

UNITED STATES TARIFF COMMISSION

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OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

24th Report

1972

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**UNITED STATES TARIFF COMMISSION**

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UNITED STATES TARIFF COMMISSION

OPERATION OF THE  
TRADE AGREEMENTS PROGRAM

24th Report  
1972

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

Washington  
1974



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## Preface

This report, the 24th issued by the United States Tariff Commission on the operation of the trade agreements program, relates to the calendar year 1972. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress at least once a year a factual report on the operation of the trade agreements program. 1/

Important developments during 1972 that are discussed in this report relate to actions by the United States affecting its obligations under the trade agreements program, actions and programs initiated by the Contracting Parties to the General Agreement on Tariffs and Trade to implement that agreement, commercial policy developments in countries with which the United States has trade agreements, and developments within the major regional trading blocs.

The report was prepared by Magdolna Kornis, Eileen Slack, Doris Mason, John Hennessey, Jr., and Alfred Harding.

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1/ The immediately preceding report in this series was U.S. Tariff Commission, Operation of the Trade Agreements Program, 23d Report, 1971, TC Publication 651, 1974. Hereafter that report is cited as Operation of the Trade Agreements Program, 23d report. Other reports of the Tariff Commission on the operation of the trade agreements program are cited in a similar short form.



CHAPTER 1  
U.S. ACTIVITIES RELATING TO THE  
TRADE AGREEMENTS PROGRAM

Government Actions Under Safeguard Provisions

Provisions which protect domestic interests from undesirable consequences of merchandise imports represent essential parts of most trade and tariff law. In the United States, restrictions may be imposed by administrative (executive) action when--

- (1) Domestic industries are found to be injured, or threatened by injury, from increased [amounts of] imports resulting from concessions made under trade agreements;
- (2) Imports threaten to impair the nation's security;
- (3) Imports interfere with certain Government-sponsored agricultural programs.

Administrative (executive) actions of this kind are considered to be temporary and flexible measures for relief. Except in certain emergency situations, however, these actions are not taken unless full investigation has been made by one or more Government agencies. The investigations made and actions taken by the United States during 1972 under tariff adjustment (escape clause), adjustment assistance, and national security provisions of the Trade Expansion Act of 1962 (TEA) and the provision for limiting imports of agricultural products under section 22 of the Agricultural Adjustment Act are discussed below. 1/

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1/ Reference to U.S. actions in 1972 with respect to investigation of cases involving the dumping of foreign goods in U.S. markets and imposition of dumping duties under provisions of the U.S. antidumping act is made in Chap. 2 of this report.

Trade Expansion Act of 1962

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

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

seriously injured as a result of import competition might seek economic relief in various forms.

Tariff adjustment.--In 1972 the Tariff Commission conducted five escape-clause investigations under section 301(b) of the TEA. The industries concerned were engaged in the manufacture of ceramic table and kitchen articles (including dinnerware); flat glass and tempered glass; electron, proton, and similar microscopes and certain parts; brass wind musical instruments and parts thereof; and mens' and boys' neckties. The investigations concerning musical instruments and neckties were not entirely completed by yearend. The Tariff Commission's findings in the completed investigations were as follows:

<u>Investigation</u> <u>No.</u>	<u>Industry</u> <u>concerned</u>	<u>Findings</u> <u>1/</u>
TEA-I-22	Ceramic articles (including dinnerware).	Affirmative. <u>2/</u>
TEA-I-23	Flat glass.	<u>3/</u>
TEA-I-24	Electron microscopes, apparatus, and parts.	Negative

1/ If the Commission's vote was equally divided into two groups, the President could accept the finding of either group.

2/ The Commission's vote was affirmative with respect to earthenware, but negative with respect to fine china.

3/ The Commission's vote was equally divided on sheet glass and negative on all other flat glass.

The President accepted the affirmative finding of the Commission pertaining to certain ceramic tableware (earthenware) and proclaimed increased rates of duty, effective May 1, 1972; firms and workers in the domestic earthenware industry were authorized to apply for adjustment assistance. On the equally divided determination of the Commission pertaining to sheet glass, the President took no action.

In addition, the Commission submitted to the President its second annual review of the piano industry. An escape-clause tariff adjustment was in effect on pianos, except grand pianos, by virtue of the second stage (13.5 percent) of the tariff reductions negotiated in the Kennedy Round having been reestablished in 1970 for a period of 3 years. If such action had not been taken, the reduction in the duty on these pianos would have continued until a rate of 8.5 percent was reached, effective on January 1, 1972. The Commission's annual review was made pursuant to its obligations under section 351(d)(1) of the TEA.

Adjustment assistance.--The federally funded assistance program of the TEA was intended to provide for adjustment to growth in imports that might result from trade liberalization in consequence of multilateral tariff concessions. Some segments of industry might suffer; others might gain, particularly if they were producing for export. Special benefits--adjustment assistance--could be available through Government facilities to firms and workers found to be seriously injured, or threatened with serious injury, by increased imports resulting in major part from concessions granted under trade agreements. Benefits could include technical advice and counseling, as well as financial assistance, for firms, and testing, retraining, and placement services for workers.

In 1972 the U.S. merchandise trade deficit worsened--increasing from \$2.7 billion in 1971 to \$6.9 billion. Competition between domestic and foreign products in the United States became keener, and numerous petitions continued to be filed for tariff adjustment under escape-clause provisions and for determinations of eligibility for adjustment assistance on behalf of firms or workers. Nevertheless, the number of investigations conducted

by the Tariff Commission under the TEA declined by almost 50 percent from the number of investigations conducted in the previous year. In the investigations involving firms, affirmative findings (by virtue of either majority or evenly divided decisions) outnumbered negative findings by a ratio of 2 to 1. With respect to the investigations involving workers, however, negative findings outnumbered affirmative findings by a ratio of 2 to 1. Cases involving firms and workers in industries producing consumer goods and components thereof continued to dominate; such goods included footwear, television receivers and other electrical appliances, typewriters, and textiles.

Ten investigations concerning firms were completed by the Tariff Commission during 1972; one investigation, begun at the close of the year, was scheduled for completion early in 1973. A total of seven firms, among which were producers of footwear, audio equipment and parts thereof, and textile products, became eligible to receive adjustment assistance--four on the basis of affirmative findings by the Commission, and three as a result of Presidential decisions to accept the affirmative findings in cases in which the Commission's votes were equally divided.

Forty-one investigations begun by the Tariff Commission in response to petitions filed on behalf of workers were completed in 1972; one investigation was discontinued, and seven investigations were incomplete at year's end. Of the cases completed in 1972, the Commission's findings were affirmative in 10 decisions and equally divided in four others. In each of the latter cases, the President accepted the affirmative finding as that of the Commission, with the result that workers involved in a total of 14 cases became eligible to receive adjustment assistance.

During the year, the Secretary of Labor issued certifications of eligibility covering about 8,400 workers.

National security.--In general, import restrictions may not be decreased or eliminated if the President determines that such action would threaten impairment of the Nation's security. Furthermore, section 232 of the TEA provided that, in cases where increased imports of articles might be adversely affecting the country's capacity to meet national security requirements, investigations could be undertaken by the Director of the Office of Emergency Preparedness (OEP)--either on his own motion or in response to certain requests. Affirmative findings might lead the President to adjust import restrictions for such time as he deemed necessary. Consideration would be given not simply to the capacity of domestic industries to meet projected defense requirements, but also to the impact of import competition on the economic welfare of industries, employment and skills, and Government revenues. An investigation concerning extra-high-voltage power circuit breakers and transformers was initiated in August 1972 but was not completed by yearend.

Under the authority of the same section 232 of the TEA, restrictions on imports of petroleum and certain products thereof were imposed by executive action. The program created to control oil imports, the Mandatory Oil Import Program (MOIP), was established by Presidential proclamation in March 1959. In February 1970 the President assigned the Director of OEP the responsibility for managing this program (subsequently called the Oil Import Program (OIP)) and also established an oil policy committee, comprised of the Secretaries of State, the



Treasury, Defense, the Interior, and Commerce; the Attorney General; the Chairman of the Council of Economic Advisers; and the Director of OEP who was to serve as chairman of the committee. The MOIP was a system of controlling oil imports by quotas, and during the early 1970's the principal problems faced by the program's administrators were those connected with making the necessary modifications to allow imports to fill the gap between domestic production and burgeoning domestic demand. Three Presidential proclamations concerning the OIP were issued in 1972: One increased the quota level for crude oil imports; another permitted additional imports of No. 2 fuel oil; and the third delegated authority to the Secretary of the Interior to permit additional imports of certain finished petroleum products from the Virgin Islands.

Section 22 of the Agricultural Adjustment Act:  
imports and domestic price-support programs

\* Programs to stabilize U.S. farm prices and incomes have been maintained since 1933, and by virtue of section 22 of the Agricultural Adjustment Act of 1933, as amended, 1/ the President has been authorized to impose duties and quantitative limitations on imports of agricultural commodities found by the U.S. Tariff Commission to interfere with price-support programs of the U.S. Department of Agriculture. (In cases of emergency, the President could take immediate action pending the Tariff Commission's findings and recommendations; import restrictions imposed under sec. 22 were not to be affected by any actions taken under the TEA, however.) In 1972 there were no investigations initiated

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1/ Sec. 22, which was added by an act of Aug. 24, 1935, was revised in its entirety by sec. 3 of the Agricultural Act of 1948 and again by Sec. 3 of an act of June 28, 1950.

with respect to section 22 of the Agricultural Adjustment Act. 1/ The last such investigation was released on August 3, 1971.

Accommodation of obligations under this domestic legislation and those under the GATT was achieved in 1955 when, under GATT article XXV:5, the Contracting Parties granted the United States a waiver of its commitments under the provisions of GATT articles II and XI. 2/ This waiver had no expiration date but required submission of an annual report on reasons for maintaining the restrictions and the steps taken to solve the problem of agricultural surpluses. In 1972 the 16th such report was submitted for review by the working party concerned.

Article XXVIII of the GATT: Modification of tariff schedules

Under article XXVIII of the GATT, a member country (contracting party) might modify or withdraw tariff concessions following notification to countries whose trade would be affected. A member country might also reserve the right to renegotiate any of its tariff concessions at any time during a 3-year period. In 1972 the United States made such a reservation for the 3-year period beginning January 1, 1973. This procedure, which gave the United States flexibility to negotiate tariff changes deemed desirable, did not, in and of itself, mean that such changes would be made. Similar reservations were made by the European Community, Australia, Austria, Bangladesh, Denmark, Finland, India, Israel, New Zealand, South Africa, and Turkey.

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1/ For more details see Operation of the Trade Agreements Program, 23d report, pp. 10-11.

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

The United States filed claims for compensation in 1972 against Australia, involving U.S. imports totaling \$2 million. Negotiations between these two countries brought about tariff concessions by Australia on a comparable amount of trade. The United States was also involved in similar negotiations with New Zealand, Norway, South Africa, and Sweden centered on U.S. exports of a variety of products valued at more than \$26 million. More negotiations with Australia began during the year; these related to the conversion of its tariff to the Brussels Tariff Nomenclature (BTN) system of commodity classification and were to result in the expansion of some concessions of interest to the United States and the contraction of other concessions.

Implementation of the United States-Canadian  
Automotive Products Agreement

In December 1972 the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada had been in operation for nearly 8 years. 1/ This agreement established conditions for limited free trade between the two countries in products of and for the automobile industry--in which there was already a high degree of sectoral integration and interrelationship between home markets.

By virtue of this special type of bilateral agreement of unlimited duration (each Government having the right to terminate it 12 months after giving written notice), both countries extended under specified conditions duty-free treatment on vehicles, 2/ original equipment (except tires and tubes unless mounted on completed vehicles), and parts. Free access for parts and equipment was accorded by both countries only when these articles were imported by vehicle manufacturers. Such items have accounted for an increasing share of the total two-way trade in automotive products; this proved to be a boon to manufacturers of complementary products in Canada. For automobiles, free access was accorded by the United States regardless of purchaser.

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1/ For details on earlier implementation of the agreement, see Operation of the Trade Agreements Program, 17th through 23d reports.

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

but by Canada only when imported by domestic manufacturers. 1/ The agreement, which sought to expand markets and promote trade between the two countries, provided conditions for growth in the Canadian share of production. To this end, Canadian producers--the Canadian subsidiaries of American Motors, Chrysler, Ford, and General Motors--individually undertook to increase the Canadian value added in Canadian production by an amount correlated with growth in the Canadian home market for vehicles.

U.S. production (factory sales) of motor vehicles totaled 11.3 million units in 1972, about 7 percent above the 1971 total. Canadian production (factory sales) of motor vehicles amounted to 1.5 million units, also about 7 percent more than in 1971. In 1972 the Canadian share of the aggregate number of motor vehicles produced in the two countries was 11.5 percent, approximately the same share it had in 1971. 2/

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

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

Two-way trade in automotive products between the United States and Canada (see table on following page) totaled approximately \$9.3 billion in 1972, compared with \$7.9 billion in 1971 and \$778 million in 1964. Exports of automotive products from the United States to Canada rose 21 percent from 1971 to 1972, while imports of automotive products from Canada to the United States rose 14 percent. Since 1964, the Canadian sales of automotive products have experienced a faster rate of growth than sales in the United States, principally because Canadian export expansion has been largely a reflection of implementation of the automotive products agreement with the United States.

U.S. exports of motor vehicles and parts to Canada amounted to nearly \$4.0 billion in 1972, compared with \$3.3 billion in 1971 and \$667 million in 1964. Parts and accessories alone totaled \$2.5 billion in 1972, compared with about \$2 billion in 1971 and \$603 million in 1964. Total U.S. imports of motor vehicles and parts from Canada reached were \$5.3 billion in 1972, compared with \$4.7 billion in 1971 and only \$111 million in 1964. Nevertheless, the 1972 deficit of \$1.3 billion in U.S. trade with Canada in automotive products reflected a decline of \$52 million from the preceding year. Over the same period, however, the U.S. deficit in trade with Canada in all commodities rose from \$2.3 billion to \$7.5 billion.

In 1972 Canada remained the principal foreign market and chief supplier of the United States with regard to automotive products. Canada took about 74 percent of U.S. exports of such products in 1972, compared with about 22 percent in 1964, and supplied about 57 percent of U.S.

## Summary of U.S. and Canadian production and trade in automotive products, 1964, 1971, and 1972

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

Item	Quantity			Value		
	1964	1971	1972	1964	1971	1972
U.S. factory sales, total-----	9,292.3	11,637.7	11,270.7	18,060.4	27,100.0	30,118.0
Passenger cars-----	7,751.8	8,584.6	8,823.9	14,836.8	21,300.0	<u>1/</u> 22,900.0
Trucks and buses <u>2/</u> -----	1,540.5	2,053.1	2,446.8	3,223.6	5,800.0	<u>1/</u> 7,218.0
Canadian factory sales, total-----	797.0	1,355.2	1,455.1	3/	3/	3/
Passenger cars-----	684.2	1,075.5	1,136.9	<u>3/</u>	<u>3/</u>	<u>3/</u>
Trucks and buses <u>2/</u> -----	112.8	279.7	318.2	<u>3/</u>	<u>3/</u>	<u>3/</u>
U.S. exports <u>4/</u> to Canada, total <u>5/</u> -----	18.3	413.2	466.3	666.6	3,275.2	3,979.5
Passenger cars-----	15.6	348.4	376.2	45.2	945.9	1,076.3
Trucks and buses <u>2/</u> -----	2.7	64.8	90.1	15.0	267.4	385.2
Other vehicles-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	3.4	42.6	61.7
Parts-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	603.0	2,019.3	2,456.3
U.S. imports <u>6/</u> from Canada, total <u>5/</u> -----	9.3	936.3	982.2	111.3	4,650.1	5,301.9
Passenger cars-----	9.2	802.3	842.3	18.7	2,396.8	2,593.3
Trucks and buses <u>2/</u> -----	.1	134.0	139.9	.4	428.0	443.1
Other vehicles-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	4.4	133.3	119.4
Parts-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	87.8	1,629.0	2,146.1
U.S. trade balance with Canada, total <u>5/</u> -----	+9.0	-523.0	-516.4	+555.4	-1,374.8	-1,322.5
Passenger cars-----	+6.4	-453.9	-466.1	+26.5	-1,450.9	-1,517.0
Trucks and buses <u>2/</u> -----	+2.6	-69.1	-50.3	+14.6	-160.5	-58.0
Other vehicles-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	-.8	-90.7	-57.7
Parts-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	+515.1	+327.3	+310.2
U.S. trade balance with all other countries, total <u>5/</u> -----	-198.9	-1,733.2	1,669.2	+1,671.2	-2,235.9	-2,951.3
Passenger cars-----	-361.5	-1,747.0	-1,609.2	-290.6	-2,612.8	-2,988.0
Trucks and buses-----	+162.6	+13.8	-60.0	-381.8	+134.2	+36.9
Other vehicles-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	+50.0	+66.7	+148.1
Parts-----	<u>3/</u>	<u>3/</u>	<u>3/</u>	+1,529.9	+192.0	+119.0

1/ Estimated.

2/ Includes only trucks valued at more than \$1,000.

3/ Not available.

4/ U.S. exports of domestic merchandise; includes both APTA and non-APTA trade with Canada.

5/ Totals do not include quantity entries noted "not available." Therefore, quantity and value totals are not comparable.

6/ U.S. imports for consumption; includes both APTA and non-APTA trade with Canada.

Source: Compilations and estimates by the U.S. Tariff Commission from official statistics of the U.S. Department of Commerce and from data supplied by industry sources. For additional detail, see Addendum to the Seventh Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, 1974.

imports, compared with 13.5 percent in 1964. However, the share of U.S. automotive imports supplied by Canada was down from a high of 64 percent in 1969, owing to the sharp increase in U.S. automotive imports from Western Europe and Japan. Over the period 1964 through 1972, the deterioration of the U.S. balance of trade in automotive products with countries other than Canada was, in fact, significantly greater than that in the comparable balance with Canada.



U.S.-U.S.S.R. Trade Agreements

The year 1972 was marked by a series of interrelated agreements and arrangements to facilitate and restore normal commercial relations between the United States and the Union of Soviet Socialist Republics. The trade agreements were the result of the "Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics," signed by President Nixon and Soviet General Secretary L.I. Brezhnev at the Moscow summit meeting on May 29, 1972: 1/

The first product of the Moscow summit meeting was an agreement to establish a joint U.S.-U.S.S.R. commercial commission to serve as a vehicle for improving commercial relations. This commission's immediate responsibility was to negotiate commercial agreements between the two nations, while its long-term responsibility was to monitor U.S.-U.S.S.R. commercial relations. The commission was to negotiate:

- (1) an overall trade agreement including reciprocal most-favored-nation (MFN) treatment;
- (2) arrangements for the reciprocal availability of government credits to finance bilateral trade;
- (3) provisions for the reciprocal establishment of business facilities to promote trade; and
- (4) an agreement establishing an arbitration mechanism for settling commercial disputes.

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1/ The "Seventh Principle" provided: "The USA and the USSR regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations and thus will actively promote the growth of such ties. They will facilitate cooperation between the relevant organizations and enterprises of the two countries and the conclusion of appropriate agreements and contracts, including long-term ones." For more details see U.S. Senate, Committee on Finance, Background Materials Relating to the United States-Soviet Union Commercial Agreements, Apr. 2, 1974.

In addition, the commission was to study U.S.-U.S.S.R. participation in the development of resources and the sale of raw materials.

On July 8, 1972, a few weeks after the Moscow summit, a 3-year agreement on a Soviet purchase of U.S. grain totaling a minimum of \$750 million was concluded. The Soviet Union agreed to purchase U.S.-grown grains (wheat, corn, barley, sorghum, rye, oats--at the Soviet Union's option) between August 1, 1972, and July 31, 1975. This would be the largest Soviet grains purchase in history. In addition, credit totaling \$750 million was made available through the Commodity Credit Corporation (under another provision of the agreement) with the stipulation that the amount outstanding at any time would not exceed \$500 million. This agreement differed markedly from the 1971 grain transaction, which involved cash rather than credit and totaled only \$150 million.

Three months after the new grains agreement was signed, the two nations signed the Maritime Agreement of October 14, 1972. This agreement provided for the opening of approximately 40 ports in the United States and the Soviet Union to the access of flag-bearing vessels of each nation, a step towards normalization of trade relations between the two nations. The agreement also provided--

- (1) opening ports pending notification 4 days prior to arrival instead of only upon receipt;
- (2) the establishment of the principle of equal and substantial sharing of carriage, meaning that each nation would have the opportunity to transport not less than one-third of all cargoes and not less than the amount carried by the other nation;
- (3) a satisfactory compromise on rates to be paid for freight carriage.

The agreement did not involve any concession in the U.S. policy of prohibiting vessels which have called on Cuba, North Vietnam, or North Korea from docking, and loading or unloading government-financed cargoes in U.S. ports.

On October 18, 1972, the trade agreement and the lend-lease settlement were jointly announced. The major provisions of the trade agreement called for reciprocal granting of trading access equal to that granted third parties, including MFN treatment, protection against "dumping" one country's goods on another country's market, and guarantees of availability of business facilities in each country for the business personnel of the other. Each side retained the right to take any action to protect its security interests; that is, the agreement has no effect on U.S. export controls. The trade agreement, and specifically the MFN provision, could not enter into force until enabling legislation was passed by Congress.

The lend-lease settlement called for the Soviet Union to pay the United States an amount of at least \$722 million over the period ending July 1, 2001, <sup>1/</sup> for assistance provided U.S. allies under the Lend-Lease Act of March 11, 1941, for the prosecution of World War II. After this settlement was reached, the Export-Import Bank of the United States and the Soviet Foreign Trade Bank signed an Agreement on Financing Procedures so as to implement the principle of making credit accessible.

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<sup>1/</sup> The exact total would depend upon when and how many of the four allowable deferments the Soviet Union elected.

### Trade Relations With the People's Republic of China

Trade relations between the United States and the People's Republic of China moved in a positive direction after the President's trip to China in February 1972. As a product of several meetings which took place during the 7-day trip, a joint communique was issued on February 28, 1972. In the communique, both sides viewed bilateral trade as another area from which mutual benefit could be derived and agreed that economic relations based on equality and mutual benefit were in the interest of the peoples of the two countries. They agreed to facilitate the progressive development of trade between their countries.

The initial impact of this policy change was reflected in trade between the two countries in 1972, when it amounted to \$92 million, in contrast with only \$5 million in 1971. Chinese purchases consisted primarily of wheat, corn, cotton, and telecommunications equipment, while U.S. imports consisted of raw materials, food, and light industrial products.

Other steps leading towards normalization of commercial trade with the People's Republic of China were taken. The most significant one was reclassification of the People's Republic of China for exporting purposes, placing it in the same category as the Soviet Union (for export-control purposes)--meaning that goods that could be exported to the Soviet Union without explicit approval of the U.S. Department of Commerce could likewise be exported to the People's Republic under general license.

### Agreements Under Reciprocal Trade Agreements Legislation

During the period between the enactment of the Trade Agreements Act of 1934 and January 1, 1948, when the GATT entered into force, the United States concluded a large number of bilateral trade agreements. Most of these agreements lapsed in the postwar period. At the end of 1972, four bilateral agreements were still in force. The reciprocal trade agreement between the United States and Venezuela of November 6, 1939, as supplemented, was terminated in part on June 26, 1972. The status of the four remaining reciprocal trade agreements in 1972 is discussed below.

#### Argentina

After Argentina fully acceded to the GATT in 1967, the 1941 bilateral trade agreement with the United States was amended so as to keep the agreement in effect until schedule XX (a consolidated schedule of U.S. concessions to the GATT) "shall have been completed and proclamation thereof by the President of the United States shall have become effective." This status, as of the close of 1972, remained unchanged.

#### El Salvador, Honduras, and Paraguay

The mutual schedules of U.S. concessions and relevant provisions were terminated in the early 1960's, but the bilateral agreements with these three countries were in force as of the end of 1972.

International Commodity Agreements and ArrangementsCotton textiles: The long-term arrangement

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

Pursuant to this authority, imports of cotton products have been subject to restraint since 1962 under the provisions of the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). 1/ The multilateral LTA negotiated by the GATT Cotton Textiles Committee (CTC) 2/ came into effect October 1, 1962, for an initial period of 5 years. It was subsequently extended for two successive 3-year periods, the second of which was due to expire on September 30, 1973.

Prior to the inception of the LTA, the United States had made some effort to curb its imports of cotton textiles through voluntary foreign controls. Japan had imposed voluntary controls since 1957 over a wide range of cotton textile items exported to the United States. Italy had voluntarily controlled its exports of cotton velveteen to this country. These early efforts, however, neither comprehensively nor equitably controlled shipments of cotton textiles to the United States. Therefore, the United States proposed the LTA as a means of

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1/ A preliminary short-term arrangement controlled trade in cotton textiles from Oct. 1, 1961, through Sept. 30, 1962.

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

insuring a more orderly development of trade in cotton textiles than had occurred in the 1950's, when, as one of the few open markets, it bore the brunt of sharply rising exports from new suppliers.

The LTA allows the United States and other importing countries to limit cotton textile imports in order to prevent disruption of their domestic markets and also assures exporting countries the opportunity for orderly growth in their cotton textile exports. At the time the LTA entered into force (Oct. 1, 1962), 3 additional countries joined the 19 participants in the predecessor short-term arrangement, bringing to a total of 22 the number of countries initially participating in the LTA. The addition of 2 countries in 1963 and 4 in 1964 raised the total to 28. By December 31, 1967, the number of participants had risen to 30, and remained stable throughout 1968 and 1969. By the end of 1971, 29 countries had accepted the protocol for the LTA's second 3-year extension, opened for acceptance on June 15, 1970. In 1972, 2 more countries became parties to the LTA, bringing the total number of participant countries to 31.

Definition and classification.--In its administration of the arrangement, the United States defined as cotton textiles those items in which cotton was the chief fiber by value, classifying these textiles into 64 categories. 1/

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

Controls.--The major import-control provisions of the LTA are contained in articles 3 and 4 of the arrangement. Support for U.S. application of these controls to nonparticipants in the LTA derives from section 204 of the Agricultural Act of 1956, as amended, which authorizes the United States to control imports from nonparticipants in a multilateral agreement if the trade of countries participating in the agreement accounts "for a significant part of world trade in the articles with respect to which the agreement was concluded."

Article 3 authorized participating importer countries to request restraints 1/ on exports of product(s) from participating supplier countries when such exports caused or threatened to cause market disruption. An importing country could request an exporting country to limit shipments of the cotton textiles causing disruption in its market. If the exporting country did not accede to the request within 60 days, the importing country could impose an import quota on the designated product(s) within terms specified in the arrangement. To assure equity for participating supplier countries, article 6(c) provided that exports of participating countries would not be restrained more severely than exports of nonparticipants.

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



Article 4 of the LTA contained the authority under which the negotiation of bilateral trade agreements could be used to regulate cotton textile trade to the extent that the terms were consistent with the basic objectives of the arrangement. Such agreements could be negotiated between participants in the LTA as well as between participants and non-participants.

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

Participation in 1972.--During 1972 the United States continued its participation in the LTA, along with 30 other countries that had acceded to the second extension of the arrangement by the end of the year. 2/ Also participating was the European Economic Community (not a party to the GATT), whose accession in 1970 was an indication of the Community's readiness as an entity to assume the rights and obligations of its member states under the arrangement. All but three countries participating in the LTA 3/ were parties to the GATT.

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1/ At the close of 1972, the bilateral agreements in force under the LTA covered periods from 1 to 5 years. Most of the agreements were for 3 or 4 years.

2/ Argentina and El Salvador were accepted as new parties to the LTA in 1972.

3/ Republic of China, El Salvador, and Mexico (all eligible for participation under the provisions of par. 2, art. 11 of the arrangement).

Parties to the LTA, December 31, 1972

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

1/ Extended to Surinam and the Netherlands Antilles.

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

Under the terms of the LTA, the U.S. Government moved steadily to regulate imports of cotton textiles into the United States. In its construction and application of the provisions of the LTA, especially articles 3, 4, and 6(c), the United States drew on the authority vested in the President by section 204 of the Agricultural Act of 1956, as amended.

Restraints under article 3. 1/--At the end of 1972 the United States had in effect under article 3 of the LTA seven restraints on imports of cotton textile articles, classified in six different

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

categories, from six countries. In the aggregate, these restraints amounted to an article 3 ceiling of nearly 7 million equivalent square yards 1/ on imports of cotton textiles. None of the countries under article 3 restraint by the United States was party to the LTA or a party to a bilateral agreement with the United States under the LTA. Four of the countries were contracting parties to the GATT. 2/ The other two had no identification with the GATT. Of the six countries, moreover, Barbados, Ceylon, Costa Rica, and Mauritius had been under similar restraint in 1971. Restraints in effect in 1971 against Nicaragua and Thailand had been converted to bilateral agreements under article 4 of the LTA by the end of 1972. The article 3 restraint against Israel was terminated.

The table below lists the countries against which the United States had article 3 restraints in effect at the end of 1972 and indicates for each country the number of cotton textile categories affected and the aggregate quantitative impact of these restraints (in millions of equivalent square yards). It is immediately apparent from the table that the overall quantitative impact of the U.S. effort to control imports under article 3 of the LTA during 1972 was the greatest in British Honduras, Costa Rica, and Sri Lanka, which together accounted for

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

2/ Barbados, Sri Lanka (name changed from Ceylon on May 22, 1972), Ghana, and Mauritius.

85 percent of the total volume of article 3 restraints in effect.

U.S. import restraints in effect under LTA  
art. 3, Dec. 13, 1972 1/

<u>Country</u>	<u>Number of categories affected</u> <u>2/</u>	<u>Aggregate quantity (million equivalent square yards)</u>
Barbados-----	1	0.5
British Honduras-----	1	2.8
Costa Rica-----	2	1.7
Ghana-----	1	.4
Mauritius-----	1	.1
Sri Lanka (Ceylon)---	1	1.1
Total-----	7	6.6

1/ For further details, see U.S. Department of Commerce, Office of Textiles, Summary of Restraints Affecting U.S. Imports of Textile Manufactures, October 1972, Pt. I, and May 1973, Pt. I.

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

Bilateral agreements under article 4.--At the end of 1972, the United States had in force 30 bilateral agreements under article 4 with 29 countries and 1 dependency. This was two more than in 1971, new agreements with El Salvador, Nicaragua, and Thailand having entered into force and the agreement with the Ryukyu Islands having been terminated. Sixteen of the 29 partner countries to these agreements were participants in the LTA. All but six 1/ were identified with the GATT. All agreements except that with Italy covered a part, parts, or all of each of the 64 categories into which the United States had classified cotton textiles for LTA administrative purposes. 2/

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1/ Republic of China, Colombia, El Salvador, Hungary, Mexico, and the Philippines.

2/ The agreement with Italy covered only category 7.

The following table lists the countries and dependencies with which the United States had LTA article 4 bilateral agreements in effect at the end of 1972, with the aggregate trade limitations covered by those agreements.

In 1972, as in past years, limitations on annual shipments to the United States agreed to under bilateral agreements sanctioned by article 4 exceeded by far the restraints imposed under article 3--restraints intended to be used only sparingly. The bilateral agreements, which contained provisions for consultation and exchange of statistics, generally provided for percentage increases in already established quantity limitations or set up new ones on products not previously considered disruptive in U.S. markets.

U.S. article 4 bilateral agreements  
under the LTA, effective Dec. 31, 1972

<u>Country or dependency</u>	<u>Trade limitations: aggregate quantity (million equivalent square yards)</u>
Brazil <u>1/</u> -----	82.7
China, Republic of-----	94.5
Colombia <u>1/</u> -----	42.0
Czechoslovakia <u>1/</u> -----	2.9
El Salvador-----	5.1
Egypt-----	57.9
Greece-----	11.4
Haiti <u>1/</u> -----	4.7
Hong Kong-----	477.1
Hungary <u>1/</u> -----	4.7
India-----	121.3
Italy-----	2.3
Jamaica-----	28.7
Japan-----	463.4
Korea-----	50.9
Malaysia <u>1/</u> -----	22.1
Malta-----	16.2
Mexico-----	103.0

See footnote at end of table.

U.S. article 4 bilateral agreements  
under the LTA, effective Dec. 31, 1972--Continued

<u>Country or dependency</u>	<u>Trade limitations: aggregate quantity (million equivalent square yards)</u>
Nicaragua 1/-----	5.0
Pakistan-----	87.7
Peru 1/-----	5.3
Philippines 1/-----	60.2
Poland-----	7.1
Portugal-----	119.2
Romania 1/-----	9.5
Singapore 1/-----	47.1
Spain-----	51.4
Thailand 1/-----	15.0
Turkey-----	4.1
Yugoslavia 1/-----	24.5
Total-----	<u>2,027.0</u>

1/ Not a party to the LTA.

Summary.--At the end of 1972, trade restrictions in force between the United States and other countries under the provisions of the LTA covered an aggregate of more than 2 billion equivalent square yards of cotton textiles. In its overall trade impact, this was tantamount to an aggregate U.S. import ceiling of equal size on the cotton textiles affected. Bilateral agreements under article 4 accounted for 99.7 percent of this aggregate limitation, with article 3 restraints accounting for the minute remainder.

Other textiles

During 1972 the United States did not sign any new bilateral agreements restraining wool and manmade fiber textile products. The 5-year agreements the United States had signed with Hong Kong, Korea, and the Republic of China, effective in 1971, were proceeding into their

second year in 1972. A 3-year agreement with Japan was also in its second year of operation. On September 1, 1972, the Malaysian restraint level was increased to 5.8 million equivalent square yards. On October 1, the restraint level for the other four countries was increased.

U.S. restraints on textiles and textile manufactures of manmade fibers applicable to the five countries involved came to approximately the total volume of restraints in effect on cotton textile products, while the restraints on wool and manmade fiber textiles combined grew to exceed the total limits applied to cotton textiles (see following table). When the three 5-year agreements were signed, the participating countries also entered into multilateral agreements concerning market access in each participating country, thus providing for steps to limit disruptive imports from nonparticipating countries.

Restraints on U.S. imports of textile manufactures of  
wool and manmade fibers, 1972

(In millions of equivalent square yards)

Country	Wool textiles	Manmade textiles	Total
China, Republic of-----	4.8	511.9	516.7
Hong Kong-----	40.4	224.9	265.3
Japan-----	43.3	1,047.4	1,090.7
Korea, Republic of-----	12.9	375.3	388.2
Malaysia-----	.1	5.7	5.8
Total-----	161.5	2,165.2	2,266.7

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

International Commodity Agreements

In 1972 the United States was participating in international commodity agreements concerning coffee and wheat. The United States was not a signatory to the international tin, olive oil, and sugar agreements but did cooperate, as appropriate, with the councils administering these agreements. Moreover, U.S. representatives were present at most of the many other international discussions--sponsored by the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization (FOA), or interested national governments--on commodities not covered by agreements, including cocoa, tea, rubber, oilseeds, oils and fats, jute, kenaf, hard fibers, lead, and zinc.

Coffee

Exports of coffee have furnished a primary source of revenue for several developing countries. The United States has been one of the leading importers of coffee. In 1972, the value of coffee imports into the United States was \$1.3 billion--higher by far than the value of any other U.S. agricultural and food import. The share of the coffee market accounted for by the United States in 1972 was approximately 37 percent of total world imports of coffee, down sharply from 44 percent in 1971 and considerably less than its 52-percent share in 1960, whereas Europe's share has increased over the years to about 52 percent in 1972. With respect to green coffee, U.S. imports in 1972 were approximately 20.8 million bags, 1/ 4 percent less than in 1971 and 18 percent less than in 1968, a peak year. U.S. imports of green coffee dropped in 7 of the

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



last 10 years, primarily because of the larger coffee intake by other nations. Some 65 percent of U.S. coffee imports in 1972 originated in Latin America, largely in Brazil and Colombia.

World coffee prices rose in January-June 1972 as a result of increases in the U.S. demand for coffee and an impending dock strike in the latter part of 1971. Prices eased downward after reaching a high point in the summer of 1972. The U.S. retail price of regular coffee averaged 79.2 cents per pound in 1972, approximately the same as in 1971. That of soluble (instant) coffee averaged \$2.90 per pound, off 4 cents from the 1971 average price.

Nineteen seventy-two marked the fourth year that the International Coffee Agreement (ICA) had been in operation. The ICA was a continuation in modified form of the coffee agreement of 1962--the first agreement. Scheduled to run for 5 years ending September 30, 1973, the agreement was subscribed to by 41 coffee-producing countries and 21 coffee-importing countries, including the United States (see the following table). It proposed not only to alleviate the difficulties resulting from surpluses and volatile prices in the short run, but also to move towards rationalizing production and demand.

Members of the 1968 International Coffee Agreement  
at the end of 1972

Exporting countries (41)

Bolivia	Ivory Coast
Brazil	Jamaica
Burundi	Kenya
Cameroon	Liberia
Central African Republic	Madagascar
Colombia	Mexico
Congo (Brazzaville)	Nicaragua
Costa Rica	Nigeria
Dahomey	Panama
Dominican Republic	Paraguay
Ecuador	Peru
El Salvador	Portugal
Ethiopia	Rwanda
Gabon	Sierre Leone
Ghana	Tobago
Guatemala	Trinidad and Tobago
Guinea	Tanzania, United Republic of
Haiti	Uganda
Honduras	Venezuela
India	Zaire <u>1/</u>
Indonesia	

Importing countries (21)

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

1/ Name changed from Democratic Republic of the Congo  
on Oct. 27, 1971.

Under the ICA, prices were to be maintained at or above certain levels by means of allocating export quotas to producing members for each coffee year (October through September). Quotas were to be based on dollar prices--an important aspect of the arrangement in view of exchange-rate problems--but might be changed in response to the movements of the daily composite price for all coffees. During 1972, as in previous years, the International Coffee Council (ICC), which administered the agreement, exercised a special provision, permitting the use of a flexible system of selective quotas in response to current market conditions; annual and quarterly quotas previously set for four principal types of coffee might be changed whenever prices remained below or above established prices for 15 days. Several upward adjustments in these quotas were made during the year, largely because demand exceeded the estimates set at the beginning of the coffee year.

Overall world exports of green coffee were 67.6 million bags in 1972, more than 8-percent above the 1971 total and almost 7 percent larger than the 1968-69 total of well over 54 million bags. The producing countries' foreign-exchange earnings from coffee exports were estimated at \$3.27 billion in 1972, more than 13 percent above earnings in the preceding year.

Trade in soluble coffee processed in coffee-growing countries, chiefly Brazil, increased in 1972, but output remained relatively small compared with green coffee production in the exporting countries. The United States, by far the principal market in the world for soluble

coffee, imported a record total of 56.2 million pounds of soluble coffee equivalent in 1972, more than 53 percent above the previous year's total and more than 42 percent larger than the previous record level set in 1969. Brazil supplied 70 percent of U.S. imports of soluble coffee in 1972.

As to other developments, the ICC met in August and December 1972 to fix export quotas for the 1972-73 coffee year but was unable to agree on quota-price arrangements at either session. Thus, from December 12, 1972, onward, export quotas ceased to be in effect. A special ICC session was set for April 1973 to consider renegotiation or extension of the ICA of 1968, which was to expire on September 30, 1973.

#### Wheat

The International Wheat Agreement (IWA), which entered into force on July 1, 1971, was negotiated under the auspices of the United Nations at the United Nations Wheat Conference early in 1971. <sup>1/</sup> The International Wheat Council (IWC), the policy-making body of the IWA, met twice in 1972 to consider the feasibility of negotiating price provisions and related rights, which were absent from the IWA of 1971 because of difficulties encountered in reaching a desirable price level for internationally traded wheat and in selecting a reference wheat.

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<sup>1/</sup> For more details pertaining to legal instruments and administrative bodies which are part of the IWA, see Operation of the Trade Agreements Program, 23d report.

At its first meeting, in early July, the IWC decided that the time was inappropriate for settling the aforementioned issues, primarily because of the nebulous international monetary situation. At its second meeting, in late November 1972, the IWC contended that the obstacles to successful negotiation of the issues at hand had grown to such a degree that wheat prices had been driven up to unprecedented levels. The IWC concluded that it would not be possible to reach agreement on the issues before the IWA was to expire on June 30, 1974. The matter of negotiating a new agreement to replace the IWA was not pursued and therefore remained an open question.

At the end of 1972, some 52 of the world's major exporting and/or importing countries were among the signatories to the Wheat Trade Convention (see following table). The European Economic Community, as well as its member states, was represented, and the convention specified that prices at which the European Community would make wheat available to importing members of the convention would not be greater than established maximum prices.

## Signatories to the Wheat Trade Convention, Dec. 31, 1972

Exporting countries

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

Importing countries

Austria	Lebanon
Belgium	Libya
Bolivia	Luxembourg
Brazil	Mauritus
China, Republic of	Netherlands
Costa Rica	Nigeria
Cuba	Norway
Denmark	Pakistan
Dominican Republic	Panama
Ecuador	Peru
Egypt	Portugal
El Salvador	Saudi Arabia
European Economic Community	South Africa
Finland	Switzerland
Germany, Federal Republic of	Syrian Arab Republic
Guatemala	Trinidad and Tobago
India	Tunisia
Israel	United Kingdom <sup>1/</sup>
Italy	Union of Soviet
Japan	Socialist Republics
Korea, Republic of	Vatican City

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<sup>1/</sup> Extended to Bermuda, British Honduras, British Virgin Islands, Dominica, Gibraltar, Gilbert and Ellice Islands, Grenada, Guernsey, Hong Kong, Isle of Man, St. Helena, St. Kitts-Nevis-Anguilla, St. Vincent, and Seychelles.

In the wheat crop year ending June 30, 1973, world wheat production (mainland China excluded) was 310.6 million metric tons, down 3 percent from the record established in the previous crop year. Also, as a result of the unstable monetary situation, together with low production in some wheat-exporting countries, the traditional patterns of wheat trade became distorted and wheat prices rose to unprecedented levels. World trade in wheat rose to 67.3 million metric tons, 28 percent above the level established in the crop year 1971-72, and surpassed the previous record of 61.7 million metric tons set in the crop year 1965-66. The major part of the increase can be attributed to the wheat purchases by the U.S.S.R.

### U.S. Import Programs

During 1972, formal restraints on U.S. imports of steel and meat were maintained through quantity limitations on exports arranged with foreign suppliers. Such arrangements are not officially part of the U.S. trade agreements program but relate to it, particularly with respect to the GATT. Unlike the controls set within the framework of international arrangements, these restraints were worked out independently--the voluntary steel arrangement, with steel producers in Japan, Europe, and the United Kingdom, and the meat restraint program, through government-to-government agreements. Such measures for relieving pressures from import competition were considered to be much more flexible than legislative controls or multilateral arrangements.

#### Voluntary steel arrangement

For the 3-year period 1969-71, restraints on exports of steel-mill products to the United States were voluntarily agreed upon by the steel producers of Japan and the European Coal and Steel Community (ECSC). In May 1972 these steel producers were joined by those in the United Kingdom, and producers of each country informed the U.S. Secretary of State of their intention to restrain exports of steel-mill products to the United States during the 3-year period 1972-74. Their actions, in effect, extended the similar voluntary arrangement spanning the years 1969-71, but with the following additional provisions:

- (1) Consistent with recent growth in the U.S. steel market, the annual growth rate of shipments called for in the 1969-71 arrangement would be reduced from 5.0 percent to 2.5 percent, effective for the 1972-74 arrangement.



- (2) Steel producers of the United Kingdom would be participants in the voluntary steel arrangement;
- (3) Stainless, tool, and other alloy steel would be subject to specific limitations on the tonnage exported to the United States;
- (4) Firm assurances would be given that the mix of steel products exported and the patterns of their geographic distribution in the United States would be maintained;
- (5) Restraints on shipments of cold finished structural steel would be strictly adhered to;
- (6) The United States or any foreign producer would consult with any country party to the voluntary steel arrangement to consider any problem or question that might arise, thus initiating periodic discussions.

In 1972, aggregate steel exports by the European Community and the United Kingdom steel producers to the United States were within the overall limitation specified in their voluntary restraint undertaking, but Japanese steel producers exceeded their specified limit by 1.2 percent. However, both European and Japanese steel producers exceeded ceilings for certain types of specialty steels, and Japanese producers exceeded their limitation pertaining to cold-finished steel bars. Because of differences in U.S. and foreign classifications of specialty steels and cold-finished steel bars, it was practically impossible to make exact comparisons of data for these products, but consultations between the U.S. Department of State and Japanese steel producers concerning the question of over-shipments of tool steel from Japan in 1972 resulted in the latter agreeing to reduce their 1973 ceiling on exports classified by the United States as tool steel.

Meat restraint program

With the enactment of Public Law 88-482 in 1964, a policy concerning acceptable levels of U.S. imports of certain meats--at approximately 5 percent of domestic output--was established: imports should not exceed a restraint level specified for each calendar year, taking into account changes in domestic production and growth of the market. When imports are likely to equal or exceed 110 percent of a specified quantity, the President might, by proclamation, limit aggregate imports to the restraint level, and quotas would be allocated to the supplying countries according to respective market shares in a representative period. However, aggregate import limits might be suspended or revised upward by the President whenever (1) the interests of the economy--including the economic well-being of the domestic livestock industry--or of national security were overriding, (2) when supplies were inadequate to meet domestic demand at reasonable prices, or (3) trade agreements insured that this congressional policy was being carried out. 1/

Restraints on imports of fresh, chilled, or frozen cattle meat and meat of goats and sheep (except lambs) went into effect in 1968, and bilateral agreements embodied in exchanges of notes were worked out between the Government of the United States and the governments of meat-supplying countries, setting limitations on the export of these meats to the United States.

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1/ The authority for such action derived from sec. 204 of the Agricultural Act of 1956.

In early 1972 the year's meat imports were expected to exceed restraint levels, and the President acted under the law to limit imports of those meats specified in Public Law 88-482. At the same time, however, he suspended that limitation and directed that a program of voluntary restraints be negotiated with major supplying countries. In June 1972 the President directed the Secretary of State to proceed immediately to remove restraints established under arrangements then in effect with foreign meat suppliers. The President's directive to the Secretary of State was in effect for the remainder of 1972. This action, the President stated, was to counter recent rises in meat costs and to encourage more meat imports into the United States, thereby increasing the available supply of meat. He noted that the rise in the price of meat was, in part, due to an improving economy in the United States, which had precipitated increased demands for meat not matched by increased supplies.

## Chapter 2

## THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Introduction

Two events in 1972 revitalized the nearly 25-year-old General Agreement on Tariffs and Trade, at least in its acquired institutional role. <sup>1/</sup> These were the formal declaration of major trading nations to undertake "multilateral and comprehensive" trade negotiations beginning in 1973, with a view to further dismantling obstacles to world trade, and the signing of instruments that were expected to lead to an enlarged customs union and additional free trade areas in Europe. The Smithsonian accord had recently been concluded, however, and nations were zealously guarding their interests in a trading world of monetary uncertainties and changing economic relations. Furthermore, the aims and problems of developing countries, particularly those with the least advanced economies, were being regarded as matters of general urgency.

World trade in 1972 registered an increase, but in terms of shares of exports the gap between rich and poor nations continued to widen--developing areas had lost more ground to the industrial areas of North America, Western Europe, and Japan. The trade balances of the United States, the United Kingdom, Italy, and France were, however, in deficit. For the United States, the deficit more than tripled and surpluses with Western Europe disappeared, as had happened in previous years to trade surpluses with both Canada and Japan.

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<sup>1/</sup> In this chapter, the General Agreement on Tariffs and Trade is referred to as GATT, the General Agreement, or the Agreement.

The General Agreement provided for monitoring problems in international payments insofar as these problems led to restrictions on trade; it had not been expanded so as to provide for problems of international investment, which had become acute.

In international forums, however, the call for recognition of the interrelationships between trade and money affairs was being repeated. The third plenary session of the United Nations Conference on Trade and Development (UNCTAD), held in Santiago in the spring of 1972 urged that "problems in monetary, trade, and finance spheres should be resolved in a coordinated manner, taking into account their interdependence, with the full participation of developed and developing countries," and requested that consultations be held between the Managing Director of the International Monetary Fund (IMF) and the Director-General of GATT. At the joint annual meeting of the IMF and the World Bank that took place in the following September, the Honorable George P. Schultz of the United States called for efforts to be made that would better integrate the work of the GATT and the IMF, harmonize the rules of the IMF and those of the GATT, and achieve a close working relationship.

In November 1972, the 28th full session of GATT members met in Geneva, and Ambassador Eberle, the President's Special Representative for Trade Negotiations and head of the U.S. delegation, called for improving "the whole international economic system, including the monetary, investment, trade, and other elements of it." This he viewed

as being far more than "a matter of the processes of detailed monetary and trade negotiations being locked together procedurally at every step." As the year ended, the GATT was clearly expected to continue as the chief institution for dealing with trade as such, but the Agreement as an effective instrument for guiding commercial policies in the 1970's was generally viewed as being out of date. In consequence of the intensive work being done on nontariff barriers in preparation for the next round of negotiations, the complexities of the upcoming bilateral negotiations relating to changes in European trade arrangements and the pervasive problems of the recent growth in private direct investment (particularly through the multinational enterprise), the General Agreement was being subjected to strains not contemplated at the time of its framing in the period following World War II.

Participation in the General Agreement

The original contracting parties that were subscribing to the General Agreement in 1972 were continuing to do so through the Protocol of Provisional Application, done in 1947; nations that later became contracting parties did so by acceding as former customs territories of existing contracting parties under article XXVI or after negotiating terms for new accession under article XXXIII. Acceptance of the 1947 protocol by the United States was an action taken under the trade agreements program and one which was construed as not requiring congressional approval. One of the clauses of the protocol provided that signatories apply part II of the General Agreement (which contains the provisions for conduct and the basis for acceptable commercial policy) "to the fullest extent not inconsistent with existing legislation." This limitation on the effectiveness of the Agreement has accounted in some part for the persistence of trade restrictions incompatible with GATT provisions and principles.

In 1972, accession of one more newly autonomous government, that of Bangladesh, brought the number of full contracting parties to 81. In addition, 15 nations, former customs territories of contracting parties, were applying the Agreement's provisions on the so-called de facto basis. The provisional accession of Tunisia, an associate member of the EEC that was taking steps to encourage foreign investment and develop export trade, had been further extended. Participants in the Agreement in December 1972 are listed below.

Full contracting parties:

Argentina	Greece	Norway
Australia	Guyana	Pakistan
Austria	Haiti	Peru
Bangladesh <u>1/</u>	Iceland	Poland <u>2/</u>
Barbados	India	Portugal
Belgium	Indonesia	Rhodesia
Brazil	Ireland	Romania <u>1/</u>
Burma	Israel	Rwanda
Burundi	Italy	Senegal
Cameroon	Ivory Coast	Sierra Leone
Canada	Jamaica	South Africa
Central African Republic	Japan	Spain
Chad	Kenya	Sri Lanka
Chile	Korea	Sweden
Congo	Kuwait	Switzerland <u>2/</u>
Cuba <u>2/</u>	Luxembourg	Tanzania
Cyprus	Madagascar	Togo
Czechoslovakia <u>2/</u>	Malawi	Trinidad and Tobago
Dahomey	Malaysia	Turkey
Denmark	Malta	Uganda
Dominican Republic	Mauritania	United Kingdom
Egypt	Mauritius	United States
Finland	Netherlands	Upper Volta
France	New Zealand	Uruguay
Gabon	Nicaragua	Yugoslavia
Gambia	Niger	Zaire
Germany, Federal Republic of	Nigeria	
Ghana		

Acceded provisionally: TunisiaDe facto application with respect to trade with contracting parties:

Algeria	Khmer Republic	Singapore
Bahrain <u>1/</u>	Lesotho	Swaziland
Botswana	Maldives <u>2/</u>	Tonga
Equatorial Guinea	Mali	Yemen, People's Democratic Republic of
Fiji	Qatar <u>1/</u>	Zambia

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1/ Became a member of the IMF in 1972.

2/ Not a member of the IMF.



Some key countries in the developing world--among them, Saudi Arabia, Venezuela, Iran, and Libya--were not on the list of GATT participants. Moreover, of the important oil-producing nations, only Kuwait, Nigeria, Canada, and Indonesia (in descending order of 1971 crude oil exports) were listed as full contracting parties.

No provisions were made in the General Agreement for nonmarket economies, but accommodation has been made through use of special provisions of protocols of accession. In 1972, Poland was continuing to meet its protocol commitment of 1967 for increasing trade with other contracting parties but was concerned because the Contracting Parties 1/ had not set a date for terminating the discriminatory restrictions still maintained against it by some of its GATT trading partners. Poland's representative stated during the fifth review of its trade commitment that if the question were not settled the principle of the General Agreement itself would be undermined. Tariff negotiations between some contracting parties and Hungary, which in 1968 had adopted a customs tariff notwithstanding its nonmarket economy, were started before the year ended, and the country's accession seemed to be in prospect.

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1/ In this report the term contracting parties is capitalized when referring to the group as a whole.

The 28th Session of the Contracting Parties

The 28th session of Contracting Parties to the General Agreement, held during the first 2 weeks of November 1972, was expected by many delegations to be one of the most important series of meetings of GATT members ever to convene. In opening the session, the chairman, Ambassador Smoquina of Italy, characterized the circumstances of the occasion in saying, "No doubt we are at a turning point which is decisive for the future of world trade relations and consequently of world economic relations." In his statement before the Contracting Parties, Ambassador Eberle of the United States stressed the importance his Government placed on the meetings and on the next multilateral negotiations, which it envisaged as covering all aspects of trade relations, advising the Contracting Parties during the session that the time had come to reinforce the strengths of the GATT and repair its weaknesses.

The session was not a routine one. Problems were confronted and actions were taken. Representatives of the contracting parties held extensive and detailed debates under item 4 of the session's agenda, "Review of International Economic Relations," in which references were made to the recommendations respecting the GATT included in the recently published report of the High Level Group on Trade and Related Problems of the OECD, Policy Perspectives for International Trade and Economic Relations, known as the Rey Report. Reports of the Council of Representatives of the Contracting Parties and the chairmen of committees focused on issues to be resolved or clarified before full negotiations could start.

Contracting Parties agreed to launch a new round of trade negotiations in September 1973, with a view to concluding it in 1975, and decided to set up a special committee to steer and coordinate the necessary GATT preparatory work. This "preparatory committee" would be supported by the three existing GATT committees that had been established in 1967 for expanding international trade: the Committee on Trade in Industrial Products, the Agriculture Committee, and the Committee on Trade and Development. Although the latter committee was primarily concerned with the problems of developing countries, the Contracting Parties specifically agreed that the new round of negotiations should aim to secure additional benefits for these countries by which they could achieve a substantial increase in foreign exchange earnings, diversification of exports, and acceleration of trade growth, in the general context of their development needs.

A summing-up statement made by the chairman before the last meeting of the session was widely publicized. However, it was accepted with reservations by several developing countries because it lacked specific recommendations for measures for improving their condition with respect to such matters as access to the markets of industrialized countries, pricing policies, commodity agreements, and rules that would specially govern their future trade.

Trade Negotiations: The Next Round

In 1972, governments of contracting parties were preparing in earnest for the next round of trade negotiations to be held under the GATT. The seventh such intergovernmental trade conference, and the third one to take place since the EEC had come into existence, was then in prospect. In March the GATT Council of Representatives opened discussion on the subject, copies of statements issued by leading industrialized contracting parties declaring their intent "to initiate and actively support" negotiations beginning in 1973 having been transmitted to the Director-General. These declarations, in which the European Community and Japan had joined the United States, constituted the first formal step toward undertaking the negotiations that were to follow the sixth round (the Kennedy Round), concluded in 1967. At the time of issuance of the joint declarations, however, problems relating to scope and procedure--chiefly whether or not agricultural matters should be negotiated separately from industrial matters--and urgent bilateral issues had not been resolved. 1/

Prospective participants in the new round were a long way from being ready to engage in "multilateral and comprehensive" trade negotiations, despite the extensive groundwork that had been laid in the GATT during the years since the Kennedy Round ended. Nevertheless, in November, at the 28th Session, the Contracting Parties agreed to undertake the negotiations, making the firm decision to hold a "ministerial-level" meeting during the following September. At that time a special

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1/ On the date of issuance of the joint U.S.-EC declaration, Feb. 11, 1972, letters were exchanged between the United States and the Community bearing on current issues between them, chiefly measures affecting trade in grains, tobacco, oranges, and grapefruit.

preparatory committee would submit a report, a trade negotiations committee would be established, and guidelines for the negotiations would be set.

The two joint statements, one of the United States and Japan and one of the United States and the European Community, in which other Contracting parties were invited to become associated, had expressed "need for proceeding with a comprehensive review of international economic relations" with a view to improving the framework for international commercial relations. The review would cover all elements of trade, including measures that impede or distort agricultural, raw material, and industrial trade; special attention would be given to the problems of developing countries. Negotiations would be conducted on the basis of mutual advantage and mutual commitment, with overall reciprocity and participation by as many countries as possible. The U.S.-EC statement referred to progressive dismantling of obstacles to trade, as well as to the separate attitudes of the United States and the Community toward commodity agreements. The United States generally opposed commodity agreements, whereas the Community favored them, when appropriate, as means to achieving improved living standards and trade expansion. All parties to the statements agreed to support a GATT analysis and evaluation of "techniques and modalities" for negotiating long-term problems that would be coordinated by the Committee on Trade in Industrial Products. The initiative of the

United States, the European Community, and Japan was supported by other "developed" Contracting parties, but developing countries were generally concerned about what techniques would be applied to their particular problems. Developing countries that were not Contracting Parties were specifically invited to participate in the preparatory work.

The new negotiations, expected to extend over a period of about 2 years, would differ greatly in content and character from the Kennedy Round and would likely entail revamping of the General Agreement itself. The previous round had consisted primarily of bargaining for lower tariffs on industrial products. The new round would aim for additional tariff cuts, particularly to relieve discriminatory effects of the new trade arrangements in Europe, and diminution of other relatively visible barriers; but it would also strive for agreement on a code of standards for commercial policy, including a system of safeguards, and on provisions for assistance for domestic adjustment to changing trade patterns, practical enough so that the rules would hold and the need for unilateral actions would lessen. Numerous areas of trade restrictions--such as agricultural protection, conscious export incentives, export curbs as well as import restrictions, state trading, and environmental protection--would be dealt with. Moreover, the new rules would be framed so as to be consistent with the reformed monetary system that would be evolving concurrently. Some causes of balance-of-payments problems would be eliminated, since, it is to be hoped, many market-isolating trade barriers that inhibit exchange-rate adjustment would be bargained away.

During the year, a proposal was made for negotiating with the objective of eliminating all import duties of advanced countries on industrial products. It was introduced to stimulate more active consideration of the costs and benefits of existing tariffs, with the view to providing a useful grip on the overall problem of tariffs as a barrier to trade.

Active planning for a new trade round had been spurred by recent monetary events and changed economic relationships, particularly among the United States, Japan, and countries of Europe, nine of which would soon constitute a trading bloc (the European Community) of sovereign states. The Group of Ten that had concluded the Smithsonian Agreement in December 1971 recognized questions of trade arrangements "as a relevant factor in assuring a new and lasting equilibrium in the international economy." In looking to the future of monetary reform, this conference had referred to the close linkage of all measures dealing with movements of liquid capital. Intergovernmental negotiating on trade and monetary matters was moving forward separately, however. In July 1972, the International Monetary Fund established a Committee of Governors on Reform of the International Monetary System and related Issues, and in November 1972 the GATT Council created its special preparatory committee for the new trade negotiations. Specific references to international investment were lacking, but work on the problems of national treatment of foreign and multinational companies was being done in the OECD, many of whose members had decided in 1961 to undertake progressive

abolition of restrictions on movements of capital between one another to the extent necessary for effective economic cooperation and to adopt a code for liberalizing capital movements.

Preliminary GATT preparations for the trade negotiations were hampered not only by needs for various bilateral adjustments, particularly concerning application of the common external tariff and common agricultural policy of the EEC by prospective new members, but also by lack of internal action on the part of the EC, Japan, and the United States in providing mandates which would permit and commit them to negotiate. In the United States, the new round would require negotiating authority for the President broader than any that had been granted in the past. Without such authority, negotiations for changes in tariffs and nontariff barriers, and for revision of provisions of the Agreement or adoption of standards could not be entered. At the 28th Session of the Contracting Parties, the U.S. representative, Ambassador Eberle, expressed the belief that "there should be developed common commitments to common rules and procedures." Negotiating mandates were lacking at yearend, however, and procedural matters were still to be resolved; the GATT preparatory Committee was yet to draft a work program and set up working groups for bargaining concessions.



Industrial ProductsGATT Committee on Trade in Industrial Products

In 1972 the GATT standing Committee on Trade and Industrial Products continued its work on developing "ad referendum solutions to problems raised by selected nontariff trade measures" and gave new attention to the previously completed GATT tariff study. In addition, the committee assumed responsibility for examining "various techniques and modalities for effective and comprehensive future negotiations aimed at achieving a further liberalization and expansion of trade in industrial products."

With respect to its scrutiny of possible techniques and modalities, on the basis of which the preparatory committee would develop methods for negotiating, the committee completed a preliminary review. It made no real recommendations, but called for more explicit guidelines for the anticipated negotiations. The committee's report of October 1972 to the GATT Council included summaries of delegation suggestions and views on possible approaches to tariff cutting, including duty-free trade in industrial products; reducing nontariff restrictions; establishing safeguards, in the context of both revising existing provisions of the General Agreement and setting up an integrated system; and finally, providing techniques and modalities acceptable to developing countries. The position that the problems of tariffs, nontariff barriers, and safeguards were not only inter-related but also were interrelated with respect to both agricultural and industrial sectors, and that negotiating should be approached accordingly, was firmly voiced by some delegations. Developing

countries generally urged establishing avenues for widening coverage of plans under the generalized system of preferences (GSP), for instituting more such plans, and for means for compensation in cases where their margins of preference would be narrowed. They looked to the elimination of tariffs keyed to the degree of processing and stressed the need for special techniques for dealing with nontariff restrictions on their products.

The committee's work on formulating ad referendum solutions for nontariff problems was being done in four working groups. This effort had been centering on export subsidies, import documentation (including consular formalities), standards, and licensing. Texts for solutions for problems of automatic licensing and licenses for administering import restrictions had been prepared, and work on a GATT code of conduct for preventing technical barriers, including quality assurance, was going forward. During the year the committee agreed that the working group on export subsidies, as defined in paragraph 4 of article XVI of the Agreement, should initiate work on countervailing duties and domestic subsidies for stimulating exports, and that the working group on licensing should undertake work on quantitative restrictions (including embargoes) and export restraints.

Expanding and updating the GATT tariff study so as to improve its usefulness as a working instrument in the negotiations was recommended in committee discussions. The working party concerned agreed that the feasibility of constructing a time series that would incorporate

data on production, consumption, trade, and customs duties should be examined.

Automotive products: United States trade subject to  
United States-Canadian agreement

Annual reporting was required under the GATT waiver granted in 1965 by which the United States was relieved of its most-favored-nation (MFN) obligation so as to eliminate duties on automotive products of Canada without extending the same treatment to products of other contracting parties.

During 1972, two reports--submitted by the United States--that related to trade governed by the United States-Canadian bilateral agreement on automotive products were circulated to the contracting parties. These were based on the President's fifth and sixth reports to the Congress on operation of the Automotive Products Trade Act of 1965, the U.S. enabling legislation, and covered the years 1970 and 1971.

The time series presented on U.S. imports and exports showed negative trade balances (Canadian surpluses) approaching \$200 million in this trade for each of the years 1970 and 1971. It should be noted, however, that although the U.S. Customs Bureau 1/ was legally obligated to assess the value of the imported automotive products as the wholesale market value in the country of origin, in these reports actual transaction values (which are lower) were used. Neither of the reports submitted included estimates of the extent to which trade in raw materials and producers goods had been stimulated by the agreement.

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1/ Presently the U.S. Customs Service.

Chemicals: the ASP package

In 1972, no action was taken for implementing the Agreement Relating Principally to Chemicals, Supplementary to the Geneva (1967) Protocol to the General Agreement on Tariffs and Trade. Participants in the Kennedy Round negotiations had agreed on two-part concessions for the chemical "sector": an unconditional balanced settlement for widespread tariff cuts and the separate agreement for further concessions, known as the ASP package. By virtue of that agreement, concluded between the United States and the EEC, Belgium, France, Italy, the United Kingdom, and Switzerland, the United States would, in exchange for some further tariff cuts and dropping its method of customs valuation based on American selling prices, 1/ receive benefits in European markets from both deeper cuts in duties on chemicals and reductions in nontariff barriers relating to tax rates on large automobiles and restrictions on prepared fruits.

Four extensions of the original expiration date, January 1, 1969, carried the agreement on chemicals through 1972. Entry into force had been contingent on U.S. Congressional action, which had not been forthcoming--the chemical agreement had been one of several multilateral agreements worked out during the Kennedy Round that required such action. Not only had the matter of the ASP been a historically sensitive issue, but in the years since 1967 conditions had changed. New trade grievances between the United States and

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1/ For 50 years, the American selling price system of valuation (ASP) has been applied to U.S. imports of certain benzenoid chemicals used in the dyestuff industry. In later years, application of the ASP was extended to canned clams, wool-knit gloves, and rubber-soled footwear. Under the ASP method, duties are based on wholesale values of competitive U.S. products in U.S. markets, not on values of products in countries of exportation as provided for under several other valuation standards used by the United States.

Europe had arisen, and Europe was no longer interested in dropping some of the measures that had been considered restrictive. Although the administration in the United States had continued to recommend ending the ASP, legislation that would permit its termination was not in view. In December the Council of Ministers of the EEC decided against further extension of the chemicals agreement, considering the ASP to be a nontariff barrier that should be negotiated in the forthcoming general trade negotiations.

### Textiles

Multifiber textiles.--In 1972, governments started to deal directly with the problems of a structurally changed textile industry. The Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) was then in its 10th year of existence, and the GATT committee responsible for reviewing its operation acknowledged being aware "of the fundamental changes in the textile industry and the emergency of situations of a broader scope" than provided for under that arrangement. Recognizing that an international multifiber industry, considered to be capital intensive, had developed, the GATT Council decided to set up a working party on international trade in all textiles, membership to be open to all interested governments. This working party was to analyze the factors influencing world trade in textiles, distinguishing between the various sectors of the industry according to fibers used and extent of processing done. A report on this study was to be released early in 1973.

There was opposition to undertaking a full textile study such as had been proposed in 1970 and generally favored by many developed countries. In the opinion of Japan and some of the developing exporting countries, any analysis of the industry should be done as a simple fact-finding exercise that should not be designed for use as a basis for negotiating a multilateral multifiber textile agreement, which in their view would lead only to more curbs on their exports. Furthermore, the higher level GATT committee, called the Group of Three, that had undertaken responsibility a year earlier for making specific and positive recommendations for improving the export earnings of developing countries, concluded only that "a background study of the world textile market might be useful." The less developed exporting countries, in pushing for freer markets, an objective they pointed to as being in line with GATT philosophy, were urging an end to textile exceptions under generalized preference plans for which in 1970 the Contracting Parties had approved a 10-year waiver of the most-favored-nation clause of the General Agreement. It was conceded, however, that the GATT offered the proper forum for a textiles study, if one were to be made. Subsequently, the working party became known as the committee on world textile trade and was to engage in formulating a new textile trade arrangement not limited to cotton textiles, which was expected to enter into force on January 1, 1974, following extension of the LTA for the interim of October 1-December 31, 1973.

The United States and the EEC, but not Japan, supported such a multilateral arrangement, but the United States was clear in its position that proposals for a multifiber arrangement should not be part of the next general trade round expected to begin in 1973. The United States was among the nations that had independently entered agreements for moderating growth in imports of textiles other than cotton. Complying with GATT article X and the Contracting Parties' recommendations concerning publication of governmental agreements affecting international trade policy, the United States in February 1972 transmitted to GATT the texts of such agreements with four exporting countries. Copies of these texts were circulated as a GATT document.

Cotton textiles.--Review of operation of the long-term cotton arrangement was to be done annually by the GATT committee on Cotton textiles. During the decade of the arrangement's duration, the committee had made its review on the basis of statements furnished by participants, which included most textile-producing and textile-consuming nations. 1/ The committee made no review in 1971, however, because of the vigorous discussions that had preceded the committee's recommendation of 1970 that the cotton arrangement be continued through a second 3-year extension, to end September 30, 1973. In 1972, the committee submitted a report covering the condition of national industries and developments with respect to the LTA in 1971.

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1/ A list of the participants in the LTA is given in Ch. I, p. 24 . . . (El Salvador, which newly acceded to the LTA in 1972, the Republic of China (Taiwan), and Mexico were not contracting parties to the GATT.)

The committee's 1972 report reflected serious industry problems and changing national policies. It recorded dissatisfaction on the part of many developing countries in whose economies cotton textiles had become an important foreign-exchange earner. These countries were looking to the termination of the LTA, which they had viewed as a transitional measure instituted with a long-run objective of more liberal trade. They found little initiative to have been taken during the period of the arrangement's operation for assisting developed economies in adjusting to the consequences of the industry's expansion in their countries. The geographical dispersion of the cotton textile industry, which had been proceeding throughout the century had had its effect on the size and direction of international trade. Some developed countries concluded that export opportunities were not being provided to the extent necessary for economic growth and that the comparative advantages of developing countries were being diminished by restrictions in developed-country markets, restrictions which they considered to be nontariff barriers. They complained that under bilateral agreements, quantity limitations were too low and applied to product subdivisions that were too small, and furthermore, that some importing countries were making unilateral declarations of market disruption. 1/ Pakistan and India registered disapproval of the United Kingdom's imposition of duties on woven cotton imported from Commonwealth countries. 2/ In contrast, Colombia and Portugal

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1/ Market disruption (not market penetration), the basis for export limitation under the LTA, was not defined in the arrangement.

2/ The United Kingdom was also continuing its general quota system on cotton textile imports, a matter which had been investigated by the committee several years earlier and on which Israel was currently requesting further inquiry, bilateral consultations having failed.



indicated some satisfaction with the growth experienced in their industries under bilateral agreements.

Representatives of most developed countries expressed satisfaction with the LTA and provided statistical illustrations showing that gains in the shares of developing countries in developed markets had been fair and proportionate to rises in demand. They were far from sanguine, however, about the long-run viability of their own cotton textile industries; the EEC had recently become a net importer, and Canada was continuing to carry out product-by-product textile studies of injury in particular sectors of its industry. Japan, as a major exporter, restated its position that the arrangement should be considered as a transitional and exceptional measure <sup>1/</sup> and expressed concern about export competition from developing countries. Japan was among the participants in the LTA that regretted Canada's continuing to impose a global quota on shirts (of manmade as well as cotton fibers) introduced in 1971 as an emergency measure under article XIX of the General Agreement.

The United States reported record-high imports, which it attributed largely to rises in imports of apparel, lower profit margins; capital expenditures <sup>2</sup> percent above 1971 and 24 percent below 1966; declines in employment, and a drop in cotton's share in fiber consumption from

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<sup>1/</sup> GATT art. XV (exchange arrangements) provided for eliminating controls on exports as well as on imports, and although GATT art. XX (general exceptions) permitted contracting parties to carry out obligations under intergovernmental commodity agreements, the LTA was not considered to be an intergovernmental commodity agreement, since it applied to products other than raw materials and its purpose was not to stabilize prices.

62 percent in 1961 to 37 percent in 1971. At the time of its report, the United States was party to 29 bilateral agreements with exporting countries and had, during the period covered, invoked article 3 of the LTA in several cases in which it found imports from nonparticipants causing or threatening to cause disruption of the market. During the year, new bilateral agreements were negotiated with Thailand, El Salvador, Nicaragua, and Portugal; the agreement with Portugal was on behalf of Macao and covered textiles of wool and manmade fibers as well as cotton. In 1972, the U.S. reporting to the GATT cotton textile committee became a function of the committee for the implementation of textile agreements (CITA), established by an Executive order dated March 3, 1972, as part of a broader program for textiles. Also, as part of that program, a special working group for textile trade policy was set up under the existing Council on International Economic Policy and was given responsibility for making policy proposals with respect to the rights and obligations of the United States under article 6 of the LTA and, more significant, the negotiation of bilateral and multi-lateral trade agreements covering all textiles.

### Agricultural Products

Throughout 1972, GATT members and GATT committees were deeply concerned with the problems of agriculture, approaching the problem of the interrelationship between agricultural protection and agricultural trade. They were attempting to deal with such measures as production subsidies, income payments, and price-support programs. Shortages in supply were beginning to be felt in some markets, and some delegations called for more GATT attention to the matter of export restrictions, since the General Agreement was intended to provide for reducing restrictions on exports as well as on imports. However, most countries were continuing to press for greater access to foreign markets.

In the summer of 1972, U.S.-EC relations were strained not only in consequence of consultations on the matter of special taxes the EEC had imposed on agricultural products to compensate for exchange-rate changes, but also because of concern about the trade effects of an enlarged European common market and the prospect of duty-free trade between the EC and the remaining members of the European Free Trade Association (EFTA). The United States was pushing for more export growth and the EEC was pressing for more protection for farmers under the common agricultural policy (CAP), which was stimulating both production and exports.

Notwithstanding the complexities of agricultural problems, the GATT agriculture committee seemed to be guided by the resolve that

in any future trade bargaining, negotiations on agricultural products would not bog down as they had in the Kennedy Round. In November, Ambassador Eberle, the President's Special Representative for Trade Negotiations, stated before the 28th Session of the Contracting Parties that it was "essential to provide for a substantial expansion of world trade in agriculture and to bring under international discipline the various national instruments of agricultural policy which result in major forms of distortion and disruption," adding in effect, that the GATT rules were inadequate, ignored, or circumvented.

#### GATT agriculture committee

Working closely with the committee on trade in industrial products and a joint working group on quantitative restrictions, the agriculture committee stepped up its work for the future trade negotiations, which then seemed in prospect. A special working group, open to all GATT members, was set up to review previously drafted "techniques and modalities" for negotiating both tariff and nontariff concessions in the agricultural sector. The objective was to establish the ground rules for negotiating, but progress was slow. Nevertheless, well before the opening of the 28th Session, the committee furnished the GATT Council with a report detailing the working group's review of trade-inhibiting measures and the means proposed for abolishing them or reducing their "trade distorting" effects. This report stressed the exploratory nature of the work done, the reasons for differences in the positions of delegations, and a need for guidelines and more explicit objectives for negotiating on agricultural products--such

as, stable prices, steady expansion of trade, specific needs of developing countries, and the purposes of commodity arrangements. The work had not concerned particular products or national (or regional) measures. From an external approach, the committee had endeavored to determine the overall advantages and disadvantages of proposals for achieving greater gains from trade for all nations and improving the lot of developing countries. Criteria for commitments and acceptable conduct were discussed but no consensus was reached. The committee presented its material under the following four headings:

Specific measures: Aids to export; tariffs, variable levies, and other special charges; quantitative restrictions; health and sanitary regulations; marketing standards; licensing; and production controls

General measures: International stabilization arrangements; conduct codes

Criteria for common commitments

Combined techniques

Discussions in the working party raised questions about operation of the General Agreement itself--as to what was "legal" under particular provisions, to what extent particular provisions were observed, and by what means conflicts could be resolved--for example, substitution of import duties for other import restrictions without violating bound (previously negotiated) concessions. The answers to many questions regarding the trade effects of proposed action implied the need for vigorous economic analysis.

EEC special import taxes

In July 1972 the EEC acted to abolish most of the special import taxes it had been imposing since May of the previous year on agricultural products from third countries. These taxes were intended to "compensate" for the change in exchange rates that followed withdrawal of central bank support of the German mark and the Netherlands guilder vis-a-vis the dollar. The matter of these taxes had reached the GATT Council in response to U.S. invocation of paragraph 2 of article XXIII of the General Agreement, consultations between the United States and the EEC having failed. 1/ The United States contended that import taxes imposed in addition to the variable levies permitted under the CAP were resulting in breaches of tariff bindings and furnished a list of commodities in some 245 positions of the EEC's common external tariff that it considered to be in question, broken down as follows:

Products subject to fixed duties-----	17 positions
Products subject to variable levies or fixed duties plus variable charges, the total for all import charges bound in the GATT-----	31 positions
Products subject to a fixed duty plus one or more variable charges, the duty and part of the variable charges bound in the GATT-----	197 positions

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1/ Art. XXIII provided for consultation on and investigation of complaints that benefits under the General Agreement or attainment of its objectives were being impaired or nullified.

U.S. actions:

Imports subject to section 22 of the Agricultural Adjustment Act, as amended.--In 1972, or as of early 1973, in the interests of increasing supplies, the United States made adjustments in certain import and production measures. Restraints imposed on imports of some important agricultural products, primarily meat, were relaxed, suspended, or terminated. Throughout most of 1972, however, those controls on imports imposed under section 22 of the Agricultural Adjustment Act, as amended, which were part of longstanding programs for dealing with oversupply, continued. These were the restrictions for which the Contracting Parties in 1955 had made the decision to relieve the United States of conflicting obligations under the General Agreement, and over which in subsequent years its trading partners had become greatly concerned. As a condition of that decision, the Contracting Parties were to review, on the basis of reports furnished annually by the United States, relevant U.S. actions on the situation with respect to the restrictions and the steps taken to solve problems of agricultural surpluses.

In 1972, the Contracting Parties received the 16th such U.S. report, which covered wheat and wheat products, cotton of certain staple lengths, cotton waste and cotton picker lap, peanuts, and a variety of dairy products, including butter, imports of which had been found to have interfered with price supports for milk. The report included information on 1969-71 price support levels for wheat, upland and extra long staple cotton, peanuts, butterfat and manufacturing milk;

efforts to increase domestic and foreign consumption; acreage allotments; cropland set-asides; marketing quotas; and import quotas. These restrictions, proclaimed by the President and appended to the U.S. tariff schedules, were applicable in addition to whatever restrictions were provided for in the tariff schedules themselves.

The only new U.S. action reported concerned the limitation on imports of cheeses. By Presidential proclamation of June 3, 1972, quotas were set for the years 1972 and 1973 on Emmenthaler or Swiss, Gruyere-process, and certain other cheeses, including such cheeses purchased at or above 47 cents per pound, the "price break" being aligned with the support price of cheddar cheese. Provision for quotas on the higher priced cheese, which had not previously been subject to quota, reflected recent sharp increases in imports. Quantities were allocated by country of origin, including a limit for all countries not specified. This U.S. action was taken following submission to the President of a report by the U.S. Tariff Commission on its investigatory study made in 1971. In its report the Commission had recommended that GATT article XIII, which provides for the nondiscriminatory application of quantitative restrictions, be "fully observed." Paragraph 2 of that article called on contracting parties to aim at a distribution of trade approaching as closely as possible the shares which the various contracting parties might be expected to obtain in the absence of such restrictions.



Imports subject to provisions of the Agricultural Marketing Agreement Act.--The United States notified the Contracting Parties of actions taken under provisions of the Agricultural Marketing Agreement Act of 1937, as amended in 1954, that imposed the same specifications with respect to size, grade, quality, and maturity of imported grapefruit, limes, onions, olives, and raisins as those established for domestically grown products qualifying for domestic shipment from production areas. In addition, the United States acted to relax the specifications for grapefruit shipped for export.

Imports subject to section 206 of the Sugar Act.--Early in 1972 the United States notified the Contracting Parties of action taken under authority of section 206 of the Sugar Act of 1948, as amended, to impose global quotas for the year 1972 on imports of sweetened chocolate, candy, and confectionery. Information on this action, together with copies of the relevant subsection amending the sugar act and the amendments to the Code of Federal Regulations, were distributed as a GATT document. This U.S. action was linked to restrictions imposed under authority of section 22 of the Agricultural Adjustment Act, since part of the total global quotas on chocolate imposed under authority of the sugar act was to be reserved solely for imports of sweetened chocolate subject to the section 22 limitation.

Customs Unions, Free Trade Areas, and  
Other Preferential Arrangements

Customs unions, free trade areas, and selective preferential trade arrangements were all in some way permitted under the General Agreement, notwithstanding the exception to the most-favored-nation principle of contemporary trade policy they would represent. Whereas the aim of some provisions was to phase out or reduce trade-diverting historical preferences, the intent of other provisions was not to prevent formation or enlargement of trade-creating arrangements.

On January 22, 1972, in Brussels, the prime ministers of Denmark, Ireland, Norway, and the United Kingdom signed a treaty of accession to the treaties that had established the European Communities; this was to lead to a larger customs union and free trade area in Europe and a need for adjustment of assorted preferential and other contingent trade arrangements, including Commonwealth preferences and the EEC's common plan for generalized preferences for developing countries. Conclusion of agreements for establishing free trade between the remaining members of EFTA followed in July, at which time EFTA was expected to continue with at least Austria, Iceland, Portugal, Sweden, and Switzerland (and Lichtenstein) as members, and Finland as an associate member. Finland initialed but did not sign its agreement. Norway's bid to accede to the Treaty of Rome was not likely to be sustained, and the Norwegian Government notified the GATT Secretariat during the year that it would negotiate for free trade with the European Communities. Apprehensive about the discriminatory effects of the new arrangements, many of Europe's trading partners

were striving publicly and privately to preserve or expand positions in Europe and were also planning to seek whatever compensation might be possible under GATT provisions. The steps for more European economic cooperation taken in 1972 were reflected in GATT activities and sparked discussions that were assumed to be a prelude to the next trade round.

#### European common market

In March 1972 the GATT Council was officially notified of the Secretariat's receipt of copies of the legal instruments relating to the accession of Denmark, Ireland, Norway, and the United Kingdom to the three European Communities--the EEC, the ECSC, and EURATOM--including the act concerning the conditions of accession and the adjustments to the treaties that had established each community. Before the year ended, accession to the Treaty of Rome was ratified by all candidate countries except Norway, and enlargement of the European Common Market was assured, with the United Kingdom participating despite some vigorous opposition at home. By virtue of the new accessions to the EEC, effective from January 1, 1973, and the agreements concluded between the EEC and the new member states, a full customs union of nine sovereign states was slated for completion by 1978.

Article XXIV of the General Agreement, which obliged the Contracting Parties to make such reports and recommendations on conformity of customs unions with GATT provisions as they deemed appropriate, also

provided that the information necessary for examining proposed entries into a customs union or free trade area be supplied. According to subparagraph 5(a) of the article, the general incidence of applicable duties and other regulations of commerce in the trade of members of a customs union with contracting parties not parties to such customs union should not on the whole be higher or more restrictive than the general incidence of duties and regulations of commerce applicable in the constituent territories prior to formation of such union or adoption of an interim agreement leading to such formation. Inquiry into the question of conformity of what might become the largest single trading unit in the world was assigned to a special GATT working group, chaired by the representative of Japan. Average levels of tariff protection and nontariff restrictions were at issue, and throughout the year the working group was greatly handicapped by its inability to develop useful methodology. Nevertheless, elaborate requests were made of the parties to the accession treaty for trade data and information bearing on conceptual issues and planned modification of the Community's common commercial arrangements and agricultural policy, but not on aspects of proposed monetary union.

These requests called for (1) data in support of conclusions that the general incidence of duties and other regulations would not rise in consequence of enlargement; (2) information indicating the trade effects that further integration would have with respect to nonmembers, including contracting parties having preferential arrangements with a new member; (3) details on time schedules and other technicalities

of harmonizing national customs tariffs with the EEC's common external tariff, or the unified tariff of the ECSC; (4) data on the proportion of trade between acceding countries and their trading partners that would be affected by the common organization of markets for agricultural products; (5) identification of the specific agricultural products that would be subject to variable levies when imported by new members and therefore possible candidates for compensatory adjustment--products of the agricultural and fisheries industries on which price alignments would be made, together with the specific prices to be set in each member state for each product and the prices in effect for 1969, 1970, and 1971, as well as products expected to remain subject to quantitative restrictions imposed by acceding countries; and (6) information on a roster of possible nontariff barriers, including plans for harmonizing national import and export subsidies, antidumping measures, state trading, the concept of origin, safety and sanitary regulations, and countervailing duties.

In late 1972, information that had been submitted in response to these requests was circulated as a GATT document. The material, which was largely descriptive, pointed to plenty of unsettled problems, such as the matter of the system of variable levies under the CAP, which the EEC regarded as unique, and the need for a method of projecting the trade effects of EEC preferential arrangements that would be technically satisfactory to the developing countries, countries which had long benefited from such arrangements and in whose interests part IV

had been added to the General Agreement. Moreover, it was not clear whether enlargement would mean extension or elimination of the "special" association between the EEC and the nonEuropean countries that had formerly been territories of Belgium, France, Italy, and the Netherlands, as provided for under the Treaty of Rome.

Under paragraph 6 of article XXIV, the GATT provided procedure for consultation, renegotiation, and compensatory adjustment, to be used whenever tariffs were raised above bound rates (previously negotiated) in consequence of new entries into a customs union or of formation of free trade areas. In 1972 the United States and other countries trading with the EEC were preparing to request concessions from the Community that would offset the loss of export markets they expected to result from enlargement of the European Common Market. With entry of the United Kingdom, for example, the United States anticipated further constraints on its agricultural exports, including wheat, in consequence of wider imposition of variable levies under the CAP, and planned to seek major concessions. The EEC was then taking the position that little compensation would be necessary, since on industrial products the difference between the average rates of its external tariff and the current national rates of new members would more than offset any rises in protection on agricultural products. The protracted negotiations that ensued were referred to as the 24/6 negotiations.

### EC-EFTA free trade

The GATT Council was notified in September 1972 that negotiations on trade had been concluded between the EEC (as well as the ECSC) and each member of EFTA that had not withdrawn from EFTA to join the European Communities. Before yearend, copies of the so-called interim agreements between the EEC and Austria, Iceland, Portugal, Sweden, and Switzerland (and Lichtenstein) were submitted for GATT examination; negotiations with Norway had not been completed. These agreements were intended to implement the first stage of free trade in industrial goods between each of these EFTA states and a nine-state EC. Many of the products involved were highly trade sensitive and raised problems concerning origin. The working groups set up within the GATT to examine conformity with the General Agreement were instructed to complete their study of the agreements before the initial duty reductions would be made in 1973.

### Other preferential arrangements

GATT examination of new trade agreements and review of existing ones, including EEC association agreements, continued to be slow and, for the most part, inconclusive with respect to judging conformity with the Agreement's provisions. Nevertheless, discussions within the council meetings and working groups appointed to study these agreements provided a continuing forum for exchange between developed and developing countries. The United States continued to regard the association agreements as inconsistent with article I and not justified under article XIV.

Reports were completed on a new EEC-Malta agreement, effective in 1971, and extension of the EEC-Turkey agreement, effective from 1964. In terms of implications for an enlarged EC, the most important report completed during the year concerned the second Arusha agreement, signed in 1969, between the EEC and members of the East African Community (EAC); the first such agreement was not ratified. Despite periodic border clashes, the EAC member states of Kenya, Tanzania, and Uganda had long been attempting to establish a common market among themselves and were about to undertake a modest long-term program for industrial development. According to the EEC representative, this Arusha agreement was designed to be compatible with the development needs of the three countries and to promote free trade between the EEC and the EAC; in the EAC view, the interests of developed and developing countries were interdependent and the new agreement would prove to be an instrument for furthering expansion of world trade. The matter of the EAC's "fiscal entry charges," intended to provide incentives for new industry, led some members of the working group to conclude that the arrangement was really not one of free trade and, furthermore, that free trade might not even be desirable since development needs of some countries should not be grounds for permitting trade discrimination against third countries, many of which were also developing economically. Other members concluded, however, that under the Arusha agreement a free trade area was constituted within the meaning of GATT article XXIV.



During the year the GATT Council noted the reports submitted on the third year of operation of the trade expansion and economic co-operation agreement of India, Egypt, and Yugoslavia, and reviewed reports on the EEC association agreements with Tunisia and with Morocco, with respect to which negotiations for adapting to the larger EC were planned. Several representatives expressed misgivings about the contribution the two association agreements were making to the trade of these developing countries, and it was suggested that these agreements be incorporated in the EEC's generalized system of preferences. The Council also noted receipt of reports concerning the EEC-Greece association agreement and the Latin American Free Trade Association, the latter covering operation of that association and of the Treaty of Cartagena on Andean integration. Developments in the Central African Economic and Customs Union, in the Central American Common Market, and under the EEC association agreement with African states and Madagascar--parties to the Yaounde Convention--were scheduled for biennial GATT review, but needed reports had not been made available.

Antidumping

Active interest continued in antidumping procedures and proceedings under national laws, on the part of both importing and exporting nations. Domestic producers, particularly in countries with balance-of-payments difficulties, were concerned not only about competition from imports priced below like articles in exporters' home markets, but also about eliminating all possible obstacles to foreign sales of their own products. The Agreement on the Implementation of Article VI of the General Agreement--the international antidumping code--was arrived at during the Kennedy Round and was to be administered by the GATT committee on antidumping practices. At the end of 1972, parties to the code--besides the United States, which had subscribed with an important reservation--were the EEC and its original six member states and Austria, Canada, Czechoslovakia, Denmark, Finland, Greece, Japan, Malta, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and Yugoslavia. Developing countries had not accepted the code, largely because of the problem of establishing domestic prices for their exported goods.

This code called for annual meetings of the committee to be held for the purpose of consulting on matters relating to the administration of antidumping systems in any participating country with respect to its effect on the code's operation or the furtherance of its objectives; the code also obliged parties to report annually to the Contracting Parties on administration of antidumping laws and regulations, giving summaries of the cases in which antidumping duties had been definitely assessed.

As in past years, the antidumping program of the United States was more active than that of any other subscribing party. Of the total 72 cases reported by all countries as pending on July 1, 1972, 44 were reported by the United States, 10 by Canada, 6 by the EEC, 1 by Finland, 8 by Greece, and 3 by the United Kingdom. Austria, Czechoslovakia, Denmark, Japan, Malta, Norway, Portugal, Sweden, Switzerland, and Yugoslavia reported no cases pending as of that date. During the 12 months following July 1, 1972, the United States reported 27 cases opened, 9 cases in which antidumping duties were imposed, 6 cases in which settlement was reached through price undertakings, and 26 cases dismissed. In the 27 investigations completed by the Tariff Commission in calendar year 1972, products of Belgium, Canada, France, West Germany, Hong Kong, Italy, Japan, Mexico, Poland, Switzerland, and the United Kingdom were concerned. Five of the 15 cases in which an affirmative determination of injury was made involved large power transformers built in France, Italy, Japan, Switzerland, and the United Kingdom.

In its fourth annual report the GATT committee noted that "frank and open" discussions were contributing to its endeavor to bring about uniform observance of the code's provisions. One of the matters discussed was U.S. determination of injury as made by the U.S. Tariff Commission. 1/ Several members of the committee were of the opinion

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1/ The United States had subscribed to the code on the condition that it would apply the code's provisions insofar as they did not conflict with domestic law or limit the discretion granted the Tariff Commission in making injury determinations under such law. The injury provisions of the U.S. Antidumping Act, 1921, differed from those of the General Agreement and the code: U.S. law did not define injury or set out criteria for determining injury, whereas GATT art. VI was concerned with material injury.

that, in the cases reported by the United States, relevant criteria of the code had not always been met. The U.S. representative pointed out that in no instance had the injury suffered been less than material--material injury could result from small differences in price, if demand were highly elastic--and therefore the determinations of the Tariff Commission had been consistent with the code.

Modification of Schedules

Under GATT rules, contracting parties are permitted to reserve for 3-year periods the right to renegotiate previously negotiated concessions; such actions accord trading-partner contracting parties similar rights. In 1972, the United States, the EC, and several other GATT members elected to notify reservation of their rights in accordance with article XXVIII, the Agreement's general provisions for modifying schedules. Under its previous reservation, the United States in 1971 had negotiated to impose a 5-year tariff quota on imports of stainless steel flatware. The U.S. action in 1972 was described as merely a "technical step," no decisions to renegotiate tariffs on any particular items having been made.

Subsidies

In 1972 particular attention was given in GATT to the issue of subsidies that affect international trade. It was a year in which triennial reporting on subsidies as provided for under article XVI of the General Agreement was due and in which GATT work on non-tariff barriers had reached a point where attempts were being made to formulate generalized solutions to some of the problems of "trade-distorting" subsidies. Article XVI was intended to deal with any form of subsidy, including income or price supports, operating directly or indirectly to increase exports or reduce imports; it also called for full reporting by contracting parties with respect to any such subsidies granted or maintained and for holding consultations with a view to limiting subsidization in cases where serious prejudice of interests was caused or threatened.

Notwithstanding these ambitious objectives, the contracting parties had reached no agreement during the previous decade on which subsidies would or would not be permissible under the Agreement, or on the treatment of measures taken to remedy injury from fulfillment of GATT obligations or payments under adjustment assistance programs. GATT members continued to submit notifications without attempting to develop criteria or standards, having concluded in June 1961 that it was "neither necessary nor feasible to seek an agreed interpretation of what constituted a subsidy." Furthermore, the problem of distinguishing between primary and nonprimary products persisted.

Some new nations and developing countries which utilize and defend the propriety of export subsidies had been reluctant to accept amendments to article XVI, effective January 1, 1958. The addition of these amendments had seemed to be a move toward abolishing or suppressing unwanted effects of some subsidies. They stipulated that subsidies on exports of primary products should be avoided but, if applied, should not result in more than equitable shares of world export trade and that contracting parties should cease to grant directly or indirectly any subsidies on exports other than those used in domestic markets. The standstill provision concerning nonprimary products was, however, being extended only by virtue of a declaration subscribed to by most developed countries but by few developing countries.

By 1972 the problem of identifying unacceptable subsidies had become even more complex and sensitive. Export incentives were rampant, and exchange-rate changes were no longer based in fixed parities. Furthermore, provisions of several articles of the General Agreement besides those of article XVI had become more relevant, and critics were examining the need for revising the Agreement itself. Nevertheless, contracting parties continued to report on subsidies (and state trading) according to the procedures adopted in 1962,

which called for submission every 3 years of "new and full responses" with regard to the nature and extent of subsidies and their effects (information on the incidence, total cost, and quantitative trade effects), and statistics on production, consumption, and trade broken down by commodity. The notifications submitted for review in 1972 reflected the perplexities and difficulties of complying with reporting obligations and furnishing information with respect to particular commodities. Information relating to subsidies on nonindustrial products, largely those permissible under article XVI, and to measures that may not have fallen entirely within the article's purview predominated.

The United States.--The United States reviewed the status of assistance programs for certain farm commodities exported during fiscal years 1969-71 and reported some sales to have been made at prices less than domestic market prices. The commodities concerned were wheat and wheat flour, lard, frozen chickens, rice, tobacco, linseed oil, cottonseed meal and cottonseed oil, peanuts, nonfat dried milk, butter, barley, and grain sorghum. By the end of the year, or by early 1973, however, these support programs were either terminated or suspended.

Canada.--Canada submitted information on assistance programs in the agricultural sector--payments for freight and storage costs of feed grain, cash advances on farm-stored grains, crop-failure assistance, payments to reduce wheat production and to encourage production of high-quality hogs and lambs and exports of broiler chickens, and support.



programs for wool and for dairy products, including subsidies on skimmed-milk powder, evaporated and dry whole milk, and butter and cheddar cheese, exported to countries other than the United States.

The European Communities.--The European Communities reported on measures relating to some agricultural products, fish, and food-stuffs which were subject to common policy: Sugar of various types, rice, eggs, fine bakers' wares, chocolate preparations and some miscellaneous processed foods, fishery products, flax and hemp, and certain seeds. It also reported on its 3-year aid program for coking coal and coke for use in the EC iron and steel industry, instituted in 1970. Insofar as agricultural products were concerned, information was submitted only on commodities not covered in the "voluminous documentation" prepared for the GATT agriculture committee. As member states, Belgium, France, West Germany, and Italy submitted short separate notifications, all of which reported subsidies to encourage shipbuilding.

Japan.--Japan reported only on special measures used to encourage increases in supplies of rice and other agricultural products, including sugar, soybeans, and rapeseed, and on its price stabilization program for cocoon and raw silk, milk, and livestock. It reported no subsidies relating to the export of industrial products.

## Chapter 3

## DEVELOPMENTS IN MAJOR TRADING AREAS

Introduction

International trade in 1972, the first full year after the devaluation of the dollar, was under the shadow of a disintegrating international monetary system. Although during 1972 most parities fixed under the Smithsonian Agreement 1/ held well, the floating of the pound sterling in June signaled the presence of new monetary tensions and the buildup of a new monetary crisis, which came to a head 7 months later. 2/

Nonetheless, during the year, international trade expanded at a very brisk pace in terms of dollar value, indicating that trade had not been visibly handicapped by monetary disturbances. While the changes in exchange values did not disrupt the growth of trade, neither did they correct the growing disequilibria in trade during 1972. The U.S. trade deficit incurred first in 1971, which triggered simultaneous protective trade measures by the U.S. Government and the depreciation of the dollar, continued to widen dramatically in 1972; meanwhile, the trade surpluses of Japan and West Germany kept growing. The depreciation of the dollar increased the price competitiveness of U.S. exports (the dollar unit value of exports rose for nearly all countries except the United States and Canada), but this factor did not increase U.S. exports rapidly enough in 1972 to offset soaring U.S.

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1/ The international monetary agreement of December 1971 at the Smithsonian Institution in Washington, D.C., where the realignment of exchange rates of major currencies took place.

2/ Floating of major currencies and changes in nominal exchange rates took place early in 1973.

imports. There was an expected delay in the effect of the dollar devaluation on export volume, hence an initial adverse effect on the U.S. trade balance. But other nonmonetary factors were also instrumental in causing the U.S. trade deficit in 1972; although foreign demand for certain U.S. farm exports jumped during the year, demand for other U.S. export products was impaired by sluggish economic conditions in important U.S. markets. At the same time, U.S. dependence on imported raw materials continued to grow.

U.S. imports in 1972 increased by 22 percent to \$55,681 million, stimulated by the vigorous growth of the U.S. economy. Imports advanced despite the soaring prices caused by worldwide inflation and despite the reduced value of the dollar. From 1965 to 1972, U.S. imports grew at an average annual rate of 14.5 percent and exports at only 9.1 percent. The growth discrepancy led to the first U.S. trade deficit of the century in 1971, and the deficit more than tripled in 1972 (increasing to almost \$7 billion).

The serious erosion of the trade position of the United States had not essentially changed the 40-year-old U.S. policy of promoting the expansion of world trade. Nonetheless, the United States began to look beyond the spectacular aggregate growth of international trade and to eye certain aspects of trade more critically. The makers of U.S. trade policy began to examine more carefully the manner in which important U.S. trading partners may have promoted, inhibited, or restructured their trade and to ascertain whether some of their pertinent measures may have conflicted with the achievement of a fair balance of interests among the

parties. For example, the United States has noted the influence on trade patterns of the network of special trade agreements developed by the European Community, as well as of its common agricultural policy, and of an aggressive export policy (GAP) and maintained by Japan despite its sustained trade surplus.

This chapter covers pertinent developments in selected areas which contribute significantly to U.S. foreign trade: Canada, Japan, Europe (the EC and the EFTA), and Latin America--areas which in 1972 collectively accounted for 79 percent of all U.S. imports and 75 percent of all U.S. exports. In addition, there is a discussion of regional economic integration, regional or national commercial policies, and other matters that may affect the size and pattern of U.S. foreign trade.

Canada 1/

In 1972 Canada's foreign trade expanded vigorously, reflecting rapid economic growth in that country. Meanwhile, Canada's 1971 trade surplus of \$2.1 billion declined to \$1.1 billion during the year, owing to an even more rapid growth of imports than of exports. Stimulated by the overall demand that accompanied economic expansion, the value of imports increased by 23 percent, from \$16.3 billion to \$20.0 billion. There were relatively large increases in imports of automobile products (especially from Japan), machinery, and various consumer products. Imports from the European Community expanded by 21 percent, and those from Japan, by more than 40 percent.

The value of exports increased by 14 percent during the year, from \$18.4 billion to \$21.0 billion. There were substantial increases in the sale of aircraft, some types of machinery, paper, wood, crude petroleum, and food products (mainly cereals and fish). The largest growth in exports was in those going to the United States and Japan. Canadian exports to the European Community and the United Kingdom grew little compares with those in 1971.

The pattern of Canada's foreign trade is largely shaped by trade with the United States, which accounts for more than two-thirds of the total. In 1972, Canada's exports to the United States constituted 70 percent of all of its exports, and imports from the United States, for 69 percent of all imports. Only by maintaining its substantial trade

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1/ All data in this section are expressed in U.S. dollars.

surplus of recent years with the United States could Canada continue to have an overall trade surplus in 1972. The overall trade deficits that Canada had traditionally registered with the United States were reversed after 1968, as Canada moved from a deficit to a surplus on the automotive trade account and exported increasing amounts of crude materials, mineral fuels, and some manufactured goods to the United States.

According to U.S. statistics, the United States imported 14.9 billion dollars' worth of merchandise from Canada in 1972, about 18 percent more in terms of value than in the previous year. In contrast to the 1971 pattern, U.S. purchases of industrial supplies rather than of automotive products showed the largest expansion. <sup>1/</sup> Continued vigorous construction activity in the United States during the year triggered increased imports of Canadian lumber; moreover, growing U.S. energy requirements helped to boost U.S. imports of Canadian natural gas and crude oil. U.S. exports to Canada also grew by almost one-fifth--to \$12.4 billion--in 1972. Greater investment expenditures in Canada caused a steep rise in U.S. exports of machinery (especially of farm, office, and construction machinery). Increased sales to Canada of automotive products, chemicals, coal, fruits, and vegetables are also notable. The U.S. trade deficit with Canada was \$2.5 billion for the year.

The Canadian tariff, a moderately protective one, falls into three categories: British preferential, most-favored-nation, and general

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<sup>1/</sup> On developments relating to the United States-Canadian automotive agreement, see ch. 1, p. 10.

rates. British preferential rates, with some exceptions, were the lowest rates in 1972. <sup>1/</sup> These rates are applicable to products imported from British Commonwealth countries but not to those from Hong Kong. Most-favored-nation rates are generally higher than the British preferential rates but lower than the general rates, and they are applied to imports from countries with which Canada has entered into trade agreements. These rates are also applied to a few British Commonwealth countries not eligible for British preferential rates. General rates are applied to imports from the relatively few countries with which Canada has no treaties or trade agreements.

Although there was no significant change in Canada's tariff policy in 1972, in September the Government provided for a temporary reduction or removal of duties on certain goods used as inputs to Canadian manufacturing. This step was taken principally to combat the country's rising rate of inflation. Duties on most finished manufactures were unchanged throughout 1972 and ranged from 15 to 20 percent.

In 1972, the central concern of Canada's foreign trade policy continued to be access to U.S. markets for exports, dictated by the circumstances that Canada exports about a quarter of its GNP (a higher share than most countries) and that most of these exports traditionally go to the United States. During the year, there were no major developments in United States-Canadian bilateral trade relations and no special understanding between the two countries on positions to be taken for the multilateral trade talks planned under the GATT.

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<sup>1/</sup> Some British countries have arrangements with Canada that provide for rates lower than the British preferential rates on certain commodities.

Japan

In 1972, Japan's exports amounted to \$28.6 billion and imports, to \$23.5 billion. Both imports and exports increased over those in 1971 by approximately 19 percent in terms of value, but in terms of volume imports grew by 13 percent and exports by 6.5 percent. The seamen's strike in June had a somewhat greater restrictive effect on Japan's exports than on its imports, adding to transportation costs of the former.

Exports of machinery, electrical equipment, road vehicles, and ships increased in terms of value at rates of 26 to 30 percent in 1972. Exports of musical instruments, 1/ scientific instruments, 2/ and fish and fish preparations each grew by approximately one-third. Exports of chemicals and textile fibers also grew rapidly, while those of textile yarns and fabrics increased only 6 percent and those of clothing and footwear declined 15 percent.

Large increases were recorded in the value of imports of food products, including an increase in imports of meat by 73 percent; of fish and crustacea by 40 percent, and of sugar by 34 percent. Imports of primary commodities (hides and skins, textile fibers, nonferrous metals, petroleum and petroleum products, and wood and wood products) also increased significantly.

Japan's foreign trade with Western Europe grew greatly during the year. While imports increased by one-fifth, exports expanded twice as much. After the revaluation of the yen, the competitive power of

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1/ Including tape and sound recorders, recorded tapes, and similar items.

2/ Including photographic and optical goods and watches.



Japanese exports suffered less on European markets than on U.S. and Southeast Asian markets; this factor accounts for at least a part of the surge in Japanese exports to Europe. Japanese trade with France expanded rapidly--imports by 33 percent and exports by 31 percent--and Japanese exports to the United Kingdom increased by 51 percent.

In 1972 Japan's trade surplus continued to increase in dollar terms--to \$5.1 billion. The trade surplus widened despite the revaluation of the yen and despite measures undertaken by the Japanese Government in 1971 to reduce its size. Although in real terms the growth of exports decelerated and that of imports accelerated in 1972, the Government decided on additional measures to reinforce these trends. In October 1972 the Japanese Government introduced a package of trade liberalization measures to reduce the country's trade surplus by an expected \$0.9 billion to \$1.0 billion. These measures were specifically designed to increase imports and to control the volume of exports, offsetting thereby the mounting pressure for a second revaluation of the yen.

Measures adopted to increase imports provided for (1) a 20-percent reduction in tariffs on manufactured goods and processed agricultural products, involving 1,865 items accounting for 80 percent of the items on the tariff schedule; (2) an increase in annual import quotas by at least 30 percent; (3) simplification of importing procedures, including licensing, and (4) improvements in import financing. 1/

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1/ The latter measure involved an expansion in the range of products financed by the Export-Import Bank of Japan to include manufactured goods and also a decrease in the average rate of interest on import financing from 6.5 percent to 5.5 percent.

In addition to these measures, in December 1972, Japan revoked its "Buy Japan" Cabinet Decree of September 20, 1963, and adopted the policy of encouraging Japanese Government agencies and private business firms to purchase foreign products. The abolishment of the former policy is expected to increase Government purchases of foreign-made automobiles, machine tools, typewriters, printing machines, air conditioners, construction machinery, agricultural machinery, communication equipment, aircraft, and electric generating equipment.

Measures designed to reduce exports included (1) a decrease in the tariff rebates on imported intermediate materials used in the manufacture of finished products for export; (2) an increase of 1.0 percentage point in the average interest rate on export credits granted by the Export-Import Bank of Japan (from 5.5 percent to 6.5 percent); and (3) authorization of direct control of the level of exports by administrative guidance, through formation of export cartels or by other means, as deemed necessary. Moreover, the Japanese Government put a number of industries under export restraints, limiting the growth of the value of their exports to 17 percent (which was considered equivalent to the effect of the revaluation of the yen) plus one-half of the rate of export growth that had taken place in the same industries in the first half of 1972.

All of these provisions represented a radical departure from past Japanese efforts aimed at increasing export competitiveness. The new policies placed more emphasis on expansion of imports, on cooperation with other nations, and on improvement in domestic welfare.

Continued growth of Japan's trade surplus in 1972 resulted largely from the country's trade with the United States. The United States remained Japan's most important trading partner although it accounted for only 29 percent of Japan's total exports in 1972, compared with 32 percent in 1971. The United States supplied 25 percent of Japan's imports in 1972. U.S. exports to Japan increased about 22 percent to \$5.0 billion in 1972, whereas imports from Japan increased by 25 percent to \$9.0 billion. The largest increase in U.S. exports to Japan in 1972 was in the agriculture sector.

The U.S. trade deficit with Japan, which cumulatively was less than \$2.0 billion from 1968 to 1970, reached \$3.2 billion in 1971 and continued to grow in 1972. The trade deficit of \$4 billion that the United States incurred with Japan in 1972 amounted to almost two-thirds of the entire U.S. trade deficit.

Early in 1972, a joint declaration between the United States and Japan (similar to the one between the United States and the European Community) affirmed the intention of both countries to enter into multinational negotiations in 1973 covering all elements of trade, including trade in agricultural products. Moreover, in October 1972 Japan took steps to try to raise the level of imports from the United States. These steps included (1) commitments to increase the purchase of U.S. agricultural, forestry, and fishery products; (2) commitments to increase the purchase of U.S.-made aircraft and aviation-related facilities; (3) commitments by Japanese power companies to purchase uranium enrichment services from the United States; (4) agreement to provide

for a feasibility study regarding the construction of a joint United States-Japanese uranium enrichment facility in the United States; (5) provisions for the establishment of partly or fully U.S.-owned retail stores in Japan that may retail U.S. products on the Japanese market; and (6) commitment to increase the share of imported computers in the Japanese market.

Efforts to restrain Japanese exports going specifically to the United States included quantitative restraints on the exports of the following product groups: (1) Steel--the "2-year" voluntary restraint program on exports of steel to the United States that was initiated in January 1969 and renewed for a 1-year period in April 1971 was extended for a 3-year period in April 1972; (2) textiles--the restraint on exports of cotton textiles which was adopted in a bilateral form between the United States and Japan in 1956 was extended to manmade fibers and wool in a bilateral agreement accepted by both countries in January 1972.

A number of export products from Japan are now under quantitative restraint either specifically to the U.S. market or on some basis encompassing the U.S. market. These items include wall and ceramic tile, stainless steel flatware, bearings, pottery and quality porcelain, umbrellas and frames, gloves and mitts for baseball, and dry cells.

Europe

In 1972, aside from global monetary problems, the economic scene in Western Europe was dominated by the approaching change in its established pattern of regional integration. On the first day of the following year three members of the European Free Trade Association (EFTA) were to join the European Community (EC). <sup>1/</sup> Meanwhile, closer economic relations that were developed during the year between the Community and EFTA, in the form of free trade agreements (FTAs), were paving the way to a European free trade area that would include both trade blocs.

While such significant developments toward European economic integration were taking shape, serious problems appeared to complicate the functioning of the customs union and the free trade area. The problems resulted from the weakening of the international monetary system that began in 1971 and continued in 1972, pointing up the close connection between commercial and monetary matters. Both European regional groups were founded in the context of fixed exchange rates, and fluctuations between currency values of members within both blocs threatened to jeopardize the freedom of their intra-area industrial trade. Intrabloc currency fluctuations caused price uncertainties and hence high insurance costs against risks, which made intrabloc trade more expensive than domestic trade. Moreover, in the EC, the functioning of the common agricultural policy was severely handicapped by the absence of an EC currency or at least fixed parities among EC currencies.

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<sup>1/</sup> Toward the end of 1972 the number of EFTA countries expected to shift to the EC was reduced to two.

Aside from monetary developments, however, the trade blocs had fallen short in their endeavor to attain truly free intra-area trade. The EC Commission concluded during the year that despite a strict competition policy, tax harmonization efforts, and removal of several technical barriers to intermember trade, the original six countries were not able to eliminate a great variation of prices for identical products between different Community states. Neither the EC nor the EFTA managed to act as a unified trade bloc toward third countries, except on special occasions. For example, at the Third United Nations Conference on Trade and Development, held during 1972, the last year of the original six, the EC did not speak with one voice as it did during the Kennedy Round of GATT negotiations in the mid-1960's.

Despite shortcomings, representatives of the enlarged Community declared that a full economic and monetary union was expected to be attained by 1980. Meanwhile, at the end of 1972, 15 European countries <sup>1/</sup> were making preparations for a European free trade area by mid-1977, one which might include some Mediterranean countries as well. The planned European trade bloc was to have close economic ties with a number of additional countries by means of association or preferential trade agreements that had been concluded previously by the trade bloc members or that were to be concluded subsequently.

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<sup>1/</sup> Toward the end of the year, Norway (originally a candidate for EC membership) was expected to join the other EFTA countries in signing a free trade agreement with the Community early in 1973.

The United States has maintained that the network of preferential trade agreements developed by the Community erodes the most-favored-nation principle in international trade and that such preferential trade relationships discriminate against the United States and other third countries. In 1972 the United States objected specifically to an EC plan to negotiate a comprehensive preferential trade relationship with Mediterranean countries in 1973 which would make them members of a large European-Mediterranean free trade area by mid-1977. In 1972, a year of dramatic deterioration in the U.S. trade balance, the position of the United States on the buildup of discriminatory world trade patterns took on added meaning. Moreover, Western Europe was the trade area with which such deterioration was most severe; in 1972 the traditional U.S. trade surplus with Western Europe shifted to a deficit.

#### Regional regrouping of Western Europe

Nineteen seventy-two was the last year in which the two large Western European economic organizations, the European Community and the European Free Trade Association, existed in their original form. <sup>1/</sup> Several actions were taken by these groups during the year that would shape the new regional configurations to become effective in 1973 or that would affect such configurations in the future.

In developing new regional patterns, the European countries desired to avoid a breakdown of economic relations established in the past. Hence, the Community adopted the principle that its enlargement

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<sup>1/</sup> The European Free Trade Association of nine countries in 1972 included two (Finland and Iceland) that joined after the founding of EFTA.

should not damage the trade interests of nonapplicant EFTA countries. Moreover, efforts were made to build further economic ties between the enlarged Community and the European countries that did not join.

In specific terms, countries that were members of or were about to associate with these two regional groupings were faced with one or more of the following tasks: (a) The six original members of the EC and the candidates for membership in an enlarged Community had to make their final decision in 1972 regarding accession and the terms thereof; (b) members of EFTA that decided against accession to the Community but desired to establish economic and trade relations with it needed to agree with members of the enlarged Community on the terms of the new relationship; (c) the remaining seven EFTA members had to re-define their relations with the two departing members of the Association; and (d) the remaining EFTA members had to establish rules for the new Association, which was to be reduced by outgoing members.

Enlargement of the European Community.--On January 22, 1972, four countries--the United Kingdom, Denmark, Norway, and Ireland--which had applied to become members of the Community signed a "treaty of accession." This act was preceded by extensive negotiations regarding the terms of accession between each candidate and the Community of the six. On the EC side, two basic rules governed these negotiations: candidate countries were required to accept the treaties of the Community and subsequent legislation, and a transitional period was specified to accommodate the necessary adaptations. The parties agreed on a transition



period from April 1973 to July 1977, after which the new enlarged Community was to become a customs union for industrial products and the common agricultural policy was to be adopted. While identical in their broad outlines, the terms of the agreements varied for different countries insofar as specific problems of each were given special consideration. 1/

The "Treaty of Accession" subsequently became subject to ratification by all governments involved, which took place in the course of the year in all countries except Norway. In the latter, a public referendum taken in September rejected membership in the Community. The negative vote reflected mostly rural opposition based on the desire of fishermen to maintain their exclusive fishing rights in coastal waters indefinitely 2/ and on the conflict between Norwegian farming interests and the CAP. Norway's withdrawal thus reduced the enlarged Community, originally envisaged to comprise 10 countries, to a "Community of nine."

While the enlarged Community was to become operational in 1973, it organized its first "summit" conference in October 1972. This meeting of the heads of governments was concluded by a joint bulletin which contained important commitments of the participants to a common social and economic regional policy and to the attainment of economic and monetary union. The bulletin emphasized the Community's interest in continued growth of international trade based on the principle of

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1/ For more information on the terms of the agreement of accession, see Operation of the Trade Agreements Program, 23d report, p. 95.

2/ The vote was negative despite a prior settlement with the Community which granted special concessions to Norwegian fishermen.

reciprocity. At the same time, however, the document affirmed the special regard of the enlarged Community for the trade interests of certain countries towards which present and future members had previous commitments.

Toward a Western European free trade bloc.--Those EFTA members that were to stay outside the Community desired nonetheless to develop free trade arrangements with the enlarged Community. Some wished to go beyond the scope of free trade arrangements and to develop special economic ties in specific areas. The Community, on its part, was willing to enter into negotiations on free trade in the industrial field with nonacceding EFTA countries but decided for the time being to exclude a discussion of other economic ties.

Actual negotiations that began towards the end of 1971 continued through the first half of 1972. On July 22 five nonacceding EFTA members--Austria, Iceland, Portugal, Sweden, and Switzerland--signed bilateral free trade agreements with the European Community. (Finland was expected to sign a similar agreement later in 1973.) Although negotiated bilaterally, the agreements are identical in major part. The most important common feature is a provision for free trade in industrial products and processed agricultural products by mid-1977. 1/ For gradual dismantlement of customs duties and fiscal customs charges

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1/ The agreements grant an extra period for total duty removal, however, with respect to some important "sensitive" products, such as paper, aluminum, and certain ferroalloys.

the agreements adopt an identical schedule 1/ (reduction in five stages, by 20 percent in each stage), the same as provided for in the "Accession Treaty" between the Community of the six and the two EC candidate members.

By the end of the transitional period and the extra time allowances, industrial trade is to be free among the original Community members, the two EFTA members that were to join, and the six EFTA members adhering to the free trade agreements. Ireland, though not an EFTA member, is a candidate for EC membership. Norway entered negotiations in late 1972 for a free trade agreement. Thus, as of the end of 1972 a West-European industrial free trade bloc of 16 countries was taking shape.

Since the new trade bloc was not to be a customs union but an industrial free trade area, only the nine EC members were to have a common customs tariff. It was therefore necessary to include "rules of origin" in the FTAs, which specified criteria for the industrial products exported by the non-EC members to the Community. The criteria establish the amount of working or processing an industrial product must undergo in a member country to qualify as originating in the free trade group. Products moving in the free trade area were to be accompanied by certificates of origin.

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1/ Austria, whose free trade agreement was an interim one, had a schedule of duty reductions different from that of other EFTA signatories. This agreement was to be replaced by a permanent FTA, however, which, in the later phases of duty reductions, would coordinate Austria's schedule with that of the other countries. Moreover, Portugal and Iceland, owing to their lesser degree of industrial development, were granted an extended timetable for dismantling their industrial customs duties. The Community further agreed to make concessions to Portugal with regard to certain processed farm products and to Iceland with respect to its fishery products. The export trade of Portugal is heavily dependent on agricultural exports, and that of Iceland, on fishery exports.

The rules of origin implicitly impose stringent limitations on the amount of parts and materials from the United States and other third countries that may be incorporated in the finished products traded free within the preferential area. Producers would be induced by these rules to avoid the use of foreign materials and components, since using such materials would prevent them from gaining favorable status on their exports within the area. With the gradual elimination of duties in 1973-77 within the wider preferential group, the impact of the restrictive rules of origin on U.S. (and other) exports to the wider EC market will become progressively more significant.

The FTAs between the Community and nonacceding EFTA countries also contained measures designed to support industrial free trade through the elimination of nontariff barriers in the fields of taxation, financing, and restrictive business practices. In addition, most nonacceding EFTA countries 1/ made separate commitments to the European Coal and Steel Community, submitting themselves thereby to a price system on coal and steel adopted by members of the enlarged Community.

As far as the liberalization of trade in agricultural products is concerned, no meaningful arrangements were made between the future "Community of nine" and the rest of the free trade group. Nonetheless, the FTAs provided for a procedure to investigate problems relating to agricultural trade.

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1/ With the exception of Iceland, which does not produce coal or steel, and Switzerland.

Since the FTAs were bilateral in nature, "joint committees" were given the responsibility of supervising the functioning of each agreement and of serving as a forum for consultations between the Community and the respective party. Five of the FTAs were to enter into force on January 1, 1973, and one, that between the Community and Finland, at a later date. Norway requested negotiations leading to an FTA only after it withdrew its membership application in the Community in October 1972; therefore negotiations could not begin before November. It was expected, however, that the agreement with Norway would be concluded during 1973.

Relations between remaining and outgoing EFTA members.--Future ties between the seven remaining and the two outgoing EFTA members were based on the principle that duty-free industrial trade and reduction of nontariff barriers already attained between them in EFTA should be maintained. On December 21, 1972, the two groups of the nine EFTA members signed a protocol concerning the maintenance of free trade. The protocol was designed to resolve the discrepancies in timing and coverage between the bilateral free trade agreements and the old EFTA obligations. For example, since the FTAs do not cover a number of products which have been granted preferential trade between EFTA members, the protocol provides for the continuation of such trade. 1/ The protocol further bridges an interim period before the FTAs take effect.

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1/ But, as an example of exceptions, the United Kingdom and Denmark were allowed to reintroduce, as temporary measures, duties on paper imports from their former EFTA partners.

The new EFTA of seven.--In November 1972, the seven remaining members of EFTA--Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland--reiterated their determination to continue functioning as an association. They pledged to maintain free industrial trade among themselves and to cooperate on further removal of nontariff barriers and on other economic matters. The Association was to maintain its headquarters in Geneva.

The last year of the "Community of six"

The six as a trade bloc.--During its last year, the "Community of six" proceeded to dismantle the obstacles which continued to impair the free movement of goods between members. For example, while customs duties in intermember trade had been abolished, several fiscal charges or charges of a tax type with an effect equivalent to such duties remained. During this last year of "the six," 22 of these charges were abolished and additional charges were under study for possible elimination.

In 1972 "the six" made further progress in dismantling numerous nontariff barriers in intermember trade and obstacles to free competition within the Community. For example, the EC continued its effort to harmonize the customs valuation practices of members, the diversity of which had the effect of an intra-Community trade barrier; adopted new directives designed to remove technical obstacles to intermember trade; and continued to dismantle the national licensing systems of members covering certain imports and exports and having effects

equivalent to quantitative trade restrictions.

A common system of tax on value added (TVA) was to take effect in 1972 throughout the Community, but by the end of the year Italy had not yet imposed such a tax. After having delayed the introduction of the TVA for the third time, Italy was given an extension to 1973. Of the new members of the enlarged Community, Denmark already had a TVA system in effect, Ireland introduced its own during the year, and the United Kingdom planned to do so in 1973. Once all EC members have adopted the TVA, tax harmonization throughout the Community is to be completed by the standardization of diverging assessment practices in the EC countries. In 1972 a draft directive on this subject was completed.

The Community's achievement in functioning as a unified trade bloc is manifest in the numerous bilateral trade agreements that it has negotiated with third countries and the generalized preferences it has extended to 91 developing countries. <sup>1/</sup> The Community also made progress towards a common commercial policy by developing collective EC lists of liberalized import products (those that can be freely imported into the Community without quantitative restrictions), by setting uniform import quotas and developing a common procedure in administering them, and by establishing Community measures regarding subsidization and protection against dumping.

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<sup>1/</sup> The extension of generalized preferences began in 1971, but such preferences were extended to more countries in 1972.

Despite these achievements, however, the Six retained a measure of national independence in conducting some aspects of commercial policy. They maintained several bilateral trade agreements between themselves and third countries rather than replacing them by agreements. For example, in 1972 several Community members still retained bilateral trade agreements with Japan containing very protective safeguard clauses against imports from that country. The six had separate national trade agreements in 1972 with the countries of Eastern Europe, although by the end of that year member states lost their right to conclude new trade pacts separately with these countries. Thus, the common commercial policy of the six had not been fully implemented by the end of 1972, although originally it was to have been completed by 1970.

Common agricultural policy.--The long-range agricultural reform of the Community was further developed during the year. Three directives of the EC Council in March 1972 gave substance to the "sociostructural" reform it had agreed upon in the preceding year. In the first directive the conditions under which farmers could obtain financial aid for improvements were specified. Farms to be modernized under the program were expected to provide income for one or two persons which would be comparable to incomes earned in nonagricultural work in the region. The Council also provided for an additional premium to stimulate production of beef and veal. The second directive, designed to reduce inefficient farming, provided for the payment



of pensions to farmers between 55 and 65 years of age, provided they agreed to withdraw their land from agricultural use under specified conditions. The third directive comprised a system of socioeconomic guidance in agriculture, offering further training and retraining of persons engaged in agriculture and granting assistance to persons wishing to be retrained for nonagricultural activities.

In a March 1972 meeting the EC Council considered short-range problems of the CAP. It established farm prices for the 1972-73 season, raising them on the average by about 6 percent. The price increases, which varied from product to product, represented a compromise between the farmers' demands for materially greater increases (demands expressed in riots and demonstrations in the preceding year) and the Community's preference for the long-range reform of farming rather than higher farm income under existing conditions. The Community had to consider, moreover, that significant increases in farm prices would have added to the difficulties of accession for the United Kingdom and would have worsened trade relationships with third countries because of the higher levies on farm imports that would have followed large increases in EC agricultural prices. Because of the conflict between the farmers' demands and long-range policy objectives, the Council had been unable to make any decision on farm prices in 1971, and even in 1972 the Council fixed prices only days before the new marketing year for milk, beef, and veal was to begin (April 1).

In 1972 the CAP continued to be adversely affected by the absence of fixed parities within the Community, <sup>1/</sup> as well as in the global monetary system. In order to protect farmers from a drop in income due to currency instability, in 1971 the Community set up a temporary system of compensatory levies (charges on farm imports and rebates on exports) within the Community at State borders. Since monetary instability prevailed in 1972, this system of compensatory levies was retained. In intra-Community trade the system was meant to prevent the disruption of the common price-support system that had been the heart of the CAP. However, it did not entirely accomplish this objective, owing to the uncertainty of the compensatory amounts to be levies--an uncertainty that was inherent in a floating-currency situation.

Economic and monetary union.--The need for economic and monetary integration in the Community became more obvious in 1972 than it had been previously. The worldwide monetary crisis gave impetus to a new drive to attain such integration. The Smithsonian Agreement signed in December 1971 in Washington permitted exchange rates of currencies to fluctuate within a margin of 4.5 percent--between 2.25 percent above and 2.25 percent below their dollar parity. Since the Community did not have a collective monetary arrangement at the time, the Smithsonian Agreement applied to all EC currencies independently of each other.

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<sup>1/</sup> See discussion of monetary problems in general immediately below.

Resulting fluctuations between various EC currencies, i.e., changing intermember exchange rates, introduced a significant element of uncertainty into intra-Community trade.

In order to preclude a danger of disruption to trade, a resolution of the EC Council in March 1972 requested the central banks of the Six to intervene in their respective foreign exchange markets. They were to do this in such a manner as to restrict the spread between any two Community currencies to 2.25 percent, or half the margin allowed by the Smithsonian Agreement. (This narrower margin within the wider one was popularly referred to as "the snake in the tunnel.") In addition to this monetary provision, the March resolution of the EC Council referred to other aspects of Community-wide economic integration, such as intensified coordination of the members' short-term economic policies, regional and structural integration, tax harmonization, and the progressive establishment of a European capital market.

Following the March resolution, the central banks of the six began a practice of multilateral intervention to reduce intra-Community exchange-rate fluctuations. In May the four countries that were then candidates for accession to the Community joined this monetary arrangement. However, in June the United Kingdom decided to float the pound sterling temporarily, and Denmark also reverted for a short period to the 4.5-percent margin allowed under the Smithsonian Agreement.

At their "summit conference" in October, the heads of State of the nine future EC members (by that time Norway had withdrawn from candidacy) declared that they expected the economic and monetary union of the enlarged Community to be completed by the end of 1980 and foresaw a more intensive approach toward this goal (a "second stage of integration") to begin in 1974. They considered fixed but adjustable parities an essential requirement for the achievement of economic integration and decided to set up a European monetary co-operation fund by April 1973 to serve this objective. The fund was to be the forerunner of an EC central banking system and a common EC currency. Its main function was to be to assist the EC members' central banks to maintain the fluctuation of EC currency values within specified, narrow margins. 1/ The fund was to record transactions in "European monetary units of account," which were to be created with a value equal to the value of the U.S. dollar before the 1971 devaluation. Management of a short-term credit system was also to be an important function of the fund.

At the same meeting in October 1972, the heads of State further decided to step up coordination of economic policies between the nine EC members, with special regard to fighting inflation throughout the Community. 2/ They laid down a series of action programs for 1973

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1/ The fund was conceived as a multilateral system of claims and debts resulting from intervention in EC currencies, and a multilateral settlement of intracommunity balances.

2/ A so-called steering committee had been set up earlier in the year with a mandate to coordinate cyclical economic policies in the EC.

with regard to monetary-economic integration (including collective regional, environmental, and industrial measures), as well as with respect to close cooperation in political-administrative matters. Moreover, they agreed to take a joint position in global monetary negotiations and to develop a collective stand for the global trade negotiations that were scheduled for 1973 in the framework of the GATT.

The renewed interest in an EC economic union followed directly from plans for the formation of the EC monetary union. It was realized that fixed exchange rates between EC currencies could be maintained only by closely coordinated monetary policies, which in turn presuppose parallel, equally coordinated economic measures (in such areas as cyclical policy and combating inflation).

Foreign trade.--Despite the uncertainties of intrabloc national relationships, trade of EC countries continued to increase vigorously during 1972, as indicated below:

Foreign trade flows and trade balance of the European  
Community, 1971 and 1972 1/

Item	Amount		Annual rate of change	
	1971	1972	1971	1972
	<u>Billion</u> <u>dollars</u>	<u>Billion</u> <u>dollars</u>	<u>Percent</u>	<u>Percent</u>
All imports-----	99.52	118.23	12.5	18.8
Imports from third countries-----	49.66	57.11	8.8	15.0
All exports-----	100.99	123.06	14.1	21.8
Exports to third countries-----	51.04	61.62	12.9	20.7
Intraregional trade (exports)-----	49.95	61.44	15.3	23.0
Balance of merchandise trade with third countries-----	1.38	4.51	-	-

1/ It should be noted that 1971 and 1972 data expressed in U.S. dollars have been significantly affected by (a) worldwide inflation and (b) the changed relationship of the dollar to most other currencies. Hence, comparisons of 1971 and 1972 data in the table and following text are inadequate for analysis in real terms. Data that reflect changes of trade in real terms were generally not available.

Source: GATT, International Trade 1972 (tables 35 and C).

The value of intraregional trade increased by 23.0 percent in 1972, compared with 15.3 percent in 1971 and a 15.5-percent annual growth rate in 1960-70. In this last year of the Community of the six, the value of intrabloc trade (\$61 billion) was about the same as the value of the bloc's total exports to third countries. In 1957, before the

Community was established, trade between the six members amounted to only about 42 percent of their aggregate exports to third countries. The faster growth of internal than of external trade throughout the history of the six reflects the trade-diverting effects of the removal of tariffs and other barriers to trade within the region.

The value of EC trade with third countries increased faster in 1972 than in the previous year. EC exports to the EFTA bloc grew most vigorously, reflecting a strong increase in the United Kingdom's demand for EC goods. EC imports from third countries increased by 15 percent during 1972. Imports from the countries of Eastern Europe grew most rapidly during the year, whereas imports from the United States changed little in value and probably declined in volume.

The more rapid expansion of EC exports to third countries than of imports from them widened the Community's positive trade balance significantly during the year, making it the largest on record. (In 8 years out of 14, the six had a trade deficit with third countries.) However, Germany alone accounted for all of the surplus in 1972, and the other five members all had negative trade balances with third countries in that year.

Trade with the United States.--In 1972 the traditional trade surplus of the United States with the European Community changed to a deficit for the first time. (According to EC statistics, however, the EC showed a deficit with the United States. <sup>1/</sup>) The U.S. deficit of

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<sup>1/</sup> The discrepancy in U.S.-EC statistics is due to differences in trade valuation. The European Community tabulates its imports on a cost, insurance, and freight (c.i.f.) basis, and its exports on a free on board (f.o.b.) basis. The United States tabulates both exports and imports on an f.o.b. basis.

\$140 million represents a deterioration in the U.S. trade balance with the Community from 1971 to 1972 of about \$1 billion. U.S. trade was adversely affected by an initial "perverse effect" of recent currency adjustments <sup>1/</sup> and by an economic slowdown in Western Europe. While U.S. imports from the Community surged upward by almost 20 percent in current dollars, U.S. exports to the EC did not advance materially. U.S. imports increased from all Community countries, predominantly from West Germany, France, and Italy. Consumer goods, such as bicycles, footwear, and home appliances, accounted for a significant part of the increment.

France was the only Community country in 1972 to which U.S. exports increased significantly (by 17 percent in current dollars). Generally good economic conditions in that country during the year were reflected in increased French purchases of U.S. commodities such as aircraft and machinery. U.S. exports to Germany, the most important U.S. trade partner within the Community, fell below their 1971 level, reflecting a decline in German purchases from the United States of commodities such as aircraft, office machines, nonferrous metals, and various farm products.

The significance of trade with the United States in the Community's overall foreign trade has dropped dramatically in the last few years. The U.S. share of all EC imports declined from 19 percent in 1968 to an estimated 10 percent in 1972. The U.S. share of Community exports dropped from 16 to approximately 8 percent during the same time interval.

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<sup>1/</sup> The immediate or short-range effect of the dollar devaluation was opposite to the expected ultimate effect thereof. The impact of improved U.S. price competitiveness on U.S. exports had not yet developed during 1972.



The last year of the "EFTA of nine"

The attention of EFTA countries that were to leave the Association turned sharply toward Community matters during 1972. Even the remaining EFTA countries were interested predominantly in defining their future economic relations to the Community, in concluding bilateral free trade agreements with the Community, and in assuring their participation in a potential Western European free trade bloc. Accordingly, while both remaining and outgoing EFTA countries desired to maintain the liberalization of trade they had already attained, they did not initiate significant new actions within EFTA during the year. EFTA had, in fact, already attained its main objectives:

(a) it had established duty-free industrial trade among members, and  
(b) it had paved the way toward a wider free trade arrangement comprising most of Western Europe. Although the Association when reduced to seven countries was to continue its activities as the EFTA, its sharply diminished importance appears to be reflected even in such minor events as the closing down of EFTA's information office in Washington, D.C., at the end of the year.

Foreign trade of EFTA countries increased substantially in 1972, as indicated in the following table.

Foreign trade flows and trade balance of the European  
Free Trade Association, 1971 and 1972 1/

Item	Amount		Annual rate of change	
	1971	1972	1971	1972
	<u>Billion</u>	<u>Billion</u>	<u>Percent</u>	<u>Percent</u>
	<u>dollars</u>	<u>dollars</u>		
All imports-----	55.89	64.56	9.5	15.5
Imports from third countries-----	41.75	48.05	9.1	15.1
All exports-----	48.39	55.74	12.3	15.1
Exports to third countries-----	34.86	39.49	12.2	13.2
Intra-regional trade (exports)-----	13.53	16.25	12.5	20.1
Balance of merchandise trade with third countries-----	-6.89	-8.56	-	-

1/ It should be noted that 1971 and 1972 data expressed in U.S. dollars have been significantly affected by (a) worldwide inflation and (b) the changed relationship of the dollar to most other currencies. Hence, comparisons of 1971 and 1972 data in the table and following text are inadequate for analysis in real terms. Data that reflect changes of trade in real terms were generally not available.

Source: GATT, International Trade 1972 (tables 37 and D).

Throughout the existence of the EFTA, intrabloc trade increased faster than the area's trade with third countries. Whereas in 1958 the trade between EFTA members constituted less than 18 percent of their aggregate exports, the comparable ratio had increased to 29 percent by 1972.

The negative EFTA trade balance with the rest of the world exceeded \$8.5 billion in 1972. EFTA's deficit with the European Community accounted for nearly all of the total; all EFTA countries ran negative balances with the Community. In contrast, EFTA had a trade surplus during the year with the United States.

The trade deficit of the United States with EFTA, as shown by U.S. statistics, widened in 1972 to \$646 million. A negative U.S. balance with the United Kingdom accounted for about half of the total, followed by a U.S. deficit with Sweden that accounted for about one-fifth. In 1972, in contrast with its experience in the previous year, the United States had a trade deficit not only with the original EFTA group comprising nine members, but also with the seven EFTA countries that were not to become part of the enlarged European Community in 1973. Of these seven, the United States had a trade surplus only with Switzerland and Portugal.

Latin American Free Trade Association

The year 1972 proved to be another period of indecision for the 11 members of the Latin American Free Trade Association (LAFTA). <sup>1/</sup> At the 12th annual Conference and other LAFTA meetings during that year, very little progress was achieved in negotiating new preferential tariff concessions; discussions were concentrated largely on procedural and institutional mechanisms, and the resolutions approved were designed mainly to extend the terms of previous agreements or to postpone basic decisions.

The year 1972 served primarily as a time of reassessment for the LAFTA, of analyzing the work and accomplishments of the Association since its initiation in 1961, in order to chart its future course. It appeared inevitable that a change in the priorities, if not the substance, of the LAFTA aims and methodology would have to be made. By 1972, LAFTA had lost most of its forward progress, as member States were reluctant to make the necessary trade concessions and other commitments, and because the loosely knit, sprawling association of countries of widely differing economic and political structures lacked a powerful central control mechanism to enforce majority decisions. As a result, the Association seemed destined to settle for a lesser goal than that of the regional economic integration and development called for in the Treaty of Montevideo.

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<sup>1/</sup> Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela

During 1972, complementation agreements between industrial sectors of the LAFTA countries (e.g., industry-by-industry negotiations), rather than trade concessions on the national lists (i.e., concessions granted by individual countries and available to all LAFTA members) or reactivation of the Common List, 1/ continued increasingly to constitute the method favored in the expansion of economic integration among the countries involved. Only 51 new tariff concessions were added to the national lists in 1972. In the near future, LAFTA may experiment with new mechanisms, such as a system of temporary trade concessions and further waivers 2/ of the most-favored-nation treatment to fellow members.

Another troublesome development that beset the LAFTA arose from the fact that as it consolidated itself as a zone of trade preferences, it endangered the development of its trade liberalization program. 3/

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

2/ Waivers had already been granted to less developed LAFTA members on the special lists of trade concessions.

3/ The LAFTA system of trade preferences does not encompass the whole tariff structure and thereby favor regional production in competition with similar production from outside the region. Rather, what had been formed by 1972 was a preferential trade zone of limited scope, which selectively benefits the intraregional trade of certain products, in accordance with the national lists and nonextensive advantages of each LAFTA nation. As a result, each negotiated product of regional origin enjoys some geographic advantages, depending on the countries involved, in that the margin of preference of each market varies in relation to the respective percentage of duty reduction. Despite the Protocol of Caracas, this situation was more firmly consolidated in 1972, to the detriment of the LAFTA economic integration program.

A further factor affecting the progress of the LAFTA trade liberalization program has been the existence and influence of the Andean Group; Group programs tend to limit and condition the actions of its members within the LAFTA.

It became evident in 1972 that the LAFTA would be utilized increasingly to prepare national and regional economic studies. It was expected to continue to provide a forum for technicians of member countries to assemble and to exchange opinions and information.

Although intraregional imports of the LAFTA rose moderately in value from 1971 to 1972, the value of extraregional imports grew at a more rapid rate; as a result, the proportion of intraregional to global imports for the year was slightly below the levels for 1971 and 1970. Furthermore, intraregional LAFTA imports in 1972 still accounted for a minor share (10.5 percent) of the value of total imports, the same proportion as in the pre-LAFTA year of 1955. Despite a 15-percent increase in value over their 1971 figure, U.S. exports to the LAFTA in 1972 accounted for a decreased proportion of this market because of the larger increases in LAFTA imports from other world markets.

The Andean Group, the subregional association within the LAFTA framework composed of LAFTA members of northern and western South America (Bolivia, Chile, Colombia, Ecuador, and Peru, plus Venezuela in February 1973), made some progress towards its goals during 1972, primarily in the areas of trade liberalization and subregional

industrial development. Administrative difficulties surrounded the Andean Foreign Investment Code in 1972, involving the treatment of foreign capital and technology, and impaired the prospects for obtaining the volume of investment required for the success of the sub-regional economic integration and development program. The Andean countries experienced a satisfactory increase in the value of intra-subregional exports in 1972 over that of such exports in 1971; however, this trade in 1972 accounted for only 4 percent of the value of total Andean exports. During 1972 the financial base of the developmental financial agency of the group, the Andean Development Bank, was expanded. Considerable financial assistance was forthcoming from extraregional sources, especially the U.S. Government and the Inter-American Development Bank. Also in 1972, relations with other regional groups and with individual countries were extended and improved, and Venezuela moved nearer to formal membership in the group.

During 1972 the members of the River Plate Basin Group (Argentina, Bolivia, Brazil, Paraguay, and Uruguay) held an important annual conference, at which measures were approved to advance the commercial, financial, and industrial development within the basin. The most significant development was the projection of a financial development fund to further the economic integration program of the River Plate Countries.

#### Trade concessions on national lists

At the 12th annual LAFTA Conference, held in Montevideo, Uruguay, during October-December 1972, only 51 new tariff concessions were added

to the national lists (i.e., those concessions granted to all members of the LAFTA) of the contracting parties to the Association on the MFN principle; 100 new concessions were granted on special lists (i.e., those concessions granted on a bilateral basis to the LAFTA members of lesser economic development--Bólvivia, Ecuador, Paraguay, and Uruguay).

By the end of 1972, the total number of these concessions granted and placed on the national lists of the member countries since the inception of the LAFTA amounted to slightly more than 11,000; of these, however, 7,600 had been negotiated during the first 2 years in which the LAFTA was in force. Approximately 6,600 of the total consisted of concessions granted by 4 of the 11 participating countries--Argentina, Brazil, Ecuador, and Mexico.

Attempts by conferees to withdraw concessions were generally unsuccessful. Uruguay withdrew four products from its national list. Colombia was authorized to apply safeguard clauses to two products.

At the 12th Conference, it was decided that the transitional period of 12 years for the LAFTA, as stipulated in Article 2 of the Treaty of Montevideo, 1/ would expire on December 31, 1973, rather than on June 1, 1973, as originally scheduled. Such an extension was intended to provide additional time for ratification of the Protocol

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1/ Art. 2 provides that a free trade area between signatory nations shall be brought into full operation not more than 12 years from the date of entry into force of the Treaty of Montevideo, i.e., June 1, 1961.



of Caracas 1/ by the four countries--Colombia, Chile, Peru and Uruguay-- which had not ratified the protocol by the close of 1972, although each declared its intention of doing so during 1973. 2/

Complementation agreements 3/

During 1972, three new complementation agreements were concluded and placed in effect by LAFTA countries, and a fourth was approved early in January 1973, bringing the total of such agreements in force to 20. One of the new agreements was concerned with the photographic industry and was signed by Argentina, Brazil, Mexico, and Uruguay. A second agreement dealt with the electronic products and communications equipment industry and was signed by Argentina, Brazil, Mexico,

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1/ The Protocol of Caracas was negotiated in 1969, to extend the transitional period of the LAFTA from 1973 to Dec. 31, 1980. It will not come into force until all LAFTA members ratify it. The main provision was the lowering of the rate of annual tariff reduction on products on national lists from 8 percent to 2.9 percent.

2/ During 1973, Chile, Peru, and Colombia ratified the Protocol of Caracas; ratification by Uruguay, the only remaining LAFTA signatory, was still pending.

3/ These agreements provide for two or more member countries to establish free trade within the LAFTA for specified products or groups of products. They were designed to facilitate the accelerated development and integration of the industries involved, enabling them to effectively coordinate their plans for diversification, specialization, and expansion, through mutually beneficial means, by reduction of import duties on specific products within individual industrial sectors. Although such industry-by-industry negotiations are binding only for those LAFTA members that ratify particular agreements, the advantages provided therein are automatically extended to industries in other less developed LAFTA countries (Bolivia, Ecuador, Paraguay, and, temporarily, Uruguay), even though industries in those four countries did not participate in negotiations for a particular complementation agreement.

For information on earlier complementation agreements, see Operation of the Trade Agreements Program, 18th, 19th, 20th, 21st, 22d, and 23d reports

and Uruguay. A third agreement, signed by Argentina and Brazil, involved the industry embracing refrigerating and air-conditioning equipment, electrical and manually operated domestic appliances, and heating appliances. The fourth, signed by Argentina, Brazil, Chile, and Mexico in December 1972 and approved in the following month, applied to the dye and pigment industry. 1/

Complementation agreements, with their industry-by-industry approach to economic integration, have been utilized much more intensively as an integration mechanism in recent years, especially since 1967, than the approaches through the national lists and the Common List. Indeed the agreements have become largely a substitute for these lists, instead of their supplement, as originally intended, because of the formidable obstacles encountered by the LAFTA countries in complying with the fundamental tariff-reduction requirements of the Treaty of Montevideo. The agreements serve to accelerate trade in the industrial products involved and include in the tariff-reduction programs many products that had not previously been traded within the LAFTA area.

Indicative of the recent concentration on LAFTA complementation agreements, 16 were approved during the 1968-72 period. During 1962-67, only four such agreements were approved. Participation has been concentrated heavily, however, in the "big three" LAFTA countries-- Argentina, Brazil, and Mexico; of the 20 agreements ratified, Brazil

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1/ In December 1972 a protocol was signed which added Chile to an agreement on the petroleum-based chemical industry approved in January 1971, originally involving Argentina, Brazil, Mexico, and Venezuela.

has participated in 17, and Argentina and Mexico have participated in 14 each.

#### Industrial sector meetings

A total of 24 industrial sector meetings were programmed by the Secretariat of the LAFTA during 1972 for different industrial groups within the region; all but three of these meetings were held. Between 1963 and the end of 1972, 176 such sectoral meetings were convened.

Some 670 businessmen from the various LAFTA countries attended these sector meetings in 1972. They recommended that 11 new trade concessions be included in the LAFTA national lists that were to be negotiated at the 12th annual Conference held in Montevideo, Uruguay, during October-December 1972. The LAFTA businessmen also recommended seven new complementation agreements that included 144 suggestions for reductions of tariff rates. In addition, they submitted 385 recommendations for the expansion of eight existing complementation agreements and made 784 suggestions to broaden projects submitted in previous years that are now at different stages of the official ratification process.

During 1972, more than 99 percent of the tariff cuts suggested at the sector meetings were for complementation agreements, and less than 1 percent, for the national and special lists; this was approximately the same relative distribution as in 1971. The suggested duty reductions for complementation agreements included those in the seven new complementation projects submitted, in expanded existing complementation

agreements, and in broadened projects previously presented that were at different stages in the process of official ratification during 1972.

#### Growth of intraregional trade

In 1972, on the basis of preliminary calculations by the LAFTA Secretariat, the value (in U.S. dollar equivalents) of the intraregional imports of the 11 LAFTA countries rose slightly, to nearly \$1.67 billion. This value was more than 10 percent above that in 1971 and nearly three times the value of such imports in 1961.

It should be noted, however, that intraregional trade still accounts for only a minor share of total LAFTA trade. In 1972, intra-LAFTA imports accounted for only 10.5 percent of the global total of LAFTA imports, in terms of value, down slightly from the 11-percent share registered in both 1970 and 1971. In 1969, intraregional imports accounted for more than 12 percent of total worldwide imports. In 1955, before the advent of LAFTA, the value of imports from one another of the 11 countries that later became members of LAFTA accounted for 11 percent of their total imports.

In addition, extraregional imports of the LAFTA countries have been increasing at a faster rate than intraregional imports. In 1972, the imports from outside the LAFTA were more than 17 percent higher in value than in 1971; in 1971 the value of extraregional imports rose by about 13 percent over that in 1970, compared with only 12 percent for the value of intraregional imports.

The annual growth rate for intraregional imports of 10 percent in 1972 and 12 percent in 1971 did not compare favorably with the rates for earlier years of the LAFTA's existence. The annual growth rate for intra-LAFTA imports during 1962-65, in terms of value, ranged from 16 to 25 percent.

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

- (1) Inadequacy of export supplies because of the tendency of regional producers to restrict themselves to the internal market;
- (2) Insufficient information available to regional producers, exporters, and importers on the opportunities offered by customs concessions negotiated within the LAFTA;
- (3) Excessive administrative requirements and delays in import-export operations;
- (4) Difficulties encountered in overland and maritime transportation; and
- (5) Uncertainties resulting from modifications and errors in the intraregional tariff reductions granted and from vagaries in the import policies of some of the individual member countries.

Extraregional trade trends

In 1972 the value of the extraregional imports of the 11 LAFTA countries continued to increase, rising to more than \$14 billion--nearly 10 times the value of intraregional trade. This represented an increase of more than 17 percent over the 1971 value and of 32 percent over that of 1970.

U.S. exports to the 11 LAFTA countries in 1972 were valued slightly in excess of \$5.5 billion, about 15 percent above the annual totals for 1971 and 1970 of approximately \$4.8 billion. The value of U.S. shipments to this market in 1969 and 1968 amounted to a little more than \$4 billion in each year. In 1961, the year in which the LAFTA was first operative, U.S. exports to the same 11 countries were valued at \$3.1 billion.

Despite their increase in value over the 1971 figure, U.S. exports to LAFTA in 1972 accounted for only 31 percent of the total LAFTA market, compared with 36 percent in 1971. The decline in the U.S. share resulted from an 18-percent rise in the value of global imports of the LAFTA countries during 1972 over that of such imports in 1971, and in the continuing desire of most of the LAFTA countries to diversify their imports with reference to origin, with increasing emphasis on larger purchases from Europe and Japan.

The Andean Group 1/

During 1973, the Andean Group was on schedule in implementing the Cartagena Agreement or "Andean Pact," at least in the important areas of intrasubregional trade liberalization and the "sectoral programs for industrial development." Progress has been relatively slow, however, on the attainment of a common minimum external tariff and the harmonizing of the economic policies of the member nations. Considerable uncertainty existed concerning the treatment of foreign capital and technology in the subregion, and also concerning the political instability of leading Andean Group countries.

An increase in trade took place in 1972 among the Andean countries, an increase attributable in large part to the trade liberalization program of the subregion. Despite this increase, however, intra-subregional trade still accounts for only a very small share of the total world trade of the Andean countries.

In 1972, industrial development planning was not making much progress in overcoming initial obstacles; the problem of increasing the growth rate of industrial production remained largely unsolved, and the prospects for the establishment of new subregional industries were clouded by the national ambitions of the individual members of the Andean Group.

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1/ On May 26, 1969, Bolivia, Chile, Colombia, Ecuador, and Peru signed the Andean Group subregional agreement in Bogota, Colombia; it entered into force on Oct. 16, 1969, after ratification by the five governments. After much negotiation, Venezuela formally acceded to the agreement on Feb. 13, 1973. This agreement in general is referred to as the Cartagena Agreement (Acuerdo de Cartagena), after the port city of Colombia in which most of the work of drafting the agreement was performed and in which the final negotiations took place.

Although a common minimum external tariff had been approved in 1971, a firm policy on duties on imports from extraregional countries had not yet been adopted.

The Andean foreign investment code, which became effective in 1971, has generally tended to discourage new foreign investment in--and the transfer of foreign technology to--industries within the subregion. The nationalistic quality of the code's restrictions and controls on foreign capital appeared to be working against the economic development which it was designed to foster.

Although the first sectoral program for industrial development (involving the metalworking industry) was approved in August 1972, the conflict of subregional and national interests has caused much delay in the Andean program for developing industries. The various member governments have pursued programs that have not been in harmony with the program for subregional economic integration. Longstanding political rivalries and tensions between individual Andean countries have also retarded the progress of subregional economic development.

Although the Andean Group had succeeded in creating a reasonably efficient organization and an effective plan for economic integration by the end of 1972, implementation has been difficult. Subregional trade and industrial development have not expanded sufficiently or moved fast enough. The delays that have been encountered might well cause the Andean governments to seek national rather than subregional solutions to their economic problems.



During 1972, the Andean Development Corporation, the developmental financial agency of the Andean Group, continued to raise funds and to finance economic integration projects within the subregion. The authorities of the Corporation and those of the Cartagena Agreement appeared to have achieved satisfactory coordination of their activities, despite some problems involving jurisdiction and duplication of efforts. In the course of the year, loans were received by the Corporation from the United States and from the Inter-American Development Bank for financing economic development and technical assistance.

Also during 1972, the Andean Group acted to strengthen its economic ties with the Central American Common Market (CACM) and the Caribbean Free Trade Association (CARIFTA), and with important LAFTA countries. Mixed commissions were created with Mexico and Argentina to improve trade, investment, and technological cooperation between these countries and the group.

Although Venezuela had not become a member of the Andean Group by the close of 1972, on February 13, 1973, that country signed instruments providing for formal adherence to the Cartagena Agreement. Venezuela, having a population of about 12 million and a per capita gross national product second only to Argentina in Latin America, offers a good consumer market for Andean products, and is a leading world source of petroleum.

### Trade liberalization

In 1972 the trade liberalization program of the Cartagena Agreement was on schedule. A uniform starting duty level had been set in 1971 for each individual item imported from within the subregion, based on the lowest preintegration rate of duty in either Colombia, Peru, or Chile, or 100 percent ad valorem, whichever was lower. Annual reductions of the initial duty are to be made from this common starting point until the duty is reduced to zero by December 31, 1980; the first 10-percent reduction was made on January 1, 1972.

More favorable treatment is extended to Ecuador and Bolivia, Andean countries of relatively less economic development. Exports from these two countries to Chile, Colombia, or Peru are to be freed of all duties in 3 years instead of the 10 years required for the more developed countries to achieve complete liberalization; annual reductions for Bolivia and Ecuador are to be 40, 30, and 30 percent of the initial duties. On December 1, 1972, the first reduction--40 percent--went into effect for these two countries.

This general trade liberalization applies to about 58 percent of all products listed on the national tariff schedules of the Andean countries (about 3,400 tariff items out of a total of about 5,900 items). The remaining 2,500 items (42 percent) are divided into two groups, those freed immediately of all duties and those scheduled for special liberalization through the sectoral programs for industrial development. By the close of 1972, all duties and nontariff trade restrictions had been removed on more than 700 products traded within the Andean Group.

Intrasubregional exports in 1972 of the five original Andean Group countries plus Venezuela were valued at the equivalent of US\$240 million, 70 percent higher than the corresponding value of US\$140 million for 1968, the year before the Cartagena Agreement became effective. These exports of the six countries to the other Andean countries, however, accounted for only a very small share of their total exports-- 2.5 percent in 1968 and 4.0 percent in 1972. The major reason for the small share accounted for by intrasubregional trade is the complementarity of the past and present national economies of the member countries. Another important factor has been the emphasis on joint industrial planning rather than on trade expansion. The sectoral programs for industrial development, designed to create new productive facilities throughout the area, have been given priority; positive measures to liberalize trade have been relegated to a secondary role.

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

The modest increase that has occurred in intrasubregional trade is attributable largely to such developments as the removal of nontariff barriers, growing knowledge of and interest in subregional trade

opportunities, and adoption of the lower uniform duty rate by Chile, Colombia, and Peru. Other influences have included tariff reductions that entered into force on January 1, 1972, when Chile, Colombia, and Peru reduced import duties by 10 percent on each other's products and by 30 percent on most products originating in Bolivia and Ecuador.

Common minimum external tariff.--By 1972, an Andean Group policy covering duties on imports from countries outside the area was still largely undefined. Although a "common minimum external tariff" (CMXT) <sup>1/</sup> had already been defined and is scheduled to become effective by the end of 1975, there was little indication in 1972 of the actual extent of protection above the minimum on imports from third countries. CMXT was approved for all products except those reserved for the sectoral programs for industrial development. Individual member countries' import duty rates that are below the rates of the CMXT must be raised to that level in five annual steps. The first of these steps went into force on December 31, 1971; the second, on December 31, 1972.

The purpose of the CMXT is to establish a minimum margin of preference for production within the Andean Group by December 31, 1975, and to

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<sup>1/</sup> The common minimum external tariff, authorized by art. 63 of the Cartagena Agreement, is contained in Decision No. 30 of the Cartagena Agreement Commission, adopted at the Commission's third period of extraordinary sessions in December 1970. The CMXT was constructed through the division of all tariff items into 11 groups, by employing a weighted average of four criteria: Degree of labor intensity, degree of technological complexity, type of inputs, and grade of elaboration. As for duty rates, those of the CMXT are appreciably lower than those of the preintegration duties in individual member countries and, in addition, have lower standard deviation.

facilitate the adoption of the definitive common external tariff (CXT) by December 31, 1980. The Junta (of the Cartagena Agreement) was to prepare the proposal for the definitive CXT by the end of 1973; the Cartagena Agreement Commission is expected to approve it by the close of 1975. Between 1976 and the end of 1980, the Andean Group member nations are scheduled to adjust their prevailing import duty rates gradually to those of the CXT, which should be in force throughout the subregion at the end of the transition period. 1/

In providing for tariff exemptions, rebates, and rate reductions, Decision No. 49 of the Cartagena Agreement Commission stipulates that import duties shall be subject to automatic, lineal reductions annually. For the more developed member countries, Colombia, Chile, and Peru, these reductions were scheduled to be made during the period from December 31, 1972, through December 31, 1975; for the less developed members, Bolivia and Ecuador, the reductions were scheduled to be made during the period beginning December 31, 1976, and ending December 31, 1985. After the latter date, no country may make rate reductions at levels below those of the common minimum external tariff.

The proposed common external tariff rates are not excessive. In fact, they are actually lower, as a whole, than those now in effect in Chile and Peru. They do not exceed 80 percent ad valorem for any product. The general intention was to prevent the establishment of industries

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1/ According to the terms of its entry into the Andean Group, Venezuela will make reductions of tariffs beginning in December 1976.

unable to survive without substantial government protection; dispersal of industry throughout the subregion, however, would seem to reduce such industries' chances of achieving a level of efficiency high enough to make such protection unnecessary.

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

The difficult decisions regarding the CMXT continued to be postponed during 1972. The level of the CMXT is of vital importance to the economic integration movement, as well as to suppliers of the Andean market; for example, if the protection for subregional industries is fixed at too high a level, inefficient operations might be encouraged. The next action regarding the CMXT was not anticipated to be taken until December 1973, when the Junta was scheduled to submit for approval of the Commission by December 1975 a draft of a common external tariff.

#### Sectoral programs for industrial development

On August 20, 1972, the Commission of the Andean Group approved the first of the sectoral programs for industrial development. This sectoral program involved a substantial part of the metalworking (metal-mechanical) industry in the subregion. Other programs concerned with

the petrochemical and automotive industries were taken under consideration and were scheduled to become operative before the close of 1973. Still other sectoral programs involving the steel, fertilizer, and pharmaceutical industries were planned for a later date.

In the metal-mechanical sectoral program, approximately 200 metal products, including capital goods, were scheduled for production. A list of production items was assigned to each member of the Andean Group. Each member has been provided with strong incentives for initiating production and exportation through duty-free access for the assigned products of a member nation in the markets of the other members, the elimination of all nontariff trade barriers, and the creation of a common external tariff on competing extraregional products. This common external tariff ranges from 35 to 80 percent ad valorem on the assigned products.

The sectoral programs provide for the assignment of the manufacture of special products to a member country or countries in the Andean Group and also provide long-term tariff protection against competing products from outside the subregion and medium-term tariff protection against competing products from within the subregion. For a limited period each Andean Group country is to discourage the construction of factories to manufacture commodities which have been authorized for production in another country within the subregion.

The regular tariff-reduction measures do not apply to about 2,000 items reserved for the sectoral programs for industrial development.

Some of these products are currently produced within the region while others are not. Intraregional duties on all such items included in the sectoral programs are scheduled for elimination before the end of the regular 10-year liberalization period. The products in this category that are not programmed for elimination by the close of 1975 will revert to the general trade liberalization program at the scheduled level of reduced duties.

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

#### Andean Development Corporation 1/

By the end of 1972, the six member countries had paid in \$15 million of the total subscribed capital of \$25 million for the Andean Development Corporation, with the final two payments of

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1/ The Andean Development Corporation (Corporacion Andina de Fomento) is a developmental financial agency owned by the five member countries of the Andean Group, plus Venezuela. Its headquarters are in Caracas, Venezuela. It was chartered on Feb. 7, 1968, and it opened on Jan. 30, 1970, and began financial operations in 1971. Its executive committee held its first meeting in Caracas in June and July 1971.



\$5 million each due in 1974 and 1975. By the end of 1972 the Corporation had domestic and foreign resources to the equivalent of about US\$35 million and hoped to reach an investment volume of US\$75 million by 1975. Most of the resources available had been placed in loans by the Corporation by the end of 1972, a large part of them for economic development in Bolivia and Ecuador.

The development plans of the Corporation emphasize the need to bring together public and private capital, technology, and professional management. The Corporation has a vital role in negotiations with large international enterprises, in the promotion of mergers among companies situated within the Andean subregion, and in the establishment of subregional multinational corporations. Existing industries are to be offered assistance by the Corporation to modernize their plants and to change and/or expand their product lines. The Corporation will participate in the equity of new enterprises and will underwrite stock issues.

During 1972 the United States approved a loan of \$15 million to the Corporation, for relending in the private sector to finance projects involving economic integration; the United States also made a grant of \$200,000 for industrial and investment promotion. The Inter-American Development Bank authorized a loan of \$5.4 million in 1972 for economic integration projects in Bolivia and Ecuador, and \$750,000 in technical grants.

During 1972 the Andean Development Corporation approved new projects and studies expected to cost slightly more than the equivalent of US\$1 million, as follows:

- (1) A feasibility study for the creation of a regional air transport leasing company that would be authorized to purchase aircraft and equipment which would be rented to airlines of member countries;
- (2) A feasibility study for the creation of a multinational reinsurance company for the five Andean Group countries and Venezuela;
- (3) Continuation and enlargement of studies on supplies of coke;
- (4) The sale of nonferrous metals and alloys in the international market;
- (5) Preinvestment and feasibility studies for agricultural and industrial projects in Bolivia; and
- (6) Preinvestment studies for a program to improve Colombia's export marketing system for livestock.

Loans totaling nearly \$2 million were made by the Corporation to Bolivia for the construction of storage silos for rice and other agricultural products, for the construction of an antimony factory, and for feasibility studies for the construction of cold storage facilities for beef processing and for the marketing of nonferrous metals. Loans totaling nearly \$1 million were extended by the Corporation to Ecuador for the installation of chilling and freezing facilities in tuna-processing plants, for the production and processing of tea, and for studies of the country's chemical and cement industries.

In 1972 the Corporation ratified its financial participation, in an amount equivalent to more than US\$3 million, in the construction of a bridge over the Limón River in Venezuela, near the Colombian border; this project is an integral part of the subregional integration program. In the same year, the Corporation also granted a loan equivalent to US\$5 million to Petroquímica Chilena, S.A., for the installation of petrochemical plants in Chile to produce vinyl acetate alcohol; this economic integration project was envisaged in a LAFTA complementation agreement (No. 6, on petrochemicals) and was in accordance with the trade and development programs of the Andean Group. This new complex is expected to supply the needs of the entire subregion as well as about half of the needs of the Argentine market.

Andean foreign investment code 1/

During 1972, U.S. investments in industrial plants and equipment within the Andean Group continued the modest recovery which started in 1971. In 1969 and 1970 the book value of those investments had fallen below their levels in the mid-1960's. Political situations in leading Andean Group countries, such as the Marxist program of the Allende government in Chile, were inhibiting factors for U.S. and other foreign investors in the area.

The Andean foreign investment code is a flexible instrument, since many escape clauses were incorporated as the price of approval by the

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1/ The full title of this code is "El Regimen Comun de Tratamiento a Los Capitales Extranjeros y sobre Marcas, Patentes, Licencias y Regalias" (common regulations for the treatment of foreign capital, and of patents, trademarks, licenses, and royalties). Decision No. 24 of the Cartagena Agreement Commission, Dec. 31, 1970, consists of the official text to the Andean foreign investment code. There were amendments to the code about the time of its ratification; changes were made by Decision No. 37 of June 24, 1971, and by Decision No. 37a of July 17, 1971. Decision No. 24 of the Cartagena Agreement Commission formally defined three types of enterprises in the Andean subregion: (a) national, in which more than 80 percent of the capital stock is nationally owned; (b) mixed, in which 51 to 80 percent of the capital is national; and (c) foreign, in which national capital accounts for less than 51 percent of the total capitalization.

On June 30, 1971, the amended Andean foreign investment code became effective for the five signatory countries--Bolivia, Chile, Colombia, Ecuador, and Peru--through ratification by executive decree of their respective governments. This action was in accordance with the terms of art. 27 of the Cartagena Agreement, which obligated member countries of the Andean Group to approve a common policy on foreign investments, trademarks, patents, licenses, and royalties within 6 months after the signing of the code by the five nations on Dec. 31, 1970.

For further details on the Andean foreign investment code, see Operation of the Trade Agreements Program, 21st report, pp. 107-108, and 23d report, pp. 141-143.

member governments of countries with sharply different political and economic conditions. As a result, its provisions are not applied uniformly among the Andean countries; a member government is permitted to ignore certain stipulations of the code when it judges that circumstances are sufficient to justify such a decision. Thus the code fails, for all practical purposes, to effect one of its important goals, i.e., the uniform treatment of foreign business throughout the subregion; this has been of special significance in governmental treatment of mining and petroleum development. In addition, the code merely sets forth the minimum restrictions which Andean governments may apply to foreign business, permitting each government to apply further restrictions if it so desires. Certain ambiguities in the code have created an area of uncertainty for both governments and foreign business with regard to the application of various provisions.

By the end of 1972, most of the Andean countries had invoked the escape clause (art. 44 of the code), which permits them to regulate leading areas of economic activity--such as financial institutions, transportation, communication, public utilities, and the extractive industries--on the basis of national rather than subregional standards. Another provision (art. 26) leaves a foreign patent holder with uncertain protection, since the individual Andean governments are empowered to decide which products and processes are to be regarded as not subject to patent and to decide on the treatment to be extended to holders of existing patents.

On the whole, the Andean foreign investment code takes a stern, if not a severe, nationalistic attitude towards foreign investment. It is

replete with provisions for limiting the activities, as well as the profits, of direct foreign investment and for reducing the role of foreign management in industries situated within the subregion. The most promising features of the code, from the standpoint of foreign investors, are the areas of freedom of decision left to the individual governments and the ambiguities of certain of its sections.

Restrictions placed by the code on earnings of direct foreign investment limit repatriation of profits and bar other sources of income of extraregional investors in foreign enterprises operating in Andean Group countries. Profits can be repatriated only with government approval, and then they are generally limited to 14 percent of authorized direct foreign investment. An Andean enterprise can contract a new foreign debt only when authorized by the government of the country in which it is situated. A foreign parent company is not permitted to receive royalty payments for its technological contribution to its subsidiary foreign enterprise operating in the Andean area, nor is it permitted to capitalize its technological contribution to the subsidiary or claim tax deductions for the contribution. All foreign borrowing by an Andean enterprise must be approved in advance by the government concerned, and the interest rates cannot be higher than those stipulated by the government.

The drafters of the Andean foreign investment code appear to assume that foreign investors will be willing, because of the opportunities to enter an attractive, expanding market of nearly 60 million people, to provide capital and technology to subregional industries despite the

obstacles placed in their path by the code. It was apparently believed that the intense nationalism, political instability, and distrust of foreign investment that exist in the area would not deter an appreciable number of foreign investors.

While there can be no quarrel with Andean aspirations for national and subregional development or with the prevention of abuses by foreign investors, the investment code appears to discourage the subregion's urgently needed volume of foreign capital and technology. The political instability that has characterized most of the member governments in recent years, coupled with the restrictive provisions of the Code, have caused the Andean countries to be regarded as a high-risk area, to the detriment of the economic development sought in the integration program of the Andean Group.

#### Relations with other regional groups and members thereof

During 1972, the Andean Group created mixed commissions with two other members of the LAFTA, Mexico and Argentina, to explore mutually beneficial relationships between those countries and the group in the areas of trade, investment, and technological cooperation. Membership in the Andean Group definitely is not planned for either Mexico or Argentina, because their inclusion would not be consistent with the fundamental aim of the Andean Group, i.e., strengthening the competitive position of member countries vis-a-vis the "big three" LAFTA countries--

Argentina, Brazil, and Mexico. These agreements were expected to increase the possibilities for industrial complementation and to revitalize trade relations between these two large LAFTA countries and the Andean Group.

Argentina is very important to the commerce of the Andean Group countries. During recent years, the value of imports of the five Andean countries from Argentina has been approximately double the value of total intrasubregional imports, and the value of exports of the five countries to Argentina has been about 20 percent greater than the value of the intrasubregional exports. Therefore any trade discrimination by the group against an important trade partner such as Argentina would have an adverse effect on the economic welfare of the group because of the retaliatory measures that might well result.

A mission of officials from the Andean Development Corporation visited Central America in 1972 to establish official contact with the Central American Common Market with the purpose of coordinating the Corporation with CACM's economic integration agencies; a special visit was made to the Central American Bank for Economic Integration to discuss the financing of economic integration. During the same year, another Corporation mission traveled to Barbados for discussions with officials of the Caribbean Development Bank, likewise endeavoring to coordinate financing activities for economic integration by their respective credit organizations.



Venezuelan membership

By the end of 1972, Venezuela still had not become a member of the Andean Group through formal adherence to the Cartagena Agreement. Negotiations at ambassadorial level proceeded during 1972, however, terminating with the signature of instruments stipulating the conditions for Venezuela's accession to the agreement. 1/ Venezuela had participated in the negotiations culminating in the Cartagena Agreement in 1969, and since that time, it had maintained close liaison with the Andean Group, although declining formal membership until 1973.

The six-country Andean Group contains about 25 percent of the total population of Latin America. It also accounts for about 25 percent of the gross national product and for about 40 percent of the value of international trade of Latin America.

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1/ In December 1973, upon completion of ratification of the agreement, Venezuela attained formal status as the sixth member of the Andean Group.

River Plate Basin (Cuenca del Plata) Group 1/

In December 1972 the Ministers of Foreign Affairs of the five member nations of the River Plate Basin Group 2/ met in Punta del Este, Uruguay, for their Fifth Conference. At this meeting, 19 resolutions were approved which called for joint prosecution of measures designed to advance industrial, financial, and commercial development within the group.

Advisability of creating an agency to rule on freight charges within the basin was considered by the conferees. Recommendations were made for studies on subregional air, land, and water transportation and on telecommunications systems. Studies were authorized on legal and administrative aspects of air traffic in the subregion and on coordinated activities among the seaports of basin countries.

Perhaps the most important resolution passed was one that projected a financial development fund of the River Plate Basin Group. The basic role of the fund, as stipulated in the resolution, was to be that of an international juridical person, with tenure of unlimited duration. Its purpose will be to finance studies, projects, activities, and programs designed to promote harmonious development and economic integration in the basin, with funds obtained from within the Group and from other sources.

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

2/ For additional information, see Operation of the Trade Agreements Program, 21st and 23d reports.

The initial capitalization of the fund will be in excess of the equivalent of US\$100 million. Each of the five member countries will provide the equivalent of US\$20 million over a period of years. Argentina and Brazil are to contribute their quotas within 3 years; Bolivia, Paraguay, and Uruguay, within 10 years.

Sete Quedas (Portuguese) or Saltos de Guaira (Spanish) refers to a large waterfall on the upper Parana River, on the Brazilian-Paraguayan border. In the autumn of 1972, Brazil announced ambitious plans to harness this waterfall through construction of a central hydroelectric plant which is to be one of the largest in the world. The capacity of the completed plant is estimated to be from 10 million to 12 million kilowatts. Its cost is estimated at US\$3 billion.

After a meeting of concerned Brazilian and Argentine officials in late 1972, Brazil speeded up negotiations and projects in order to initiate construction of this huge central hydroelectric plant before November 1974. This action caused considerable concern in Argentina, because the Parana River continues downstream through Argentina, and Argentine representatives were apprehensive of possible detrimental effects of the construction of this plant on their country's economy.

Accordingly, Argentina then announced that it was placing before the United Nations the question of whether a country has the right to use the waters of a commonly shared river without prior consultation.

The announcement constituted the first indication that Argentina apparently did not concur in the Brazilian decision to construct the plant. Argentine officials cited the principle of international law that a lower river country (Argentina) has the right to be consulted in detail by its upper river neighbor nation (Brazil) concerning the construction of works of any kind that might bring about substantial modification of the course of the shared river. By the close of 1972, no further decisions had been made in connection with this controversy.

Central American Common Market

By the end of 1972, there were serious doubts regarding the survival of the Central American Common Market. 1/ Before the severe disruption of intraregional trade channels resulting from the war between El Salvador and Honduras in 1969, this Central American experiment appeared to be the most successful example of economic integration and development among the several regional organizations throughout the world. 2/ The ruptured relations between these two CACM countries, which continued throughout 1972, materially retarded the economic growth of the entire area, and no real progress has been made in restoring the shattered unity of the member nations.

During 1972, the value of the intraregional trade of the CACM was nearly 11 percent above that in 1971, despite the political difficulties in Central America. U.S. trade with the CACM continued at high levels in 1972, increasing about 8 percent over that in the preceding year.

In December 1970 Honduras withdrew from the CACM for all practical purposes, and it seemed very probable that Costa Rica would do likewise in 1972. For each country the reasons were both political and economic. The deterioration of the trade and general economic relations

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

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

of these two countries with the other CACM members (Guatemala, El Salvador, and Nicaragua) has been apparent since 1967.

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

On December 23, 1972, a disastrous earthquake struck Managua, the capital city of Nicaragua, virtually destroying it. According to the official Nicaraguan report, 6,000 persons lost their lives and 20,000 were injured; in addition, 60,000 homes were razed, leaving 300,000 people homeless, there were total property losses valued at the equivalent of about US\$800 million, and 45 percent of the economically active population was left without employment. For a time, Central American disputes and rivalries were put aside, as the other CACM countries rushed to the aid of their stricken sister country. A considerable amount of Central American resources was added to the funds that poured into Nicaragua from all over the world to finance relief and rehabilitation in the devastated city of Managua. Despite this

manifestation of Central American solidarity, however, the basic economic and political problems of the CACM remained without satisfactory solution as the year 1973 approached.

#### Repercussions of the Honduran withdrawal from the CACM

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

During 1972, continuing disagreement arose from the de facto creation of two four-country Central American markets; the three countries neutral in the 1969 war--Guatemala, Nicaragua, and Costa Rica--joined with El Salvador in one market, and the same three joined with Honduras in the other. In 1971 the first four countries listed above--Guatemala, El Salvador, Costa Rica, and Nicaragua--had created a "normalization Commission" designed to promote orderly trade relations and to initiate reform measures to bring about the eventual reconstitution

of a five-nation CACM; this four-country market functioned strictly in accordance with all CACM regulations and institutions.

In 1972, as in 1971, trade between Honduras and the neutrals--Guatemala, Nicaragua, and Costa Rica--was severely reduced as a result of the import duties which Honduras began to levy in December 1970. By the close of 1972 Honduras was actively attempting to negotiate bilateral trade agreements with each of the three neutral CACM countries; 1/ such agreements were designed to return trade to normal levels but at the same time to assure that the Honduran trade deficit would remain within reasonable limits.

Negotiations continued during 1972 (and into 1973) between the five CACM countries to restructure the common market so that a full five-country CACM could be reestablished. Progress was minimal, owing to the failure of Honduras and El Salvador to settle their differences and conclude a peace treaty.

Salvadoran and Honduran authorities held several unsuccessful meetings, including an important conference in Mexico City in December 1972, in attempts to resolve the political and economic issues created by the war of 1969. By the close of 1972, the failure to reach agreement left official trade between El Salvador and Honduras suspended, and much of the commercial traffic on the Inter-American Highway remained restricted.

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1/ By mid-1973 Honduras had entered bilateral agreements with each of these three countries.



Costa Rican surcharge on imports from other CACM countries

Costa Rica's participation in the trade liberalization and economic integration programs of the CACM was diminished substantially in 1972. The trade posture of Costa Rica in the CACM, like that of Honduras, had been deteriorating for several years. Between 1967 and 1972 the cumulative intraregional import balance of Costa Rica mounted to nearly \$118 million; in 1972 alone, this trade deficit amounted to \$29 million. The reasons for the inability of Costa Rica to reduce this chronic and growing trade deficit appeared to be the higher production costs in that country than in the other CACM countries and the absence of a common Central American agricultural policy.

As the overall trade deficit of Costa Rica soared to nearly \$147 million in 1972, the country was obliged to suspend payment on its imports from the other four CACM members. In June 1971 Costa Rica had introduced monetary exchange restrictions applicable to non-CACM countries as a direct result of the sharp reduction in its international reserves. The Costa Rican Government restricted the use of its foreign exchange reserves at the official exchange rate exclusively to the payment for goods and services classified as essential. This situation continued into 1972, when it became apparent that, owing to the continued rise of imports from within the CACM, the Costa Rican restrictions would be extended to imports of CACM origin, a step that would seem to take Costa Rica, like Honduras, out of the CACM for all practical purposes.

In June 1972, faced with the continued rise of imports into Costa Rica from both the CACM and extraregional countries, the Costa Rican Government declared a suspension of automatic payments for regional imports made through the Central American Clearing House. Concurrently, the Government announced that it might apply the free exchange rate to nonessential imports of CACM origin. On August 31, Costa Rican monetary authorities proclaimed that the exchange restrictions applicable to imports from extraregional countries in June 1971 would be extended to apply to those from Central America. As a result, Costa Rican imports of nonessential goods from other CACM countries became subject to payment at the free market dollar rate of exchange, which was equivalent to a surcharge of some 30 percent above the official exchange rate. Accordingly, Guatemala, El Salvador, and Nicaragua retaliated shortly thereafter by closing their borders to Costa Rican commodities; by the end of 1972, this crisis was still unresolved.

#### Intraregional trade

The value of intraregional trade of the CACM in 1972 totaled \$305 million, nearly 11 percent above the 1971 total of \$276 million. Intra-CACM trade was valued at only \$33 million in 1960, the year before the General Treaty on Central American Economic Integration entered into force.

The proportion of intraregional trade in the CACM's overall foreign trade remained low in 1972, owing to the complete cessation of trade between El Salvador and Honduras and to the new position of Honduras as a non-CACM member in its trade with Guatemala, Nicaragua, and Costa Rica.

Intraregional imports accounted for 22 percent of the value of total CACM imports in 1972, compared with 21 percent in 1971, 24 percent in 1970, and the high of nearly 25 percent in 1968. <sup>1/</sup> The Honduran share of the value of intraregional imports was 14 percent in 1972, compared with 8 percent in 1971 and 24 percent in 1970; the Honduran share of the value of intraregional exports fell to less than 1 percent in 1972, compared with 3 percent in 1971 and nearly 11 percent in 1970.

Trade within the CACM has been unevenly distributed. In 1972 Guatemala was the leading CACM exporter, and Costa Rica, the leading CACM importer, in terms of value. Guatemala and El Salvador together accounted for 64 percent of the value of intraregional exports in 1972; the three other CACM members (Nicaragua, Honduras, and Costa Rica), while accounting for only 36 percent of the value of intraregional exports, accounted for about 53 percent of the value of intraregional imports. Before the 1969 war, El Salvador had been the leader in value of both intraregional exports and imports, but because of its loss of the Honduran market it was displaced by Guatemala (in value of exports) and Costa Rica (in value of imports) in 1971 and 1972. In 1972 Costa Rica registered the largest CACM trade deficit, one in excess of \$29 million, posing another serious problem for the CACM, and Honduras had a trade deficit of nearly \$16 million; Guatemala and El Salvador, on the other hand, had CACM trade surpluses of nearly \$36 million and \$11 million, respectively.

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<sup>1/</sup> The ratio of intraregional imports to total CACM imports was 6 percent in 1960.

The growth in CACM intraregional trade in industrial products has been remarkable. Intraregional trade in agricultural commodities has increased substantially, although at a much slower pace than that in industrial goods. Lack of a common agricultural policy for the CACM has been an important factor in the comparatively slow growth of the agricultural sector. The overall growth of intraregional trade has been attributable mainly to the substantial reduction of trade barriers within the CACM, together with the CACM policy of substitution of products of regional origin for a wide variety of products formerly imported from extraregional sources of supply.

By the end of 1972, despite the removal of most intraregional trade restrictions, there were a few CACM products on which controls still remained in force and probably would continue to do so indefinitely. Coffee and sugar have been prominent among such products, the exportation of each being subject to national quota set by international commodity agreement. Because they have been important sources of tax revenue to the individual CACM governments, rum and ethyl alcohol have also been excluded from trade liberalization. Refined petroleum products have not been liberalized, largely because of the ambition of each CACM government to develop its own refining capacity. Removal of trade restrictions on wheat flour is predicated upon negotiations for a common external tariff on wheat, a matter on which views of the different CACM members have been widely divergent. Although these products are leading articles of commerce in the CACM, their relative importance to the trade of the area has been declining as trade in other commodities has continued to increase.

During the 1961-72 period, the Central American countries experienced extensive economic growth, largely because of the trade liberalization and economic integration measures of the CACM. In 1972 the gross national product of the five CACM countries combined amounted to the equivalent of more than US\$5.9 billion, representing a real increase of more than 70 percent over the corresponding figure for 1961. It has been estimated 1/ that the existence of the CACM has resulted in an annual GNP growth rate at least 1 percent above what might have been expected of the Central American countries without the common market. The growth of the Central American economy, especially the industrial sector, would be considerably stimulated by expansion of the limited market that has been available to Central American producers.

#### Extraregional trade

The mounting annual import balances of recent years in the extraregional trade of the CACM have been attributable principally to a sharp rise of imports of capital goods and raw materials for the expanding industries and the new development projects within the region. Extraregional exports of the CACM have not increased at the same pace. The principal export items have been agricultural commodities subject to international agreements; low world prices have reduced their value; and the political-economic crises (the Salvadoran-Honduran war, the Honduran withdrawal from the CACM, and the Costa Rican trade situation),

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1/ By the Secretaría Permanente del Tratado General de Integración Económica Centroamericana, the Secretariat of the CACM.

together with a number of natural disasters (hurricanes, crop blights), have reduced the quantities available for exportation and have increased difficulties of transportation to ports of embarkation.

#### Trade with the United States

During 1972, U.S. exports to the CACM increased in value to \$439 million, about 8 percent above the 1971 value and more than twice the value in 1961, the year when the CACM became operative. During the 1961-72 period, the relative share of the United States in the value of total annual imports of the CACM declined slowly but steadily, from 46 percent to 33 percent. The principal factor responsible for the decline was the expansion of the intraregional trade of the CACM.

In 1972, U.S. imports from the CACM continued to increase, rising in value to about \$485 million, 8 percent above the 1971 value. The total value of such imports in 1961 was slightly less than \$200 million. The principal CACM commodities imported by the United States have been bananas, coffee, beef, sugar, and shrimps.

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