its 1982 debt crisis, albeit at the heavy cost of economic contraction. The year began with a rigorous austerity program put in force in December 1982 by the country's newly elected President. 3/ President de la Madrid also gave his support to the then on-going negotiations with the International Monetary Fund (IMF) for a 3-year economic stabilization program in order to obtain the Fund's credit authorization.

In compliance with the IMF conditions for granting credit, 4/ Mexico was successful in reducing its budget deficit from 18 percent of the GDP in 1982 to 8.7 percent in 1983. 5/ However, this required a sharp cutback of public expenditures, including those essential for economic growth and maintenance of employment. Important projects involving industrial and rural development and infrastructure had to be discontinued. Stringent monetary policy was also applied, with an additional recessionary impact.

1/ Eight car makers will be allowed to fulfill the quota, with the two smallest exporters--Suzuki and Isuzu--being allowed relatively large share increases over previous years' levels.

2/ The FTC gave its final approval to the venture on April 11, 1984. Journal of Commerce, April 12, 1984.

3/ OTAP, 34th report, 1982, p. 195.

4/ Ibid. pp. 197-198.

5/ Statements of Mexican leaders to Congress in November 1983.

Public and private activity, declined in most sectors of the economy. The sharpest reductions took place in the construction and manufacturing sectors, 14.3 and 7.3 percent, respectively. Within manufactures, the drop in capital goods production was notable. Although the output of crude oil, the mainstay of the Mexican economy, held steady, Mexico's GDP shrank by 4.7 percent by yearend (following a decline of 0.5 percent in 1982 after 4 years of growth averaging 8 percent). Presently, 1 percent growth is expected for 1984, which may accelerate to 5 and 6 percent in 1985 and 1986. 1/

The stabilization program also called for raising public revenues through tax increases, and higher prices for products and services provided by the Government. The aim was to bring down consumption to a level the economy could afford. Consumption was reduced mostly through a loss of jobs, underemployment, and reductions in social expenditures. Employment data, available only for manufacturing, show a 9-percent decline in January-August 1983 from that of the corresponding period in 1982. Real wages also declined during the year as inflation continued to run at an annual rate of 81 percent.

Due to the severe shortage of foreign exchange, the austerity program called for a major cutback of imports in 1983. 2/ As a result, the Mexican economy was deprived of essential materials and equipment, and curtailed imports of food and consumer goods caused shortages in some items. A 2-year drought aggravated the shortfall in grains, particularly corn. Milk and sugar were also in short supply.

In May 1983, the Mexican Government issued a 5-year economic plan (1983-88), reaffirming the adjustment program in a longer perspective. A statement prefaced the document that it was produced in the context of the most serious economic crisis the country has faced in modern history. The plan identified control of inflation as its highest priority in the short term, foreseeing renewed economic growth and creation of jobs for the longer term.

Scaling down generous price subsidies for food and other necessities maintained inflationary pressure in 1983. This was offset, however, by the effects of declining economic activity and public sector spending. Inflation was brought down by some 20 percentage points from 1982, but exceeded the 55 percent targeted for the year.

In August 1983, the Government consolidated the Mexican banking system, which the previous administration nationalized in September 1982. 3/ The Government also announced that it will sell most of the private company shares it acquired through the nationalization of commercial banks in September 1982.

1/ Statement of Silva-Herzog, Mexican Treasury Secretary in November 1983, when introducing the Federal budget of Mexico for FY 1984.

2/ See discussion of "International Economic Performance" and "Import restriction and substitution" later in this section.

3/ The consolidation left some banks intact, merged others, and abolished smaller credit institutions. At the same time, the former shareholders of the nationalized banks began to receive reimbursements in interest-bearing bonds.

Presently, Mexican economic power is concentrated in the Government with a strong public presence in sectors such as banking, transportation, steel, and petrochemicals. Although recognizing the importance of a strong private sector, the de la Madrid administration also shows a tendency of interfering with free market forces. ^{1/} Therefore, it is not yet clear what role the private sector will play in the Mexican economy in the current administration.

In September 1983, President de la Madrid reported to Congress that "the most grave and acute aspects (of Mexico's economic crisis) are under control," but that Mexico continues to face further problems that could be overcome only through continued austerity. High-level officials stated in November that Mexico's continued major debt-servicing obligations and the need to reduce inflation will require a further reduction in the public sector deficit in FY 1984. Meanwhile, they pointed out, public revenues must also be raised through better collection of sales and income taxes, and bolstered earnings of major State enterprises. Increased revenues are expected from such dominant State monopolies as Petroleos Mexicanos (PEMEX), which alone provides one-third of the Government's tax income.

The management of Mexico's external debt has been probably the most demanding task facing the new administration. In 1983, Mexico impressed the world by meeting the stringent IMF conditions for the \$3.9 billion credit facility negotiated in 1982, ^{2/} and making repayments on schedule. The program went into effect at the beginning of 1983. Disbursements were conditional upon quarterly verifications of progress towards adjustment goals.

Shortly after he took office in December 1982, President de la Madrid initiated a proposal for restructuring Mexico's debt which exceeded \$80 billion at the time. Mexico's most severe debt crisis dates back to August 1982, when the previous administration announced that it could no longer make payments on its public and private obligations. The crisis triggered a massive restructuring effort in which the IMF, the central banks of advanced industrial countries, and private banks cooperated.

By late October 1983, \$23 billion of (short-term and medium-term) public sector foreign debt falling due between August 1982 and December 1984 had been rescheduled. The restructuring pact allowed Mexico a grace period on payments of the principal until 1987. The scheme also involved the infusion of \$5 billion in new commercial loans into the Mexican economy during 1983. This was to enable debtors to keep current with interest payments.

The private sector debt of more than \$11 billion, owed to suppliers and financial institutions had also been rescheduled by the end of October 1983. This was made possible by the Bank of Mexico's trust fund FICORCA--which has various schemes designed to cover the risk of exchange rate changes for

^{1/} See discussion of the "Automotive decree" later in this section.

^{2/} OTAP, 34th Report, 1982, p. 197.

private companies. 1/ The private sector debt renegotiated under FICORCA by the end of the debt-registration period (Oct. 25, 1983) reportedly involved 1,200 Mexican debtor companies, and obligations to more than 500 creditors. 2/

In December 1983, international lending institutions approved in principle a \$3.8 billion syndicated commercial loan to cover Mexico's foreign exchange needs for 1984. An additional \$3.8 billion is expected to come from public sources, including the U.S. Government, the Inter-American Development Bank, and the World Bank. As in 1983, \$1.3 billion will be available for 1984 under the 3-year IMF agreement with Mexico.

International Economic Performance

Balance of trade and payments 3/

Mexico's trade balance continued its dramatic turnaround in 1983, yielding a surplus of \$13.7 billion. In 1982, in the midst of a financial crisis, Mexico recorded its first yearly surplus (\$6.6 billion) of the last 27 years (table 32).

This impressive trade performance was attained, however, principally by a sharp reduction of imports. Imports dropped from \$23 billion in 1981 to \$14 billion in 1982, and to \$7.7 billion in 1983. They declined in all types of product categories, except food, plummeting especially in manufactures--the largest import class. This decline affected mostly capital equipment (down 59.6 percent), including spare parts, which gravely impaired economic growth. In addition to the administration's restrictive import licensing policy, 4/ this sharp cut resulted from the high peso cost of imports and a recessionary contraction of domestic demand.

Mexican export performance suffered from a continued decline in world market prices for petroleum. Sales of petroleum, natural gas and its derivatives continued to account for more than three-quarters of overall exports. During the year, Mexico tried to compensate for the decline of crude oil prices with larger volumes of shipments to maintain export earnings from this sector. At the same time, the Mexican Government's emphasis on exports other than oil 5/ resulted in surging sales of certain manufactured products,

1/ FICORCA (a Spanish acronym) schemes facilitate the repayment of debt, permitting Mexican companies to purchase U.S. dollars or other hard currencies for pesos at favorable terms for such purpose. Participation in the scheme requires that the companies arrange with their creditors to stretch out their loans over 6 to 8 years, including a few years' grace period.

2/ These data were reported by Miguel Mancera, the President of the Mexican Central Bank.

3/ Data for calendar year 1983, which are not based on the incomplete table 32, are estimates from Mexican sources; some are annualized January-September 1983 data. They are incompatible with U.S. census data subsequently given on U.S. trade with Mexico.

4/ See "Import restrictions and substitution" later in this section.

5/ See "Export promotion" later in this section.

Table 32.--Mexico's trade and trade balances,
by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Canada-----	660	583	535
Japan-----	1,157	1,450	1,491
United States-----	10,716	11,231	12,695
EC-----	1,643	2,601	1/ -
Other-----	2,007	1,925	1,874
Subtotal-----	16,183	17,790	16,595
Developing countries:			
Oil-exporting countries-----	165	104	-
Other-----	2,783	2,946	568
Subtotal-----	2,948	3,050	568
Nonmarket economy countries:			
China-----	170	87	-
U.S.S.R-----	3	8	-
Other-----	65	56	37
Subtotal-----	238	151	37
Total-----	19,369	20,991	17,200
Imports			
Industrialized countries:			
Canada-----	445	319	256
Japan-----	1,204	854	439
United States-----	15,397	9,006	5,789
EC-----	3,029	2,223	-
Other-----	1,084	858	375
Subtotal-----	21,159	13,260	6,859
Developing countries:			
Oil-exporting countries-----	53	41	-
Other-----	1,443	903	20
Subtotal-----	1,496	944	20

Table 32.--Mexico's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)

Trading partner	1981	1982	1983
Imports--continued			
Nonmarket economy countries:			
China-----	115	64	-
U.S.S.R-----	16	12	-
Other-----	181	96	6
Subtotal-----	312	172	6
Total-----	22,967	14,376	6,885
		Trade balance	
Industrialized countries:			
Canada-----	215	264	297
Japan-----	-47	596	1,052
United States-----	-4,681	2,225	6,906
EC-----	-1,386	378	-
Other-----	923	1,067	1,499
Subtotal-----	-4,976	4,530	9,736
Developing countries:			
Oil-exporting countries-----	112	63	-
Other-----	1,340	2,043	548
Subtotal-----	1,452	2,106	548
Nonmarket economy countries:			
China-----	55	23	-
U.S.S.R-----	-13	-4	-
Other-----	-116	-40	31
Subtotal-----	-74	-21	31
Total-----	-3,598	6,615	10,315

1/ A "-" in this and subsequent IMF tables in this report indicates that data were not reported in time to be included.

Source: Compiled from International Monetary Fund, Direction of Trade data.

which nonetheless continued to constitute only a small share of total exports. Overall export earnings in 1983 increased slightly to \$21.4 billion. 1/

In 1984, Mexico plans to increase imports by some \$5 billion compared with 1983. This would be balanced on the export side by a surge in nonpetroleum exports allowing the trade surplus to be maintained. Major export gains are expected in the automobile, petrochemical, and steel sectors. The stipulated rise in imports is considered necessary to preserving the country's productive base and maintaining consumption at a level necessary for social stability. Foreign exchange is earmarked particularly to meet producers' needs of imported raw materials' and spare parts.

The United States dwarfs any other country in Mexico's foreign trade (fig. 6). According to Mexican sources, in January-September 1983 the United States accounted for 59 percent of Mexico's total exports and 63 percent of its overall imports. 2/ In the same period, the United States accounted for almost two-thirds of Mexico's trade surplus. 3/ Mexico's second and third-ranking trading partners are Japan and Spain. In January-September 1983, Mexico reported a surplus with both countries.

The startling shifts in Mexico's trade picture during the past 2 years were accompanied by a marked improvement in its current account. The current account deficit, which amounted to \$11.7 billion in 1981, and narrowed to \$3 billion in 1982, changed into a surplus \$3.5 billion in January-September 1983. 4/ Virtually all categories of current account expenditures declined compared with 1982, with interest payments being a major exception. The "errors and omissions" category in the balance of payments ledger, which includes capital movements, shows a major contraction of Mexico's deficit from that of 1982.

Mexico had suffered a major loss in its international reserves in 1982. However, as a result of the current account surplus and the availability of external financing, Mexico's foreign reserves stood at \$4.5 billion in September, compared with only \$1.7 billion when the new administration took over. 5/

1/ The Journal of Commerce, Apr. 2, 1984.

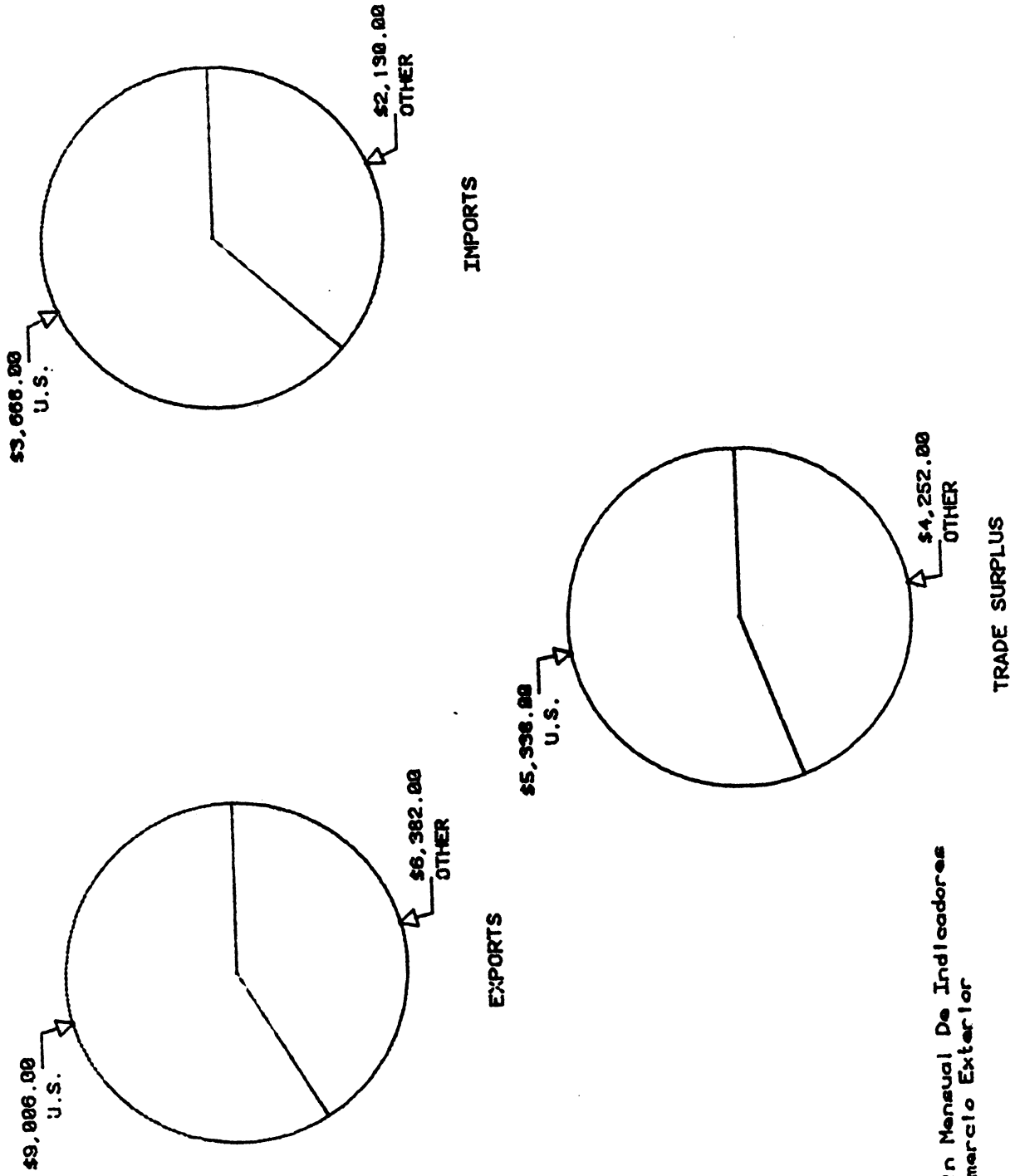
2/ See also "Trade with the United States" below.

3/ Data from the Monthly Bulletin on Mexican Foreign Trade, September issue, published by the Mexican Institute of Foreign Trade.

4/ Statement of de Larosiere, IMF Director, on Feb. 7, 1984, in Brussels.

5/ As reported by President de la Madrid in his first State of the Union address on Sep. 1, 1983.

Figure 6. ---Mexico's trade with the United States and other countries, January-September 1983.



Note.---Boletín Mensual De Indicadores De Comercio Exterior

Trade with the United States 1/

The sharp cuts in Mexican imports from the United States, triggered in 1982 by Mexico's debt crisis and repeated in 1983, have caused a reversal in U.S. trade patterns with Mexico. The traditional U.S. surplus in this trade, amounting to \$3.6 billion in 1981, reversed itself into a growing deficit, totaling \$4.5 billion in 1982 and \$7.9 billion in 1983.

Mexico is the third-ranking U.S. trading partner in two-way trade, and as a source of U.S. imports. As a destination of U.S. exports, Mexico slipped to fourth place in 1983 from third place in 1980-82, when the country sharply reduced imports from all sources.

U.S. exports

U.S. exports to Mexico dropped from \$11 billion in 1982 to \$8.8 billion in 1983 (table 33, fig. 7). This was about one-half the value of exports recorded for 1981 when exports were at their peak. Mexico's share of overall U.S. exports dropped from 7.6 percent in 1981 to 5.3 percent in 1982 and 4.5 percent in 1983.

This decline of the total affected all major product categories with the exception of food and live animals (SITC 0) and crude material (SITC 2). Exports of machinery and transportation equipment (SITC 7) and manufactures classified by chief material (SITC 6) continued their sharp decline which began in 1982, falling to their lowest level in the last 5 years. There was a major drop in exports of items such as vehicle chassis and parts, mechanical shovels, automobile trucks, tractors, and many other items which disappeared from the list of leading U.S. exports to Mexico in 1983 (table A-8).

U.S. shipments to Mexico of mineral fuels (SITC 3) dropped to 25 percent of their 1982 value and amounted to less than they were in the prior 3 years (table 33). Motor fuel exports, including gasoline, experienced the sharpest decrease in value of any product.

Meanwhile, a two-year drought, as well as the incentive provided by credit guarantees from the Commodity Credit Corporation (CCC) 2/ generated U.S. food exports to Mexico of more than \$1.4 billion. Although less than shipments in 1980 and 1981, this was more than double the amount in 1982, when U.S. food shipments to Mexico fell to \$661 million (such small imports of that year reflected stocks built up during the abundant 1981 Mexican harvest). Corn was the leading food item shipped to Mexico in 1983; it provided almost half the overall exports in SITC category 0. Grain sorghum and soybeans, dried milk, and cream were other leading, as well as rising, food exports to Mexico during the year (table A-8).

1/ The data in this section are official U.S. trade statistics, as compiled by the Department of Commerce. Owing to conceptual and methodological differences in U.S. and Mexican trade statistics, they are not consistent with U.S.-Mexican trade data previously shown from Mexican sources.

2/ See subsection on the "Commodity Credit Corporation" later in this section.

Table 33.--U.S. trade with Mexico, by SITC 1/ Nos. (Revision 2), 1981-83

		(In thousands of dollars)		
SITC Section No.	Description	1981	1982	1983
			U.S. exports	
0	Food and live animals	1,937,304	660,767	1,423,255
1	Beverages and tobacco	3,913	2,678	888
2	Crude materials--inedible, except fuel	985,778	743,235	789,774
3	Mineral fuels, lubricants, etc	345,190	1,058,556	268,073
4	Oils and fats--animal and vegetable	49,076	114,267	92,305
5	Chemicals	1,655,166	1,223,407	1,132,379
6	Manufactured goods classified by chief material	2,477,744	1,313,075	951,344
7	Machinery and transportation equipment	8,370,728	5,006,883	3,457,579
8	Miscellaneous manufactured articles	1,092,382	731,309	521,174
9	Commodities and transactions not elsewhere classified	435,773	171,658	118,459
	Total	17,353,054	11,025,836	8,755,231
			U.S. imports	
0	Food and live animals	1,296,581	1,433,633	1,550,325
1	Beverages and tobacco	108,023	102,033	116,496
2	Crude materials--inedible, except fuel	374,698	348,581	298,402
3	Mineral fuels, lubricants, etc	6,845,174	8,420,415	8,524,524
4	Oils and fats--animal and vegetable	1,936	2,800	1,918
5	Chemicals	229,719	236,581	275,181
6	Manufactured goods classified by chief material	773,803	752,184	1,213,556
7	Machinery and transportation equipment	2,517,576	2,700,505	3,470,375
8	Miscellaneous manufactured articles	1,141,620	979,936	743,500
9	Commodities and transactions not elsewhere classified	414,505	511,371	424,660
	Total	13,703,637	15,488,040	16,618,938

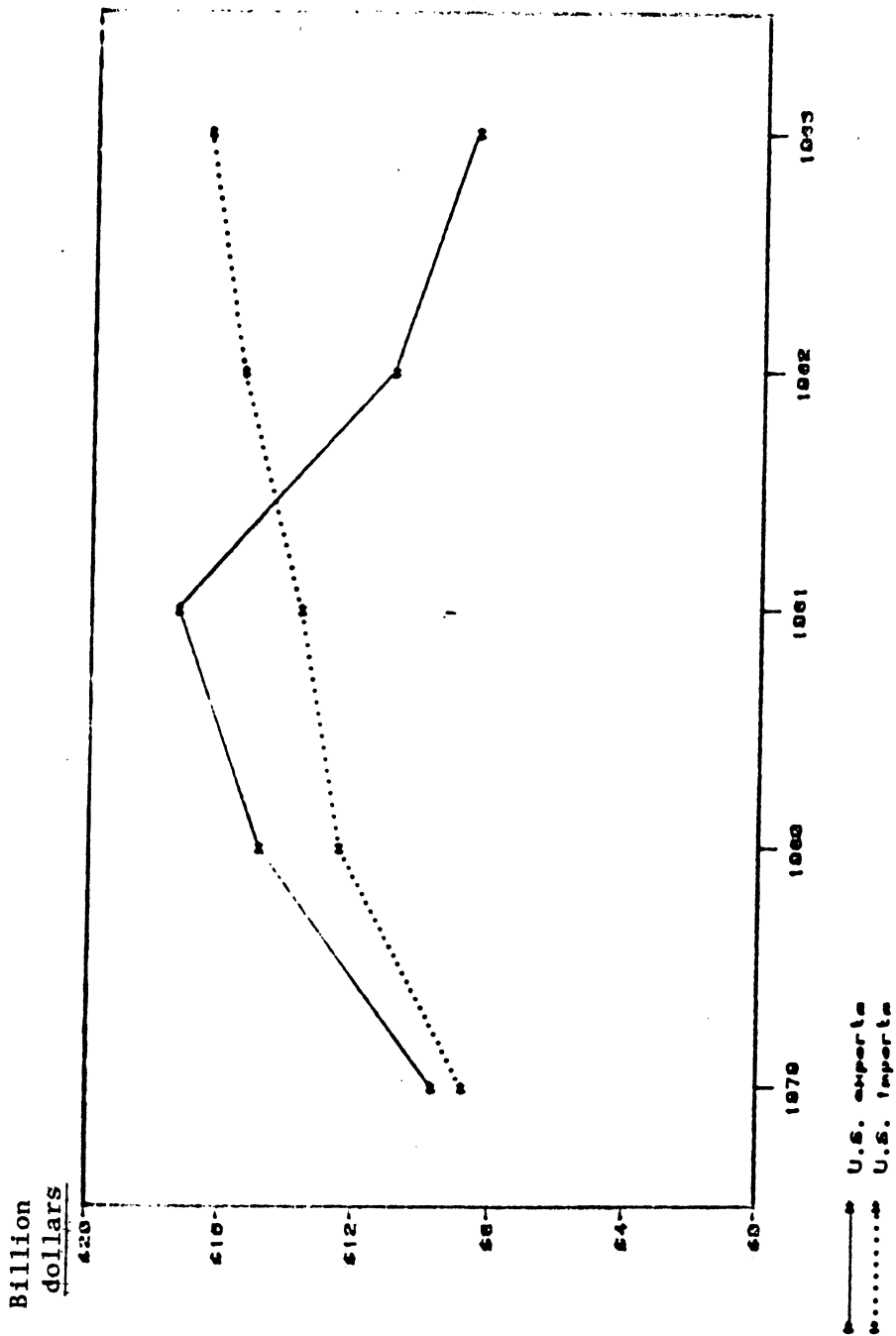
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1/ Standard International Trade Classification.

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 7.--U.S. trade with Mexico, 1979-83.



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

These developments altered the composition of U.S. exports to Mexico during the year. Despite its shrinking export value, machinery and transportation equipment (SITC 7) remained the leading export group (table 33). However food (SITC 0), became the second largest, displacing manufactures classified by chief material (SITC 6) and mineral fuels (SITC 3), which were second and third in 1982.

U.S. imports

U.S. imports from Mexico moved upward in the last two years, reaching \$13.7 billion in 1981, \$15.5 billion in 1982, and \$16.6 billion in 1983 (table 33). Their rate of increase nonetheless leveled off, from 13 percent in 1982 to 7 percent in 1983. Mexico's share of overall U.S. imports was 6.4 percent in 1982 and 6.5 percent in 1983.

No major shifts have taken place in the composition of U.S. imports from Mexico. Mineral fuels (SITC 3) continued to account for more than one-half of the total. The volume of Mexican petroleum shipments to the United States increased by 8 percent in 1983 but, because prices declined, their value remained virtually stable. Mexico has become the largest oil supplier to the United States since shipments from some other leading sources--mostly Saudi Arabia and Nigeria--have declined. Meanwhile, the United States continued to be the largest one market for Mexican petroleum exports, accounting for more than one-half of the total.

Machinery and transportation equipment (SITC 7) and manufactured products classified by chief material (SITC 6) accounted for most of the increase in the value of imports from Mexico. Shipments of machinery, the second-ranking product category of imports from Mexico, rose by 28 percent in value, over 1982. Many items in these groups entered the United States duty free under TSUS classifications 806.30 and 807.00, which provide for duty-free treatment of U.S.-origin components and processing incorporated in imported products.

Table 34 shows imports from Mexico under TSUS items 806.30 and 807.00 in 1981-83.

Table 34.--U.S. imports from Mexico entered under TSUS items 806.30 and 807.00, 1981-83

Item	1981		1982		1983	
	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>
Total U.S. imports	13,704	100.0	15,488	100.0	16,619	100.0
Imports under items						
806.30 and 807.00	2,710	19.8	2,854	18.4	3,717	22.3
TSUS item 806.30:	54	0.4	34	0.2	28	0.2
TSUS item 807.00:	2,656	19.4	2,820	18.2	3,689	22.2

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

The United States levies duty only on the value added in the foreign country. 1/

Items entering under TSUS 807.00 increased as a share of overall U.S. imports from Mexico, accounting for 19.3 percent of the total in 1981 and 22.2 percent in 1983. Mexico is a leading source of imports entering the United States under this category. 2/ As stated earlier, most of these imports are in the machinery and equipment category, and include items such as piston engines, vehicle chassis, and other machinery products. Many originate in assembly plants established under Mexico's "in-bond" program. 3/

As a developing country, Mexico is also a beneficiary of the GSP of program of the United States. In 1983, \$725 million, or 4.4 percent of U.S. imports from Mexico entered duty free under this program. 4/

Traditional nonmanufactured imports from Mexico such as shellfish, gold and silver bullion, and coffee, continued to be important during the year. Imports of tomatoes almost doubled (table A-7). Another notable development was the decline in imports of Mexican ammonia--the first such decline in many years.

Major Policy Developments Affecting Trade

Maintaining a positive merchandise trade balance was given a high priority in the economic policy of the de la Madrid Administration in 1983. In the short term, this objective was to be reached principally by a sharp reduction of imports through import restrictions and substitution with local supplies. In the medium and long term, however, the Administration plans to move away from Mexico's traditional emphasis on import substitution to a vigorous promotion of nonpetroleum exports. Exchange rate policy also served to support this trade policy, in addition to stemming the flight of capital.

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 in-bond plants ("maquiladoras"), which are the principal sources of 806.30 and 807.00 imports from Mexico. Mexican authorities do not levy import duties on U.S. shipments into the "maquiladoras" or export duties on outbound shipments. See also discussion of "In-bond plants" later in this section.

For an in-depth statistical treatment of imports under these TSUS items, see the U.S. International Trade Commission's report, Imports under items 806.30 and 807.00 of the Tariff Schedules of the United States, 1979-82 (Publication No. 1467, January 1984).

2/ Others are Japan, Canada, and West Germany.

3/ See also "In-bond plants" later in this section.

4/ See also "Changes in the GSP program affecting Mexico" later in this section."

Automotive decree

The latest regulations of the automobile industry characterize Mexico's current trade policy on both the import and the export side of the ledger. On September 14, 1983, the Government announced that a new decree had been issued to regulate the Mexican automotive industry. Like its predecessors, the September measure was aimed, in part, at forcing automakers to assemble cars locally for the Mexican market. The first such decree was issued in 1962, and later amended in 1972 and 1977. 1/

The new regulation was ground-breaking, however, in trying to strictly enforce an earlier requirement that auto and auto parts producers operate with balanced foreign exchange earnings and expenses. The balance requirement is intended to cut down on imports and boost the exports of automotive products. Vehicle manufacturers will no longer be allowed to meet this stipulation by exporting nonautomotive items (such as Mexican coffee) as they have done in response to the earlier provision.

In accordance with the Government's policy of import substitution, the decree continues to raise Mexican content requirements in automotive products: for cars from 50 to 60 percent, for light trucks from 65 to 70 percent, and for other classes of motor vehicles from 80 to 90 percent. The regulation also tightens the manner in which "local content" (the ratio of Mexican "value added" to "total output") is calculated.

The decree includes provisions to make the auto industry more competitive, thereby serving both import substitution and export promotion goals. It sets out to remedy the inefficiencies of the industry that resulted from its high level of protection through the years, principally by seeking economies of scale. The new regulations limit the number of items a manufacturer is permitted to produce. For example, an assembler is restricted to three lines of cars in model year 1984, to two lines in model years 1985 and 1986, and to only one line in 1987. The number of models per line is also limited to five, beginning in 1985. The decree further prohibits the production of 8-cylinder engines in passenger cars beginning in model year 1985, and of pickup trucks beginning in model year 1986. Exceptions will be made only if more than 50 percent of output is exported.

The new decree is controversial both in labor and industry circles. The largely foreign-owned Mexican automotive industry includes six multinational companies: the subsidiaries of the Ford Motor Co., Chrysler Corp., General Motors, Renault-American Motors, Volkswagen, and Nissan. These companies are presently lobbying for flexible implementing regulations for the decree in order to preserve their freedom to respond to market forces.

1/ See also OTAP, 34th Report, 1982, p. 209.

Import restrictions and substitution

Mexico's earlier highly protectionist system, which had been dismantled in the 1970's, was fully reinstated in 1982 in the wake of the country's economic crisis. The Mexican Government set an overall import target of \$14 billion for 1983, but the recession reduced actual imports to only \$8 billion.

Throughout 1983, virtually all imports have been subject to import licenses. The licensing program is administered rigorously by the Mexican Secretariat of Commerce and Industrial Development (SECOFIN). One major exception was made in February, when imports of 350 items were authorized--mostly for spare parts needed to keep plants and factories in operation. This generalized import permit regimen combined with Mexico's exchange control measures in curtailing imports. 1/

In 1984, however, the Government will ease its reins on imports, targeting their value some \$5 billion higher than that set for 1983. High priority will be given to raw materials for essential industries, such as the chemical, petrochemical and pharmaceutical industries, and for repair and replacement parts for industrial machinery and equipment. Increased imports of measuring and controlling instruments and machine tools will also be permitted. Massive grain imports will continue, and major imports of other food items (sugar, eggs, dried milk, oilseeds) are considered possible.

The Government continued its active policy of import substitution, urging producers to reduce reliance on imported materials, and to actively seek local substitutes. The continued increase of domestic content requirements in the automobile industry was mentioned earlier. Local content requirements are in existence for the electronic industry as well. 2/ Other industries are also targets for import substitution. For example, a decree to regulate the pharmaceutical industry drafted (but not yet issued) during the year is expected to include such provisions.

Most observers agree that imports will probably never regain levels they reached before the debt crisis. By the time the liquidity crisis eases, new local supply channels will be in place.

Export promotion

In the longer term, exports are to play an increasingly important role in maintaining a sound Mexican trade and payments balance. In his first State

1/ See "Exchange rate policy" later in this section

2/ OTAP, 33d Report, 1981, pp. 176-177, and OTAP, 34th Report, 1982, p. 210.

of the Union address in September 1983, President de la Madrid said: "Today, increasing export trade is our highest-priority task."

Export promotion is an important element of the National Development Plan (1983-88). As noted, Mexico emphasizes exports other than crude oil (oil exports have been targeted in 1983 not to exceed 1.5 million barrels per day). The Administration's efforts focus, therefore, on promoting the sale of manufactured goods, aided by a sufficiently undervalued peso. Mexican sources point out that Mexico is lagging behind countries such as Singapore, Hong Kong, Korea, Spain, and Malaysia in its nonpetroleum exports, and that relatively few manufactured products are exported. 1/

An export promotion program instituted in May 1983 by SECOFIN includes the relaxation of export controls, and the elimination of certain export taxes. The program added 294 product classes to the list of those already exempt from export permits (bringing the number of exemptions to 2,695 out of a total of 8,000 export classifications). Moreover, it eliminated 25 product groups from those subject to export taxation, and reduced export taxes on another 21 categories. The program also dropped the requirement for special health-related permits to export food, beverages, and pharmaceuticals.

The program also calls for new funds to support exports. Preferential export financing became the major form of support given to exports, after Mexico reduced and eliminated some of its export incentive programs. 2/ The Mexican Foreign Trade Bank reported that, in the first three quarters of 1983, it had loaned the equivalent of \$1.02 billion to finance exports. The Bank offers dollar-denominated export loans with interest rates as low as 6 percent, well below prevailing market rates. It also offers pre-export financing on very favorable terms. 3/ A broad spectrum of schemes exists, or is being considered, to facilitate the access of exporters to foreign exchange.

The Mexican Institute of Foreign Trade is the principal Government agency handling Mexican exports other than oil.

Countertrade

Using countertrade to get around the shortage of foreign exchange is another recent feature of the new Mexican trade policy. On March 4, 1983, Mexico allowed firms to barter exports for imports, provided that the value of goods exported covered the cost of the imported goods and associated handling expenses. The Government also provided that, in order to engage in barter transactions, firms must obtain authorization from both the Banco de Mexico and SECOFIN.

1/ Mexican-American Review, August 1983, p. 15.

2/ See "Mexican subsidies and U.S. countervailing" later in this section

3/ Ibid.

During 1983, countertrade opportunities were explored, among others, with the Soviet Union and Eastern European nations as these nonmarket economy countries have special interest and experience in this form of trading. (Mexico's trade links with them have been negligible to date).

Exchange rate policy

In 1983, the Government maintained the peso's parity on the low side to discourage imports, raise the competitiveness of exports, and stem the flight of capital. Mexico's financial crisis has been triggered in large measure by massive capital flight, resulting from a gross overvaluation of the peso before August 1982. Capital flight was stemmed by three devaluations in 1982, which pushed the parity from about 25 to 150 pesos to the U.S. dollar that year.

A two-tier exchange-rate system was established in March 1983 and remained in place throughout the year. This replaced a three-tier system which became effective in December 1982 (this, in turn, relieved complete exchange controls that were put in place a few months earlier). The two-tier system features a "free market rate" and a "controlled rate." The parity of the peso was originally set fairly high in the controlled rate--55 percent higher than the free rate. The purpose of this preferential rate was to make the payment of hard-currency obligations initially more manageable for debtors and for importers. However, from the outset this over-valued peso has been subjected to a "creeping devaluation"--by 13 centavos daily against the U.S.-dollar.

The so-called free rate 1/ is set daily by the Bank of Mexico. Unlike the steadily depreciating controlled rate, it remained largely stable for the first 9 months of the year. By depreciating the controlled rate and keeping the free rate stable, Mexican officials planned to merge the two rates early in 1984, thus ending the dual exchange system. Instead, in September 1983, they began to depreciate the free rate as well--also by 13 centavos daily. Like earlier devaluations, this new move was intended to spur exports, facilitate loan repayment, and lower speculative pressure on the currency.

On January 16, 1984, the official free rate was 162 pesos and the controlled rate 146 pesos to the U.S. dollar. The daily depreciation of the free rate that began in September 1983 was expected to lead to a parity of over 200 pesos to the dollar by the fall of 1984. This slide of the free rate, paralleling that of the controlled rate, stabilized the differential between the two parities, apparently postponing plans for ending the dual exchange system. 2/

1/ As dollar sales by Mexican banks are informally rationed, there is a third (legal) exchange market where the dollar trades above "free market" quotations.

2/ According to an early 1984 statement of the Director General of the Bank of Mexico, the slide of the two rates would stay unchanged throughout 1984.

Mexican officials claim that they are following the policy of "realistic" exchange rates. Meanwhile, debate continues on what should be considered as a "realistic" parity and what is the best exchange policy to follow under Mexico's present circumstances. 1/

Foreign investment policy

The traditional Mexican distrust of foreign investment, reflected also in the country's 1973 Foreign Investment Law, has been less in evidence since the de la Madrid Administration took office. This Administration has shown signs of recognizing the positive role foreign investment can play in supplementing insufficient domestic savings, bringing needed technology into the country, and locating foreign markets for Mexican products.

Under the country's 1973 Foreign Investment Law, Mexican citizens must retain controlling interest in foreign investment ventures with very few exceptions. The ceiling for foreign participation is specified at 49 percent of equity. Foreigners are excluded from or have a very limited role in, designated industries such as oil, telecommunications, and transportation. They are allowed a somewhat larger role in industries such as the automotive and petrochemical industries. Foreign companies buying into an established Mexican enterprise can control no more than 25 percent of equity.

However, the new leadership of Mexico's Foreign Investment Commission (FIC) now appears ready for a flexible interpretation and application of this statute. FIC is the entity authorized to adapt foreign investment controls to the prevailing needs of the Mexican economy. Recently, several foreign firms acquired majority ownership in Mexican enterprises by increasing their investment in existing companies, or by providing majority capital in joint ventures. In 1983, FIC was reportedly studying proposals for up to 100 percent foreign ownership of new companies in "non-priority" areas. 2/

Despite the apparent shift in Mexico's foreign investment policy, it is widely believed that an inflow of foreign capital ought to be triggered by more definitive measures. Investment of foreign origin is very low in Mexico; it is assessed at \$11 billion, or about 4 percent of the total book value of plant and equipment in the country. 3/ In its effort to attract foreign capital, the Government issued revised guidelines on August 15, 1983, covering the in-bond industry. 4/ The purpose of the new regulations was to further

1/ Early in 1984, a leading Mexican brokerage house recommended that the peso's daily devaluation be speeded up to 16 or 20 centavos daily to make Mexican products more competitive on export markets.

2/ On Feb. 16, 1984, the Mexican Government released the list of industries in which majority foreign equity control can be approved under specified conditions. The selected industries include heavy industrial machinery, telecommunications equipment, computer components, machine tools, and pharmaceuticals. Special consideration will be given to labor-intensive enterprises, to those that generate foreign currency or produce substitutes for imported products.

3/ The Economist Intelligence Unit, Quarterly Economic Review of Mexico, No. 3, 1983, p. 8.

4/ See "U.S. investment in Mexico" later in this chapter.

expand the foreign-exchange earning capability of the Mexican industry through the in-bond producers (who are important hard-currency earners), and to attract foreign investors.

Over the past decade, the U.S. share of overall foreign investment in Mexico has declined from 75 to 68 percent. 1/ Japan and West Germany follow next in importance with roughly 8 percent each. U.S. firms have traditionally preferred joint ventures with private Mexican parties; Japanese corporations are increasingly involved in partnerships with Mexican state enterprises.

U.S.-Mexican Bilateral Trade Issues

In this first year of a new Mexican Administration, progress in resolving long-standing issues between the two countries apparently slowed. No major developments took place in bilateral commercial relations during the year; the working groups established before 1983 in the framework of the U.S.-Mexico Joint Commission on Commerce and Trade (JCCT) 2/ have been largely inactive. Trade relations continued to be characterized by a Mexican perception that the the United States is "protectionist" and "discriminatory," and U.S. efforts to dispel this misconception. Calls from the U.S. side that Mexico rely more on market forces and allow a freer flow of trade and capital through the shared frontier persisted.

A "summit" meeting of Presidents Reagan and de la Madrid took place in La Paz, Mexico, on August 14, leading to an accord on cooperation concerning air, water, and land pollution problems in the border area. The two Presidents discussed several aspects of mutual economic relations and acknowledged the useful role played by the JCCT in advancing conflicts towards resolution. However, the short meeting gave no opportunity for the Presidents to iron out major trade issues although they discussed them.

There is no comprehensive multilateral or bilateral agreement in force underlying U.S.-Mexican trade. Mexico is neither a member of the GATT, nor does it have an equivalent bilateral accord of a broad scope with the United States. Representatives of the two countries have negotiated sporadically on a bilateral agreement for more than a year.

Despite the absence of a trade agreement, the United States grants most-favored-nation (MFN) treatment to imports from Mexico in accordance with section 351 of the Tariff Act of 1930, which initially granted such treatment to all countries. 3/ Mexico reciprocates in its own customs treatment of imports from the United States.

1/ Ibid.

2/ The Joint Commission is a consultative body established by both Governments in 1981 to strengthen commercial exchange between the two countries.

3/ Subsequently, the Trade Agreements Extension Act of 1951 prohibited MFN treatment of imports from communist countries, but still later legislation allowed the restoration of MFN to communist countries under specified conditions. Mexico's entitlement to MFN treatment has never been called into question.

In 1983, Mexico continued to benefit from major U.S. public and private financial assistance. Moreover, as a developing country, Mexico also continued to enjoy duty-free treatment of its eligible exports under the GSP program of the United States. However, U.S. cancellations of certain duty-free exemptions under GSP became a source of conflict between the two countries. Another notable problem that persisted throughout 1983 was the issue of Mexican export subsidization and U.S. countervailing.

U.S. assistance in Mexico's debt crisis

The efforts of the United States to assist Mexico in its debt crisis continued during the year, and involved several U.S. Government agencies and private institutions. Most supplier credits or credit guarantees that are extended by the U.S. Government to Mexico are those of CCC for agricultural exports. U.S. financing of nonagricultural exports to Mexico, provided by the Export-Import Bank (Eximbank), is minor in comparison. These facilities are complementary to other U.S. financial support to Mexico's adjustment program, including participation in financing provided by the IMF, other multinational financial institutions, and commercial banks. 1/

Commodity Credit Corporation

Before FY 1983, Mexico had never participated in the U.S. program of CCC credits or credit guarantees; it purchased agricultural goods from the United States for cash or on a short-term (180-day) credit basis. However, in FY 1983, Mexico was compelled to increase food imports significantly, due to a drop in its domestic production in 1982.

The United States allocated Mexico one-quarter of the CCC guarantees authorized for all countries for FY 1983 (Oct. 1, 1982, through Sept. 30, 1983). The CCC is the implementing agency of the "Agreement for the Supply of Agricultural Products Between the United States of America and the United Mexican States," signed by the parties in February 1983. This agreement (the fourth in a series) provides for Mexico to purchase in 1983, and for the United States to make available in the same year, between 6.5 million and 9.5 million metric tons of agricultural products.

For calendar year 1983, CCC provided credit to Mexico amounting to \$1.7 billion. Of this total, \$1.3 billion was used in the first three quarters of 1983 (as part of FY 1983), covering feedgrains (\$864 million), oilseeds (\$291 million), and protein, shell eggs, tallow and vegetables in smaller amounts. The remaining \$400 million was authorized for use in the last quarter of 1983 (as part of FY 1984). Most of this amount covered U.S. exports of feedgrains (\$276 million); the remainder consisted of exports of oilseeds, shell eggs, tallow, planting seed and dairy cattle.

1/ See discussion on "Rescheduling the external debt" above in this section.

Eximbank

Eximbank assistance to Mexico amounted to \$300 million in FY 1983, including short- and medium-term direct loans, credit guarantees, and insurance for specified nonagricultural exports to Mexican Government entities. Loans and loan guarantees for U.S. exports for power generation equipment and the railway system in Mexico were provided by the Eximbank, along with long-term financial guarantees for a communications satellite system. Eximbank supplies credit insurance and guarantees of last resort to U.S. exporters of nonagricultural products and services. In the context of the current Mexican debt situation, these programs have served to prevent a precipitous drop in commercial lending by removing the risk involved to creditors.

In August, Eximbank approved an unusual open-ended credit line of \$500 million (concurrently with \$1.5 billion for Brazil) for U.S. exporters to Mexico. This amount is expected to support sales of a wide range of products (including raw materials, spare parts, components, capital goods) at varying credit terms appropriate to the products in question.

The Mexican credit crisis was not without its problems for Eximbank. U.S. exporters to Mexico who have not received payments were expected to make claims totaling over \$400 million in 1983, exceeding several times Eximbank's historical annual average to any country. Eximbank will pay all claims by insured creditors on loans to Mexican entities unless the arrears (or default of the debtors) were dated earlier than May 6, 1982.

Changes in the GSP program affecting Mexico

Mexico is the fourth-ranking beneficiary country of the GSP program of the United States, based on imports that entered U.S. customs territory free of duty in 1983. Mexico's share of overall U.S. duty-free imports under GSP was 6.7 percent in 1983, compared with 7.2 percent in 1982. As shown in the following tabulation, such shipments from Mexico in 1983 amounted to \$725 million, or 19 percent of GSP-eligible imports, and 4.4 percent of overall imports from that country (in million of dollars): 1/

	<u>Value</u>
Overall U.S. imports-----	16,619
GSP-eligible imports-----	3,859
GSP duty-free imports-----	725

Mexico was affected by the annual product review of the GSP program which had been approved by President Reagan on March 30, 1983, and became effective immediately. As a result of the review, 11 items that are imported from Mexico became ineligible for duty-free treatment under the "competitive need" provisions of the program. 2/ The review brought the number of ineligible

1/ See also "The Generalized System of Preferences" in ch. V.

2/ A product was judged competitive in this review when imports exceeded \$53.3 million in 1982, or accounted for 50 percent of U.S. imports of that product from all sources. For a discussion of "competitiveness" and other eligibility criteria under the GSP program, see "The Generalized System of Preferences" in ch. 5.

items to 55, accounting for \$1.7 billion in imports in 1982. They all represent successful penetration of the U.S. market by Mexican exporters. Duties for most of these items are negligible.

The review excluded seven other Mexican items from duty-free access to the U.S. market for reasons other than "competitiveness." Altogether, Mexico is thus currently ineligible for 62 of the approximately 3,000 items for which the United States grants duty-free treatment under GSP.

Mexico is among a group of advanced beneficiary countries (ABC's) whose products are often "graduated" from eligibility under the program's benefits 1/ under the President's discretionary authority. The objective of graduation is to shift benefits from the ABC's to countries at a lower stage of development. In the latest review, the President "graduated" Mexican beer and ale, denying duty-free treatment for these products. Shipments involved amounted to \$27 million in 1982.

Mexico expressed disappointment over the outcome of the review and objected to its image in the United States as a relatively advanced industrial nation. Fearful of facing declining preferential treatment on such grounds, Mexico called for special consideration due to its current economic difficulties. It showed special concern over the impending renewal of the current GSP program, fearing that it might bring further exclusions from duty-free treatment. The current program will expire on January 3, 1985. 2/

Joint Commission

When Presidents Reagan and de la Madrid met in August 1983, they agreed to establish a new working group on border development under the auspices of the JCCT. The purpose of the group was to review the economic and commercial activity in the border area, propose actions that would promote mutually beneficial development in that area, and reduce impediments to transborder activity.

The JCCT was established in June 1981 with the mandate to discuss and manage bilateral trade issues. Headed by the United States Trade Representative and the Secretary of Commerce of Mexico, the JCCT performs its duties through a Technical Secretariat and working groups. The working groups, established before 1983, consider issues related to electronics (chiefly computers), automotive products, petrochemicals, transportation relations, and industrial property rights.

U.S. investment in Mexico

Although Mexico's financial and economic crises caused significant losses to resident U.S. companies, prospects of continued direct U.S. investment in that country improved. This is partly due to the new Mexican Administration's

1/ Ibid.

2/ See also "GSP Renewal" in ch. I.

apparent interest in attracting foreign capital--a departure from the country's traditional rejection of direct foreign investment. ^{1/} Some analysts even believe that many U.S. firms originally planning to locate in the Far East might favor Mexico instead. They draw this conclusion from considerations such as the approaching end of the British rule in Hong Kong; perception of some investors that investing in China has some risks; and the higher transportation costs involved in moving products to and from the Far East.

According to Mexican sources, U.S. direct investment in Mexico amounted to \$7.3 billion in 1982, or 68 percent of all foreign capital in that country; 78 percent was allocated in the industrial sector; the remainder principally in services and commercial activities. Reflecting Mexico's traditional policy of controlling primary resources, only 1 percent was invested in industries producing primary products.

U.S. companies operating under Mexico's in-bond industry program (maquiladora) were affected by a new order of the Mexican President issued on August 15, 1983, on this program. Previously in-bond plants were authorized to produce for export only, but the new order allowed them to sell up to 20 percent of production for certain items on the Mexican market. It also stated that ". . . as an exception, greater percentages may be authorized in those cases where it is justified, as long as the company does not lose its character as an exporter."

The newly authorized sale of in-bond products in Mexico was adopted to serve the country's long-range objectives, especially the introduction of new technology. Nonetheless, selling in-bond products on the home market requires authorization by SECOFIN, whose permission is tied to many conditions and subject to annual reviews. SECOFIN allows domestic selling only if similar Mexican production does not exist or if it is insufficient to meet demand. Even if these conditions are met, the in-bond industry catering to domestic buyers must not conflict with the country's foreign investment priorities or long-term development goals, and must meet local content requirements where they exist.

The in-bond industry remained one of the few bright spots of the Mexican economy since the crisis burst forth in 1982. This industry represents a unique and important form of U.S. investment in Mexican manufacturing. Many U.S. companies have established twin plants or complementary facilities in Mexico under the in-bond program. This allows the U.S. owner or partner in a joint venture to ship capital equipment, materials, and work-in-progress duty free to Mexico where further processing or assembling takes place. The items processed or assembled in the in-bond plants are subsequently returned to the United States, or exported to third countries--again without payment of export duties. ^{2/}

As to pertinent duty provisions in the United States, the U.S. content of items reentering domestic customs territory is not subject to import duties; duty is only levied on the value that was added in Mexico. The special customs treatment applicable to in-bond production is provided for under TSUS items 806.30 and 807.00. ^{3/}

^{1/} See "Foreign Investment Policy" earlier in this section.

^{2/} The in-bond plants are not considered part of Mexican customs territory, therefore shipments to and from these plants are not included in Mexican foreign trade statistics.

^{3/} See also "Trade with the United States" above.

Under the maquiladora program, the United States partly benefits from Mexico's low-wage structure and its relative proximity. Mexico benefits from local employment and income generated by the in-bond plants and from the job training and technology transfer they make available. Most of all, Mexico values in-bond plants for the foreign exchange earnings they provide. In 1982, the maquiladora industry was the second leading export sector after the hydrocarbon industry.

To date, in-bond plants have operated principally in the area of textiles, electronics and electrical machinery, and auto parts. Other manufacturing production considered well-suited for in-bond programs includes ceramics and toys.

In-bond plants were first established adjacent to the U.S.-Mexican border in 1965. In 1972, the Mexican Government allowed them to locate in the interior where minimum wages are lower than in the border areas. All in-bond operations have to be incorporated in Mexico and the majority is also Mexican-owned. Yet, U.S. (or other foreign) ownership up to 100 percent is permitted in this program under exemptions from Mexico's 1973 Foreign Investment Law, which normally requires domestic controlling interest in all ventures.

The greatest concentration of border area in-bond plants can be found in Ciudad Juarez, Tijuana, Mexicali, and Nogales. In the interior, Chihuahua and Guadalajara are favored areas. In November 1983, some 160,000 Mexican employees were reportedly working under the maquiladora program in 650 companies, most of them subsidiaries of U.S. firms or joint ventures of Mexican and U.S. businesses. ^{1/} Some 90 percent are located within a 20-kilometer border zone adjacent to the United States.

Mexican subsidies and U.S. countervailing

The upsurge of U.S. countervailing investigations against Mexican imports, which began in 1982, continued in 1983: six new countervailing petitions were filed with the U.S. Department of Commerce against imports from Mexico, involving portland hydraulic cement and cement clinker; pork rind pellets; unprocessed float glass; certain fresh flowers; bricks; and certain carbon steel products.

Subsidies to Mexican producers and exporters and countervailing by the United States have been sensitive issues in bilateral relations for some time. Because Mexico is not a signatory to the GATT subsidies code, its products are not entitled to an "injury test" under U.S. countervailing duty law. A determination by the Department of Commerce that countervailable subsidies have been applied to Mexican exports results automatically in the imposition of countervailing duties; such action is not tied to demonstrated injury of a U.S. industry.

^{1/} Washington Letter, November 1983, p. 2.

Mexican officials are opposed to this U.S. practice, claiming that it is a discriminatory application of the injury test, and ignores Mexico's problems as a developing country struggling with a debt crisis. Mexico is especially sensitive to this particular issue, due to its recent emphasis on boosting nonpetroleum exports.

The Trade Agreements Act of 1979 provides for application of an injury test in subsidy cases if the exporting country "has assumed obligations with respect to the United States which are substantially equivalent to obligations under the GATT Subsidies Agreement." The United States and Mexico have been negotiating such an agreement for some time. Negotiations continued in 1983, but no agreement had been concluded before yearend.

Mexican export subsidies objected to by U.S. producers include preferential tax credits and exemptions (CEPROFI); preferential financing and loan guarantees to promote exports of manufactures (FOMEX); funds for industrial development (FONEI); preferential loans for medium and small industries (FOGAIN); preferential prices for natural gas, other fuels and their by-products (as made possible by Mexico's existing dual exchange-rate system); 1/ and a program to cover risks involved in parity changes (FICORCA). Although Mexico has reduced or eliminated certain subsidy programs (most notably CEDI, a tax rebate program which was suspended in August 1982), many others remain.

The Department of Commerce made affirmative determinations in two of the six countervailing petitions filed in 1983: portland cement, and unprocessed float glass. In one of the six cases--pork rind pellets--the Commerce Department estimated that the net subsidy was de minimis, and issued a negative finding. The three remaining cases--fresh cut flowers, bricks, and carbon steel products--were still pending at the end of the year. Other outstanding countervailing duty orders dated before 1983 were subjected to their yearly administrative reviews by the Department of Commerce. In addition to items already mentioned, the following imports from Mexico are currently under countervailing duty orders: leather wearing apparel, ceramic tile, litharge, and toy balloons.

Another countervailing duty case initiated in 1982--polypropylene yarns--was suspended in 1983 as the Mexican manufacturer agreed to renounce all countervailable benefits from the Mexican Government. Compliance is subject to U.S. administrative review.

Oil for U.S. strategic reserve

In 1983, the U.S. Government discussed a possible new contract with PEMEX for purchasing Mexican crude oil. The oil in question was to be designated for the Strategic Petroleum Reserve of the United States--a source of supply maintained by the U.S. Government for emergency situations. 2/ The year ended without an accord, however, with Mexico having no immediate interest in further sales for the U.S. stockpile.

1/ The issue whether preferential pricing of natural resources to domestic users is countervailable is the subject of proposed new trade legislation currently under debate.

2/ Platts Oilgram, Dec. 6, 1983, p. 2

An earlier agreement, concluded in 1982, expired in September 1983. This accord was one of the measures applied to alleviate Mexico's liquidity crisis. The United States paid 1 billion dollars to Mexico (calculated at then prevailing world prices) in advance for shipments of oil beginning in September 1982 and averaging 110,000 barrels per day. Running concurrently with this contract was an earlier 5-year supply accord for 50,000 barrels per day--an arrangement slated to continue until July 31, 1986. ^{1/}

TAIWAN

The Economic Situation in 1983

Taiwan has developed into a modern industrial economy in the post-war period. From 1962-82, Taiwan's GNP grew an average annual rate of 9 percent and production grew by more than 14 percent annually. Trade has strongly contributed to Taiwan's economic growth: imports increased by 23 percent and exports by 26 percent on average during the same twenty-year period. The United States has strongly contributed to Taiwan's economic growth, primarily by acting as the leading market for Taiwan's exports and a major source of its imports.

Taiwan has continued to prosper in recent years. Real GNP grew by 13 percent in 1978, 8 percent in 1979, and 7 percent in 1980. The economy took a slight downturn in 1981, but Taiwan was one of the first newly industrialized countries (NIC's) to respond to the world recovery in 1983. Real GNP grew by 7.14 percent in 1983, well above the Government's 5-percent target. GNP totalled \$49.7 billion, or roughly \$2,673 per capita by yearend.

Inflation was not a problem in either 1982 or 1983. Consumer prices rose by less than 3 percent in 1982 and less than 1 percent in 1983, and wholesale prices declined in both years. The unemployment rate was only 2.14 percent in 1983. Interest rates declined in 1983--the prime interest rate was 8.65 percent, down from the 1982 level of 11.04 percent.

The recession of 1981-82 forced Taiwan to take measures to help businesses weather short-term financial crises. At the same time, economic authorities realized that Taiwan was becoming more vulnerable to competitive pressures from other developing countries, particularly China. These nations were cutting into Taiwan's traditional export lines, such as apparel and consumer electronic goods. Taiwan responded to this threat by adopting an industrial policy designed to transform the country from a labor-intensive economy dependent on cheap energy into a capital-intensive economy based on high technology and skilled labor.

The Ministry of Economic Affairs (MOEA) has spearheaded the effort by targeting specific industries for intensive development. The designated industries--151 since the program's inception in 1982--are eligible for special economic incentives, such as tax exemptions and accelerated depreciation. Computers, computer peripherals, electronic components, telecommunication products, robotics, digital control systems, electric and nonelectric machinery, and auto parts are among the industries that have been targeted by the Government.

^{1/} OTAP, 34th Report, 1982, p. 213.

In 1983, Taiwan's most successful manufacturing industries were those that produced newly developed products, such as electronic goods. Many industries, such as computers, semiconductors, electronic calculators, telephones, watches, and clocks increased their output by 40 percent. The Government is also actively encouraging production of nonelectronic machinery, including machine tools. Output of those products rose by 20 percent during the year. Production of conventional electronic items, such as radios and televisions, grew by 30 percent; footwear output rose by 10 percent. Other sectors performed less well. Output of textiles and transportation equipment increased marginally; aluminum and copper output fell by nearly one-fourth.

International Economic Performance

For the sixth straight year, Taiwan showed a surplus in its merchandise trade account. In 1983, trade turnover was \$45.4 billion and it had a surplus of \$6.7 billion. Trade with the United States and Japan accounted for nearly two-thirds of Taiwan's foreign trade, as it has for the past two decades.

The value of exports grew by more than 13 percent after decreasing by 3 percent in 1982. Textiles, electronic products, footwear, and sporting goods were the dominant export items. For the first time in the post-war period, textiles were not the the leading export category, as overseas sales of electronic goods edged past exports of textiles in 1983. Imports increased by 7 percent, compared with a drop of 11 percent the previous year. Key import items included raw materials, food, crude oil, chemicals, pharmaceuticals, and capital goods.

According to the Central Bank of Taiwan, foreign currency reserves reached a record level of nearly \$12 billion by yearend 1983. More than 80 percent of the currency reserves were in U.S. dollars, with the remainder in West German marks, yen, sterling, and French and Swiss francs. Taiwan's gold reserves totaled over \$2 billion in 1983.

The composition of Taiwan's exports has changed dramatically since 1959. In that year, agricultural products accounted for 78 percent of Taiwan's exports, while industrial products only contributed 8 percent to the country's overseas sales. In 1979, on the other hand, the share of agriculture had dropped to 4 percent, whereas industrial goods accounted for nearly 91 percent of Taiwan's exports. ^{1/}

Merchandise trade with major trading partners

Although only 24 nations recognize Taiwan, the small nation has continued trade with many nations throughout the world. The United States was Taiwan's most important trading partner in 1983, accounting for 45 percent of its exports and 23 percent of its imports (see table 35).

^{1/} Gustov Ronis, Shirley W.Y. Kuo, & John C.H. Fei, The Taiwan Success Story, Westview Press, Boulder, Colo., 1980, p. 68.

Table 35.--Taiwan's trade and trade balances,
by selected trading partners, 1982 and 1983

(In millions of U.S. dollars)

Trading partner	1982	1983
Exports		
Industrialized countries:		
Japan-----	2,369	2,478
United States-----	8,758	11,333
EC <u>1</u> /-----	2,232	2,378
Other <u>2</u> /-----	1,154	1,363
Subtotal-----	14,513	17,552
Developing countries:		
Oil-exporting		
countries <u>3</u> /-----	1,019	974
ASEAN-----	1,656	1,874
Hong Kong-----	1,565	1,643
Korea-----	199	223
Subtotal-----	4,439	4,714
Other-----	3,255	2,853
Total-----	22,207	25,119
Imports		
Industrialized countries:		
Japan-----	4,780	5,587
United States-----	4,563	4,646
EC <u>1</u> /-----	1,776	1,832
Other <u>2</u> /-----	960	1,044
Subtotal-----	12,079	13,109
Developing countries:		
Oil-exporting		
countries <u>3</u> /-----	3,251	3,059
ASEAN-----	1,058	1,172
Hong Kong-----	307	299
Korea-----	233	165
Subtotal-----	4,849	4,695
Other-----	1,963	2,484
Total-----	18,891	20,288

Table 35--Taiwan's trade and trade balances, by selected trading partners, 1982 and 1983--Continued

(In millions of U.S. dollars)

Trading partner	1982	1983
	Trade balance	
Industrialized countries:		
Japan-----	-2,411	-3,109
United States-----	4,195	6,687
EC <u>1/</u> -----	456	546
Other <u>2/</u> -----	194	319
Subtotal-----	2,434	4,443
Developing countries:		
Oil-exporting		
countries <u>3/</u> -----	-2,232	-2,085
ASEAN-----	598	702
Hong Kong-----	1,258	1,344
Korea-----	-34	58
Subtotal-----	-410	19
Other-----	1,292	369
Total-----	3,316	4,831

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

2/ Canada and Australia.

3/ Saudi Arabia and Kuwait.

Source: Compiled from data contained in Ministry of Finance of the Republic of China, Preliminary Statistics of Exports and Imports, Republic of China, December 1983, January 10, 1984 issue.

Japan was Taiwan's largest supplier and its second largest market in 1983. Imports from Japan totaled \$5.6 billion or 27 percent of Taiwan's total imports in 1983. Exports to Japan totaled \$2.5 billion or 10 percent of total exports in 1983. Taiwan's trade deficit with Japan was \$3.1 billion.

In 1982, Taiwan's Board of Foreign Trade banned imports of more than 1500 Japanese consumer products to protest against the swelling trade deficit with Japan and the perceived lack of Japanese sincerity in redressing the problem. Because Taiwan depends on Japan for machinery and industrial intermediates, this ban was eliminated by the end of 1982. Nevertheless, the temporary ban did help Taiwan shrink its 1982 trade deficit with Japan by 36 percent. Later that year, Japan sent a trade mission to Taiwan to discuss the trade deficit question and to purchase some of Taiwan's manufactured products. This was the first official Japanese trade mission to visit Taiwan since 1972.

The EC is one of Taiwan's most significant trading partners. Exports to the EC in 1983 came to \$2.8 billion. Taiwan's main exports to the EC are textiles, televisions, umbrellas, sunshades, footwear, and mushrooms. Despite efforts to increase imports from Europe, Taiwan's purchases from the EC dropped 3 percent during the first 10 months of 1983. The EC's exports to Taiwan were \$2.3 billion, slightly over 9 percent of Taiwan's total imports. Taiwan had a trade surplus of \$491 million with the EC, up from \$300 million for the corresponding period of 1982.

The EC has never officially recognized Taiwan and therefore does not have contractual trade relations with the country. However, the EC regulates Taiwan's trade with the member states at its own discretion by means of autonomous arrangements. Taiwan feels that the informality of its trade relationship with the EC is unfair. As a result, it has proposed to the EC a number of reforms to improve its trade relationship with the EC members.

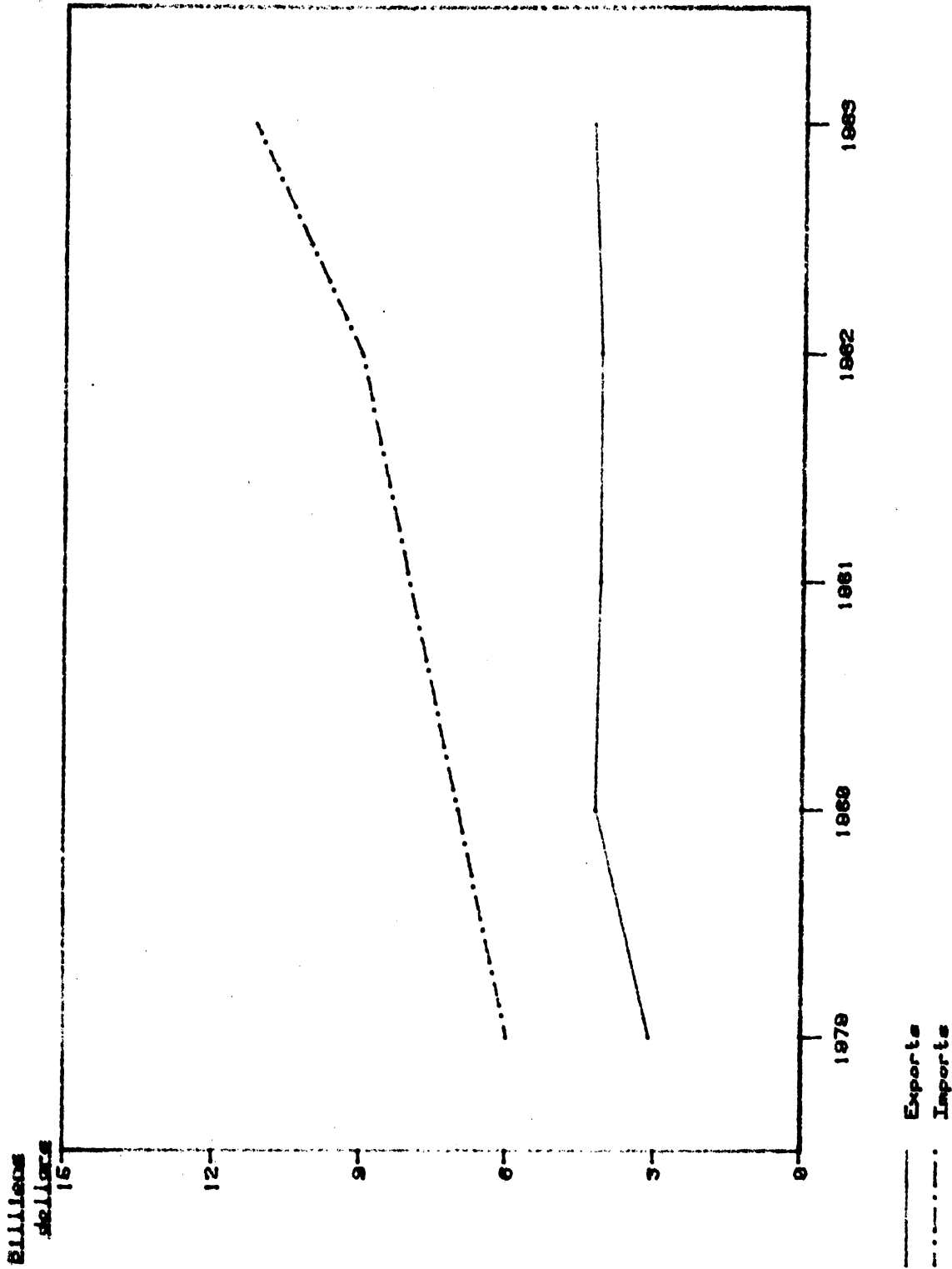
Taiwan has also developed profitable trading relationships with many developing countries in Asia, including Indonesia, Malaysia, the Republic of Korea, and most surprisingly, the People's Republic of China. Despite hostilities between Taiwan and China, trade has continued between the two countries. Unofficial exports from Taiwan to the mainland through middlemen based in Hong Kong have averaged \$400 million annually for the past 3 years. Textiles, yarns, and synthetic fibers and fabrics make up more than 70 percent of this total; television sets and other electronic products account for most of the remainder. China's exports to Taiwan total less than \$100 million and consist mainly of animal hides, plants, metal concentrates, fish, and fruit.

U.S. trade with Taiwan

Two-way trade between the United States and Taiwan totaled almost 16 billion dollars in 1983, making Taiwan the 15th largest export market, the 6th largest source of imports, and the 6th largest trading partner of the United States. As mentioned above, the United States is Taiwan's largest trading partner, accounting for 45 percent of exports and 23 percent of imports.

In 1983 the U.S. trade deficit with Taiwan amounted to \$6.9 billion, up 44 percent from the 1982 deficit (see fig. 8). The United States purchased 45 percent, or just over \$11.3 billion, of Taiwan's exports in 1983 compared with 39 percent in 1982. The United States supplied 23 percent, or \$4.6 billion of Taiwan's imports, down slightly from 24 percent in 1982. Major U.S. exports to Taiwan included agricultural products, chemicals, machinery, and electric and electronic items (see table 36). The value of these four import categories (\$2.7 billion) represented nearly two-thirds of all U.S. sales to Taiwan in 1983. Each year, Taiwan exports an increasing amount of goods and services to the United States. Despite the Taiwan Government's attempt to diversify the markets for Taiwan's goods in 1983, exports actually became more concentrated in the U.S. market. This increase in the degree of concentration is partly due to the rapid U.S. recovery which occurred in advance of all other industrial countries. Another important factor is the strong U.S. dollar, which encourages imports into the United States.

Figure 8.--U.S. trade with Taiwan, 1979-83.



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

Table 36.--U.S. trade with Taiwan, by SITC 1/ Nos. (Revision 2), 1981-83

		(In thousands of dollars)		
SITC Section No.	Description	1981	1982	1983
		U.S. exports		
0	Food and live animals	589,666	514,036	690,691
1	Beverages and tobacco	69,035	62,087	56,408
2	Crude materials--inedible, except fuel	705,391	761,869	846,716
3	Mineral fuels, lubricants, etc	211,829	146,006	204,591
4	Oils and fats--animal and vegetable	11,387	20,063	17,177
5	Chemicals	533,686	543,474	782,294
6	Manufactured goods classified by chief material	223,557	198,872	225,772
7	Machinery and transportation equipment	1,554,287	1,606,143	1,233,171
8	Miscellaneous manufactured articles	215,473	208,164	213,593
9	Commodities and transactions not elsewhere classified	21,793	24,761	25,722
	Total	4,136,104	4,085,475	4,296,135
		U.S. imports		
0	Food and live animals	203,484	259,121	271,402
1	Beverages and tobacco	557	629	859
2	Crude materials--inedible, except fuel	22,223	24,965	25,186
3	Mineral fuels, lubricants, etc	260	425	20,866
4	Oils and fats--animal and vegetable	190	297	113
5	Chemicals	99,480	104,687	158,420
6	Manufactured goods classified by chief material	1,277,699	1,268,581	1,731,991
7	Machinery and transportation equipment	2,382,421	2,615,504	3,461,270
8	Miscellaneous manufactured articles	4,011,353	4,542,526	5,448,713
9	Commodities and transactions not elsewhere classified	38,249	46,571	74,255
	Total	8,035,916	8,863,305	11,193,077

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1/ Standard International Trade Classification.

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

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

Major Policy Developments Affecting Trade

Import liberalization

On September 16, 1983, the Government lifted a 1982 import ban designed to protect key industries from competing foreign goods. The November 1983 import liberalization affected 594 import items in the agriculture, petrochemical, and consumer products sectors. This represented 5.5 percent of approximately 11,000 merchandise items previously subject to import restrictions. Of the 594 items affected by import liberalization, 514 may now be imported without any restrictions. The remaining 80 items, which previously were completely banned, may now be imported, but will be subject to regional restrictions or qualification limitations. Although demand for most of the liberalized goods is not great, the action does represent a small, but positive step towards a more open economy.

Foreign investment and banking regulations

In 1983, the Government loosened restrictions on foreign banks and foreign investments as part of an overall attempt to increase foreign investment.

The number of foreign banks in Taiwan increased from 14 in 1979 to 29 in 1983. U.S. banks dominate the industry with 16 branches. Despite their rapid growth in numbers, foreign banks hold only 1 percent of the total deposits in Taiwan and they are still subject to strict regulations. Foreign banks are only allowed to open one branch in Taiwan and those branches are not allowed to finance basic commodities such as coal and crude oil.

In 1982, Taiwan began designing programs to attract additional foreign capital. In August 1983, the Government granted investors indirect access to Taiwan's stock market through an international investment trust; investment is through beneficiary certificates based on a mutual fund approach. The initial issuance of \$41 million was sold out in October. In December 1983, Taiwan legalized offshore banking operations. The Ministry of Finance is optimistic that offshore banking operations will be in full operation before July 1984. A free trade zone has been considered, but the Council for Economic Planning and Development rejected both the initial proposal and an amended one. A U.S. consulting firm is reevaluating this controversial project.

The Hsinchu Science Park

The Hsinchu Science Park was established in September 1980 to attract high-technology firms to the country. The National Science Council screens potential investors, favoring firms in the sophisticated electronics, information, computer, telecommunications, biological engineering, and machinery industries. The Government offers a number of incentives to companies in these industries. Investors are allowed 100 percent ownership, given a 5-year tax holiday and not assessed duties on imported materials and

equipment. The Government may also contribute up to 49 percent of the capital for joint ventures with foreign firms in the selected industries. Taiwan's National Science Council plans to establish a branch in both Boston and the Silicon Valley in California to attract investors to the Science Park.

Measures to prevent counterfeiting

In recent years, Taiwan has been accused by many countries of commercial counterfeiting. In 1983, Taiwan's legislative body, the Judicial Yuan, took several steps to help solve this problem. In 1983, it ruled that the 1946 Treaty of Friendship, Commerce, and Navigation with the United States provides the right for any American company, registered in Taiwan or not, to bring suit for copyright, patent, and trademark infringement in both civil and criminal court. The MOEA also established an Anti-Counterfeiting Committee to help alleviate this problem.

The MOEA now requires applicants for export permits to submit a trademark holder's written consent to export items using his brand names. Violators, either through incorrect or forged documents, may lose all export privileges and face fines or up to 5 years of imprisonment. At this time the MOEA is reviewing legislation to amend the Copyright Law to expand the current coverage of intellectual property to include computer software, maps, artwork, advertising graphics, sound tracks, lectures, artistic performances, concerts, and engineering designs. It would protect translations of literature, motion pictures, recordings, videotapes, photographs, and computer software for 30 years. All other copyrighted property would be protected for life.

The MOEA is also reviewing draft legislation for a revised patent law and for a law to prevent unfair competition, which would address infringement through misleading packaging and promotional techniques designed to confuse consumers. No action is expected on any of these bills before mid-1984.

U.S.-Taiwan Bilateral Trade Issues

The framework for conducting U.S.-Taiwan trade relations

The United States and Taiwan have had profitable commercial relations for over two decades. When the United States normalized relations with China in early 1979, all "official" trade relations with Taiwan were broken off. However, because the U.S.-Taiwan relationship is so important, two separate "unofficial" agencies were set up to continue quasi-diplomatic relations in the Taiwan Relations Act of 1979. The U.S. Government created the American Institute in Taiwan (AIT) and Taiwan set up the Council for Coordination of North American Affairs (CCNAA).

During Tokyo round of MTN's, the Multilateral Trade Negotiations, the United States and Taiwan reached an agreement which essentially said that the two countries would provide each other with treatment equivalent to that provided in the MTN codes, including the subsidies code. As a result, U.S. countervailing duty cases involving products from Taiwan do involve an "injury" test. The two countries also exchanged tariff concessions in December 1978.

When the Taiwan Relations Act was passed in December 1979, the United States reaffirmed its earlier understanding with Taiwan. All treaties that had been in place with Taiwan before the Act was passed remained in force. In December 1981, under residual tariff negotiating authority provided in section 124 of the Trade Agreements Act of 1979, the United States made certain additional tariff concessions to Taiwan.

Taiwan's status in international financial institutions also was retained in the Act. Taiwan is still eligible for U.S. Export-Import Bank loans and loan guarantees and for duty-free treatment under the U.S. Generalized System of Preferences. In addition, U.S. firms investing in Taiwan are still protected by the Overseas Private Investment Corp. (OPIC). U.S. investors in Taiwan are eligible to receive insurance, reinsurance loans, or guarantees for projects in Taiwan from OPIC.

U.S. trade deficit with Taiwan

One of the biggest problems between the United States and Taiwan is the large and growing U.S. trade deficit with Taiwan. During 1983, Taiwan's merchandise trade surplus with the United States reached a record \$6.7 billion, up sharply from the \$4.2 billion in 1982. The persistently strong U.S. dollar and the rapid growth in the competitiveness of Taiwan's exports have both contributed to the U.S. trade deficit with Taiwan.

In December 1983, Taiwan's President, Chiang Ching-Kuo, announced the reduction of the U.S.-Taiwan trade imbalance was a top economic priority. A council of economic specialists in Taiwan recommended ways to reduce the trade surplus with the United States. Their suggestions included relaxation of Taiwan's export performance requirements, lowering import duties, and reducing the restrictions on trade in services.

Since 1978, Taiwan has sent eight "Buy America" missions to the United States. Those missions have made combined purchases amounting to about \$6.6 billion. Taiwan claims that the trade imbalance could be greatly reduced if the United States were willing to sell Taiwan more weapons and if it were willing to assist Taiwan in procuring Alaskan crude oil. The United States feels that the elimination of Taiwan's export performance requirements on American investment is one of the first steps to alleviating the trade imbalance. Discussions between AIT and CCNAA on ways to decrease the U.S. trade deficit with Taiwan are continuing.

Counterfeiting

In recent years, one of the major economic problems between the United States and Taiwan has been trade in counterfeit products. In 1983, the U.S. International Trade Commission conducted a detailed study of the effect of

counterfeit goods on U.S. industries. 1/ According to this study, "Taiwan is reportedly the single largest source of counterfeit goods in all categories. Taiwan and Korea account for 60 percent of all counterfeit trade. International trade in counterfeit goods now costs U.S. workers at least 131,000 jobs and U.S. companies \$6-\$8 billion in lost annual sales." Taiwan, attempting to redress the problem, has introduced and passed some new legislation aimed at alleviating counterfeit trade. Negotiations continue between the United States and Taiwan with the goal of eliminating all counterfeit trade.

AIT and CCNAA held technical discussions on the protection of intellectual property rights--patents, trademarks, copyrights--and unfair competition from March 22-25, 1983. This was the first formal AIT/CCNAA consultation concerning the problem of counterfeiting.

U.S. trade cases in 1983 affecting Taiwan

301 rice investigation

On October 11, 1983, the United States Trade Representative initiated an investigation under section 301 of the Trade Act of 1974, based on a petition by the U.S. Rice Miller's Association that Taiwan's subsidized rice exports gave Taiwan an unfair competitive advantage in third-country markets. The Rice Millers Association maintained that Taiwan employs an export subsidy on rice which is inconsistent with the provisions of, or otherwise denies benefits to, the United States under the subsidies code.

The industry maintained that subsidization has driven world prices down to a level below the U.S. loan rate, making it difficult for U.S. rice to be competitive in the world market. The industry estimated that such subsidized sales will result in a decline in U.S. rice exports of 464,000 tons and a loss in foreign exchange earnings of \$303 million if Taiwan exports its entire surplus.

At the end of 1983, action on this case was pending. 2/

Other trade cases

In 1983, the Commission considered a number of cases involving U.S. imports from Taiwan. In investigation No. 731-TA-11, the Commission unanimously found that imports of bicycles were not causing or threatening to cause material injury to the U.S. industry. In investigation No. 731-TA-139,

1/ The Effect of Foreign Product Counterfeiting on U.S. Industry, . . . , USITC Publication 1479, January 1984.

2/ On Mar. 9, 1984, the petition was withdrawn following an understanding reached between AIT and CCNAA. The agreement called for a limitation on the quantity of subsidized rice exports from Taiwan. The limitation involved a 1.375 million ton ceiling on rice exports over a 5-year period beginning in 1984.

the Commission found that imports from Taiwan of acrylic sheet were causing material injury to the domestic industry. Several cases under Section 337 of the Trade Act of 1974 were also considered, covering grooved wooden handle kitchen utensils and gadgets; hand operated, gas operated, welding cutting and heating equipment; vertical milling machines and parts; marine hardware and parts; heavy-duty staple gun tackers; caulking guns; and personal computers. The outcome of these cases is shown in chapter V of this report.

BRAZIL

The Economic Situation in 1983

Brazil entered 1983 as the largest debtor developing country and with nearly depleted foreign reserves. A combination of lingering world recession, oil-price shocks, high international interest rates, reduced export earnings, and escalating inflation all contributed to Brazil's financial crisis.

Brazil began experiencing substantial and successive trade and current account deficits after the first oil-price shock in 1973. These deficits were financed by increasing the external indebtedness of the country with the result that by yearend 1983, Brazil's external debt was \$93 billion.

Because of reduced liquidity on world financial markets and the shaken confidence of banks in Latin American borrowers following the Mexican debt crisis, Brazil was unable to raise the financing necessary to cover its debt obligations. The IMF came to Brazil's assistance in December 1982 with a Commodity Financing Facility (CFF) drawing of \$546 million. Another \$500 million CFF drawing and a \$4.9 billion 3-year Extended Fund Facility (EFF) arrangement were approved for Brazil on February 28.

In order to qualify for IMF financing, Brazil agreed to an economic adjustment program devised to bring about the structural changes necessary to permit a return to high and sustainable rates of growth in output and employment over a 3-year period (1983-85). The basic objectives of the program were to raise domestic savings, reduce dependence on external resources, and to make the economy more efficient by cutting exchange and trade restrictions.

The external targets of the program included a substantial reduction in the growth of external debt, and moderate surpluses in the overall balance of payments to help build foreign exchange reserves. Internally, the program called for a reduction in public sector expenditures, particularly for indexation of wages, which would be instrumental in reducing foreign borrowing requirements and the 211 percent rate of inflation in 1983. The program prescribed reductions in credit subsidies to agriculture and increases in domestic prices, particularly for fuel products.

In its letter of intent to the IMF, Brazil committed itself to a 3-year period (1983-85) economic adjustment program which relies on trade surpluses essentially generated by import restrictions. For 1983, exports were targeted for a 10-percent increase over that of 1982, and for imports a 20-percent decrease. These goals were considered essential to meeting the goal of a \$6 billion trade surplus in 1983. 1/

The agreement with the IMF enabled Brazil to obtain \$1.45 billion in bridging loans from the Bank for International Settlements (BIS) and \$4.4 billion in new money from an international consortium of commercial banks for 1983. The commercial banks also agreed to reschedule 4.7 billion dollars in repayments falling due in 1983.

Initially, Brazil also requested that commercial banks maintain current short-term credit lines of about \$8.8 billion for financing foreign trade and renew or reestablish interbank credit lines for Brazilian banks at their June 30, 1982, level of \$10 billion. The reopening of interbank credit lines to historical levels proved to be a difficult task. The targeted amount was later reduced to \$7.5 billion, but credit lines only reached about \$6.0 billion.

In late February, amid growing skepticism over its ability to meet its \$6 billion trade surplus target, Brazil devalued the cruzeiro by 23 percent. The devaluation and a policy of adjusting the exchange rate to offset domestic inflation, contributed to improving Brazil's trade account by reestablishing the competitiveness of its exports.

As Brazil moved toward meeting its external goals, there were problems with internal adjustment to the economy. Fiscal restraint proved to be difficult and the effectiveness of monetary restraint was hampered by the existence of high levels of agricultural financing subsidies and consumer subsidies for products such as wheat, petroleum, and sugar. By May, Brazil was out of compliance with its economic adjustment program by failing to meet the internal economic targets. As a result, in late May, the IMF suspended disbursements of its loan funds to Brazil and commercial banks froze their payments. Brazil was forced to revise its policies at mid-year to regain the confidence of the IMF.

The new policy measures included a 45-percent increase in fuel prices, thus effectively eliminating fuel subsidies. Wheat prices were increased by 100 percent in June and again by 40 percent in September, resulting in a substantially reduced consumer subsidy. (The wheat subsidy is supposed to end by June 1984.) Interest rates charged to farm operations and export financing were increased. Price controls were also imposed on more than 300 industrial products and services.

The suspension of the IMF and commercial bank disbursements, coupled with the failure of interbank credit lines to materialize at the projected levels, led to external arrears of \$2.8 billion by the end of September 1983. Although Brazil partially corrected its fiscal problems with the mid-year

1/ From 1985 on, a steady increase in the level of imports is projected.

policy revisions, erratic monetary policy and indexation of wages continued to undermine anti-inflation goals. ^{1/} A revised austerity program, specifying the additional policy measures but recognizing the inability to control inflation, was submitted to the IMF and approved in November. The IMF then released \$1.17 billion in loan disbursements held back since May. Nearly all of this money went to repay BIS.

In December, the commercial banks released the last \$1.8 billion of their \$4.4 billion loan. Nearly all of this money went to repay their own bridging facility. In late December 1983, Brazil signed a new agreement with banks for \$6.5 billion in assistance in 1984.

International Economic Performance

Balance of payments

Brazil's trade surplus in January-September 1983 was \$4.9 billion, consistent with the full-year goal of \$6 billion. By yearend, the trade surplus exceeded the target and reached \$6.5 billion. Exports from January-September 1983 were \$16.3 billion, about 8 percent higher than that for the corresponding period of 1982. Imports declined by 23 percent, mainly because of quantitative restrictions. The current account deficit in January-June 1983 was about \$4 billion. This was higher than the projected figure because interest rates were higher than anticipated. Net capital inflows were also short of projected figures in January-June 1983, particularly direct foreign investment and short-term financing. As a result, by the end of September 1983, external payments arrears were \$2.8 billion, increasing to \$3 billion by yearend. Brazil's agreement with the IMF called for the elimination of all external arrears by the end of 1983.

Merchandise trade with major trading partners

During the past 6 years, Brazil has shifted its exports away from its traditional trading partners (the United States, Japan, and the EC) and expanded its markets with developing countries in Latin America, Africa, and the Middle East (see table 37). Brazil selected this strategy because it believed developing markets could expand faster than the traditional areas of demand in the industrialized nations, and these markets have proved instrumental in Brazil's past export success. However, demand in these markets can also fall quickly. Brazilian exports of manufactured products have suffered from the economic difficulties in Argentina, Mexico, and Poland. In 1982-83, worldwide recession and balance-of-payments problems prompted many developing nations to trim their development plans and impose import controls.

^{1/} In November, Decree-Law No. 2065 was adopted which provides for an average rate of indexation of wages to inflation by 86 percent. This is significantly below the rate in effect in 1982.

Table 37.--Brazil's trade and trade balances, by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Canada-----	289	231	387
Japan-----	1,219	1,312	1,515
United States-----	4,111	4,131	4,819
EC-----	5,932	5,426	-
Other-----	1,016	1,001	1,383
Subtotal-----	12,567	12,101	8,104
Developing countries:			
Oil-exporting countries-----	2,433	1,856	-
Mexico-----	643	324	-
Other-----	5,546	4,436	534
Subtotal-----	8,622	6,616	534
Nonmarket economy countries:			
China-----	104	86	-
U.S.S.R-----	621	509	-
Other-----	981	501	218
Subtotal-----	1,706	1,096	218
Total-----	22,895	19,813	8,856
Imports			
Industrialized countries:			
Canada-----	637	515	579
Japan-----	1,379	973	613
United States-----	3,933	3,163	2,549
EC-----	3,265	2,651	-
Other-----	839	813	546
Subtotal-----	10,053	8,115	4,287
Developing countries:			
Oil-exporting countries-----	10,202	9,299	-
Mexico-----	835	844	-
Other-----	2,338	1,972	106
Subtotal-----	13,375	12,115	106

Table 37.--Brazil's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Imports--continued			
Nonmarket economy countries:			
China-----	396	365	-
U.S.S.R-----	22	213	-
Other-----	184	210	40
Subtotal-----	602	788	40
Total-----	24,030	21,018	4,433
Trade balance			
Industrialized countries:			
Canada-----	-348	-284	-192
Japan-----	-160	339	902
United States-----	178	968	2,270
EC-----	2,667	2,775	-
Other-----	177	188	837
Subtotal-----	2,514	3,986	3,817
Developing countries:			
Oil-exporting countries-----	-7,769	-7,443	-
Mexico-----	-192	-520	-
Other-----	3,208	2,464	428
Subtotal-----	-4,753	-5,499	428
Nonmarket economy countries:			
China-----	-292	-279	-
U.S.S.R-----	599	296	-
Other-----	797	291	178
Subtotal-----	1,104	308	178
Total-----	-1,135	-1,205	4,423

Source: Compiled from International Monetary Fund Direction of Trade data.

In 1983, exports of Brazil's major agricultural commodities (coffee, soybeans, cocoa, sugar, beef, poultry, frozen orange juice, and tobacco) were about 8 percent above 1982 levels, but still below 1981 levels. High world commodity prices, the maxi-devaluation of the cruzeiro, and export subsidies were factors in increasing Brazilian farm exports in 1983.

Merchandise trade with the United States

To slow the growth of its foreign debt, Brazil has taken steps to promote its exports and restrict imports. From 1968 to 1980, the United States consistently attained an annual trade surplus with Brazil. By 1981, however, U.S. exports to Brazil were down to \$3.7 billion, then decreased to \$3.4 billion in 1982, and decreased further to \$2.5 billion in 1983. The United States had bilateral trade deficits with Brazil of \$590 million in 1981, \$802 million in 1982, and \$2.4 billion in 1983 (see fig. 9).

U.S. trade with Brazil by major product classifications is shown in table 38. In 1983, leading U.S. exports to Brazil were machinery and transportation equipment, chemicals, wheat, and coal. Leading U.S. imports from Brazil in 1983 included coffee, refined petroleum products, footwear, tobacco, preserved fruits, steel products, and machinery and transportation equipment. 1/

In August 1983, the Export-import Bank established special facilities to provide relief from trade finance shortages and sagging U.S. exports to Brazil. Total funding for the facility is \$1.5 billion in guarantees and insurance. The purpose of the program is to offset the loss of the traditional trade finance sources, which decreased considerably in 1983. U.S. exports to Brazil for the first 9 months of 1983 dropped 30 percent from that of the corresponding period of 1982. A major factor in these declines was the reluctance of international banks to continue financing transactions with Brazil. The Eximbank facilities are intended to alleviate this problem.

In early May 1983, the United States and Brazil signed memoranda of understanding which allows U.S. firms to contribute to the development of major energy projects. In the past, U.S. companies have been excluded from significant participation in the energy development program of Brazil. The memoranda of understanding expressed the intent of the Brazilian and U.S. Governments to assist their private sectors in reaching commercial agreements. The accords virtually assure U.S. private sector participation in the cited projects, and could lead to nearly \$1 billion in U.S. exports.

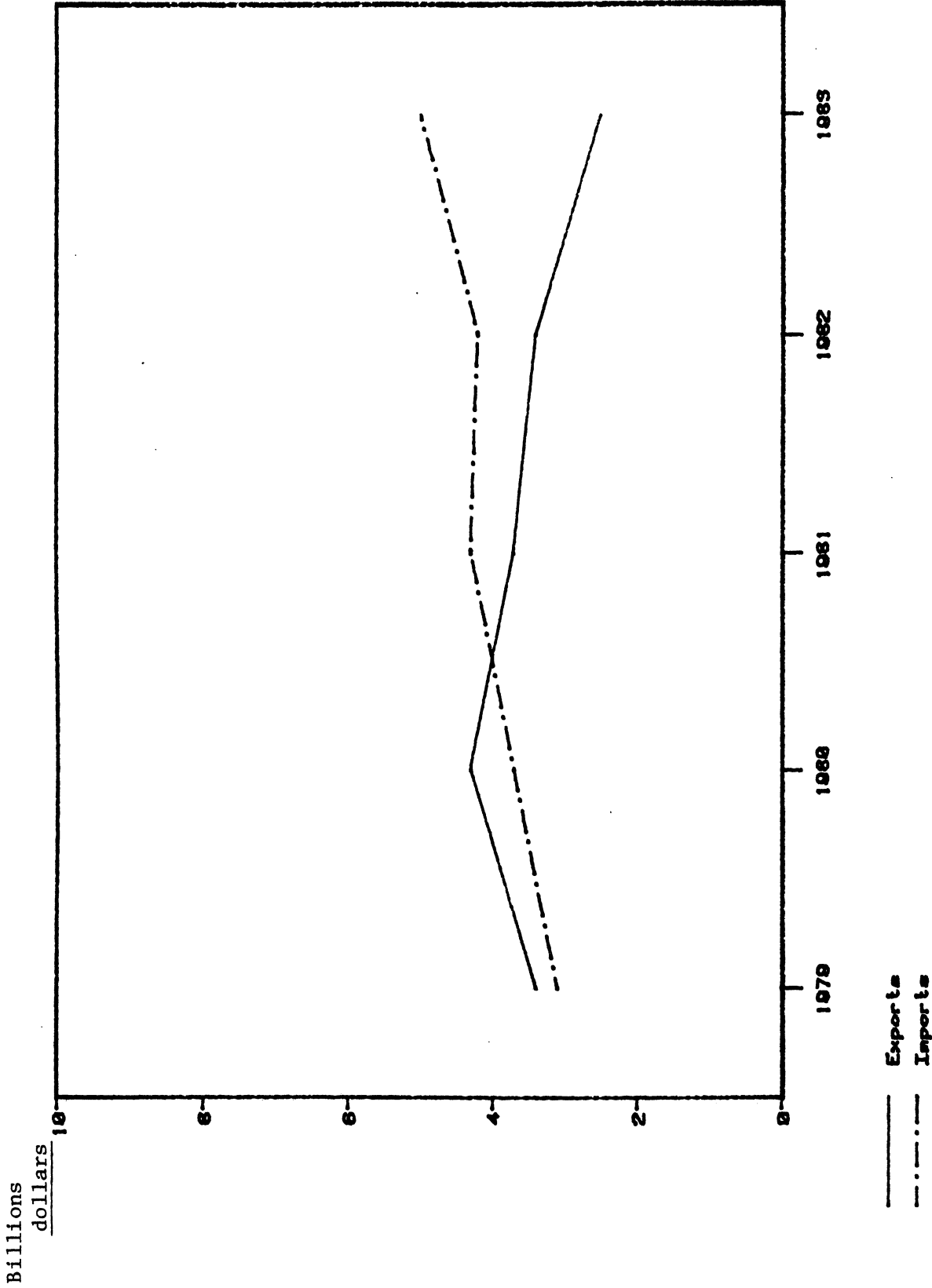
Major Policy Developments Affecting Trade

Impact of economic adjustment program on trade policy

Brazil's January 1983 letter of intent to the IMF suggested a move toward a less restrictive trade policy over the course of the 3-year program of economic adjustment. In addition to agreeing to devalue the cruzeiro, Brazil committed itself to the elimination of trade restrictions that included the progressive surtax on remittance of profits and dividends, royalties, and

1/ See Appendix tables A-11 and A-12.

Figure 9.--U.S. trade with Brazil, 1979-83.



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

Table 38.--U.S. trade with Brazil, by SITC 1/ Nos. (Revision 2), 1981-83

		(In thousands of dollars)		
SITC Section No.	Description	1981	1982	1983
		U.S. exports		
0	Food and live animals	672,585	457,715	456,623
1	Beverages and tobacco	603	835	668
2	Crude materials--inedible, except fuel	122,658	142,629	99,897
3	Mineral fuels, lubricants, etc	183,591	274,724	222,825
4	Oils and fats--animal and vegetable	1,087	6,144	1,500
5	Chemicals	726,945	598,138	465,842
6	Manufactured goods classified by chief material			
		194,253	188,432	101,294
7	Machinery and transportation equipment	1,623,120	1,490,438	983,944
8	Miscellaneous manufactured articles	191,489	189,052	159,346
9	Commodities and transactions not elsewhere classified			
		25,224	21,211	28,040
	Total	3,742,014	3,369,317	2,519,977
		U.S. imports		
0	Food and live animals	1,911,052	1,474,293	1,528,476
1	Beverages and tobacco	67,980	85,723	163,263
2	Crude materials--inedible, except fuel	243,426	158,197	162,003
3	Mineral fuels, lubricants, etc	274,890	639,046	564,920
4	Oils and fats--animal and vegetable	44,331	30,667	37,862
5	Chemicals	144,212	106,905	245,146
6	Manufactured goods classified by chief material			
		616,632	598,648	841,350
7	Machinery and transportation equipment	481,418	534,791	689,752
8	Miscellaneous manufactured articles	429,912	431,075	626,777
9	Commodities and transactions not elsewhere classified			
		118,728	112,083	83,888
	Total	4,332,582	4,171,429	4,943,437
		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.

technical assistance 1/. The export tax on orange juice, bovine leather, and corn flour were to be eliminated, as were the contribution quotas on coffee (\$51.50 per bag) and cocoa (10 percent).

The letter of intent also emphasized the need to substantially reduce import quotas and exchange restrictions, and a continued commitment to introducing, within the next 3 years, a foreign trade system which relies on tariffs, rather than quota restrictions. The letter also states that any savings on oil imports that may result from conservation or increased production are to be used for additional imports of raw materials and capital goods.

It is Brazil's general policy to encourage foreign investment because of the benefits to balance-of-payments accounts and industrial development given by foreign capital. Certain markets, however, which are deemed to be critical to the national interest, are reserved for Brazilian nationals. These sectors include petroleum exploration and refining, telecommunications, maritime, and informatics. Although Brazil has phased out some restrictive measures, U.S. export markets remain adversely affected for some products. Brazil's policy of import substitution has also restricted foreign access to the Brazilian market. In certain sectors, Brazil will not permit the import of a product if a similar product is produced domestically. Foreign suppliers must also endure lengthy and bureaucratic licensing procedures.

Sectors in which foreign capital were most welcome in 1983 were those involving import substitution, capital goods manufacturing, and in certain high-priority areas, such as agri-industry, essential consumer goods, and major capital-intensive projects (such as the Carajas minerals project). Brazil also has regional development and incentive programs for its less developed areas.

The financial crisis in Brazil did not make short-term prospects for increased exports to Brazil encouraging in 1983. In addition to arrearages, the Central Bank of Brazil temporarily centralized all foreign exchange transactions in August in an attempt to conserve its reserves. Payment for almost all imports and remittance of profits was delayed resulting in hardship for many suppliers and exporters. Priority payments were given to petroleum imports and other vital materials.

1/ Taxation laws applicable to foreign investors are similar to those for national operations, except in the area of remittance of profits. The law (Law 4131, enacted September 1962) does not limit profit remittances but does impose restrictions via a progressive income tax. Investors may remit, free of this supplementary tax, up to 12 percent of their average capital for a 3-year period. To remit 12 to 15 percent, the tax is 50 percent; to remit above 25 percent, the tax is 60 percent. This scale has successfully dissuaded most investors from remitting more than 12 percent, which has been the intent of the law--to encourage reinvestment of profits within Brazil.

Trade restrictions for balance-of-payments reasons

Brazil's efforts to improve its balance of payments position have been a source of conflict in its bilateral trade relations with the United States and other countries since the mid-1970's. Some of the measures Brazil employs are described briefly below.

Import licensing

Responsibility for the issuance of import licenses is held by the Foreign Trade Department of the Bank of Brazil (CACEX). From 1980-83, priority in the issuance of import licenses was given to firms which submitted annual import programs to CACEX. In August 1983, as a temporary measure aimed at improving the balance of payments, it became mandatory for all firms wishing to import to submit an annual program showing that import values would, generally, not exceed prior year imports. Due to inflation, the quantity of allowable imports is thus effectively reduced. The 1983 quota for each importing firm was reduced to 80 percent of 1982 levels. Priority in license allocation is given to firms which have a positive trade balance; companies which also intend to export Brazilian goods; imports for the production of capital goods; and imports from member countries of the Latin American Integration Association (LAIA).

Suspension of certain import licenses

In 1976, CACEX began maintaining a list of products for which issuance of an import license has been temporarily suspended. The list of prohibited products rose in 1980 as a result of the balance-of-payments problem. The list is currently quite long and unlikely to be liberalized in the near future. The suspension basically covers raw materials and other products considered nonessential because they can be produced in Brazil, such as machines, equipment, and vehicles. Imports from LAIA members are not subject to the suspension of licenses, if the items are included in concessions negotiated with LAIA.

Import Substitutions

The CACEX generally will not grant licenses for imports where identical or "similar" products are produced domestically.

Control of imports in reserved markets

Imports into certain sectors appear to be prohibited or restricted for the purpose of reserving the market for national companies. In accordance with the principle of reserved markets, regulations provide for Government approval of imports on a case-by-case basis in the telecommunications, informatics, and automobile sectors. In 1983, the Government of Brazil began consideration of a pharmaceutical decree-law which would grant national companies more favorable treatment than that afforded Brazilian subsidiaries of foreign firms in such areas as Government procurement, financing, new product registration, and technology transfer.

Financial Transactions Tax (IOF)

Since May 29, 1980, Brazil has imposed a financial transactions tax for purchases of foreign exchange for use in payment for a wide variety of imports not specifically excluded. Following the February 1983 devaluation of the cruzeiro, the IOF rate was set at 25 percent, but a lower rate of 15 percent is levied on products such as raw and semi-finished iron and steel products, chemicals and pharmaceuticals, and plastics. A wide variety of products exempted from the IOF tax include crude oil imported by PETROBRAS, seed, fertilizers, and coal.

Countertrade/barter trade transactions

Brazil's balance of payments and liquidity problems prompted it to explore alternative means for conserving scarce foreign currency. One method explored in 1983 was through countertrade/barter transactions with East European countries in an effort to recover outstanding debts these countries owe Brazil. The CACEX announced in April 1983 that Brazilian firms importing products from countries with payments clearing arrangements would have a 50-percent increase in their 1983 import ceilings.

U.S.-Brazilian Bilateral Trade Issues

Apples and pears

U.S. producers of apples and pears continued to experience problems in exporting to Brazil in 1983, despite several agreements with the Government of Brazil that import licenses would be made available. In the past decade, 1981 was the only year that significant quantities of U.S. apples and pears were exported to Brazil.

Informatics

Despite increasing external pressure from the United States and internal pressures from businessmen to modify its nationalist computer policy, the Secretaria Especial de Informatica (SEI) moved in 1983 to expand the market reserve policy into additional areas of informatics. Under the "reserved market" policy, peripherals, modems, software, and digital chips have been added to micro- and minicomputers as areas where foreign participation is excluded. In late May 1983, SEI banned the import of instruments which use digital technology in testing and measurement, and medical transactions; SEI also decreed these items could only be manufactured domestically by companies controlled by Brazilian capital.

Sugar

Brazil requested that the United States revise the quota system which regulates imports of sugar into the United States. Brazil objected to the 7-year base period (1975-81) used in the quota allocations because Brazilian exports to the United States were very low during the first two years. The

Government of Brazil would like either a shorter base period, resulting in a larger Brazilian allocation, or the use of an average base period in the quota allocations.

Poultry

The 301 complaint against European subsidization of poultry was expanded to include Brazil, particularly with regard to incentives in third-country markets. 1/

Steel

In 1983, a number of countervailing duty investigations were undertaken by the United States Government regarding Brazilian steel. 2/ Discussions between the United States and Brazil began in September on a possible OMA under the U.S. specialty steel program. A major point of contention in the negotiations centered on proposed specific quota allocations for Brazil. The United States wanted a significant reduction from 1982 quota levels, while Brazil argued for a quota representing the average of 1981 and 1982 shipments. To date, an OMA has not been concluded with Brazil.

REPUBLIC OF KOREA

The Economic Situation in 1983

Korea's economic performance was strong in 1983. Korea's real GNP increased by 9.3 percent in 1983, compared with 5.6 percent in 1982, and 6.2 percent in 1981. The good performance in 1983 reflected increased domestic consumption in the first half of the year, particularly in housing and public works construction and sales of durable consumer items. A substantial increase in export demand spurred by the economic recovery in the United States contributed to the growth in the latter half of the year. The United States is Korea's largest export market, and its economic expansion in 1983 was responsible for 75 percent of Korea's export gains for the year.

Korea also realized a substantial reduction in inflation in 1983. A restrictive monetary policy and significantly reduced oil imports held inflation at 3 percent. Korea's unemployment rate, as of June 1983, was 3.3 percent.

1/ For details see "Certain Practices of Foreign Governments and Instrumentalities: Section 301 of the Trade Act of 1974," in ch. V.

2/ For more information see "Countervailing duty investigations," in ch. V.

International Economic Performance

Balance of payments

Korea has achieved consistent improvement in its external balance since 1980. The account deficit of \$4.6 billion in 1981 decreased to \$2.5 billion in 1982. By yearend 1983, the current deficit had decreased to \$1.6 billion. The consistent improvement was achieved through lower foreign interest rates, real devaluation of the currency, and restrained demand. Better terms of trade also contributed to the improvement. About 94 percent of Korea's exports are manufactured items, and most of its imports are energy and raw materials. Unlike other developing countries which have depended on import compression to improve their balance of payments, Korea has improved its external position through output growth and export expansion.

Korea's success in upgrading the technological content and competitiveness of its export products was also a significant factor in the economy's good performance. As shown in table 39, light-industrial goods had a modest increase while 1983 sales of ships and oil rigs increased 32 percent over sales in 1982, electronic products increased 39 percent, and sales of machinery increased 23 percent.

Table 39.--The composition of Korean merchandise exports, 1983

Item	Percentage shares		Percentage change, 1983 over 1982
	1978	1983	
Manufactures-----	88.7	94.4	12.9
Light manufactures-----	53.6	39.6	3.4
Textiles-----	31.6	25.0	2.1
Wood and leather-----	3.9	1.8	-12.3
Footwear-----	5.4	5.2	18.2
Other-----	12.6	7.6	9.7
Heavy industrial-----	26.4	42.4	16.4
Chemicals-----	3.2	6.2	8.6
Iron and steel-----	4.3	10.2	4.7
Machinery-----	2.0	4.4	23.4
Ships-----	6.3	15.4	31.9
Other-----	10.6	6.2	8.1
Electronic products-----	8.7	12.5	39.2
Nonmanufactures-----	11.3	5.6	-0.4

Source: Morgan Guaranty Trust Co. of New York, World Financial Markets, March 1984, p. 5.

Although Korea narrowed its current account deficit in 1983, it has nonetheless accumulated the fourth largest external debt among developing countries. By yearend 1983, Korea's foreign debt was \$40.9 billion. High interest rates and the burden of repaying constantly increasing accumulated debt were major factors which contributed to the debt buildup from 1977 to 1982.

Despite its high debt, and the financial problems which have affected a number of developing countries, Korea's credit rating remained high in 1983. This was partly due to the country's highly competitive export industries and good economic management.

Merchandise trade with major trading partners

In 1983, Korea continued its efforts to reduce its constant trade deficit with Japan. Japanese exports to Korea, which declined in 1982, increased by 10 percent during January-June 1983. Korean exports to Japan decreased by 9 percent over the same period.

Korea's trade deficit with Saudi-Arabia and Kuwait decreased by 80 percent during the first part of 1983, primarily due to the decrease in the price and quantity of crude oil imports. Korean exports to Kuwait, Canada, India, the Netherlands, and France increased, whereas exports to the United Kingdom, Hong Kong, Norway, Indonesia, and Taiwan decreased considerably. During January-June 1983, Korea's two largest trading partners, the United States and Japan, increased their share of Korea's overall trade from 43.9 percent to 48.3 percent. Table 40 contains preliminary 1983 data for Korea's trade with its major trading partners.

Petroleum (crude oil) remained Korea's largest import in 1983, and textiles the most important export. During January-June 1983, ships were Korea's second largest import item, with sales up by 76.3 percent. Electronic and electrical product exports also increased by 25.5 percent over that in the corresponding period of 1982. Exports of footwear, luggage, and handbags were also up, whereas shipments of iron and steel products and toys decreased sharply.

Table 40.--The Republic of Korea's trade and trade balances,
by selected trading partners, 1981-83

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Exports			
Industrialized countries:			
Canada-----	483	445	625
Japan-----	3,502	3,404	3,336
United States-----	5,688	6,286	8,010
EC-----	2,698	2,819	-
Other-----	982	1,162	972
Subtotal-----	13,353	14,116	12,943
Developing countries:			
Oil-exporting countries-----	2,830	2,370	-
Mexico-----	50	43	-
Other-----	3,832	4,022	1,394
Subtotal-----	6,712	6,435	1,394
Nonmarket economy countries:			
China-----	-	210	-
U.S.S.R-----	1	-	-
Other-----	3	-	-
Subtotal-----	4	210	-
Total-----	20,069	20,761	14,337
Imports			
Industrialized countries:			
Canada-----	530	485	462
Japan-----	6,373	5,304	6,323
United States-----	6,050	5,957	6,246
EC-----	1,924	1,731	-
Other-----	1,498	1,391	1,424
Subtotal-----	16,375	14,868	14,455
Developing countries:			
Oil-exporting countries-----	6,072	5,286	-
Mexico-----	55	261	-
Other-----	2,216	2,374	623
Subtotal-----	8,343	7,921	623

Table 40.--The Republic of Korea's trade and trade balances, by selected trading partners, 1981-83--Continued

(In millions of U.S. dollars)			
Trading partner	1981	1982	1983
Imports-continued			
Nonmarket economy countries:			
China-----	-	280	-
Other-----	5	-	-
Subtotal-----	5	280	-
Total-----	24,723	23,069	15,078
	Trade balance		
Industrialized countries:			
Canada-----	-47	-40	163
Japan-----	-2,871	-1,900	-2,987
United States-----	-362	329	1,764
EC-----	774	1,088	-
Other-----	-516	-229	-452
Subtotal-----	-3,022	-752	-1,512
Developing countries:			
Oil-exporting countries-----	-3,242	-2,916	-
Mexico-----	-5	-218	-
Other-----	1,616	1,648	771
Subtotal-----	-1,631	-1,486	771
Nonmarket economy countries:			
China-----	-	-70	-
U.S.S.R-----	1	-	-
Other-----	-2	-	-
Subtotal-----	-1	-70	-
Total-----	-4,654	-2,308	-741

Source: Compiled from International Monetary Fund Direction of Trade data.

Merchandise trade with the United States

Table 41 shows U.S. trade with Korea from 1981 to 1983. The United States first surpassed Japan as the largest exporter to Korea in 1982 and did so again in 1983. U.S. exports to Korea increased by 6 percent in 1983 compared with that of imports in 1982. U.S. imports from Korea increased by 21.6 percent for the same period. The United States had a trade deficit with Korea of \$1.8 billion in 1983, compared with a \$313 million deficit in 1982 (see fig. 10).

Late in February 1983, the Korean Government sent a major purchasing mission to the United States in an attempt to reduce the U.S. deficit in bilateral trade with Korea. The mission arranged for purchases of U.S. goods valued at about \$2.4 billion. Major items purchased were two Boeing 747 aircraft, construction and shipbuilding equipment, coal, chemicals, electronic goods, corn, and soybeans.

The United States was the major grain supplier to Korea in 1983. Korea's corn imports increased by more than 4 million tons to accommodate its expanding livestock sector. All of this increase was supplied by the United States. Korean purchases of other agricultural products from the United States also increased compared with Korea's purchases in 1982.

In addition to being a primary market for U.S. agricultural exports, Korea was also a good market for industrial production equipment, and industrial raw materials such as coal, chemicals, scrap metals, and lumber.

Major exports to the United States from Korea in 1983 included integrated circuits, television receivers, footwear, welded pipes, and wearing apparel. ^{1/}

Major Policy Developments Affecting Trade

Annual trade plan

Korea has recognized that international competition will encourage improvement in the quality and competitiveness of its export products. To this end, the country has moved toward the gradual liberalization of its trade barriers. The Government's current 5-year plan guides the country's economic and social development and establishes policies for achieving trade, investment, and financial liberalization goals. The liberalization will mean opening Korea's domestic markets to international competition.

The annual trade plan incorporates changing domestic and world economic conditions into the 5-year plan, and is one of the better indicators of the speed and direction of import liberalization. This plan is one of the basic instruments used by the Government to control import flows.

^{1/} See Appendix tables A-9 and A-10.

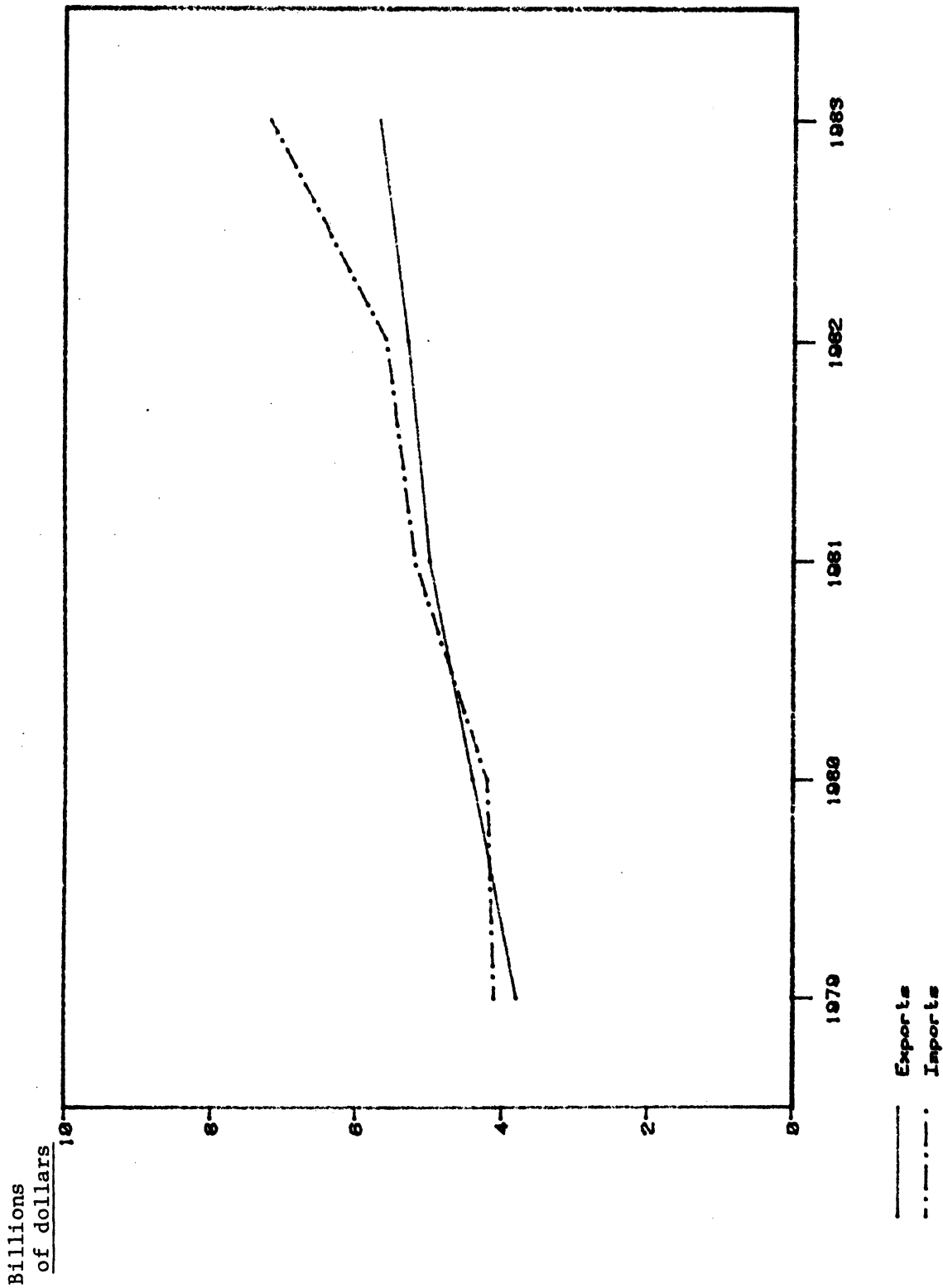
Table 41.--U.S. trade with the Republic of Korea, by SITC Nos., 1981-83

(In thousands of dollars)		1981	1982	1983
SITC number	Description			
U.S. exports				
0	Food and live animals	1,183,437	818,745	1,018,428
1	Beverages and tobacco	42,470	7,125	3,827
2	Crude materials--inedible, except fuel	1,192,323	1,213,403	1,297,098
3	Mineral fuels, lubricants, etc	245,954	410,474	246,599
4	Oils and fats--animal and vegetable	40,406	33,947	39,275
5	Chemicals	518,686	669,344	804,182
6	Manufactured goods classified by chief material			
		224,513	303,855	306,700
7	Machinery and transportation equipment	1,387,807	1,629,119	1,736,009
8	Miscellaneous manufactured articles	137,838	210,791	206,110
9	Commodities and transactions not elsewhere classified	19,227	21,335	26,378
	Total	4,992,660	5,318,136	5,684,605
U.S. imports				
0	Food and live animals	98,437	93,174	112,393
1	Beverages and tobacco	36,075	27,124	49,804
2	Crude materials--inedible, except fuel	10,096	14,167	8,825
3	Mineral fuels, lubricants, etc	10,476	44,701	4,024
4	Oils and fats--animal and vegetable	890	302	221
5	Chemicals	41,955	51,573	57,269
6	Manufactured goods classified by chief material			
		1,352,225	1,213,897	1,436,892
7	Machinery and transportation equipment	1,031,068	1,267,058	2,098,749
8	Miscellaneous manufactured articles	2,545,610	2,885,164	3,354,713
9	Commodities and transactions not elsewhere classified	52,775	34,260	50,843
	Total	5,179,607	5,631,419	7,178,933

1/ Standard International Trade Classification.

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

Figure 10.--U.S. trade with the Republic of Korea, 1979-83



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

The 1983-84 annual trade plan, effective July 1, 1983, through June 30, 1984, gives automatic import license approval (AA) to an additional 305 CCCN product categories. These products include certain types of generators and sound equipment, parts of semiconductor devices, household refrigerators and freezers, but not computers. About 1,430 product categories, however, remain prohibited from import. Moreover, only 191 of the 305 items can be imported freely; the remaining products are subject to various controls including surveillance monitoring, market diversification criteria, and high tariffs.

Barriers to trade

Approval system

A number of products which are not restricted from import are subject to prior approval by the relevant Korean manufacturers' association. The 1983-84 trade plan removed 14 items from AA status to the restricted list, thus requiring prior approval for import licenses.

Surveillance system

Products on the surveillance list are not restricted from import but are closely monitored to determine their impact on the domestic market. After a period of surveillance, the products are either given AA status or placed on the restricted list. The 1983-84 annual trade plan reduced the total number of items subject to surveillance from 286 to 165 items; 183 products were given AA status (these included 11 items of leather footwear); 73 items were placed on the restricted lists; and 71 items were added to the surveillance lists.

Market diversification measures

Korea's market diversification measures are intended to help reduce the severe and unfavorable trade balance between Korea and a particular country (which is generally assumed to be Japan, although it is not specifically named by Korea). Products in this category need prior approval for import licenses and must be imported from countries other than their traditional source. These products include neckties and nuts and bolts sets for use in automobiles.

Tariffs

Korea has administered a flexible tariff system since 1974 to control surges of imports and prevent market disruptions which may result from trade liberalization measures. Under this system, tariffs are temporarily changed to achieve specific economic goals. The changes are usually effective for 6 months, but may be extended for a longer period.

High tariffs are generally imposed on items which are or could be produced domestically, or are considered luxury items. Machinery, raw materials for manufacture, and items considered essential to national interests are generally not subject to duties.

Tariff quota system.--Tariffs are reduced under the tariff quota system to stabilize domestic prices and to coordinate the supply and demand of materials and equipment. The 1983-84 trade plan temporarily lowered tariff rates on 30 items until given quota ceilings are reached. The higher general tariff rates will then take affect. The current trade plan increased the tariffs on raw cotton, beef tallow, palm oil, and natural rubber.

Emergency tariff system.--Tariffs are either increased under the emergency tariff system to protect weak domestic industries from competition by newly eligible imports or reduced when the domestic industry is considered internationally competitive. Although the number of items added to the automatic approval list nearly doubled from what it was in 1982, tariffs have been put into effect which effectively limit the impact of the liberalizations. Effective July 1983, the number of products on the emergency tariff list increased from 6 to 78; the additional items were either those recently freed from nontariff barriers under the trade plan, or items which showed sharp increases in imports.

U.S.-Korean bilateral trade issues

GSP renewal

The Korean Government is concerned that it may not retain its duty-free status in the U.S. GSP program for less developed countries. The program is scheduled to expire January 1985 unless renewed by Congress. ^{1/} Korea has indicated that a change in GSP resulting in a reduction in Korea's benefits, could damage its export performance and adversely affect its ability to import U.S. products and service foreign debt. The Korean Government has indicated that reciprocity should not be a factor in the renewal decision, but that the U.S. should consider balance of payments and the foreign debt burden, defense expenditures, employment, and per capita GNP. Korea also expressed particular concern about changes in product graduation criteria.

Import liberalization

Although Korea has made efforts to reduce its trade barriers, the United States is concerned that such measures as emergency tariff increases, the tariff quota system, surveillance monitoring, and import licensing have lessened the effects of the liberalization. In response, the Government of Korea has announced that gradual liberalization of high-priority U.S. items will occur over the next few years. In particular, import restrictions on cameras, chocolate candy, and wood flooring panels will be liberalized in 1984. The liberalization of nylon carpets, loudspeakers and textured polyester filament are scheduled for 1986. To date, sensitive items, such as cigarettes and personal computers have not been scheduled for liberalization measures.

^{1/} For additional information, see "GSP Renewal" in ch. I.

Computers

Korea issued a computer decree in July 1982 which prohibits the import of all types of mini- and micro-computers, personal computers, and a selected group of computer peripherals. An exception is made for foreign suppliers who participate in a computer localization scheme which facilitates the transfer of technology and the production of components in Korea. These companies are allowed to import medium and larger sized computers. Korea's ban on computers is a major concern of the United States which is encouraging Korea to eliminate its import controls and open its market to foreign suppliers.

Counterfeiting

An important factor which continues to deter high-technology investment in Korea is concern over inadequate patent protection under Korean law. 1/

Specialty steel

In July 1983, the U.S. announced an import relief program for the specialty steel sector. The program places global quotas on imports of stainless steel bar and rod and alloy tool steel and increased tariffs on stainless steel sheet, strip, and plate products. The United States concluded Orderly Marketing Agreements (OMA's) on the protected products with some countries, but other significant suppliers, such as Korea, have no such agreement. Korea's exports of the protected products enter the United States through the unallocated, or basket portion of the quotas. Bilateral negotiations between the United States and Korea on a possible OMA began in October 1983. During the negotiations, Korea was given a 6-month unilateral allocation for steel bar so it could plan shipments. To date, an OMA with Korea has not been concluded. However, negotiations on future allocations will begin in July, 1984.

Textiles

Effective July 1982, the Korean Government liberalized its trade restrictions on imports of wearing apparel for women and girls. The United States' major export opportunities, however, have been in the areas of raw cotton and natural fibers, petrochemical raw materials, and textile machinery. On the other hand, Korean textile imports capture a large share of the U.S. market. U.S. textile imports from Korea grew by 26.7 percent in 1983. Bilateral consultation between Korea and the United States were held during 1983 to establish import restraints on 24 textile categories. Korea is a signatory to the MFA and these restraints are under the MFA.

1/ For additional information, see "Commercial Counterfeiting" in ch. I.

Insurance and banking

Korea has a reciprocal agreement with the United States which extends foreign companies the same treatment afforded to domestic companies. However, these stipulations have not always been met. The Bank of Korea has denied rediscount privileges to U.S. banks, thereby effectively preventing them from providing export financing or participating equally in foreign exchange markets. Foreign banks are also prohibited from taking mortgages on real estate because foreign banks cannot hold title to real property.

Korea began a phased liberalization for its market for marine insurance, certain types of fire insurance, and reinsurance in 1981. Although restrictions were eased on marine insurance, liberalization of fire insurance remained a problem in 1983. Foreign firms continued to face barriers preventing them from writing fire policies.

Countervailing and antidumping investigations against Korean products

In 1983, there were a number of investigations of Korean imports by the United States. ^{1/} The Korean Government has expressed concern that the growing number of investigations on their products constitute a form of protectionism. There were five antidumping investigations on Korean imports in 1983: color television receivers, circular carbon steel pipe and tube, rectangular carbon steel pipe and tube, non-bicycle tubes, and carbon steel plate. Final affirmative determinations were made by the U.S. Department of Commerce on color television, pipes and tubes. The other cases were pending at yearend.

The Department of Commerce has two outstanding countervailing duty orders and one antidumping duty order on Korean products. The CVD orders are on carbon steel pipe and tube, and on certain steel products (hot-rolled carbon steel plate, hot-rolled carbon steel sheet, and galvanized carbon steel sheet). The antidumping order is on steel wire nails.

^{1/} For additional information, see "Antidumping investigations" and "Countervailing duty investigations" in ch. V.

CHAPTER V
ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

OVERVIEW

This chapter reviews activities related to the administration of U.S. trade laws during 1983. Sections are included on U.S. actions under provisions for import relief (safeguard actions, adjustment assistance, and market disruption), and relief from unfair trade practices (such as dumping, subsidies, and patent infringement) in import trade. U.S. responses to certain unfair trade practices of foreign governments are also discussed. A section on the administration of other import programs, is covered under the GSP.

In 1983, under statutes safeguarding U.S. industries, the President of the United States provided relief for heavyweight motorcycles and certain stainless steel and alloy tool steel products, following affirmative determinations by the U.S. International Trade Commission. The U.S. Department of Commerce and the International Trade Commission continued to have a large caseload of antidumping and countervailing duty investigations during the year. The United States Trade Representative (USTR) proceeded with its investigation of alleged violations of trade agreements by foreign governments in response to petitions filed under section 301 of the Trade Act of 1974. Most consultations of the USTR in this area concerned unresolved trade issues with the EC.

The USTR conducted another one of its annual product reviews under the U.S. program of the GSP in 1983. The value of additions to items eligible for duty-free treatment from beneficiaries was smaller in 1983 than in 1982; by contrast, the value of deletions was larger.

U.S. ACTIONS UNDER PROVISIONS FOR IMPORT RELIEF

Safeguard Actions under Sections 201 and 203, Trade Act of 1974

The International Trade Commission reported to the President affirmative determinations in 1983 in two investigations under section 201, investigation No. TA-201-47, heavyweight motorcycles and engines and power train subassemblies, and investigation No. TA-201-48, stainless steel and alloy tool steel. 1/ The President in April 1983 proclaimed import relief on motorcycles

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."

(Continued)

in the form of a tariff-rate quota system for a period of 5 years through Proclamation No. 5050. The President's action sets quotas with an annual growth factor of approximately 20 percent, at 5,000 units for imports of motorcycles manufactured in West Germany, 6,000 units for imports from Japan, and 4,000 units for imports from all other sources. It increases tariffs on completed heavyweight motorcycles by 45 percent in the first year, declining to 35, 20, 15, and 10 percent above scheduled rates in subsequent years. The additional duties are to apply to all quantities above the tariff-rate quotas. The President in Proclamation No. 5074 concluded a similar action in July 1983 providing import relief on specialty steels for a 4-year period through the temporary imposition of increased tariffs for stainless steel sheet, strip, and plate and quotas based on the Commission's recommended minimum import tonnages for stainless steel bar, rod, and alloy tool steel. 1/ The U.S. Government subsequently concluded orderly marketing agreements in October 1983 covering 61 percent of all quota-bound specialty steel imports with the Governments of Japan, Canada, Poland, Argentina, Spain, Austria, and Sweden. The new agreements reduced commensurately the remainder of the quota available to other nations. Comparable agreements may be reached in 1984 with the Governments of the EC and Brazil and the Republic of Korea. On the basis of Presidential Proclamations of previous years, import relief continued in effect during all or part of 1983 for mushrooms, porcelain-on-steel cooking ware, and clothespins. 2/

The Commission is required under section 203 to advise the President as to the probable economic effect of extending, reducing, or terminating import relief already in place. Two such investigations, one concerning mushrooms and one involving porcelain-on-steel cooking ware were terminated in 1983 by the Commission at the request of the petitioners. These investigations were terminated prior to the Commission making a determination on the merits of the investigations.

Market Disruption

Section 406 of the Trade Act of 1974 provides for investigations by the International Trade Commission to determine whether imports of an article

(continued)

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.

1/ The July proclamation limited specialty steel imports in three product categories totaling approximately 145,000 tons.

2/ Escape-clause relief for mushrooms expired on Oct. 31, 1983. Escape-clause relief for porcelain-on-steel cooking ware expired on January 16, 1984 and relief for clothespins expired on February 22, 1984.

originating in a communist country are causing market disruption with respect to an article produced by a domestic industry. 1/

In its only section 406 activity during the year, the International Trade Commission investigated the economic effect on the U.S. market of imports of ferrosilicon from the Soviet Union. The Commission's action was taken in response to a request from the United States Trade Representative. On February 2, 1984, the Commission determined that imports of ferrosilicon from the Soviet Union were not causing market disruption.

The ferrosilicon case was the 10th investigation instituted pursuant to section 406 since the act took effect in 1975. The other cases involved gloves from China; clothespins from China, Poland, and Romania; ammonia from the Soviet Union (two cases); montan wax from East Germany; ceramic tableware from China; and mushrooms from China. The clothespins from China and first ammonia case were the only affirmative rulings issued under section 406; the Commissioners were equally divided in the mushroom case. The President determined in all of the above cases that market disruption did not exist.

Adjustment Assistance

Title II of the Trade Act of 1974 provides for adjustment assistance for workers, firms, and industries adversely affected by increased imports. 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/ 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.

2/ In assisting workers, the Department of Labor provides cash benefits and funding for job search, relocation, and training. In assisting firms, the Department of Commerce provides technical assistance (including assistance in engineering, production methods, financial management, and marketing) 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.

The Department of Labor instituted 1,217 investigations in fiscal year 1983 on the basis of petitions for eligibility to apply for trade adjustment assistance, this represented an increase of 50 percent from the 809 investigations instituted in the FY 1982. The results of investigations completed or terminated in fiscal year 1983 (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-----	381	81,888
Partial certifications-----	65	17,689
Petitions denied-----	803	205,660
Petitions terminated or withdrawn-----	<u>49</u>	<u>6,226</u>
Total-----	1,298	311,463

As a result of lower rates of petition certification during the period October 1981 through September 1983, Department of Labor expenditures in FY 1983 on direct cash benefits to certified workers declined significantly, totaling \$32 million, or 31 percent of total expenditures for FY 1982. In addition to direct financial assistance, the Department provided financing for worker activities in the areas shown in the following tabulation:

<u>Item</u>	<u>Number of workers</u>	<u>Expenditure</u>
Job search-----	595	\$149,967
Relocation allowances-----	2,759	2,630,053
Training-----	24,558	12,990,234

The International Trade Administration (ITA) in the Department of Commerce certified 412 firms as eligible to apply for trade adjustment assistance during FY 1983, representing an increase of 73 percent from the 238 firms certified in FY 1982. The ITA approved the adjustment proposals of 13 certified firms and authorized financial assistance totaling \$17.5 million, including \$8.3 million in direct loans and \$9.2 million in loan guarantees. The ITA also provided direct technical assistance to 737 trade-impacted firms.

The Department of Commerce awarded trade adjustment technical assistance grants totaling \$4.5 million to 13 industry associations, representing producers of apparel and textiles, hand tools, mushrooms, wool, machine tools, leather products, textile machinery, hardwood products, tooling and

machining, footwear, food-processing machinery, packaging machinery, and wire machinery. 1/

U.S. ACTIONS AGAINST UNFAIR TRADE

U.S. law provides remedies for U.S. industries 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.

In 1983, under section 731 of the Tariff Act of 1930, 2/ the U.S. Department of Commerce completed 16 final antidumping investigations on the issue of sales at less than fair value. Antidumping duty orders were imposed as a result of 14 of these investigations on a total of 11 products from 8 countries. Under the same section, the Commission completed 40 preliminary and 23 final antidumping investigations on the issue of material injury or threat thereof.

Under section 701 of the Tariff Act of 1930, the Commission completed 8 preliminary and 15 final countervailing duty investigations. The U.S. Department of Commerce imposed countervailing duties on a total of 33 products from 15 countries plus the EC.

The Commission completed 28 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.

Antidumping Investigations

Investigations under section 731, Tariff Act of 1930 3/

Since the recession ended in November 1982, the number of antidumping investigations conducted by the Department of Commerce and the International

1/ Trade adjustment technical assistance programs, initially funded in previous years, continued in effect throughout FY 1983 for industries which process shrimp and produce footwear, apparel and textiles, mushrooms, stainless steel flatware, shakes and shingles, industrial fasteners, consumer electronic products, steel, textile machinery, cutlery, vitreous chinaware, earthenware, work gloves, paper machinery, luggage, handbags, handmade glass, jewelry, loudspeakers, and sporting goods.

2/ The Trade Agreements Act of 1979 established a new title VII of the Tariff Act, which included section 731.

3/ Sec. 731 provides for the imposition of antidumping duties if 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 considerations, 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.

Trade Commission has dropped significantly. In 1983 under section 731, the Commission completed 40 preliminary investigations representing a decrease of 35 percent from the 62 preliminary investigations completed in 1982. ^{1/} The Commission found, during 7 investigations in 1983, that there was "no reasonable indication" that a domestic industry was being or was likely to be injured by reason of the importation of the merchandise under investigation by Commerce. The Department of Commerce in each instance as a result of the Commission's determination terminated its investigation. In 33 investigations, the Commission found that there was a "reasonable indication" of injury or likelihood of injury. Table 42 shows the results of the cases that were completed in 1983. Table 43 lists the cases that were pending as of December 31, 1983.

Table 42.--Preliminary antidumping investigations completed by the International Trade Commission, 1983

Investigation : No. :	Product and source	Commission determination ^{1/}
731-TA-116----	Carton-closing staples from Sweden-----	Affirmative.
731-TA-117----	Nonautomatic carton-closing staple machines : from Sweden.	Do.
731-TA-118----	Certain lightweight polyester filament from : Japan.	Do.
731-TA-119----	Certain lightweight polyester filament from : Korea.	Do.
731-TA-120----	Certain tapered roller bearings from Japan----	Do.
731-TA-121----	Certain tapered roller bearings from : West Germany.	Do.
731-TA-122----	Certain tapered roller bearings from Italy-----	Do.
731-TA-123----	Certain flat-rolled carbon steel products : from Brazil.	Do.
731-TA-124----	Certain fresh potatoes from Canada-----	Do.
731-TA-125----	Potassium permanganate from China-----	Do.
731-TA-126----	Potassium permanganate from Spain-----	Do.
731-TA-127----	Thin sheet glass from Switzerland-----	Negative.
731-TA-128----	Thin sheet glass from Belgium-----	Do.
731-TA-129----	Thin sheet glass from West Germany-----	Do.
731-TA-130----	Chloropicrin from China-----	Affirmative.

See footnotes at end of table.

^{1/} When the Commission makes an affirmative preliminary determination concerning material injury to a U.S. industry in a dumping case, the investigation is continued by the Department of Commerce, which is responsible for determining, first on a preliminary basis, whether the imported product is being, or is likely to be, sold at less than fair value (LTFV), within the meaning of the Tariff Act of 1930. If the preliminary finding made by Commerce is affirmative, the investigation will be returned to the Commission for a final determination on the question of material injury while Commerce proceeds towards its final determination on the question of LTFV sales.

Table 42.--Preliminary antidumping investigations completed by the International Trade Commission, 1983--Continued

Investigation No.	Product and source	Commission determination ^{1/}
731-TA-131----	Certain welded carbon steel pipes from Korea--	Do.
731-TA-132----	Certain welded carbon steel pipes from Taiwan--	Do.
731-TA-133----	Forged undercarriage components from Italy----	Do.
731-TA-134----	Color television receivers from Korea-----	Do.
731-TA-135----	Color television receivers from Taiwan-----	Do.
731-TA-136----	Cyanuric acid and its chlorinated derivatives : : from Japan. :	Do.
731-TA-137----	Tubes for tires, other than for bicycle tires : : from the Republic of Korea. :	Do.
731-TA-138----	Certain rectangular welded carbon steel pipes : : and tubes from Korea-----	Do.
731-TA-139----	Acrylic sheet from Taiwan-----	Do.
731-TA-140----	Certain spindle belting from West Germany-----	Negative.
731-TA-141----	Certain spindle belting from Italy-----	Do.
731-TA-142----	Certain spindle belting from Japan-----	Do.
731-TA-143----	Certain spindle belting from the Netherlands--	<u>2/</u>
731-TA-144----	Certain spindle belting from Switzerland-----	Negative.
731-TA-145----	Certain steel valves and from Japan-----	Affirmative.
731-TA-146----	Certain flat-rolled carbon steel products from: : Belgium. :	Do.
731-TA-147----	Certain flat-rolled carbon steel products : : from West Germany. :	Do.
731-TA-148----	Fresh cut roses from Columbia-----	Do.
731-TA-149----	Barium chloride from China-----	Do.
731-TA-150----	Barium carbonate from China-----	Do.
731-TA-151----	Certain hot-rolled carbon steel plate : : from Korea. :	Do.
731-TA-152----	Pads for woodwind instrument keys from Italy--	Do.
731-TA-153----	Hot-rolled carbon steel sheet from Brazil-----	Do.
731-TA-154----	Cold-rolled carbon steel sheet from Brazil-----	Do.
731-TA-155----	Chlorine chloride from Canada-----	Do.
731-TA-156----	Chlorine chloride from the United Kingdom-----	Do.

^{1/} An affirmative determination by the Commission results in the Department of Commerce continuing its investigation to determine whether there are less-than-fair-value sales; a negative determination by the Commission results in the investigation being terminated.

^{2/} Terminated at the request of the producers.

Source: U.S. International Trade Commission.

Table 43--Preliminary antidumping investigations pending before
the International Trade Commission on December 31, 1983

Investigation No.	Product and source	Report to the Secretary of Commerce
731-TA-157----	Carbon steel wire rod from Argentina-----	Jan. 9, 1984
731-TA-158----	Carbon steel wire rod from Mexico-----	----do-----
731-TA-159----	Carbon steel wire rod from Poland-----	----do-----
731-TA-160----	Carbon steel wire rod from Spain-----	----do-----
731-TA-161----	Titanium sponge from Japan-----	Jan. 12, 1984
731-TA-162----	Titanium sponge from the United Kingdom-----	----do-----
731-TA-163----	Certain cell-site radio apparatus and subassemblies thereof from Japan.	Feb. 13, 1984

Source: U.S. International Trade Commission

The International Trade Commission made 21 final antidumping determinations in 1983, 14 of which resulted in affirmative injury determinations and 7 in negative determinations. The determinations are listed in table 44. Table 45 lists the cases on which a final determination was pending as of December 31, 1983.

Table 44.--Final antidumping investigations completed by
the International Trade Commission, 1983

Investigation No.	Product and source	Commission determination
731-TA-44----	Sorbitol from France-----	Injury. <u>1/</u>
731-TA-58----	Hot-rolled carbon steel plate from Romania----	<u>2/</u>
731-TA-87----	Certain seamless steel pipes and tubes from Japan.	Injury.
731-TA-88----	Carbon steel wire rod from Venezuela-----	No injury.
731-TA-89----	Prestressed concrete steel wire strand from the United Kingdom.	No injury.
731-TA-91----	Sodium nitrate from Chile-----	Injury.
731-TA-92----	Stainless steel sheet and strip from West Germany.	Injury.
731-TA-94----	Bicycle tires and tubes from Taiwan-----	<u>3/</u>
731-TA-95----	Stainless steel sheet and strip from France----	Injury.
731-TA-96----	Nitrocellulose from France-----	Do.
731-TA-100----	Certain tool steel from West Germany-----	Do.
731-TA-101----	Greige polyester/cotton printcloth from from China.	Do.

See footnotes at end of table.

Table 44.--Final antidumping investigations completed by the International Trade Commission, 1983--Continued

Investigation No.	Product and source	Commission determination
731-TA-102	Certain radio paging and alerting devices from Japan.	Do.
731-TA-103	Cotton shop towels of from China	Do.
731-TA-108	Portland hydraulic cement from Australia	No injury.
731-TA-109	Portland hydraulic cement from Japan	Do.
731-TA-111	Bicycles from Taiwan	Do.
731-TA-113	Carbon steel wire rod from Brazil	Injury.
731-TA-114	Carbon steel wire from Trinidad and Tobago	Do.
731-TA-115	Canned mushrooms from China	3/
731-TA-116	Carton-closing staples from Sweden	Injury.
731-TA-117	Nonautomatic carton-closing staple machines from Sweden.	Do.
731-TA-119	Certain lightweight polyester filament fabric from Korea.	No injury.
731-TA-124	Fall-harvested round white potatoes from Canada.	No injury.

1/ This result was a redetermination.

2/ The Commission suspended this investigation because the Department of Commerce under section 734 of the 1979 Trade Agreements Act suspended its related investigation. Commerce's action was based on assurances from the Romanian producer that it would adjust its prices to prevent sales to the United States at less than fair value (LTFV). The investigation will be reinstated at the same stage as when suspended should LTFV sales reoccur.

3/ Terminated in response to Commerce's final determination that such articles were not being sold at LTFV.

Source: U.S. International Trade Commission.

Table 45.--Final antidumping investigations pending before the International Trade Commission on December 31, 1983

Investigation No.	Product and source	Report to the Secretary of Commerce
731-TA-118	Certain lightweight polyester filament from Japan.	Feb. 5, 1984
731-TA-120	Certain tapered roller bearings from Japan	Feb. 27, 1984
731-TA-122	Certain tapered roller bearings from Italy	-----do-----
731-TA-123	Certain flat-rolled carbon steel products from Brazil.	Mar. 3, 1984
731-TA-125	Potassium permanganate from China	Jan. 20, 1984
731-TA-126	Potassium permanganate from Spain	Jan. 5, 1984

Table 45.--Final antidumping investigations pending before
the International Trade Commission on December 31, 1983--Continued

Investigation No.	Product and source	Report to the Secretary of Commerce
731-TA-130----	Chloropicrin from China-----	Mar. 19, 1984
731-TA-131----	Certain circular welded carbon steel pipes and tubes from Korea.	Apr. 25, 1984
731-TA-132----	Certain circular welded carbon steel pipes and tubes from Taiwan.	-----do-----
731-TA-134----	Color television receivers from Korea-----	Apr. 9, 1984
731-TA-135----	Color television receivers from Taiwan-----	-----do-----
731-TA-136----	Cyanuric acid and its chlorinated derivatives from Japan.	-----do-----
731-TA-138----	Certain rectangular welded carbon steel pipes and tubes from Korea.	Apr. 27, 1984

Source: U.S. International Trade Commission.

As a result of the International Trade Commission's affirmative determinations, the Department of Commerce imposed antidumping duty orders in 1983 in 14 investigations: 3 against France, 2 each against West Germany, China, Sweden, and Japan; 1 against Trinidad and Tobago, Chile, and Brazil. Six of these cases involved steel products, and three involved chemicals. Orders were also issued against staples, staplers, printcloth, shop towels, and high-capacity pagers.

On the basis of Commission determinations in 1983 and in previous years, antidumping duty orders were in effect with respect to the following products and countries as of December 31, 1983:

<u>Product</u>	<u>Country</u>
Anhydrous sodium metasilicate	France
Expanded metal of base metal	Japan
Calcium pantothenate	Japan
Melamine in crystal form	Japan
Railway track maintenance equipment	Austria
Birch 3-ply doorskins	Japan
Racing plate	Canada
Pipe and tubing	Japan
Television receiving sets	Japan
Ferrite cores	Japan

<u>Product</u>	<u>Country</u>
Viscose rayon staple fiber	Finland
Viscose rayon staple fiber	France
Canned bartlett pears	Australia
Sodium nitrate	Chile
Diamond tips for phonograph needles	United Kingdom
Spun acrylic yarn	Italy
Spun acrylic yarn	Japan
Sugar and syrups	Canada
Sorbitol	France
Roller chain, other than bicycle	Japan
Bicycle tires and tubes	Korea
Steel reinforcing bars	Canada
Portland cement	Dominican Republic
Portable electric typewriters	Japan
Perchloroethylene	Belgium
Perchloroethylene	France
Perchloroethylene	Italy
Impression fabric	Japan
Carbon steel plate	Japan
Fireplace mesh panels	Taiwan
Stainless steel plate	Sweden
Fishnetting	Japan
Carbon steel plate	Taiwan
Viscose rayon staple fiber	Italy
Sugar	Belgium
Sugar	France
Sugar	West Germany
Large power transformers	France
Large power transformers	Italy
Large power transformers	Japan
Stainless steel sheet and strip	France
Stainless steel sheet and strip	West Germany
Strontium nitrate	Italy
Precipitated barium carbonate	West Germany
Elemental sulphur	Mexico
Polyvinyl chloride sheet and film	Taiwan
High powered amplifiers	Japan
Synthetic methionine	Japan
Pig iron	Canada
Tool steel	West Germany
Nitrocellulose	France
Cadmium	Japan
Stainless clad steel plate	Japan
Nitrocellulose	France
Steel wire nails	Korea
Pagers	Japan
Tapered roller bearings	Japan
Clear sheet glass	Taiwan
Printed vinyl film	Argentina
Printed vinyl film	Brazil

<u>Product</u>	<u>Country</u>
Titanium sponge	Soviet Union
Stainless steel wire rods	France
Acrylic sheet	Japan
Paving equipment parts	Canada
Swimming pools	Japan
Montan wax	East Germany
Steel jacks	Canada
Printcloth	China
Condenser paper	Finland
Condenser paper	France
Steel bars and structural shapes	Canada
Tempered sheet glass	Japan
Instant potato granules	Canada
Shop towels	China
Steel wire rope	Japan
Pressure sensitive plastic tape	Italy
Pig iron	Czechoslovakia
Pig iron	East Germany
Pig iron	Romania
Pig iron	Soviet Union
Dry cleaning machinery	West Germany
Wire rod	Trinidad and Tobago
Wire rod	Brazil
Bicycle speedometers	Japan
Viscose rayon staple fiber	Belgium
Polychloroprene rubber	Japan
Clear sheet glass	Italy
Tuners	Japan
Elemental sulphur	Canada
Steel wire strand	Japan
Staples and staplers	Sweden
Animal glue and inedible gelatin	Netherlands
Animal glue and inedible gelatin	Sweden
Animal glue and inedible gelatin	West Germany
Animal glue and inedible gelatin	Yugoslavia
Large electric motors	Japan

Investigations under section 751, Tariff Act of 1930 1/

In 1983, the Commission completed one review of an antidumping order. In investigation No. 751-TA-7, the Commission determined that, if the antidumping order on imports of fishnetting of manmade fibers from Japan were modified or

1/ 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.

revoked to exclude salmon gill fish netting, the subject imports would materially retard the establishment of an industry in the United States. In response to the Commission's determination, the Department of Commerce allowed the order on fishnetting to remain in effect.

Trigger-Price Mechanism

The Department of Commerce on January 11, 1982 terminated its Trigger-Price Mechanism (TPM) in response to antidumping complaints filed by seven domestic steel producers. TPM procedures were reinstated on April 21, 1982, for two steel products, stainless steel round wire and stainless steel small-diameter round drawn bar. 1/ During 1983, the Commerce Department reduced base trigger prices on stainless steel round wire products by a total of 7.1 percent. Trade in stainless steel round wire products is estimated in 1983 to have represented less than 1 percent of total apparent steel consumption. The Department of Commerce revises prices for the above products periodically primarily in response to changes in the foreign currency with respect to the dollar and changes in foreign costs of production.

Countervailing duty investigations

The U.S. 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. 2/

Procedurally, the countervailing duty law is similar to the antidumping law. The U.S. Department of Commerce determines whether there is a subsidy and the margin of subsidy. Meanwhile the Commission, when an injury test is required, determines whether a domestic industry has been materially injured, or threatened with material injury, or whether the establishment of a domestic industry has been materially retarded by reason of imports of such subsidized merchandise. 3/

The number of countervailing duty investigations at the Commission decreased substantially in 1983, when the Commission made preliminary findings in 8 cases and final determinations in 13 cases under Section 701. However,

1/ The Department of Commerce has legal authority to establish trigger prices for articles that are within reach of the antidumping provisions of U.S. trade law.

2/ Section 303 applies when the imported article enters duty-free and or the exporting country is not a signatory of the subsidies code but a contracting party to the GATT. Section 701 applies when the exporting country is a signatory of the subsidies code.

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 generally 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 neither signed the subsidies code or undertaken substantially similar obligations, countervailing duties may be imposed following a positive finding by the U.S. Department of Commerce under sec. 303 of the Tariff Act of 1930 without a Commission injury investigation.

no investigations were conducted under Section 303 of the Act. In contrast, in 1982, the Commission made preliminary findings in 111 cases and final determinations in 13 cases; 90 of these cases represented alleged subsidies on imports of steel from the EC. 1/

Investigations under section 701, Tariff Act of 1930

During 1983, the Commission completed or terminated 8 preliminary investigations under section 701 of the Tariff Act of 1930. The Commission determined in 5 cases 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 allegedly subsidized and were under investigation by the U.S. Department of Commerce. These investigations were therefore continued at the U.S. Department of Commerce. During 1983, the Commission found no reasonable indication of material injury in 4 cases, and terminated one investigation. These investigations are listed in table 46. 2/ At yearend, investigation No. 701-TA-209, carbon steel wire rod from Spain, was still pending.

Table 46.--Preliminary countervailing duty investigations completed or terminated by the Commission in 1983

Investigation No.	Article and source	Commission determination <u>1/</u>
701-TA-201-----	Forged undercarriage components from: : Italy: : [semifinished links and rollers] : [semifinished segments] : [finished articles]	: : : Injury : No injury : Do.
701-TA-202-----	Cotton shop towels from Pakistan-----	: Injury
701-TA-203-----	Pads for woodwind instrument keys : from Italy.	: : Do.
701-TA-204	: Carbon steel products from Brazil <u>2/</u> ----	: Terminated
701-TA-205-----	-----do-----	: Injury
701-TA-206-----	-----do-----	: Do.
701-TA-207-----	-----do-----	: No injury
701-TA-208	: Iron bars from Brazil-----	: Do.

1/ The term "injury" refers to a finding that there is a reasonable indication of injury or threat of injury. "No injury" refers to a finding that there is no reasonable indication of injury or threat of injury.

2/ The Commission terminated this investigation after withdrawal of the petition by the petitioner.

Source: Compiled from official statistics of the U.S. International Trade Commission.

1/ For a complete listing of these cases see OTAP 1982, 34th Report, pp. 243-247.

2/ As shown in table 46, one of the five injury determinations and two of the no injury determinations were made in one investigation no. 701-TA-201. The Commission in this case voted on each of the four products separately, thus bringing the number of investigations to ten which exceeded the number of investigations.

The U.S. Department of Commerce issued preliminary determinations that there were reasonable bases to believe or suspect that benefits which constituted a subsidy had been granted to manufacturers, producers, or exporters of certain products for which the Commission had found a reasonable indication of material injury in its preliminary investigations. Such a determination by the U.S. Department of Commerce triggers the institution of final injury investigations by the Commission. During 1983, the U.S. Department of Commerce undertook countervailing duty actions against a total of 44 products from 19 countries. Table 9 in Chapter II of this report lists these actions.

The Commission completed 15 investigations in 1983; of these, the Commission found injury in 12 cases, no injury in 2 cases, and terminated 1 investigation, as shown in table 47. At yearend, investigation No. 701-TA-202, shop towels from Pakistan, was still pending.

Table 47.--Final countervailing duty investigations completed or terminated by the Commission in 1983.

Investigation No.	Article and source	Commission determination
701-TA-152-----	Prestressed steel wire strand from Brazil.	No injury.
701-TA-168-----	Welded carbon steel pipes & tubes from the Republic of South Korea.	Injury.
701-TA-170-----	Certain steel products from the Republic of South Korea.	Do.
701-TA-171-----	Certain steel products from the Republic of South Korea.	Do.
701-TA-173-----	Certain steel products from the Republic of South Korea.	Do.
701-TA-179-----	Hot-rolled stainless steel bar from Brazil.	Do.
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. <u>1/</u>	Terminated
701-TA-184-----	Frozen concentrated orange juice from Brazil.	Injury
701-TA-187-----	Certain steel tools from Brazil-----	Do.
701-TA-190-----	Nitrocellulose from France-----	Do.
701-TA-195-----	Stainless steel sheet and strip from the United Kingdom.	No injury
701-TA-196-----	Stainless steel plate from the United Kingdom.	Injury
701-TA-201	Forged undercarriage components from Italy semifinished links and rollers.	Do.

1/ The Commission terminated the final investigation after withdrawal of the petition by the petitioner.

Source: Compiled from official statistics of the United States International Trade Commission.

Termination or suspension of investigations under section 704 of the Trade Agreements Act of 1979

Section 704 of the 1979 Trade Agreements Act provides for the suspension or termination of an investigation due to an agreement to eliminate or completely offset a subsidy or to cease exports of subsidized merchandise. Under section 704 (a), an investigation may be terminated by either the administering authority (the U.S. Department of Commerce) or the Commission after notice to all parties to the investigation, upon withdrawal of the petition by the petitioner. However, the Commission may not terminate an investigation before a preliminary determination is made by the U.S. Department of Commerce.

Section 704(b) of the Act allows the administering authority to suspend an investigation if the government of the country in which the subsidy practice is alleged to occur agrees, or exporters who account for substantially all of the imports of the merchandise which is the subject of the investigation agree to (1) eliminate the subsidy completely or to offset completely the amount of the net subsidy, with respect to that merchandise exported directly or indirectly to the United States, within 6 months after the date on which the investigation is suspended, or (2) to cease exports of that merchandise to the United States within 6 months after the date on which the investigation is suspended.

Section 704(c) applies to agreements eliminating injurious effects. The general rule is that if the U.S. Department of Commerce determines that extraordinary circumstances are present in a case, it may suspend an investigation upon the acceptance of an agreement from a government or from exporters, that the government will eliminate completely the injurious effects of exports to the United States of the merchandise which is the subject of the investigation. Except in the case of an agreement by a foreign government to restrict the volume of imports of the merchandise which is the subject of the investigation into the United States, the U.S. Department of Commerce may not accept an agreement unless (A) the suppression or undercutting of price levels of domestic products by imports of that merchandise will be prevented, and (B) at least 85 percent of the net subsidy will be offset. The Department of Commerce may accept an agreement with a foreign government to restrict the volume of imports of merchandise which is the subject of an investigation into the United States, but may not accept such agreements with exporters. Extraordinary circumstances are defined under this section as circumstances in which: (1) suspension of an investigation will be more beneficial to the domestic industry than continuation of the investigation, and (2) if the investigation is complex, meaning that there are a large number of alleged subsidy practices and the practices are complicated in the sense that the issues raised are novel or the number of exporters involved is large.

In 1983, following a preliminary determination by the U.S. Department of Commerce, the Commission terminated 1 preliminary and 1 final investigation under section 704(a), (tables 46, 47). There were no investigations terminated under sections 704(b) and 704(c) during 1983, therefore there were no agreements between governments of exporting countries and the U.S. Government.

**Investigations under section 104, Trade Agreements Act of 1979
(review of countervailing duty orders)**

Under section 104 of the Trade Agreements Act of 1979, the Commission, upon the request of a signatory to the subsidies code, shall make a determination within 3 years from the date of receipt of such request as to whether an industry in the United States would be materially injured, or threatened with material injury, or the establishment of an industry would be materially retarded if the countervailing duty order applicable to the product under investigation were revoked. Section 104 of the 1979 Trade Act, known commonly as countervail review, applies only to countervailing duty orders issued before January 1, 1980. Prior to the Trade Agreements Act of 1979, countervailing duty cases were not subject to an injury test in so far as dutiable products were involved. In contrast, countervailing duty cases which were pending or initiated after January 1, 1980 are subject to the injury test if the exporting country is a signatory of the subsidies code or has assumed substantially equivalent obligations of the code. Countervailing duty actions initiated after January 1, 1980, involving nonsignatory countries are not subject to an injury review by the Commission unless the exporting country becomes a signatory to the subsidies code during the pendency of the investigation and is designated a "country under the Agreement" within U.S. law.

The statutory deadline for foreign governments or exporters of merchandise to the United States to request a Commission investigation of an outstanding countervailing duty order under section 104 (b) of the Trade Agreement Act of 1979 was January 1, 1983. Forty-five requests for such investigations were received prior to the deadline. These requests covered all of the countervailing duty orders that were eligible for injury determination under section 104 (b).

In 1983, the Commission completed 9 section 104(b) investigations. The Commission made negative determinations in 8 of the cases, and thus the U.S. Commerce Department revoked the outstanding orders on the products involved. In 1 case, the Commission made an affirmative determination, resulting in the continuation of the order on the product in question.

At yearend, investigation No. 104-TAA-20, certain castor oil products from Brazil, was still pending. The Commission has a backlog of 19 investigations to be reviewed during 1984 and 1985. The cases reviewed by the Commission during 1983 are shown in table 48.

In 1983, the U.S. Department of Commerce continued outstanding countervailing duty orders or issued new countervailing duty orders against a total of 33 products from 15 countries plus the EC. Countervailing duty orders in effect on December 31, 1983, are listed in table 49.

Table 48--Countervailing duty orders reviewed by the Commission, 1983

Investigation No.	Article and country	Commission determination
104-TAA-11/12	Float glass from Belgium and Italy-----do-----	Negative. Do.
104-TAA-13	Rayon staple fiber from Sweden-----	Affirmative.
104-TAA-14	Bicycle tires and tubes from Korea-----	Negative.
104-TAA-15	Bicycle tires and tubes from Taiwan-----	Do.
104-TAA-16	Certain nonrubber footwear from Brazil--	Do.
104-TAA-17	Certain nonrubber footwear from India--	Do.
104-TAA-18	Certain nonrubber footwear from Spain--	Do.
104-TAA-19	Certain scissors and shears from Brazil:	Do.

Source: Compiled from the official statistics of the U.S. International Trade Commission.

Table 49.--Countervailing duty orders in effect on December 31, 1983

Commodity	Country	Yearly reviewed by U.S. Department of Commerce on 1/
Ferroalloys _____	Spain	Jan. 2
Nonrubber footwear _____	Argentina	Jan. 17
Chains _____	Spain	Jan. 24
Oleoresins _____	Spain	Feb. 28
Ferrochrome _____	South Africa	Mar. 11
Cotton yarn _____	Brazil	Mar. 15
Castor oil _____	Brazil	Mar. 16
Ampicillin trihydrate _____	Spain	Mar. 22
Sugar content of articles _____	Australia	Mar. 24
Pig iron _____	Brazil	Apr. 4
Unwrought zinc _____	Spain	Apr. 8
Oleoresins _____	India	Apr. 9
Leather apparel _____	Mexico	Apr. 10
Certain fasteners _____	Japan	May 6
Ceramic tile _____	Mexico	May 10
Tomato products _____	Greece	May 12
Viscose rayon staple fiber _____	Sweden	May 15
Leather apparel _____	Uruguay	July 17
Certain fasteners _____	India	July 21
Amoxicillin trihydrate _____	Spain	July 27

Table 49.--Countervailing duty orders in effect on
December 31, 1983--Continued

Commodity	Country	Yearly reviewed by U.S. Department of Commerce on 1/
Sugar	EC	July 31
Cordage	Cuba	Aug. 19
Chains	Japan	Aug. 24
Roses	Israel	Sept. 4
Certain steel products	South Africa	Sept. 8
Wire rod	South Africa	Sept. 27
Butter	Australia	Oct. 5
Iron metal castings	India	Oct. 16
Bottled green olives	Spain	Oct. 25
Rebars	South Africa	Oct. 28
Vitamin K	Spain	Nov. 16
Woolen garments	Argentina	Nov. 16
Float glass	West Germany	Dec. 27
Float glass	United Kingdom	Dec. 27

1/ The U.S. Department of Commerce conducts yearly reviews of countervailing duty orders to determine if the amount of subsidy has changed in order to adjust the imposed countervailing duties accordingly. Such reviews usually occur on the anniversary of the countervailing duty action.

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 for investigations by the Commission to determine whether unfair methods of competition exist in the importation of articles into the United States, or in their sale. 1/ If the

1/ 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."

Proceedings are conducted before an administrative law judge in accord with the Administrative Procedure Act, 5 U.S.C. 551 et seq. Following the hearings, 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.

Commission finds a violation of section 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. 1/ Section 337 investigations are usually instituted on the basis of a formal complaint, although the Commission can institute an investigation on its own initiative. Most section 337 complaints contain allegations of patent infringement. 2/ Some section 337 proceedings involve allegations of trademark or copyright infringement 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 section 337. The Commission normally completes section 337 investigations within 12 months. The Commission may take 18 months in cases declared to be "more complicated."

The Commission found violation in four section 337 investigations in 1983 and no violation in six investigations. In addition, the Commission terminated 11 cases on the basis of settlement agreements between the parties, 3 on the basis of consent orders, 3 on the basis of complainants' motion, and 1 with prejudice to the complainant. Table 50 shows the results of the cases that were completed in 1983; table 51 lists the cases that were pending at yearend.

As of December 31, 1983, there were 30 outstanding exclusion orders based on violations of section 337, all but six of which involved patent violations. Table 52 lists the investigations that preceded the issuance of the orders.

Section 603, Trade Act of 1974

Section 603 authorizes the Commission to conduct preliminary investigations "to determine the scope and manner of proceedings and to consolidate proceedings before it." Traditionally, the Commission has conducted section 603 investigations in order to gather information so that it might determine whether there was a basis for instituting a section 337 investigation. The Commission did not conduct any 603 investigations in 1983.

1/ A patent provides its 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.

2/ 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.

Table 50.--Investigations under sec. 337 of the Tariff Act of 1930 completed by the Commission, 1983

Investigation No.	Article	Commission determination or other action
337-TA-113-----	Certain log-splitting pivoted lever axes.	Terminated on the basis of a settlement agreement.
337-TA-114-----	Certain miniature plug-in blade fuses.	Violation. <u>1</u> /
337-TA-115-----	Certain power wood working tools, their parts, accessories, and special-purpose tools.	Terminated on the basis of a settlement agreement.
337-TA-116-----	Certain drill point screws for drywall construction.	No violation.
337-TA-117-----	Certain automotive visors.	Terminated on the basis of a consent order.
337-TA-118-----	Certain sneakers with fabric uppers and rubber soles.	Violation. <u>1</u> /
337-TA-119-----	Certain high-precision solenoids and components thereof.	Terminated on the basis of a settlement agreement.
337-TA-120-----	Certain silica-coated lead chromate pigments.	Violation. <u>1</u> /
337-TA-121-----	Certain plastic-capped decorative emblems	Terminated on the basis of complainants' motion.
337-TA-122-----	Certain miniature, battery operated, all-terrain, wheeled vehicles.	No violation.
337-TA-123-----	Certain CT scanner and gamma camera medial diagnostic imaging apparatus.	Do.
337-TA-124-----	Certain textile spinning frames and automatic doffers therefor.	Terminated on the basis of a settlement agreement.
337-TA-125-----	Certain grooved wooden handle kitchen utensils and gadgets.	Terminated on the basis of a consent order.

See footnote at the end of table.

Table 50.--Investigations under sec. 337 of the Tariff Act
of 1930 completed by the Commission, 1983--Continued

Investigation No.	Article	Commission determination or other action
337-TA-126-----	Certain handbags, luggage, and briefcases.	Terminated on the basis of complainants' motion.
337-TA-127-----	Certain amino acid formulations.	No violation.
337-TA-128-----	Certain cupric hydroxide formulated fungicides and cupric hydroxide pre- parations used in the formulation thereof.	Terminated on the basis of a settlement agreement.
337-TA-129-----	Certain limited-charged cell culture micro- carriers.	No violation.
337-TA-130-----	Certain braiding machines---	Do.
337-TA-131-----	Certain variable character display devices.	Terminated on the basis of a settlement agreement.
337-TA-132-----	Certain hand-operated, gas- operated, welding, cutting, and heating equipment and component parts thereof.	Terminated on the basis of complainants' motion.
337-TA-134-----	Certain treadmill joggers---	Terminated on the basis of a settlement agreement.
337-TA-135-----	Certain direction-reversing musical crib toys.	Terminated on the basis of a settlement agreement.
337-TA-136-----	Certain marine hardware and accessories.	Terminated on the basis of a settlement agreement.
337-TA-138-----	Certain automatic turret rewinders.	Terminated with prejudice to the complainant.
337-TA-141-----	Certain copper-clad stainless steel cookware.	Terminated on the basis of a consent order.
337-TA-142-----	Certain electronic chromatogram analyzers and components thereof.	Terminated on the basis of a settlement agreement.
337-TA-144-----	Certain direct-current brushless axial flow fans.	Terminated on the basis of a settlement agreement.
337-TA-146-----	Certain canape makers-----	Violation. <u>1/</u>

1/ Exclusion order issued.

Source: U.S. International Trade Commission.

Table 51.--Investigations under sec. 337 of the Tariff Act
of 1930 pending before the Commission on Dec. 31, 1983

Investigation No.	Article	Final Commission decision due
337-TA-54B-----	Certain multicellular plastic film-----	June 15, 1984
337-TA-75-----	Certain large video matrix display : systems and components thereof.	1/
337-TA-82A-----	Certain headboxes and papermaking : machine forming sections for the : continuous production of paper, : and components thereof.	2/
337-TA-133-----	Certain vertical milling machines and : parts, attachments and accessories : thereto.	Mar. 23, 1984
337-TA-137-----	Certain heavy-duty staple gun tackers----	Feb. 24, 1984
337-TA-139-----	Certain caulking guns-----	Feb. 24, 1984
337-TA-140-----	Certain personal computers and : and components thereof.	Mar. 9, 1984
337-TA-143-----	Certain amorphous metal alloys and : amorphous metal articles.	Oct. 13, 1984
337-TA-145-----	Certain rotary wheel printers-----	Oct. 20, 1984
337-TA-147-----	Certain papermaking machine forming : sections for the continuous production: : of paper and components thereof.	May 11, 1984
337-TA-148-----	Certain processes for the manufacture : of skinless sausage casings and : resulting product.	Oct. 26, 1984
337-TA-149-----	Certain radar detectors and accompanying: : owner's manuals.	June 2, 1984
337-TA-150-----	Certain self-stripping tap connectors----	June 8, 1984
337-TA-151-----	Certain apparatus for flow injection : analysis and components thereof.	June 22, 1984
337-TA-152-----	Certain plastic food storage containers--	July 13, 1984
337-TA-153-----	Certain microprocessors, related parts : and systems.	July 25, 1984
337-TA-154-----	Certain dot matrix line printers and : components thereof.	July 27, 1984
337-TA-155-----	Certain liquid crystal display watches : with rocker switches.	July 28, 1984
337-TA-156-----	Minutiae-based automated fingerprint : identification systems.	Aug. 3, 1984
337-TA-157-----	Certain office desk accessories and : related products.	Aug. 10, 1984
337-TA-158-----	Certain plastic light-duty screw : anchors.	Aug. 17, 1984

See footnotes at end of table.

Table 51.--Investigations under sec. 337 of the Tariff Act of 1930
pending before the Commission on Dec. 31, 1983--Continued

Investigation No.	Article	Final Commission decision due
337-TA-159-----	Certain poultry cut up machines-----	Aug. 24, 1984
337-TA-160-----	Certain composite diamond coated : textile machinery components.	Aug. 26, 1984
337-TA-161-----	Certain trolley wheel assemblies-----	Aug. 29, 1984
337-TA-162-----	Certain cardiac pacemakers and : components thereof.	Sept. 12, 1984
337-TA-163-----	Certain notating valve actuators and : components thereof.	Sept. 14, 1984
337-TA-164-----	Certain modular structural systems-----	Sept. 15, 1984
337-TA-165-----	Certain alkaline batteries-----	Sept. 21, 1984
337-TA-166-----	Certain computerized jacquard pattern : cutting systems.	Oct. 13, 1984
337-TA-167-----	Certain single-handle faucets-----	Oct. 24, 1984
337-TA-168-----	Certain combination punch press and : laser assemblies and components : thereof.	Oct. 24, 1984
337-TA-169-----	Certain processes for the manufacture : skinless sausage casings and : resulting product.	<u>3/</u>
337-TA-170-----	Certain bag closure clips-----	Nov. 9, 1984
337-TA-171-----	Certain glass tempering systems-----	Nov. 16, 1984
337-TA-172-----	Certain shearing machines-----	Nov. 23, 1984
337-TA-173-----	Certain valves-----	Dec. 1, 1984
337-TA-174-----	Certain woodworking machines-----	Dec. 15, 1984
337-TA-175-----	Certain metal and wire shelf products : and accessories.	Dec. 16, 1984
337-TA-176-----	Certain cutboard motors and components : thereof.	Dec. 16, 1984
337-TA-177-----	Certain film web drive stretch apparatus: : and components thereof.	Dec. 28, 1984
337-TA-178-----	Certain vinyl-covered foam blocks-----	Dec. 28, 1984

1/ Remand.

2/ The International Trade Commission reopened this investigation on July 6, 1983 to reconsider its prior determination of a violation of Sec. 337 based upon a decision by the Court of Appeals for the Federal Circuit that one of the patents in the case was invalid.

3/ The International Trade Commission incorporated the records of investigation No. 337-TA-169 into investigation No. 337-TA-148.

Source: U.S. International Trade Commission.

Table 52.--Outstanding sec. 337 exclusion orders as of Dec. 31, 1983

Investigation No.	Article	U.S. patent No.	Date patent expires
337-TA-2-----	Convertible game tables and : components thereof.	3,711,099----	Jan. 16, 1990
337-TA-5-----	Chain door locks-----	3,395,556----	Aug. 6, 1985
337-TA-24-----	Certain exercising devices---	3,743,280----	July 3, 1990
337-TA-30-----	Certain display devices for : photographs and the like.	3,774,332----	Nov. 27, 1990
337-TA-35-----	Certain molded golf balls----	3,313,545----	Apr. 11, 1984
337-TA-39-----	Certain luggage products-----	242,181 <u>1</u> /----	Nov. 2, 1990
337-TA-42-----	Certain electric slow : cookers.	3,881,090----	Apr. 29, 1992
337-TA-44-----	Certain roller units-----	4,024,600----	May 24, 1994
337-TA-47-----	Certain flexible foam : sandals.	3,978,596----	Sept. 7, 1993
337-TA-54-----	Certain multicellular : plastic film.	3,416,984----	Dec. 17, 1985
337-TA-55-----	Certain novelty glasses-----	Nonpatent----	-
337-TA-56-----	Certain thermometer sheath : packages.	3,552,558----	Jan. 5, 1988
337-TA-59-----	Pump top insulated : containers.	3,847,280----	Jan. 5, 1988
337-TA-62-----	Certain rotary scraping : tools.	4,113,147----	Sept. 25, 1995
337-TA-69-----	Certain airtight cast- : iron stoves.	3,958,294----	May 25, 1993
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----	Feb. 12, 1991
337-TA-75-----	Certain video matrix display : systems.	3,495,762----	July 20, 1988
:	:	:	:

See footnote at end of table.

Table 52.--Outstanding sec. 337 exclusion orders
as of Dec. 31, 1983--Continued

Investigation No.	Article	U.S. patent No.	Date patent expires
337-TA-82A----	Certain headboxes and papermaking machine forming sections for the continuous production of paper, and components thereof.	28,269-- <u>2</u> /	Dec. 10, 1991
337-TA-83-----	Certain adjustable window shades and components thereof.	4,006,770----	Feb. 7, 1994
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-----	Jan. 19, 1991 Feb. 19, 1992
337-TA-90-----	Certain airless paint spray pumps and components thereof.	3,367,270-----	Feb. 6, 1984
337-TA-99-----	Certain molded-in sandwich panel inserts and methods for their installation.	3,392,225-----	July 9, 1985
337-TA-105-----	Certain coin-operated audio- visual games and components thereof.	Nonpatent----	-
337-TA-110-----	Certain methods for extruding plastic tubing.	26,991 <u>2</u> /----- 28,959 <u>2</u> /----- 29,208 <u>2</u> /-----	May 17, 1984 Dec. 2, 1987 Sept. 6, 1984
337-TA-112-----	Certain cube puzzles-----	Nonpatent----	-
337-TA-114-----	Certain miniature plug-in blade fuses.	3,909,767----- 4,040,175----- 4,056,884----- 4,131,869-----	Sept. 30, 1992 Aug. 9, 1994 Nov. 8, 1994 Dec. 26, 1995
337-TA-118-----	Certain sneakers with fabric uppers and rubber soles.	Nonpatent----	-
337-TA-120-----	Certain silica-coated lead chromate pigments.	3,639,133-----	Feb. 1, 1989
337-TA-146-----	Certain canape makers-----	268,318 <u>1</u> /----	Mar. 2, 2000

1/ Design patent

2/ Reissued.

Source: U.S. International Trade Commission.

**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/

A summary of cases that were completed or terminated in 1983 or were pending at yearend follows.

301-6, Wheat flour (EC)

Petition received: November 24, 1975.

Issue: EC payment of export subsidies to wheat flour millers.

Status: The petition alleged 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 29, 1981. A subsidies code panel, established in 1982, issued its conclusions on February 24, 1983. The report of the panel had been considered by the code committee several times in 1983, the last time on November 18, 1983. It has not been adopted before the end of the year.

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 sec. 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.

301-11, Citrus products (EC)

Petition received: November 12, 1976.

- Issue:** The EC's preferential rates of duty on fresh citrus fruits and orange and grapefruit juices from certain Mediterranean countries.
- Status:** The petition alleged 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
- Status:** only. Following the MTN, the United States and the EC engaged in GATT article XXIII: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 success. On November 2, 1982, the GATT Council established a panel under article XXIII:2 to hear the U.S. complaint. As the composition of the panel and the agreement on the terms of reference took some time to resolve, the panel did not hold its first meeting until October 31, 1983, meeting again on November 29. At yearend, the matter was still pending.

301-22, Sugar (EC)

Petition received: August 20, 1981.

- Issue:** The petition alleged 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. A public hearing was held on November 4, 1981. Consultations under subsidies code article XII were held with the EC on February 16, 1982, and the conciliation procedures were completed by 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. No further action was taken with respect to this investigation during 1983.

Bilateral consultations continued during 1983.

301-23, Poultry (EC)

Petition received: September 17, 1981.

Issue: The petition alleged 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 the 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. The United States held informal consultations with Brazil in 1982 to obtain more information about Brazilian subsidy practices relating to the production and export of poultry. Additional consultations with the EC were also held during the year. The United States held still further consultations with Brazil in April 1983, and a tripartite meeting with the EC and Brazil in June. The issue had not been resolved during these meetings; therefore, the United States requested conciliation under the subsidies code. Code conciliation occurred on November 18, 1983 (for the first time), without a resolution of the dispute. At yearend, the matter was pending before the code committee.

301-25, Pasta (EC)

Petition received: October 16, 1981.

Issue: The petition alleged 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 dispute settlement under the provisions of the subsidies code. Both parties met with the panel in July and October 1982. The panel reported its findings on January 20, 1983. At the request of the EC, an additional panel meeting was held in March, followed by the submission of the panel's report to the code committee on May 19. The committee considered the report in June and again in November of 1983, but deferred any decision on its adoption.

301-26, Canned peaches, canned pears, and raisins (EC)

Petition received: October 29, 1981.

Issue: The petition alleged 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. On March 31, 1982, the United States requested that a panel be formed under GATT article XXIII:2. Further consultations were held with the EC on April 29, 1982. On August 7, 1982, the President directed the USTR to expeditiously complete the GATT dispute settlement process. In September and October 1982, both parties met with the panel to respond to questions.

The panel issued its report in November 1983. The GATT Council was scheduled to consider it at its meeting in February 1984. (See also chapter 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)

Original petition naming the above countries, plus Brazil, received: December 2, 1981. Refiled on January 12, 1982. New petition concerning only Belgium filed on June 23, 1982, providing new information.

Issue: The petition alleged 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. A 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 USTR, 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.

The Commission made an affirmative determination in the 201 case and, effective July 20, 1983, the President imposed import relief for a 4-year period (see also section on import relief in this chapter). On November 17, 1983, the United States notified the subsidies code committee that issues involved in this dispute had been resolved with regard to Austria and Sweden.

301-34, Front-end wheel loaders (Canada)

Petition received: September 13, 1982.

Issue: The petition alleged that Canada has a program allowing the remission of customs duties and sales tax to producers in violation of the GATT and the subsidies code.

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; it 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, although none has occurred to date.

301-35, Footwear (Brazil)

301-36, Footwear (Japan)

301-37, Footwear (Korea)

301-38, Footwear (Taiwan)

Petition naming the above countries, plus the EC, France, Italy, the United Kingdom, and Spain was received on October 25, 1982.

Issues: The petition alleged restrictive trade practices of the countries named above, causing a diversion of nonrubber 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 only with respect to Brazil, Japan, Korea, and Taiwan. The USTR decided not to initiate investigations against the other countries named in the petition. Bilateral consultations were held in January 1983 with Japan and Taiwan, and in April 1983 with Korea and Brazil. On December 19, 1983, the President determined that Taiwan does not impose unfair restrictions on U.S. imports as alleged by petitioner. The President did, however, direct the USTR to pursue offers with Taiwan regarding marketing assistance for U.S. exporters. The cases against Brazil, Korea, and Japan continue to be pursued under GATT article XXII.

301-39, Steel wire rope and specialty cable (Korea)

Petition received: March 16, 1983.

Issue: The petition alleged that Korea limits imports from Japan thereby diverting products to the U.S. market, and that Korean producers are infringing U.S. trademarks.

Status: The investigation was initiated on May 2, 1983. A hearing was held on June 2. The USTR requested consultations under the GATT subsidies code. Effective December 15, 1983, the investigation was terminated upon the withdrawal of the petition by the petitioner.

301-40, Soybean oil and meal (Brazil)301-41, Soybean oil and meal (Portugal)301-42, Soybean oil and meal (Spain)

Petition received: April 6, 1983.

Issue: The petition alleged that the above three countries and Argentina, Canada, and Malaysia, were engaging in unfair trade practices, including the use of export and production subsidies and the use of quantitative restrictions to restrict U.S. exports of soybean oil and meal.

Status: Investigations were initiated on May 23, 1983, only with respect to Brazil, Portugal, and Spain. A public hearing was held on June 29 and 30. Consultations were requested under article 12 of the subsidies code with Brazil and were subsequently held on November 21, 1983. GATT article XII consultations were requested with Portugal and Spain and were subsequently held on November 29, 1983 and December 1, 1983, respectively. Action on these cases was pending at yearend.

301-43, Rice (Taiwan)

Petition received: September 29, 1983.

Issue: The petition alleged that Taiwan subsidizes exports of rice, thereby restricting U.S. exports of rice to third-country markets and thus interfering with the U.S. price-support program on rice.

Status: The investigation was initiated on October 11, 1983, and consultations with Taiwan were subsequently held on December 8 and 9, 1983. Action on this issue was pending at yearend.

301-44, Air transportation of documents (Argentina)

Petition received: September 21, 1983.

Issue: The petition alleged that Argentina granted exclusive control over the international air transportation of time-sensitive commercial documents to the Argentine postal system. ³⁷²

Status: The investigation was initiated on November 7, 1983. Consultations regarding this issue are not expected to occur until early 1984.

OTHER IMPORT ADMINISTRATION

Voluntary Export Restrictions

The United States periodically has negotiated bilateral agreements with foreign governments to limit exports of certain products to the United States. Such agreements are considered preferable to unilaterally imposed increased tariff rates or quotas, because the supplying country agrees to limit its exports--subject to U.S. monitoring--and to voluntarily forego seeking compensation or retaliation against U.S. exports. Following an affirmative injury determination by the Commission in 1983 on the stainless steel and alloy tool steel escape-clause investigation, orderly marketing agreements were negotiated with the Governments of Japan, Canada, Poland, Argentina, Spain, Austria, and Sweden on specialty steels (already discussed in the import relief section). In a similar action, the United States in order to avoid possible invocation of import quotas on certain meats and to protect segments of the domestic livestock industry concluded voluntary export restraint agreements with the Governments of Australia and New Zealand. In addition, bilateral agreements covering articles of cotton, wool, and manmade fibers were in effect during 1983 with 26 Countries. 1/ These agreements were negotiated in conformity with the Arrangement Regarding International Trade in Textiles. 2/

All of the above bilateral agreements have been negotiated in accordance with U.S. legislation. The legal basis for negotiating such agreements is in section 203 of the Trade Act of 1974 and section 204 of the Agricultural Act of 1956.

Arrangement Regarding International Trade in Textiles

The President, under the authority of section 204 of the Agricultural Act of 1956, has directed that bilateral agreements be negotiated with foreign governments to limit 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/ The Governments of Brazil, China, Colombia, Costa Rica, the Dominican Republic, Egypt, Haiti, Hong Kong, Hungary, India, Indonesia, Japan, the Republic of Korea, Macao, Malaysia, Mauritius, Mexico, Pakistan, the Philippines, Poland, Romania, Singapore, Sri Lanka, Taiwan, Thailand, and Yugoslavia.

2/ The United States during the interval 1982-83 signed new bilateral textile agreements with the 4 major textile producers, the Republic of Korea, Taiwan, Hong Kong, and China.

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, of The Multifiber Arrangement, 1973 to 1980: Report on Investigation No. 332-108 under Section 332 of the Tariff Act of 1930, USITC Publication 1131, March 1981, pp. A-2 to A-18,. The final draft of the First Protocol Extending the Arrangement Regarding International Trade in Textiles is on pp. A-19 ~~37~~ A-21. The Second Protocol did not take effect until Jan. 1, 1982.

In 1983, the United States monitored compliance with bilateral textile agreements with 26 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 1983 are listed in table 53.

In August 1983, the United States and China signed a new textiles trade agreement which was retroactive to January 1, 1983, and will run for 5 years through December 31, 1987. 2/ The agreement allows for an annual average growth rate of 3.8 percent on 33 restricted textile and apparel categories compared with the previous 3-year agreement which allowed for a growth rate of 4.1 percent on 14 restricted categories. China, accounting for 8 percent of total U.S. imports of textiles and apparel in January-June 1983, is the fourth largest supplier of these imports to the United States. Similar agreements negotiated in 1982 with Hong Kong, Taiwan, and Korea--the three largest suppliers of textiles and apparel imports to the United States--allow for annual average growth rates of 1 percent.

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 to 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 for 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, Treasury, and Labor. The Office of the United States Trade Representative and the Department of Agriculture, have nonvoting membership. The CITA receives advice from the Textile/Apparel Import Steering Group which is from the private sector.

2/ For a discussion of this agreement see the Commission's 36th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During July-September 1983, USITC Publication 1468, December 1983, pp. 43-44.

Table 53.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1983

Source	Period	Fibers included in the agreement	Aggregate limits <u>Million equivalent square yards</u>
Brazil-----	Apr. 1, 1983- Mar. 31, 1984.	Cotton, wool, and manmade fiber.	183.1
China-----	1983-----	-----do-----	<u>1/</u>
Colombia-----	July 1, 1983- June 30, 1984.	-----do-----	<u>1/</u>
Costa Rica-----	1983-----	-----do-----	<u>1/</u>
Dominican Republic	June 1, 1983- May 31, 1984.	-----do-----	<u>1/</u>
Egypt-----	1983-----	-----do-----	<u>1/</u>
Haiti-----	March 1, 1983- Feb. 29, 1984.	-----do-----	<u>1/</u>
Hong Kong-----	1983-----	-----do-----	<u>1/</u>
Hungary-----	-----do-----	-----do-----	<u>1/</u>
India-----	-----do-----	-----do-----	100.0
Indonesia-----	July 1, 1983- June 30, 1984.	-----do-----	<u>1/</u>
Japan-----	1983-----	-----do-----	<u>1/</u>
Republic of Korea	-----do-----	-----do-----	<u>1/</u>
Macau-----	-----do-----	-----do-----	<u>1/</u>
Malaysia-----	-----do-----	-----do-----	51.7
Mauritius-----	Oct. 1, 1983- Sept. 30, 1984.	-----do-----	<u>1/</u>
Mexico-----	1983-----	-----do-----	<u>1/</u>
Pakistan-----	-----do-----	Cotton-----	215.3
Philippines-----	-----do-----	Cotton, wool, and manmade fiber.	307.2
Poland-----	-----do-----	-----do-----	61.0
Romania-----	-----do-----	-----do-----	<u>1/</u>
Singapore-----	-----do-----	-----do-----	314.1
Sri Lanka-----	May 1, 1983- May 31, 1984.	-----do-----	<u>1/</u>
Taiwan-----	1983-----	-----do-----	<u>1/</u>
Thailand-----	-----do-----	-----do-----	<u>1/</u>
Yugoslavia-----	-----do-----	-----do-----	<u>1/</u>

1/ No aggregate limit. There are limits on certain categories only, as well as provision for consultation.

Source: Exchange of notes constituting the bilateral agreements.

Meat Import Act of 1964

The U.S. Department of Agriculture (USDA) under the Meat Import Act of 1964 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/

The USDA estimated in 1982 that, imports of quota meat in 1983 would amount to 1,224 million pounds, approximately 7 million pounds below the "trigger" level (1,231 million pounds for 1983), requiring imposition of quantitative limitations. Although no quotas were imposed under the authority of the act by December 31, 1983, the three largest supplying countries-- Australia, New Zealand, and Canada--in August 1983 agreed voluntarily to limit

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 suspend quotas only 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.

exports to the United States for the remainder of the calendar year. 1/ Imports of quota meat in 1983 amounted to 1,123 million pounds, 108 million pounds below the trigger level and approximately 100 million pounds below the previous estimate of the Department. The USDA on December 30, 1983 estimated that imports of quota meat would amount to 1,190 million pounds in 1984, approximately 38 million pounds below the trigger level.

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. 2/

In June 1983, the President directed the Commission to institute investigation No. 22-46 to determine whether certain articles containing sugar 3/ 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. Concurrently, the President took emergency action to impose quotas. 4/

The Commission on December 7, 1983 unanimously found with respect to blended sirups, flavored sirups, flavored sugars, and certain edible preparations included in the emergency quotas established by Presidential Proclamation No. 5071 that imports materially interfered with price-support

1/ Voluntary restraint agreements were negotiated with Australia and New Zealand, and letters of understanding concerning agreement-type meats were exchanged with Canada.

2/ 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 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.

3/ Provided for in items 155.75, 156.45, 183.01, and 183.05 of the Tariff Schedules of the United States.

4/ For details, see Presidential Proclamation No. 5071, dated June 28, 1983.

programs. On other products containing sugar, however, the Commission unanimously made a negative determination. The Commission was split--two finding affirmatively and two finding negatively--on sweetened cocoa and mixtures of sugar and flour. The Commission recommended that the emergency zero-import quotas temporarily proclaimed by the President in June 1983 remain in effect and that an absolute quota of 165,000 short tons for blended sugar sirups provided for in tariff items 155.75 and 183.05 be established. 1/

The President as of December 31, 1983, had not responded to the Commission's recommendation. However, his emergency actions were still in effect.

Quantitative limits imposed under the authority of section 22 continued in effect throughout 1983 on the following products:

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; and
 Sugars, sirups, and molasses derived from sugar cane or sugar beets.

1/ A detailed description of the Commission's findings and recommendations is contained in Certain Articles Containing Sugar: Report to the President on Investigation No. 22-46 under Section 22 of the Agricultural Adjustment Act, as amended, USITC Publication 1462, December 1983.

**U.S. Actions in Connection With National Security: Section
232, Trade Expansion Act of 1962 1/**

The Office of Industrial Resource Administration (OIRA) of the Department of Commerce completed one investigation during 1983 under section 232 on nuts, bolts, and large screws. OIRA on February 11, 1983, determined that imports of such articles were not threatening to impair the national security. A second investigation on metal-cutting and metal-forming machine tools was in progress at yearend 1983.

On December 22, 1983, the President under his section 232 authority issued Presidential Proclamation No. 5141, announcing that the Secretary of Energy had advised him that no purpose is currently served by the existing system of licensing of imports of petroleum and petroleum products. Accordingly, in Proclamation No. 5141, the President revoked Presidential Proclamation No. 3279 (the basic proclamation on oil imports). The President announced in Proclamation No. 5141 that he would direct the Secretary of Energy to monitor imports of petroleum and petroleum products and periodically review the status of such imports with respect to the national security. It was also announced that through Proclamation No. 5141 he would continue the embargo on imports of crude oil produced in Libya. Libyan policy and action aided by proceeds from the exportation of oil to the United States, were declared in 1982 to be adverse to the national security of the United States.

THE GENERALIZED SYSTEM OF PREFERENCES

The U.S. Generalized System of Preferences 2/ is a temporary tariff preferences scheme designed to offer the products of developing countries a price advantage over other imports in U.S. markets. The program was first implemented in 1976. 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 USTR.

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, it 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 the investigation, receives information and advice from various Federal departments and agencies.

2/ The U.S. GSP scheme was established under the Trade Act of 1974 for a period of 10 years. The program's current authorization extends until Jan. 4, 1985. For more detail on the history of the GSP program, see "GSP Renewal" in ch. 1 of this report.

In the 1982 product review that became effective in March 1983, 1/ 29 products, representing imports of \$10 million in 1982, were added to the list of GSP eligible items, compared with an addition of \$76 million (based on trade in 1981) in the previous review. On the other hand, 3 products, with a 1982 import value of \$73 million were removed from the program because of import sensitivity.

Under the statutory competitive-need provision, products accounting for about \$7.1 billion in imports (based on trade in 1982) were removed from the GSP, 2/ making them subject to MFN rates of duty after March 31, 1983. Removals based on competitiveness amounted to \$6.8 billion in the previous year (based on trade in 1981).

Moreover, the President "graduated" 3/ \$900 million in imports (based on 1982 trade) from duty-free treatment under his discretionary authority compared with \$651 million dollars in the previous review. This discretionary graduation includes \$95 million in products from advanced beneficiary countries (ABC's) removed in response to petitions: ferrosilicon from Brazil, beer and ale from Mexico, copper cooking and kitchenware from Korea and Taiwan, inner tubes from Korea, and vinyl tile floor coverings from Taiwan. 4/ The remainder of the graduated imports are accounted for by items which have not been redesignated to eligibility under the GSP--also mostly from ABC's.

In 1983, the U.S. International Trade Commission instituted an investigation with respect to proposed modifications of the list of items which are duty free under the GSP program. The purpose of the investigation was to determine the probable economic effect of such modifications on U.S. consumers and industries producing like or directly competitive articles. The investigation was conducted at the request of the USTR under the annual petition-review process. It is expected to be released to the public in the first half of 1984.

1/ 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 USTR. 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.

2/ There are two competitive-need limits. The first, expressed in dollars, changes yearly to reflect the growth of United States gross national product. For the purposes of this last review, 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. For a more detailed discussion of the U.S. and foreign GSP schemes, see OTAP, 32d Report, 1980, pp. 226ff.

3/ Graduation is recognition that a beneficiary country does not currently need GSP treatment for particular products in order to be competitive.

4/ A report to Congress by the President found 5 countries (Brazil, Hong Kong, Korea, Mexico, and Taiwan) to be the most advanced beneficiary countries in 1979, having obtained a combined disproportionate share (nearly 70 percent) of total benefits (U.S. President, Report to Congress on the first 5 years of the Operation of the U.S. GSP Program, April 17, 1980)..

In 1983, 140 countries and territories were eligible for GSP tariff treatment on approximately 3,000 items, with manufactures and semimanufactures accounting for a large share. The United States imported products worth \$10.8 billion duty free under this system in 1983 (table 54), compared with \$8.3 billion in 1982. Duty-free imports under the GSP accounted for 4.2 percent of overall U.S. imports and 15 percent of GSP-eligible imports during the year.

Seven advanced beneficiary countries (as defined in footnote 1 of table 54) supplied 74 percent of overall U.S. imports that received duty-free treatment under the GSP in 1983. These countries--Taiwan, Korea, Hong Kong, Mexico, Brazil, Singapore, and Israel, in that order--were the leading GSP suppliers of the United States. GSP-duty-free imports from the ABC's amounted to \$7.9 billion in 1983. GSP imports from middle-income beneficiaries totaled \$2.7 billion, accounting for 25.5 percent of the total. Low-income beneficiaries were responsible for less than 1 percent of all GSP imports (see also figure 11).

Table 55 shows duty-free imports under GSP separately for the 7 ABC's, and the ratio of such imports to the GSP-eligible and total U.S. imports from these countries.

The 7 leading beneficiaries of the GSP program were the same countries in 1983 as in 1982, even in the same order. GSP imports from Taiwan, the number one beneficiary, amounted to almost \$3 billion in 1983, 26.6 percent of all U.S. imports from that country and more than half of GSP-eligible imports. The highest percentage of overall imports from any country that entered the United States duty-free under GSP were from Israel (38.1 percent). By contrast, only 4.4 percent of overall U.S. imports from Mexico entered under GSP. The reason was the dominance of petroleum, which is not a GSP-eligible item, in this trade flow.

Based on the classification system of the TSUS, sugar continued to rank first in value among GSP-eligible items entering the United States duty-free in 1983 (table 56). Over 90 percent of overall U.S. sugar imports was GSP-eligible during the year and 56 percent of eligible imports entered duty-free. Table 57 lists GSP-eligible imports by divisions of the Standard Industrial Trade Classification (SITC), showing also the percentage of duty-free imports in total U.S. imports for the items in question. Table 58 gives the same information by divisions of the Standard Industrial Classification (SIC).

Table 54.--U.S. imports 1/ for consumption 2/ from GSP beneficiary countries, by development status, 3/ 1983

Item	Advanced GSP beneficiaries:	Middle-income GSP beneficiaries:	Low-income GSP beneficiaries:	Total, all beneficiary countries:	Total, all countries
Total imports-----1,000 dollars---	50,092,908	37,044,664	855,432	87,993,004	254,049,645
GSP-eligible products-----do-----	18,091,258	4,305,571	185,671	22,582,500	71,047,120
Duty-free under GSP-----do-----	7,950,961	2,743,706	70,100	10,764,767	10,764,767
Competitive-need exclusions--do-----	8,038,842	935,343	32,552	9,006,737	9,006,737
Other-----do-----	2,101,455	626,522	83,019	2,810,996	51,275,617
Noneligible product imports--do-----	32,001,650	32,739,092	669,761	65,410,504	183,002,524
Ratio of--					
GSP-eligible imports to total imports-----percent-----	36.1	11.6	21.7	25.7	28.0
GSP duty-free imports to GSP eligible imports-----do-----	43.9	63.7	37.8	47.7	15.2
Competitive-need exclusions to GSP-eligible imports-----do-----	44.4	21.7	17.5	39.9	12.7
Other imports to GSP-eligible imports-----do-----	11.6	14.6	44.7	12.4	72.2
GSP duty-free imports to total imports-----do-----	15.9	7.4	8.2	12.2	4.2
Country group share of total GSP duty-free imports-----percent-----	73.9	25.5	.7	100.0	100.0
Country group share of total competitive-need exclusions--do-----	89.3	10.4	.4	100.0	100.0

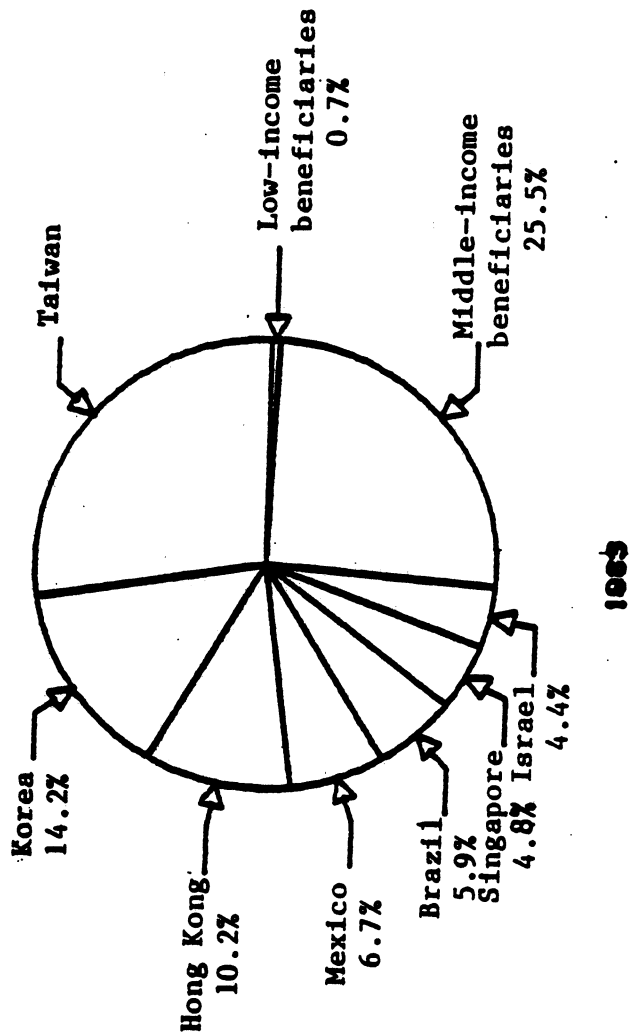
1/ Customs-value basis.

2/ In this and other tables in this section, U.S. import data exclude entries into the the U.S. Virgin Islands, which totaled \$2.6 billion in 1983. This is consistent with the concept of U.S. imports used in the GSP program for the competitive need determinations.

3/ For the purposes of this table, advanced GSP beneficiaries include Taiwan, Korea, Hong Kong, Mexico, Brazil, Singapore, and Israel. The low-income GSP beneficiary category includes the 26 countries designated in headnote 3(d) of the Tariff Schedules of the United States. The middle-income category includes the other 107 countries currently eligible. See OTAP 33d Report, 1981, p. 222.

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

Figure 11.--Relative share of U.S. GSP duty-free imports from advanced beneficiaries, by countries, 1/ and from middle- and low-income beneficiaries, 1983.



1/ The 7 advanced beneficiaries shown collectively accounted for 74 percent of the total.
Source: Based on data in table 13 of this report.

Table 55.--U.S. imports under the GSP from advanced GSP beneficiary countries, 1983

Rank	Source	Total value	U.S. imports of of GSP eligible articles	Share of total	GSP imports	Share of GSP to eligible	Share of GSP to total	Share of total
		Million dollars	Million dollars	Percent	Million dollars	Percent	Percent	Percent
1	Taiwan	11,193	5,757	51.4	2,981	51.8	26.6	27.7
2	Republic of Korea	7,181	2,365	32.9	1,524	64.4	21.2	14.2
3	Hong Kong	6,390	3,036	47.5	1,102	36.3	17.2	10.2
4	Mexico	16,619	3,859	23.2	725	18.8	4.4	6.7
5	Brazil	4,943	1,170	23.7	633	54.1	12.8	5.9
6	Singapore	2,841	1,394	49.1	512	36.7	18.0	4.8
7	Israel	1,250	512	41.0	474	92.6	37.9	4.4
	Total, top 7	50,417	18,093	35.9	7,951	43.9	15.8	73.9
	World	256,680	22,583	8.8	10,765	47.7	4.2	100.0

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

Table 56.--Imports for consumption of leading GSP eligible items, by descending value of GSP duty-free imports, 1983

Rank	TSUS item No.	Description	Imports eligible for GSP treatment										Mandatory and discretionary competitive-need exclusions	
			Total U.S. imports for consumption		GSP eligible		Duty free under GSP		Share of total U.S. imports		Share of total eligible imports			Leading GSP source
			1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent	Value	Percent	Value	Percent		
1	155.20	Sugar, sirup, molasses	1,025,399		929,486	90.6	524,362	56.4	Philippines			316,174		
2	684.62	Telephonic apparatus	1,020,402		480,499	47.1	418,965	87.2	Taiwan					
3	685.29	and-held citizens b	914,232		503,290	55.1	245,976	48.9	Republic of Korea			117,346		
4	696.60	Buoys, beacons, landi	212,814		210,385	98.9	210,382	100.0	do					
5	676.30	Office machines, n.s.p.f.	2,125,088		247,589	11.7	196,754	79.5	Taiwan					
6	685.90	Switchboards panels,	1,339,924		551,595	41.2	172,046	31.2	Hong Kong			298,460		
7	774.55	Articles, n.s.p.f., of rub:	488,076		175,609	36.0	158,326	90.2	Taiwan					
8	684.25	Microwave ovens	341,177		145,650	42.7	144,144	99.0	Republic of Korea					
9	407.16	Mixtures in whole or	181,988		148,504	81.6	139,300	93.8	Venezuela			9,162		
10	612.06	Unwrought copper, n.e.s.	708,973		517,730	73.0	132,874	25.7	Zaire			381,419		
11	676.52	Office machine parts	3,145,962		1,513,673	48.1	132,799	8.8	Singapore			1,198,310		
12	791.15	Fur wearing apparel	174,600		117,853	67.5	115,664	98.1	Republic of Korea					
13	708.45	Eyeglasses, goggle, et	175,246		113,212	64.6	110,046	97.2	Taiwan					
14	740.38	Jewelry etc. and part	149,995		113,546	75.7	109,448	96.4	do					
15	727.29	Non-folding chairs wo	176,451		130,389	73.9	109,010	83.6	do			20,014		
16	727.35	Furniture, wood n.s.p.f.	557,532		234,187	42.0	103,843	44.3	Yugoslavia			124,999		
17	657.25	Articles of iron or	347,883		104,007	29.9	97,728	94.0	Taiwan					
18	692.32	Parts n.s.p.f. of motor	2,117,797		420,685	19.9	97,170	23.1	do			319,910		
19	772.15	Household articles n	139,079		97,016	69.8	95,670	98.6	do					
20	618.02	Unwrought aluminum,	540,652		148,733	27.5	90,496	60.8	Venezuela			56,361		
21	685.40	Tape recorders and d	2,313,543		200,696	8.7	90,241	45.0	Singapore			63,199		
22	688.43	Other electrical art	550,101		260,427	47.3	83,075	31.9	Taiwan			66,230		
23	654.03	Brass articles, wares	93,442		80,533	86.2	78,902	98.0	do					
24	772.51	Pneumatic tires, n.e.s.	1,285,628		204,106	15.9	76,025	37.2	Brazil			124,108		
25	664.10	Elevator, hoist, winch	548,175		84,430	15.4	75,848	89.8	Taiwan					
26	740.14	Jewelry, n.e.s., of pre	399,776		117,057	29.3	75,224	64.3	Israel			36,791		
27	737.40	Toy animals etc. n.s.p.	96,443		92,145	95.5	75,076	81.5	Hong Kong			12,101		
28	207.00	Articles n.s.p.f., of wo:	120,490		75,073	62.3	73,198	97.5	Taiwan					
29	791.27	Leather, other than p	78,764		76,240	96.8	72,524	95.1	India					
30	727.11	Furniture and parts,	87,649		79,200	90.4	72,110	91.0	Philippines			2,535		
31	653.39	Illuminating article	106,055		72,968	68.8	69,679	95.5	Taiwan					
32	737.95	Toys and parts, n.s.p.f	317,401		270,169	85.1	66,969	24.8	Macao			191,258		
33	727.40	Furniture parts of w	84,817		64,693	76.3	63,775	98.6	Yugoslavia					
34	685.70	Electric sound or vi	261,881		137,867	52.6	58,426	42.4	Hong Kong					
35	657.35	Articles of copper n	77,207		58,982	76.4	58,008	98.3	Taiwan					
36	660.67	Parts of piston-type	343,624		70,097	20.4	57,395	81.9	Brazil					
37	155.40	Sugar, sirup, molasses	79,681		55,431	69.6	54,872	99.0	Dominican Republic					

Table 36.--Imports for consumption of leading GSP eligible items, by descending value of GSP duty-free imports, 1983--(Continued)

Rank	TSUS item No.	Description	Imports eligible for GSP treatment									
			Total U.S. imports for consumption		GSP eligible		Duty free under GSP		Mandatory and discretionary competitive-need exclusions		1,000 dollars	
			Value	Percent	Value	Percent	Value	Share of total eligible imports	Share of total GSP source	Value		Percent
			1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent				
38	682.60	Generator, motor gene	761,146	49.6	377,809	49.6	53,017	14.0	Taiwan	289,664		
39	740.13	Necklaces, n.e.s., almo	321,778	17.1	55,023	17.1	52,012	94.5	Israel	1,745		
40	735.20	Game, sport, playgro	209,949	76.9	161,460	76.9	51,490	31.9	Republic of Korea.	83,913		
41	412.22	Antipyretics, analge	107,493	48.0	51,551	48.0	51,135	99.2	Bahamas	-		
42	724.45	Magnetic recording m	511,388	15.4	78,754	15.4	50,695	64.4	Hong Kong	-		
43	674.32	Boring, drilling e mi	316,192	14.9	46,967	14.9	45,969	97.9	Taiwan	-		
44	709.63	X-ray apparatus and	401,632	11.4	45,910	11.4	45,398	98.9	Israel	-		
45	737.15	Construction kits or	93,917	82.0	76,980	82.0	45,288	58.8	Taiwan	29,336		
46	660.71	Parts for internal c	352,003	13.7	48,400	13.7	45,219	93.4	Brazil	-		
47	734.77	Golf equipment n.s.p.f.	68,812	75.7	52,112	75.7	45,097	86.5	Republic of Korea.	-		
48	684.48	Other electric appli	229,725	78.0	179,112	78.0	41,915	23.4	Taiwan	128,067		
49	678.50	Machines, not specia	1,672,499	28.0	468,857	28.0	41,788	8.9	Singapore	269,336		
50	735.06	Ski bindings, poles, g	78,319	54.7	42,815	54.7	41,436	96.8	Taiwan	-		
		Total, above items	27,852,799	38.0	10,589,504	38.0	5,216,809	49.3	-	4,140,439		
		Total, all GSP items	71,395,893	31.8	22,582,116	31.8	10,764,767	47.7	-	9,006,737		

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

Table 57.--Total U.S. imports for consumption and imports eligible for GSP treatment, by Divisions of the Standard International Trade Classification (SITC), 1983

SITC No.	Description	Total U.S. imports for consumption	Imports eligible for GSP treatment				Mandatory and discretionary competitive-exclusion needs
			GSP eligible	Duty free under GSP	Share of total U.S. imports	Share of total eligible imports	
		Million dollars	Million dollars	Percent	Percent	Million dollars	
00	Live animals chiefly for food	534	-	-	-	-	59
01	Meat and meat preparations	2,050	106	5.2	43.8	Argentina	-
02	Dairy products and birds' eggs	412	7	1.7	95.6	Romania	-
03	Fish, crustaceans, and molluscs	3,587	55	1.5	65.4	Republic of Korea.	5
04	Cereals and cereal preparation	321	32	10.0	91.6	Taiwan	-
05	Vegetables and fruit	2,910	465	16.0	27.1	do	316
06	Sugar and sugar preparations	1,324	1,012	76.5	59.7	Philippines	317
07	Coffee, tea, cocoa, and spices	3,893	53	1.4	96.0	Brazil	-
08	Feeding stuff for animals	159	-	.3	89.9	S. Pac I.	-
09	Miscellaneous edible products	220	61	27.7	94.9	Hong Kong	-
11	Beverages	2,625	85	3.3	66.6	Mexico	23
12	Tobacco and tobacco manufacturer	817	55	6.7	96.7	Dom. Rep.	-
21	Hides, skins, and furskins, raw	193	-	.2	91.4	India	-
22	Oil seeds and oleaginous fruit	92	1	.8	93.5	Turkey	-
23	Crude rubber (including synthetic)	909	20	2.2	98.1	Mexico	-
24	Cork and wood	2,813	4	.1	42.7	Portugal	2
25	Pulp and waste paper	1,483	-	-	0	-	-
26	Textile fibres and their waste	369	6	1.8	97.3	Uruguay	-
27	Crude fertilizers and crude materials	652	81	12.4	75.8	Mexico	17
28	Metalliferous ores and metal concentrates	2,352	100	4.3	46.7	Chile	8
29	Crude animal and vegetable materials	744	171	22.9	29.3	Taiwan	88
32	Coal, coke, and briquettes	97	-	-	0	-	-
33	Petroleum, petroleum products	51,856	-	-	96.1	Mexico	-
34	Gas, natural and manufactured	5,357	-	-	0	-	-
41	Animal oils and fats	7	-	.3	93.0	Taiwan	-
42	Fixed vegetable oils and fats	451	36	8.0	97.8	Brazil	-
43	Animal and vegetable oils and fats	20	1	4.2	97.2	Malaysia	-
51	Organic chemicals	3,474	273	7.9	88.9	Venezuela	17
52	Inorganic chemicals	2,427	80	3.3	89.0	Mexico	6
53	Dyeing, tanning, and colouring	456	8	1.7	89.4	do	-
54	Medicinal and pharmaceutical preparations	988	110	11.1	80.4	Bahamas	2
55	Essential oils and perfume materials	461	40	8.7	85.5	Mexico	1
56	Fertilizers, manufactured	997	-	-	0	-	-
57	Explosives and pyrotechnic preparations	64	1	1.0	86.3	Mexico	-
58	Artificial resins and plastic materials	1,049	223	21.2	52.6	do	101
59	Chemical materials and products	761	63	8.2	93.0	Brazil	1
61	Leather, leather manufactures, and other animal products	588	360	61.3	74.2	India	74
62	Rubber manufactures, n.e.s.	1,695	303	17.9	39.4	Taiwan	177
63	Cork and wood manufactures (excluding cork)	1,369	372	27.2	63.9	do	128
64	Paper, paperboard, and articles of paper	4,234	240	5.7	38.8	Republic of Korea.	139
65	Textile yarn, fabrics, made-up articles	3,051	126	4.1	67.4	Taiwan	33

Table 57.--Total U.S. imports for consumption and imports eligible for GSP treatment, by Divisions of the Standard International Trade Classification (SITC), 1983--Continued

SITC No.	Description	Imports eligible for GSP treatment										Mandatory and discretionary competitive-need exclusions
		Total U.S. imports for consumption		GSP-eligible		Duty-free under GSP		Share of total U.S. imports		Share of total eligible imports		
		Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Million dollars
66	Nonmetallic mineral manufactu	5,318	7.3	389	7.3	282	72.3	Taiwan				68
67	Iron and steel	6,800	1.2	83	1.2	69	75.9	do				19
68	Non-ferrous metals	7,337	12.4	911	12.4	408	44.8	Venezuela				473
69	Manufactures of metal, n.e.s.	4,547	26.5	1,204	26.5	841	68.9	Taiwan				299
71	Power generating machinery and	4,930	19.1	940	19.1	250	26.6	Brazil				639
72	Machinery specialized for part	5,032	5.1	256	5.1	113	44.0	Taiwan				79
73	Metalworking machinery	1,486	10.3	153	10.3	102	66.6	do				42
74	General industrial machinery a	4,711	16.7	786	16.7	352	44.8	do				349
75	Office machines and automatic	6,689	29.2	1,953	29.2	380	19.5	do				1,263
76	Telecommunications and sound r	11,054	19.8	2,191	19.8	839	38.3	Hong Kong				904
77	Electrical machinery, apparatu	12,469	25.2	3,145	25.2	1,109	35.3	Taiwan				1,263
78	Road vehicles (including air c	36,664	1.3	481	1.3	148	30.7	do				320
79	Other transport equipment	2,767	13.1	361	13.1	263	72.9	Republic of Korea				67
81	Sanitary, plumbing, heating an	272	68.7	187	68.7	146	78.3	Taiwan				32
82	Furniture and parts thereof	1,861	42.1	783	42.1	454	58.0	do				312
83	Travel goods, handbags and sim	986	4.5	45	4.5	6	14.6	Macao				37
84	Articles of apparel and clothi	9,715	3.6	354	3.6	324	91.5	Republic of Korea				14
85	Footwear	4,007	.5	18	.5	4	24.4	Hong Kong				11
86	Watch movements	1	-	-	-	-	0	-				-
87	Professional, scientific and c	1,983	15.7	311	15.7	166	53.5	Taiwan				14
88	Photographic apparatus, equipm	3,286	9.9	323	9.9	229	71.0	do				20
89	Miscellaneous manufactures at	9,268	33.9	3,140	33.9	1,570	50.0	do				1,269
93	Special transactions, n.e.s.	5,633	.1	3	.1	3	88.3	Mexico				-
94	Animals, live, n.e.s.	38	25.2	10	25.2	9	95.6	Bolivia				-
95	Armaments	83	10.6	9	10.6	5	54.3	Taiwan				-
97	Gold	1,885	-	-	-	1/	100.0	Thailand				-
	Total	256,680	8.9	22,582	8.9	10,784	47.7					9,007

1/ Less than \$500,000.

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

Table 58.--Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard Industrial Classification (SIC), 1983

SIC	Description	Imports eligible for GSP treatment						Mandatory and discretionary competitive-need exclusions
		Total U.S. imports for consumption	GSP-eligible	Duty-free under GSP	Share of total U.S. imports	Share of total eligible imports	Leading GSP source	
No.		Value	Value	Value	Percent	Percent	Million dollars	
		Million dollars	Million dollars	Million dollars	Percent	Percent	Million dollars	
01	Agricultural products	5,857	454	94	7.8	20.5	Mexico 343	
02	Livestock and livestock products	820	11	10	1.3	92.1	Bolivia -	
08	Forestry products	782	1/	1/	-	79.7	Morocco -	
09	Fish and other marine products	3,285	40	22	1.2	55.5	Chile -	
10	Metallic ores and concentrates	1,321	37	28	2.8	77.1	Peru 1	
12	Coal and lignite	43	-	-	-	-	-	
13	Oil and gas	40,670	-	-	-	-	-	
14	Nonmetallic minerals, except fuel	1,539	79	60	5.2	75.3	Mexico 17	
20	Food products	10,334	1,581	993	15.3	62.8	Argentina 460	
21	Tobacco	404	44	44	10.9	99.3	Dominican Republic -	
22	Textile mill products	2,524	82	60	3.3	73.3	India 15	
23	Apparel	9,898	339	221	3.4	65.1	Republic of Korea 104	
24	Lumber and wood	4,426	551	385	12.4	69.9	Taiwan 151	
25	Furniture and fixtures	1,795	749	388	41.8	51.8	-do- 345	
26	Paper and allied products	5,681	222	119	3.9	53.5	-do- 95	
27	Printing	795	60	28	7.5	47.1	Hong Kong 28	
28	Chemicals	9,366	657	568	7.0	86.4	Venezuela 43	
29	Petroleum refining products	17,395	3	1/	-	12.1	Trinidad 1	
30	Rubber and misc. plastics	3,405	832	527	24.4	63.4	Taiwan 265	
31	Leather	5,296	413	278	7.8	67.2	-do- 116	
32	Stone, clay	2,862	416	301	14.6	72.2	-do- 87	
33	Primary metals	16,359	1,188	522	7.3	43.4	Venezuela 605	
34	Fabricated metal products	5,273	1,523	1,081	28.9	70.3	Taiwan 345	
35	Machinery, except electrical	18,440	3,194	1,023	17.3	32.0	-do- 1,727	
36	Electrical machinery	24,626	5,576	2,131	22.6	38.2	-do- 2,164	
37	Transportation equipment	41,627	1,230	278	3.0	22.6	-do- 901	
38	Instruments	6,023	641	389	10.7	60.7	-do- 46	
39	Miscellaneous manufactures	7,307	2,521	1,200	34.6	47.6	-do- 1,103	
73	Business services	85	68	20	79.8	29.1	Republic of Korea 46	
99	Other imports	8,442	71	12	.8	19.0	Chile -	
	Total	256,680	22,582	10,784	8.9	47.7	9,007	

1/ Less than \$500,000.

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

APPENDIX A
STATISTICAL TABLES

Table A-1.--Leading items imported from European Community (EC) by TSUS items, 1981-83

TSUS item No.	Description	1981	1982	1983
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1000, and other miscellaneous vehicles.	\$3,667,102,275	\$4,222,999,592	\$4,862,718,157
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	5,301,679,755	5,554,553,162	4,360,843,304
800.00	United states goods returned	1,017,613,638	1,231,109,829	1,064,611,246
605.20	Gold or silver bullion, dore, and precipitates	29,153,998	227,582,477	957,599,303
475.25	Motor fuel, including gasoline and jet fuel	426,805,999	586,151,337	801,491,168
692.32	Parts nspf of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	533,881,825	490,061,175	565,224,739
167.30	Still wine from grapes, not over 14 percent alcohol, in containers not over 1 gallon.	505,061,315	531,826,941	563,423,223
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	818,936,119	601,288,769	549,783,805
692.34	Tractors suitable for agricultural use and parts thereof	474,980,268	347,296,813	508,881,075
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	324,397,661	396,609,578	467,370,528
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft.	682,959,428	587,727,807	464,007,555
422.52	Uranium compounds except uranium oxide	208,175,602	279,134,354	429,775,441
765.03	Paintings, pastels, drawings and sketches, executed wholly by hand, original or not.	278,075,108	352,151,025	410,426,075
520.32	Diamonds not over 1/2 carat, cut, not set, suitable for jewelry	340,502,105	353,850,201	388,260,877
520.33	Diamonds over 1/2 carat, cut, not set, suitable for jewelry	383,217,154	325,393,889	380,985,316
169.19	Irish and scotch whiskey in containers each holding not over 1 gallon.	389,249,466	359,715,764	354,876,234
660.73	Parts for internal combustion engines, certified for use in civil aircraft (see headnote 3, p. 6c, schedule 6).	253,251,651	354,362,927	348,997,692
607.83	Plates and sheets of iron and steel, not alloy, not coated or plated with metal and not clad, pickled and colded-rolled.	367,037,778	398,713,038	335,217,195
167.05	Ale, porter, stout, or beer	252,122,792	298,689,356	330,532,208
712.49	Electrical measuring, checking, analyzing, or automatically controlling instruments or apparatus, n.s.p.f., and parts thereof.	276,117,297	285,113,835	315,922,828
	Total	16,530,321,234	17,784,331,869	18,460,947,969
	Total, U.S. imports from the EC	41,459,394,814	42,300,203,699	43,767,725,070

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

Table A-2.--Leading items exported to the European Community (EC) EC, by Schedule B items, 1981-83

Schedule B: item No.	Description	1981	1982	1983
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism.	\$1,934,655,812	\$2,016,435,709	\$2,392,730,685
175.41	Soybeans, other than seed for planting	2,817,818,797	2,801,549,245	2,190,285,414
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof.	1,830,351,414	1,938,155,434	2,145,334,364
694.65	Parts, for aircraft and spacecraft	1,505,193,756	1,499,847,468	1,413,759,365
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	2,357,099,079	2,362,094,127	1,395,640,944
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	1,195,435,916	1,241,734,310	1,191,283,476
694.40	Airplanes	2,116,491,993	783,230,110	1,112,107,414
184.52	Vegetable oil cake and oil-cake meal, other than linseed.	859,223,070	910,751,989	944,897,463
184.80	Other animal feeds and ingredients therefor, n.s.p.f.	651,743,736	624,221,866	805,878,527
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	804,677,844	698,948,990	650,195,914
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted precollelectric, related electronic crystal components, parts.	600,100,915	611,022,220	630,077,314
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	776,612,092	877,205,949	625,337,804
605.70	Precious-metal sweepings and other precious-metal waste and scrap	244,736,299	330,682,582	589,672,764
130.34	Corn or maize, not donated for relief or charity	1,185,048,006	787,536,840	585,603,742
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof.	495,052,616	494,171,256	520,979,695
475.07	Crude petroleum; topped crude petroleum; crude shale oil, and distillate and residual fuel oils derived from petroleum, shale, or both.	310,217,940	922,404,160	455,786,940
676.27	Digital machines comprising in housing the central processing unit and input and output capability.	456,083,930	379,125,791	452,897,526
170.33	Filler tobacco, cigarette leaf, stemmed and unstemmed	442,268,460	440,280,043	426,313,866
433.10	Chemical mixtures and preparations, n.e.s.	423,739,653	415,457,411	419,249,792
660.49	Non-piston-type internal-combustion engines	400,554,277	342,673,938	416,833,283
	Total	21,407,105,605	20,497,529,438	19,364,866,292
	Total, U.S. exports to the EC	50,625,620,166	45,723,221,575	42,420,383,124

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

Table A-3.--Leading items imported from Canada, by TSUS items, 1981-83

TSUS item No.:	Description	1981	1982	1983
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles, (Automotive Products Trade Act (APTA)).	\$4,276,685,765	\$5,810,454,314	\$7,278,947,085
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof---	4,514,668,659	4,830,882,625	4,263,741,804
692.33	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined (APTA).	1,573,579,388	1,825,754,016	2,791,045,286
692.03	Trucks valued at \$1000 or more each, APTA-----	1,894,519,215	2,589,481,631	2,737,179,347
252.65	Standard newsprint paper-----	2,807,548,756	2,730,255,334	2,732,233,977
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	1,299,476,502	1,256,328,929	1,895,868,938
800.00	U.S. goods returned-----	1,463,033,283	1,561,941,142	1,768,688,288
202.03	Spruce lumber-----	1,047,202,112	1,034,181,449	1,624,955,239
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees a.p.i.	1,204,026,182	1,391,011,818	1,492,530,838
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	1,654,192,493	1,386,688,202	1,363,974,985
605.20	Gold or silver bullion, dore, and precipitates-----	1,635,647,092	1,393,490,473	1,359,470,279
660.49	Piston-type engines other than compression-ignition engines for automobiles (including trucks and buses), APTA.	486,917,201	632,363,740	1,013,837,140
692.21	Automobile truck and motor bus chassis and bodies, APTA.	323,449,759	327,267,563	589,842,321
480.50	Potassium chloride or muriate of potash-----	677,416,706	514,602,817	485,093,412
618.06	Other unwrought alloys of aluminum-----	368,184,695	262,719,017	395,275,719
772.51	Pneumatic tires, n.e.s.-----	253,272,157	350,372,169	366,186,203
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	294,278,289	328,777,541	365,696,111
618.02	Unwrought aluminum n.e.s., other than alloys of aluminum-----	371,315,858	266,482,023	353,132,587
601.24	Iron ore, including manganese containing not over 10 percent by weight of manganese, and the dross or residum from burnt pyrites.	707,974,220	360,352,350	339,471,757
653.22	Metal coins-----	360,092,094	266,512,561	286,339,518
	Total-----	27,213,480,426	29,119,919,714	33,503,510,834
	Total, U.S. imports from Canada-----	45,776,018,449	46,328,510,447	51,982,346,375

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

Table A-4.--Leading items exported to Canada, by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
692.29	Parts of motor vehicles, not elsewhere specified	\$3,812,638,059	\$4,080,389,059	\$4,830,003,647
692.10	On-the-highway, 4-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles.	3,177,619,576	2,353,905,475	3,880,744,318
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	1,017,849,005	1,074,300,164	972,363,937
660.48	Piston-type internal combustion engines, other than compression-ignition engines.	789,060,856	769,307,632	849,914,119
818.90	General merchandise valued \$500 or less, except shipments requiring a validated export license.	988,069,274	770,288,297	818,216,859
605.20	Gold or silver bullion, dore, and gold or silver precipitates.	693,043,157	475,049,322	760,148,141
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	504,272,774	548,900,311	731,146,218
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof.	515,212,478	547,567,152	575,748,257
692.05	Automobile trucks, except truck tractors	470,576,284	386,039,739	568,200,867
660.52	Parts of piston-type engines, other than compression-ignition engines.	286,594,348	279,824,773	416,209,489
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	639,590,186	463,270,798	408,085,590
694.40	Airplanes	708,992,765	341,771,494	374,880,225
692.20	Bodies (including cabs) and chassis for automobile trucks, truck tractors, and motor buses.	394,545,851	220,867,986	369,424,474
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	388,083,609	317,075,263	361,190,454
666.00	Agricultural and horticultural machinery, and parts	643,329,040	477,702,473	360,802,355
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	622,297,456	573,230,124	344,371,727
692.33	Tractors suitable for agricultural use	507,969,355	343,373,839	297,236,474
694.65	Parts, for aircraft and spacecraft	243,020,488	263,386,378	288,845,804
692.38	Parts of tractors, except for automobile truck and off-the-highway platform tractors.	326,973,738	259,861,802	288,533,701
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted prezolectric, related electronic crystal components, and parts.	271,387,280	254,520,994	278,596,705
	Total	17,001,125,579	14,800,633,075	17,774,663,361
	Total, U.S. exports to Canada	38,133,519,083	32,415,256,756	36,544,896,777

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

Table A-5.--Leading items imported from Japan, by TSUS items, 1981-83

TSUS Item No.	Description	1981	1982	1983
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1000, and other miscellaneous vehicles.	\$9,680,507,307	\$9,902,683,001	\$11,441,178,312
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	1,485,474,266	1,444,040,672	2,079,908,781
692.02	Trucks valued at \$1000 or more each	1,811,976,913	1,480,349,293	1,755,177,499
676.30	Office machines, n.s.p.f.	740,285,634	877,526,162	1,443,625,109
676.52	Office machine parts, n.e.s.	402,518,793	677,667,563	1,019,156,753
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystals, parts.	1/ 268,455,261	423,868,191	698,422,594
678.50	Machines, not specially provided for, and parts thereof	599,128,465	624,870,293	684,580,287
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	457,280,217	509,646,969	655,293,002
608.13	Sheets of iron and steel, n.s.p.f., not alloy, coated or plated with metal valued over 10¢ per pound.	360,384,626	313,724,474	451,553,617
722.16	Photographic cameras, other than fixed-focus, over \$10 each, lens not over 50 percent value.	437,134,932	403,130,994	432,470,203
692.50	Motorcycles	1,215,644,230	1,028,516,057	398,575,201
724.45	Magnetic recording media, no material recorded thereon	225,715,942	272,143,888	394,904,592
772.51	Pneumatic tires, n.e.s.	358,607,746	359,290,721	390,133,673
684.62	Telephonic apparatus and instruments and parts	191,396,865	188,608,137	340,353,347
685.19	Other television apparatus and parts thereof, n.s.p.f.	263,365,009	307,443,673	321,563,085
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	280,862,579	317,454,129	318,907,387
684.70	Microphones, loudspeaker, head phones, etc. and parts	298,414,724	244,486,497	291,114,146
685.11	Complete monochrome and color television receivers having video display diagonals of all different sizes.	285,468,754	301,687,433	287,781,207
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	394,563,391	333,338,198	287,606,766
685.10	Television cameras and parts	230,185,689	252,740,974	279,741,562
	Total	19,987,371,343	20,263,217,319	23,972,047,123
	Total, U.S. imports from Japan	37,471,371,420	37,421,593,684	40,887,305,786

1/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 687.58. 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 A-6.--Leading items exported to Japan, by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
130.34	: Corn or maize, not donated for relief or charity-----	\$1,791,960,558	\$1,290,168,998	\$1,764,340,711
175.41	: Soybeans, other than seed for planting-----	1,137,877,555	970,043,753	1,209,373,337
521.31	: Coal; petroleum and other coke; compositions of coal, : coke, or other carbonaceous material used for fuel.	1,569,612,634	1,635,447,329	1,132,895,160
694.40	: Airplanes-----	776,299,774	379,715,559	786,034,047
200.35	: Logs, softwood and hardwood, including pulpwood, in : the rough, split, hewn, or roughly sided or squared.	831,638,793	837,617,714	695,493,226
130.65	: Wheat-----	615,025,196	563,648,466	589,323,994
694.65	: Parts, for aircraft and spacecraft-----	486,850,644	467,804,737	498,220,291
300.10	: Cotton, not carded, not combed, and not similarly : processed, having a staple length under 1 1/8 inches.	497,101,484	494,846,026	493,865,327
475.07	: Crude petroleum; topped crude petroleum; crude : shale oil; and distillate and residual fuel oils : derived from petroleum, shale, or both.	70,776,696	367,107,718	436,005,435
676.55	: Parts of automatic data processing, photocopying, : calculating, accounting, and similar machines : incorporating a calculating mechanism.	331,197,024	404,732,474	414,163,983
110.46	: Fish, fresh, chilled, or frozen, whole or eviscerated, : but not otherwise prepared or preserved, and live eels.	300,415,139	375,067,705	361,241,428
676.28	: Digital central processing units; auxiliary storage units; : input units, output units, and combinations thereof.	329,378,628	326,978,069	357,870,964
475.15	: Natural gas, methane, ethane, propane, butane, : and mixtures thereof.	329,062,845	293,464,568	352,283,559
618.03	: Unwrought aluminum, other than alloys of aluminum-----	310,100,250	347,132,418	345,286,178
170.33	: Filler tobacco, cigarette leaf, stemmed and unstemmed-----	297,762,124	306,632,940	335,397,922
250.02	: Wood pulp; rag pulp; and other pulps derived : from cellulosic fibrous materials and suitable : for papermaking.	303,035,143	269,870,198	299,076,288
687.60	: Electronic tubes, transistors, integrated circuits, : diodes, rectifiers, mounted precollelectric, related : electronic crystal components, parts.	186,473,919	214,404,833	288,841,356
678.50	: Machines not specially provided for, and parts thereof-----	220,295,085	260,568,222	276,084,982
422.55	: Uranium compounds, excluding uranium oxide, and : thorium compounds.	136,433,183	324,603,818	268,126,697
106.10	: Beef and veal, carcasses and primal cuts, excluding : offal, fresh, chilled, or frozen.	155,839,244	229,568,251	251,344,668
	: Total-----	10,167,135,918	10,359,423,796	11,155,269,553
	: Total, U.S. Exports to Japan-----	21,332,896,606	20,366,769,776	21,225,748,863

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

Table A-7.--Leading items imported from Mexico, by TSUS items, 1981-83

TSUS item No.	Description	1981	1982	1983
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing, under 25 degrees a.p.i.	\$2,239,568,321	\$3,148,687,205	\$4,218,931,411
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	3,942,203,860	4,648,429,176	3,637,542,454
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof.	652,447,857	610,721,486	507,024,541
660.48	Piston-type engines other than compression-ignition for automobiles (including trucks and buses).	63,843,725	196,085,153	413,205,157
114.45	Shellfish other than clams, crabs, or oysters	316,132,983	396,110,140	404,601,113
605.20	Gold or silver bullion, dore, and precipitates	209,478,689	273,577,733	324,830,149
160.10	Coffee, crude, roasted or ground	245,866,189	264,407,534	275,373,242
800.00	U.S. goods returned	279,457,410	306,311,504	265,168,210
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	157,465,632	190,536,291	262,569,186
685.16	Main printed-circuit boards for color television receivers, except tuners or convergence assemblies, n.e.s.	110,626,601	124,690,350	250,589,689
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits.	189,888,092	187,908,393	226,259,088
685.19	Other television apparatus and parts thereof, n.s.p.f.	142,767,930	197,023,802	213,441,666
688.12	Ignition wiring sets and wiring sets for transportation equipment.	131,013,413	130,885,373	206,684,699
676.52	Office machine parts, n.e.s.	100,438,383	128,142,477	168,794,923
137.60	Tomatoes, fresh or chilled, entered Mar. 1 to July 14 and Sept. 1 to Nov. 14, inclusive, not reduced in size.	177,023,905	97,451,349	168,646,630
100.45	Cattle not less than 200 pounds but under 700 pounds	68,133,297	114,771,909	138,196,548
682.60	Generators, motors, motor-generators, converters (rotary or static), transformers, rectifiers and rectifying apparatus, inductors, and parts.	98,840,527	100,018,356	132,797,493
999.95	Under \$251 formal and informal entries estimated	107,984,100	97,164,368	130,497,274
685.21	Solid-state radio receivers destined for motor-vehicle installation.	11,805,721	41,606,040	127,190,979
678.50	Machines, not specially provided for, and parts thereof	49,553,330	41,482,083	123,299,506
	Total	9,294,539,965	11,296,030,722	12,195,643,958
	Total, U.S. imports from Mexico	13,703,637,079	15,488,039,550	16,618,937,587

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

Table A-8.--Leading items exported to Mexico, by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
130.34	Corn or maize, not donated for relief or charity	\$452,130,303	\$36,985,600	\$676,116,852
692.29	Parts of motor vehicles, n.e.s.	1,333,901,840	792,270,217	458,373,844
130.40	Grain sorghum	339,745,150	179,642,586	454,746,090
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted precollelectric, related electronic crystal components, parts.	242,458,686	207,285,890	247,870,073
175.41	Soybeans, other than seed for planting	207,918,207	75,781,739	234,652,985
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, parts thereof.	306,183,875	205,620,342	198,028,978
685.20	Television apparatus, and parts thereof	211,738,931	173,279,599	167,895,597
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism.	154,675,258	130,802,970	158,543,477
694.40	Airplanes	640,592,867	70,293,369	144,742,025
256.71	Other paper and paperboard, cut to size or shape; other articles of pulp, papier-mache, paper, or paperboard n.e.s.	67,086,283	118,550,091	134,659,841
660.52	Parts of piston-type engines, other than compression-ignition engines.	68,935,226	68,788,470	128,702,555
175.51	Sunflower seed	102,739,939	189,404,841	118,549,648
688.12	Ignition wiring sets and wiring sets designed for use in motor vehicles, aircraft, spacecraft, ships, boats and other vessels.	33,557,596	56,660,849	114,168,083
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.	117,412,364	114,008,646	109,696,582
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	49,409,151	41,970,681	104,301,685
444.16	Polyethylene resins	140,663,300	101,366,920	103,500,424
682.60	Generators, motor-generators, rotating converters, rectifiers and rectifying apparatus, coils, inductors, lamp ballasts, and parts thereof.	155,582,603	114,697,152	94,082,217
678.50	Machines not specially provided for, and parts thereof	144,787,678	98,292,934	77,870,486
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	92,010,083	90,735,468	74,092,657
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	237,011,081	162,723,458	71,150,127
	Total	5,098,540,421	3,029,161,822	3,871,744,226
	Total, U.S. exports to Mexico	17,353,054,111	11,025,835,956	8,755,231,263

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

Table A-9.--Leading items imported from the Republic of Korea (Korea), by TSUS items, 1981-83

TSUS item No.	Description	1981	1982	1983
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystals, parts.	1/ 197,168,288	\$273,407,412	\$448,810,314
685.11	Complete monochrome and color television receivers having video display diagonals of all different sizes.	171,736,962	205,079,119	340,533,745
379.95	Men's or boys' coats, shirts, suits, swimwear, trousers slacks, and shorts.	2/	302,469,589	302,490,679
700.35	Footwear n.s.p.f., of leather, for men, youths and boys	193,570,535	270,090,452	251,615,740
700.95	Footwear, nes, used on daily basis for men, youths, boys, women, misses, children, and infants.	17,883,348	135,986,553	244,410,113
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter.	307,421,609	200,752,353	229,994,070
696.60	Buoys, beacons, landing stages, cofferdams, rafts, and other floating structures, except vessels.	-	-	210,364,783
383.80	Womens, girls, or infants knit blouses, body shirts, body suits, shirts, and sweaters, of man-made fibers, not ornamented.	3/ 136,536,033	157,719,004	183,005,453
791.76	Leather wearing apparel, nspf, other than reptile leather, and other than in chief weight of textile material.	105,735,347	146,156,358	175,292,591
383.90	Womens, girls, or infants blouses, coats, shirts, suits, trousers, slacks, and shorts, not knit, of manmade fibers, not ornamented.	4/	125,632,279	145,341,434
685.29	Hand-held citizens band radio transceivers, other transceivers, and non-solid-state radio receivers and parts.	10,933,249	30,977,022	129,379,770
678.50	Machines, not specially provided for, and parts thereof	74,032,155	88,645,092	124,958,230
772.51	Pneumatic tires, n.e.s.	81,213,820	81,641,620	124,201,590
700.45	Leather footwear nes, valued over \$2.50 per pair, not for men, youths, or boys.	46,852,261	99,315,549	102,504,291
338.50	Woven fabrics, of man-made fibers, except containing over 17 percent wool, and except of glass.	5/ 55,697,468	79,702,890	102,230,358
379.90	Men's or boys' other knit shirts and sweaters of manmade fibers, not ornamented.	6/ 107,829,705	99,967,574	98,593,765
684.25	Microwave ovens	21,927,251	50,212,041	93,741,076
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	87,848,282	67,559,712	87,029,140
791.15	Fur wearing apparel n.s.p.f., of mink and other	34,375,262	47,562,811	77,934,695
700.29	Welt footwear of leather, n.e.s., valued over \$6.80 per pair.	47,676,469	66,032,670	72,688,021
	Total	1,700,438,067	2,528,910,100	3,545,119,858
	Total, U.S. imports from Korea	5,179,607,400	5,631,419,232	7,180,827,425

1/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 687.75. Prior to Mar. 31, 1981, it was classified under the now-deleted and more comprehensive item 687.58.

2/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 380.84.

3/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 382.78.

4/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 382.81.

5/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 338.30.

6/ Prior to Jan. 1, 1982, this item was classified under the now-deleted and more comprehensive item 380.81.

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

Table A-10.--Leading items exported to the Republic of Korea (Korea), by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
130.34	Corn or maize, not donated for relief or charity-----	\$323,843,748	\$331,720,434	\$559,691,563
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted precollectric, related electronic crystal components, parts.	230,100,640	278,348,580	390,448,568
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches.	458,581,861	385,973,742	355,196,476
130.65	Wheat-----	357,743,900	298,757,839	304,772,387
694.65	Parts, for aircraft and spacecraft-----	145,944,433	180,779,740	249,588,575
175.41	Soybeans, other than seed for planting-----	124,027,144	141,879,021	201,199,547
684.62	Electrical telegraph (including printing and typewriting) and telephone apparatus and instruments; and parts thereof, n.s.p.f.	66,243,190	197,154,230	169,904,617
120.14	Whole cattle hides-----	117,491,117	143,030,151	165,354,398
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both.	70,794,985	269,449,716	125,498,246
607.08	Carbon steel and iron waste and scrap-----	113,958,251	111,416,636	109,770,376
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel, the rough, split, hewn, or roughly sided or squared.	152,312,943	127,121,566	108,145,098
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared.	49,502,787	86,680,826	96,797,214
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	39,285,671	43,659,644	88,071,117
250.04	Waste paper and paperboard; scrap paper and paperboard products fit only for remanufacture; flax and hemp fibers to be used in papermaking.	62,205,101	61,699,494	73,234,228
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	67,064,512	52,697,871	71,716,629
660.49	Non-piston-type internal-combustion engines-----	13,844,625	26,004,908	64,218,412
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, parts thereof.	26,764,036	47,990,654	63,564,656
660.10	Steam, other vapor-generating boilers (not central heating hot-water boilers capable of producing low- pressure steam); parts thereof, n.s.p.f.	128,381,868	65,460,770	62,865,622
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	28,565,185	102,863,808	61,360,065
130.55	Brown rice, hulls removed-----	393,248,260	65,104,844	60,837,238
	Total-----	2,969,904,257	3,017,794,474	3,382,235,032
	Total, U.S. exports to Korea-----	4,992,660,367	5,318,135,891	5,684,604,777

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

Table A-11.--Leading items imported from Brazil, by TSUS items, 1981-83

TSUS item No.	Description	1981	1982	1983
160.10	Coffee, crude, roasted, or ground-----	\$672,951,568	\$559,207,794	\$563,896,655
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	295,222,751	291,505,153	435,375,250
165.35	Citrus fruit juices, other than lime, not mixed, concentrated, not over 1 percent ethyl alcohol.	168,870,432	307,152,761	271,213,902
475.25	Motor fuel, including gasoline and jet fuel-----	-	142,745,013	262,117,440
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees a.p.i.	117,824,098	218,904,688	255,708,036
660.48	Piston-type engines other than compression-ignition for automobiles (including trucks and buses).	17,225,248	111,050,905	186,463,437
170.80	Tobacco, manufactured or not manufactured, n.s.p.f.-----	43,914,081	57,424,339	130,091,062
155.20	Sugars, sirups, and molasses, derived from sugar cane or sugar beets, principally of crystalline structure or in dry amorphous form.	387,810,497	88,856,771	119,034,436
607.83	Plates and sheets of iron and steel, not alloy, not coated or plated with metal and not clad, pickled, and cold-rolled.	7,868,739	17,625,736	114,168,389
160.20	Coffee, soluble or instant, not containing sugar or other additive.	177,890,901	110,983,968	109,147,845
800.00	U.S. goods returned-----	45,894,798	55,715,343	79,156,988
114.45	Shellfish other than clams, crabs, or oysters-----	74,150,725	87,629,845	75,405,429
427.88	Ethyl alcohol for nonbeverage purposes-----	17,012,563	18,716,877	71,239,941
622.02	Tin other than alloys of tin, unwrought-----	15,462,334	31,675,054	70,885,220
700.35	Footwear n.s.p.f., of leather, for men, youths and boys-----	50,389,921	51,082,877	67,003,098
685.21	Solid-state radio receivers destined for motor- vehicle installation.	60,614,813	49,271,715	64,194,622
692.32	Parts n.s.p.f. of motor vehicles, not alloyed or advanced beyond cleaning, partly machined.	52,002,625	39,329,981	58,033,100
107.48	Corned beef in airtight containers-----	59,944,775	38,838,851	55,931,993
145.44	Cashews, shelled, blanched, or otherwise prepared or preserved.	55,180,884	51,898,732	54,091,746
607.66	Plates other than alloy iron or steel not coated or plated with metal and not clad, not pickled and not cold-rolled.	112,877,386	52,440,223	49,776,159
	Total-----	2,433,109,139	2,382,056,626	3,092,934,748
	Total, U.S. imports from Brazil-----	4,332,582,125	4,171,428,601	4,943,437,463

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

Table A-12.--Leading items exported to Brazil, by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
130.65	Wheat-----	\$551,339,028	\$428,969,045	\$423,195,644
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	165,004,435	206,446,397	201,652,942
694.40	Airplanes-----	301,110,363	62,671,426	142,743,015
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	243,635,309	349,810,077	139,036,808
676.55	Parts of automatic data processing, photocopying, calculating, accounting and similar machines incorporating a calculating mechanism.	114,350,783	128,328,496	95,753,590
694.65	Parts, for aircraft and spacecraft-----	84,261,608	73,866,923	88,914,692
685.27	Radioelectric, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	46,456,027	41,559,721	64,253,302
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	79,062,858	75,029,175	61,809,169
433.10	Chemical mixtures and preparations, n.e.s.-----	88,750,304	77,903,518	54,003,436
676.28	Digital central processing units; auxiliary storage units; input units, output units, and combinations thereof.	47,607,569	70,311,584	43,819,169
446.15	Synthetic rubber-----	34,201,327	37,324,103	41,499,446
486.89	Agricultural herbicides (excluding plant growth regulators), n.e.s.	22,629,659	17,488,490	35,443,519
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted precollected, related electronic crystal components, parts.	33,258,633	30,401,059	33,813,663
692.29	Parts of motor vehicles, not elsewhere specified-----	24,014,007	23,704,549	22,325,089
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, parts thereof.	33,174,841	35,856,159	22,012,425
723.15	Photographic film, except for motion-picture film, sensitized but not exposed.	15,283,002	13,773,182	19,286,200
480.65	Nitrogenous fertilizers and fertilizer materials-----	35,915,521	37,715,059	17,474,092
431.32	Esters of monohydric alcohols and their derivatives-----	22,214,003	26,389,422	17,127,236
521.87	Clays, whether or not washed, ground, calcined or otherwise beneficiated, artificially activated with acid or other material.	2,380,939	2,368,364	15,313,896
711.80	Instruments for measuring, checking, automatically controlling the flow, depth, pressure, etc. of liquids or gases, and temperature, parts.	22,024,362	20,467,833	14,564,052
	Total-----	1,966,674,578	1,760,384,582	1,554,041,385
	Total, U.S. exports to Brazil-----	3,742,014,135	3,369,317,056	2,519,976,596

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

Table A-13.--Leading items imported from Taiwan, by TSUS items, 1981-83

TSUS item No.	Description	1981	1982	1983
700.56	Footwear having uppers over 90% of exterior surface area of rubber or plastics, n.e.s.	\$228,730,178	\$492,418,112	\$539,248,966
383.80	Womens, girls, or infants knit blouses, body shirts, body suits, shirts, and sweaters, of man-made fibers, not ornamented	-	240,765,667	302,030,786
685.11	Complete monochrome and color television receivers having video display diagonals of all different sizes	266,069,373	214,900,536	280,735,138
379.95	Men's or boys' coats, shirts, suits, swimwear, trousers, slacks, shorts	-	263,125,960	255,552,912
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	261,668,562	220,030,093	226,445,733
684.62	Telephonic apparatus and instruments and parts	39,285,768	41,541,188	219,741,860
734.20	Game machines and parts thereof	177,321,299	304,015,139	215,214,258
706.41	Other handbags and luggage of textile materials, n.s.p.f.	-	143,487,878	213,298,080
383.90	Womens, girls, or infants blouses, coats, shirts, suits trousers, slacks, and shorts, not knit, of man-made fibers, not ornamented	-	182,569,997	210,378,979
661.06	Fans and blowers, and parts, n.s.p.f., whether operated by hand or any kind of power unit	99,581,311	148,113,200	191,377,215
700.35	Footwear n.s.p.f., of leather, for men, youths and boys	62,549,335	126,811,124	190,805,670
706.62	Luggage and handbags, fitted or unfitted of materials n.e.s.	101,923,603	139,578,340	157,142,004
685.29	Hand-held citizens band (CB) radio transceivers, other transceivers, and non solid-state radio receivers and parts	46,287,840	103,908,647	155,662,556
676.52	Office machine parts, n.e.s.	48,579,098	86,507,981	144,422,856
676.30	Office machines, n.s.p.f.	7,260,358	21,269,320	139,491,650
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystals, parts	-	110,735,404	133,022,293
700.95	Footwear, n.e.s., used on daily basis for men, youths, boys, women, misses, children, and infants	18,925,296	81,572,784	130,503,701
727.35	Furniture of wood, other than chairs	68,184,191	84,394,503	126,203,562
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths or boys	36,622,998	52,550,711	126,165,385
678.50	Machines, not specially provided for, and parts thereof	105,967,981	124,421,138	122,518,268
	Total	1,568,957,191	3,182,717,622	4,079,961,872
	Total, U.S. imports from Taiwan	8,035,916,282	8,863,304,614	11,193,076,694

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

Table A-14.--Leading items exported to Taiwan, by Schedule B items, 1981-83

Schedule B item No.	Description	1981	1982	1983
130.34	: Corn or maize, not donated for relief or charity-----	\$238,210,710	\$238,986,509	\$431,229,192
175.41	: Soybeans, other than seed for planting-----	314,169,000	285,560,095	362,647,269
687.60	: Electronic tubes, transistors, integrated circuits, diodes, recti- fiers, mounted piezoelectric, related electronic crystal components:	146,202,411	161,616,330	181,778,069
694.65	: Parts, for aircraft and spacecraft-----	144,312,457	165,618,745	161,209,451
492.59	: Nuclear reactor fuel, including spent fuel, but excluding fuel in fuel rod assemblies-----	321,201	800	119,739,788
130.65	: Wheat-----	120,734,605	108,950,546	106,692,651
475.07	: Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum or shale---	66,353,685	26,253,901	97,370,436
676.55	: Parts of automatic data processing, calculating, accounting, photo- copying and similar machines incorporating a calculating mechanism---	53,765,293	56,181,495	96,319,172
300.10	: Cotton, not carded, not combed, and not similarly processed, having staple length under 1-1/8 inches-----	109,635,764	203,578,153	89,487,113
120.14	: Whole cattle hides-----	42,431,491	54,578,257	87,154,209
521.31	: Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel-----	118,593,625	95,824,528	83,084,167
607.08	: Carbon steel and iron waste and scrap-----	48,955,918	49,992,555	69,139,086
685.90	: Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, and parts---	77,127,668	57,996,329	58,710,391
685.20	: Television apparatus, and parts thereof-----	60,049,117	57,374,152	55,350,767
401.01	: Benzene, toluene, xylenes, cumene, naphthalene, and other specified hydrocarbons-----	10,283,613	31,679,520	54,351,281
250.04	: Waste paper and paperboard; scrap paper and paperboard products fit only for remanufacture; flax and hemp fibers used in paper making---	37,457,538	40,603,912	53,178,337
431.04	: Chlorinated halogenated hydrocarbons-----	38,502,467	30,485,227	52,253,627
480.80	: Fertilizers and fertilizer materials n.s.p.f., including natural fertilizers of animal or vegetable origin-----	2,005,767	33,023,029	52,069,734
676.28	: Digital central processing units; auxiliary storage units; input units; output units; and combinations thereof-----	36,370,548	52,519,234	50,525,562
170.33	: Filler tobacco, cigarette leaf, stemmed and unstemmed-----	62,925,187	57,899,413	50,363,050
	: Total-----	1,728,408,065	1,808,722,730	2,312,653,352
	: Total, U.S. exports to Taiwan-----	4,136,495,255	4,085,862,220	4,296,341,882

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

