UNITED STATES INTERNATIONAL TRADE COMMISSION

OPERATION OF THE TRADE AGREEMENTS PROGRAM

27th Report

1975

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of the Trade Act of 1974

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INTRODUCTION

This is the 27th report issued by the United States International Trade Commission on the operation of the Trade Agreements Program. It is made pursuant to section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978, approved Janaury 3, 1975) and relates to developments during calendar year 1975, including progress of the Multilateral Trade Negotiations being held in Geneva under the aegis of the General Agreement on Tariffs and Trade.

The year 1975 marked a turning point in the worldwide recession that had been the worst since World War II. At the close of the year, there was general improvement in the economic outlook both in the United States and abroad. Although unemployment and rates of inflation were still high, rises in the prices of crude oil and other materials had moderated. Two years had passed since oil prices had increased sharply and abruptly, and many of the industrial economies affected by the escalation in crude oil prices had adjusted to new and higher energy costs. World trade, which in 1974 had registered some increase in volume and a sharp increase in value, declined in volume and rose only slightly in value in 1975.

Section 163(b) of the Trade Act requires the Commission to submit to the Congress at least once a year a factual report on the operation of the Trade Agreements Program. This report was prepared by Dr. Andrew Valiunas, Eileen S. Slack, Anita Miller, Marsha Schweitzer, S. Michael Youssef, and Craig Buchsbaum of the Commission's Office of Economic Research.

CHAPTER 1

U.S. ACTIVITIES RELATING TO THE TRADE AGREEMENTS PROGRAM

The U.S. trade agreements program includes all activities relating to the negotiation and administration of agreements concerning trade and which have been concluded by the President under the authority vested in the President by the Constitution, section 350 of the Tariff Act of 1930, as extended and amended, the Trade Expansion Act of 1962, or which may be concluded by him under the Trade Act of 1974. The President's authority to negotiate new trade agreements, which lapsed in 1967, was revived and enlarged in the Trade Act of 1974. This act also amended many of the provisions of U.S. trade law that provide for safeguarding domestic interests from undesirable consequences of import competition and the effects of unfair trading practices.

Bilateral Agreements Under Reciprocal Trade Agreements Legislation

During 1975, bilateral agreements between the United States and Argentina, El Salvador, Honduras, Paraguay, and Venezuela remained in effect, although the form in which they had been modified in earlier years. Of the many such agreements entered into during the period following enactment of the Trade Agreements Act of 1934 and January 1, 1948, the effective date of the General Agreement on Tariffs and Trade (GATT), these were the only ones still in force. Of the agreements with El Salvador, Honduras, and Paraguay, only general provisions remain, including those providing for most-favored-nation treatment. The agreement with Venezuela, entered into in 1939 and supplemented in 1952, has undergone revision; the schedule of tariff concessions, although not wholly terminated, was confined to a continuation of concessions on petroleum and shale oil.

Congressional hearings were held in 1975 regarding the feasibility of starting a dialog with Cuba for reopening trade relations on the basis of reciprocity. The bilateral preferential agreement with Cuba has not been applied since 1962, and Cuba has also been denied the benefit of MFN treatment.

U.S. Actions Under Safeguard and Relief Provisions with Respect to Import Competition

Title II of the Trade Act of 1974 continued provision for relief of domestic industries from import competition and adjustment assistance for workers displaced by increased imports and firms adversely affected by imports. It also provided for adjustment assistance for communities found to have suffered economic injury because of imports. 1/

Industry relief

In 1975, the U.S. International Trade Commission instituted 12 investigations under section 201(b) of the Trade Act. Petitions for three additional investigations were filed during the year; one, which concerned frozen strawberries, was withdrawn; a petition concerning stainless steel wire and another concerning honey were filed near the

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1/ See U.S. International Trade Commission, Operation of the Trade Agreements Program, 26th report, pp. 3-5 and A-6 et seq.

close of the year and the respective investigations were instituted early in 1976. In the three investigations completed before the close of the year, the Commission's vote with respect to injury was negative. Following is a tabulation of the 12 investigations instituted in 1975:

Investigation No.	Articles concerned	Commission vote on injury
TA-201-1	Birch plywood doorskins	Negative
TA-201-2	Bolts, nuts, and screws	Negative
TA-201-3	Wrapper tobacco	Negative
TA-201-4	Asparagus	Evenly divided 1/
TA-201-5	Stainless steel and alloy tool steel	Affirmative 1/
TA-201-6	Slide fasteners and parts	Evenly divided 1/
TA-201-7	Footwear	Affirmative 1/
TA-201-8	Stainless steel table flatware	Affirmative 1/
TA-201-9	Certain gloves	Negative 1/
TA-201-10	Mushrooms	Affirmative 1/
TA-201-11	Ferricyanide and ferrocyanide blue pigments	Affirmative 1/
TA-201-12	Shrimp	2/ 1/

1/ Completed in 1976.
2/ Shrimp-fishing industry, one affirmative vote; shrimp-processing industry, one negative vote; domestic industry producing an article like or directly competitive with the imported article, two negative votes; domestic industry devoted to the catching and landing of shrimp, two affirmative votes.

The Commission is required under section 203(i) of the Trade Act to gather evidence on and to advise the President as to the probable economic effect of extending, reducing, or terminating measures for import relief already in force. One such investigation, that concerning ceramic tableware, was pending at the end of 1975. Increased duty rates applicable to nine earthenware articles were schedule to terminate on April 30, 1976, unless extended by the President.

Adjustment assistance

Under sections 221 and 251 of the Trade Act of 1974, workers and firms adversely affected by import competition may apply to the Secretary of Labor and the Secretary of Commerce, respectively, for adjustment assistance. In addition, the Act directs the Departments of Labor and Commerce to make studies of workers and firms in industries being investigated by the Commission under section 201. Under section 271 of the Trade Act, petitions for certification of eligibility to apply for adjustment assistance may be filed with the Department of Commerce by communities adversely affected by import competition.

In 1975, some 500 worker petitions, covering about 300,000 workers, were filed with the Department of Labor. Most of the petitions that had been accepted for certification involved workers in the automobile and electronics industries. Twenty-one firms were certified by the Secretary of Commerce as eligible for adjustment assistance during the year, about half of them footwear producers.

Safeguarding national security

Section 232 of the Trade Expansion Act of 1962 provides for taking actions to safeguard national security threatened or impaired by imports. 1/ If the Secretary of the Treasury finds that an article is being imported in such quantities or under such circumstances as to impair the national security, he shall so advise the President; if the President is in agreement, he is required to take whatever action may be necessary to adjust imports of such an article.

1/ Responsibility for investigations into the effect of imports on national security was transferred, by virtue of a provision of the Trade Act of 1974, from the Office of Emergency Planning to the Treasury Department.

In 1975, the President took actions under the authority of section 232 pertaining to the reinstitution of import fees, or tariffs, on petroleum and petroleum products. Effective from December 22, 1975, however, when the Energy Policy and Conservation Act was enacted, these supplemental fees were removed.

Trade Agreements Outside the Trade Agreements Program

In 1975, the United States continues to carry out one bilateral agreement providing for preferential tariff concessions, the agreement with Canada on trade in automotive products. This agreement became effective pursuant to statutory authority separate from the basic authority for conducting the trade agreements programs. 1/ Appropriate waiver of MFN obligations under the GATT was granted to the United States.

The agreement between the United States and the Republic of the Philippines, which governed trade and investment during the transitional period following institution of Philippine independence, expired in 1974. In that year, discussions were held on a proposed new treaty. These discussions were suspended in 1975, however, and no commitment with respect to formal economic relations between the two countries was made before yearend.

United States-Canadian automotive products agreement

By the end of 1975, the Agreement Concerning Automotive Products Between the Government of the United States of America and the

1/ The agreement was implemented in the United States through enactment of the Automotive Products Trade Act of 1965, approved on October 21, 1965, but the preferential duty-free treatment of motor vehicles and original equipment parts therefore from Canada, provided for in the the agreement, was made retroactive to January 18, 1965.

Government of Canada had been in operation for 11 years. During the year, trade in such duty-free products between the two countries reached a value of $13 billion--about 17 times the corresponding value in 1964, the last year prior to the agreement. Canada's share in the total value of U.S. trade in these products rose from 20 percent in 1964 to a high of 64 percent in 1969; in 1974 and 1975 it accounted for 56 percent of the total. During the 11 years of the agreement's operation (1965-75), U.S. automotive trade with Canada increased at an annual average rate of 27 percent. Data on growth in the value of U.S. two-way trade in automotive products with Canada and with countries other than Canada are shown in table 1.

In 1975, the U.S. balance in automotive products trade with Canada registered a surplus for the first year since 1967, according to data compiled from official statistics of the U.S. Department of Commerce. Data on U.S. automotive trade showing the U.S. balance of trade with Canada in these products for the years 1964-75 are given in table 2.

Trade in automotive products between the United States and Canada involves intracompany transfers, and trade statistics vary considerably according to the method of valuation used. Data based on the "import/import" method--U.S. exports expressed in terms of Canadian import statistics, which reflect transactions values--have been presented in the annual reports of the President to the Congress on operation of the Automotive Products Act of 1965. Such data on U.S. trade with Canada are shown in table 3 below.

Table 1.--U.S. trade in automotive products: Value and growth rates of two-way trade with Canada, with other countries, and total, 1964-75

	With Canada		With other countries		Total	
	Two-way trade 1/	Annual growth rate	Two-way trade 1/	Annual growth rate	Two-way trade 1/	Annual growth rate
	Million dollars	Percent	Million dollars	Percent	Million dollars	Percent
1964 2/--------	778	-	3,095	-	3,873	-
1965 2/--------	1,171	51	2,077	-33	3,248	-16
1966 2/--------	2,253	92	2,368	14	4,621	42
1967 2/--------	3,417	52	2,314	-2	5,731	24
1968 2/--------	5,058	48	3,089	25	8,147	42
1969 2/--------	6,311	25	3,357	9	9,668	19
1970-----------	6,122	-3	3,951	18	10,073	4
1971-----------	7,925	29	5,004	27	12,929	28
1972-----------	9,280	17	5,894	18	15,174	17
1973-----------	10,756	16	7,341	25	18,097	19
1974-----------	12,190	13	9,503	29	21,693	20
1975-----------	13,259	9	10,263	8	23,522	8
Average annual growth rate: 1965-75------	-	27	-	17	-	22

1/ Based on U.S. merchandise trade data in terms of principal end-use category.

2/ Estimated on the basis of data from several sources.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Table 2.--U.S. automotive trade: U.S. imports for consumption and U.S. exports of domestic merchandise; total trade and trade with Canada, 1964-75 1/

	U.S. imports			U.S. exports			U.S. two-way trade			Net surplus (+) or deficit (-) in trade		Size of U.S. surplus/deficit with Canada (as a percent of total U.S. trade surplus/deficit)
	Total	From Canada	Percentage of total from Canada	Total	To Canada	Percentage of total to Canada	Total	With Canada	Percentage of total with Canada	Total	With Canada	
	Million dollars	Million dollars	Percent	Million dollars	Million dollars	Percent	Million dollars	Million dollars	Percent	Million dollars	Million dollars	Percent
1964 2/---	823	111	13	3,050	667	22	3,873	778	20	+2,227	+ 556	25
1965 2/---	1,063	257	24	2,185	914	42	3,248	1,171	36	+1,122	+ 657	59
1966 2/---	1,980	929	47	2,641	1,324	50	4,621	2,253	49	+ 661	+ 395	60
1967 2/---	2,720	1,619	60	3,010	1,798	60	5,730	3,417	60	+ 290	+ 179	62
1968 2/---	4,440	2,633	59	3,707	2,425	65	8,147	5,058	62	- 733	- 208	28
1969 2/---	5,502	3,509	64	4,166	2,802	67	9,668	6,311	65	-1,336	- 707	53
1970------	6,161	3,608	59	3,912	2,514	64	10,073	6,122	61	-2,249	-1,094	49
1971------	8,270	4,650	56	4,659	3,275	70	12,929	7,925	61	-3,611	-1,375	38
1972------	9,724	5,302	55	5,450	3,980	73	15,174	9,282	61	-4,274	-1,322	31
1973------	11,442	5,993	52	6,655	4,763	72	18,097	10,756	59	-4,787	-1,230	26
1974------	12,984	6,260	48	8,709	5,930	68	21,693	12,190	56	-4,275	- 330	8
1975------	12,622	6,511	52	10,930	6,748	62	23,552	13,259	56	-1,692	+ 237	3/

1/ U.S. merchandise trade in terms of principal end-use category.
2/ Estimated on the basis of data from several sources.
3/ Not applicable.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Table 3.--U.S. trade with Canada in automotive products, 1964-75

(In millions of U.S. dollars)

Year	U.S. imports	U.S. exports 1/	Net surplus (+) or deficit (-) in trade
1964	76	640	+563
1965	231	889	+658
1966	819	1,375	+556
1967	1,406	1,889	+483
1968	2,274	2,634	+360
1969	3,061	3,144	+83
1970	3,132	2,936	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	+425
1974	5,544	6,777	+1,233
1975	5,801	7,643	+1,842

1/ In terms of Canadian import data.

The matter of alternative methods of valuation is discussed in a report on the United States-Canadian agreement that was made in 1975 by the United States International Trade Commission at the request of the Senate Committee on Finance.1/

Arrangement Regarding International Trade in Textiles

Section 204 of the Agricultural Act of 1956, as amended, authorize the President to negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries to the United States of any agricultural commodity or product manufactured therefrom, or textiles or textile products. Under this

1/ Canadian Automobile Agreement; United States International Trade Commission Report on the United States-Canadian Automotive Agreement: Its History, Terms, and Impact . . ., Committee on Finance, United States Senate, 94th Cong., 1st Sess., January 1976.

authority the United States entered the Long-term Arrangement Regarding International Trade in Cotton textiles (LTA), and its predecessor short-term arrangement, which provided a multilateral basis for regulating international trade in cotton textiles generally through a network of bilateral agreements. The LTA expired on December 13, 1973, and on January 1, 1974, a new arrangement regarding trade in most textiles of cotton, wool, or manmade fibers went into effect, except for some provisions which became effective 3 months later. All of these arrangements, which were negotiated under the aegis of GATT but were separate from the General Agreement, were open to countries that were not contracting parties to the GATT.

The Arrangement Regarding International Trade in Textiles, usually referred to as the Multifiber Textile Agreement (MFA), is to remain in force from January 1, 1974, through December 31, 1977. Its basic objectives are "to achieve the expansion of trade (in textiles), the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries." A principal aim of the arrangement is to assist in the economic and social development of developing countries through an increase in their export earnings from textile products.

When the MFA was negotiated in December 1973, the United States had in place 36 bilateral textile restraint agreements with 30 nations.

From March 1974 through June 1975, the United States held negotiations on all of these agreements. The agreements with Czechoslovakia, Greece, Hungary, Jamaica, Malta, Nicaragua, Peru, Portugal, Spain, and Yugoslavia were terminated and replaced by consultation mechanisms. The agreements with Italy and Turkey were terminated. The total restraints on U.S. textile imports by country in 1975 are shown in table 4.

International Commodity Agreements

In 1975 the United States participated in the international commodity agreements that involved coffee and wheat, in discussions relating to the negotiation of a new agreement on cocoa, and in the negotiations for the fifth International Tin Agreement. The United States had not participated in the International Sugar Agreement, the quota provisions of which expired at the end of 1973. New provisions concerning sugar were not negotiated by the end of 1975. U.S. imports of sugar in 1975 were governed by a global quota of 7 million short tons (raw value) for the calendar year. 1/

International Coffee Agreement

In 1975, negotiations were concluded by the major coffee importing and coffee exporting countries for a new international coffee agreement. In contrast to its predecessor agreement, in which the United States participated, the new agreement was to provide for basic export quotas

1/ Prior to 1975, country quotas for U.S. imports of sugar were set in accordance with the Sugar Act of 1948, which expired on December 31, 1974. Imports were subject to the provisions of Presidential Proclamation 4334, issued under authority of headnote 2, pt. 10A, of the Tariff Schedules of the United States.

Table 4.--Certain textile imports into the United States: Restraint levels by source, 1975 1/

(In millions of equivalent square yards)

Source	Aggregate restraints 2/
Brazil	3/ 95.7
Republic of China	714.3
Colombia	90.8
Egypt	3/ 45.0
Haiti	4/ 5.5
Hong Kong	887.5
India	3/ 138.2
Japan	5/ 998.1
Korea	537.0
Macao	33.8
Malaysia	35.3
Mexico	197.0
Pakistan	3/ 130.4
Philippines	189.0
Poland	3/ 16.1
Romania	3/ 19.3
Singapore	218.3
Thailand	72.0
Total	4,423.3
1975 total imports 6/	3,828.6

1/ Includes textiles of cotton, manmade fibers, and wool.

2/ Except as noted, restraint levels shown apply to most textiles of cotton, manmade fibers, or wool. Most agreements under the MFA specified aggregate limits, not broken down by textile category.

3/ Applicable only to most cotton textiles.

4/ Applicable only to most cotton and manmade fiber textiles.

5/ Applicable only to most wool and manmade fiber textiles.

6/ Total imports include imports that were not under restraint.

Source: U.S. Department of Commerce, Office of Textiles, Textile Agreement Summaries and Summary of Agreement Actions.

among producers. 1/ At the end of 1975, the United States was scrutinizing the new agreement to determine whether or not it would participate. Subject to the signature of a sufficient number of participants the agreement was to enter into force on October 1, 1976.

At the International Coffee Organization meeting, held in London during June 25-July 11, 1975, the United States stated its position for: (1) country export shares fixed annually in two parts--80 percent determined by formula and 20 percent determined by the level of exportable stocks in producing countries to be verified on an agreed date in the preceding coffee year, (2) a target price range consistent with agreement objectives, and (3) an internationally controlled stock of 10 million bags to support the quota system for stabilizing prices and regulating supplies. It was expected, however, that the current high coffee prices resulting from a July frost in Brazil would preclude imposition of quotas until the third year of operation of the agreement.

International Wheat Agreement

In February 1975, the United States participated in discussions in the International Wheat Council that led to a further extension, until June 30, 1976, of the International Wheat Agreement of 1971. The United States, which accounted for 52 percent of world grain exports in 1975, was participating in the agreement primarily as an exporter.

In the negotiations for a new agreement that were under way in 1975, the position of the United States on objectives was as follows:

1/ In April 1973, the International Coffee Council approved a 2-year extension of the International Coffee Agreement of 1968--until September 30, 1975. In September 1975 the agreement was extended for another year--to September 30, 1976--to provide time to negotiate a new agreement.

(1) a global reserve of 30 million tons of food grains (wheat and rice)---reserves sufficient to offset an estimated 90 percent of world production shortfalls, (2) responsibility for holding reserves in the form of national stocks and for bearing the costs, equitably shared among participants, and (3) established quantitative guidelines to govern acquisitions and withdrawals.

A trend of growing dependency of the less developed countries and Communist countries on grain exports of the developed countries, especially the United States, was evident. For example, in 1956-60, Communist countries imported from each other, in intrabloc trade, nearly 80 percent of their grain imports; only 17 percent was from developed countries. In 1975, the situation was reversed, with grain imports from developed countries accounting for approximately 80 percent, and intrabloc trade for approximately 15 percent.

Meat Restraint Program

In 1975, the United States continued its program for restraints on imports of fresh, chilled, or frozen beef, mutton, and goat meat. The voluntary restraint agreements, negotiated by the Department of Agriculture under section 204 of the Agricultural Act of 1956, limit U.S. imports of meats subject to the Meat Import Act of 1964 (Public Law 88-482), so that such imports will not equal or exceed the quantity that would require the imposition of quotas. The Meat Import Act requires the Secretary of Agriculture to estimate for the coming year the level of imports of the subject meats. If the estimate equals or exceeds 110 percent of the quota prescribed by the law, the so-called trigger point, the President is required to proclaim quotas.

During 1975 the United States negotiated voluntary restraint agreements with 12 supplying countries concerning the meats subject to quota. U.S. imports for the year totaled slightly less than the permissible import restraint level, or trigger point, of 1,180 million pounds. At the end of the year, the United States announced that it would undertake a similar program for 1976. 1/

Section 22 of the Agricultural Adjustment Act

No new Presidential action was taken in 1975 under section 22 of the Agricultural Adjustment Act, as amended. Under this statute the Secretary of Agriculture must advise the President when he believes any agricultural commodity or product thereof is being imported under such conditions and in such quantities as to interfere with price-support or other programs of the Department of Agriculture or to reduce substantially the amount of any product processed in the United States from such agricultural commodities. The President may then direct the United States International Trade Commission to investigate and report to him its findings and recommendations in the matter. On the basis of such a report, the President may impose fees or quantitative limitations--or suspend, revoke, or modify existing import restrictions that have been so imposed. In emergency cases, the President may take immediate action, such action to continue in effect pending the outcome of the Commission's investigation.

1/ The action of the United States to impose in 1974 and to remove in 1975 the so-called retaliatory quotas on imports of certain meat and livestock from Canada was taken outside the meat restraint program.

During 1975, outstanding quotas limiting imports of certain cheese and other dairy products, cotton of specified staple lengths, certain cotton waste and cotton fibers processed but not spun, and peanuts remained in effect.

Relief from Unfair Trade Practices

Trade Act of 1974: section 301

Pursuant to section 301 of the Trade Act, the President was given broader authority to retaliate against the imposition by foreign countries of unjustifiable or unreasonable restrictions, including the withholding of access to supplies, such as the embargo placed on oil from October 1973 to March 1974.

In 1975, six petitions were filed with the Special Representative for Trade Negotiations under section 301 of the Trade Act: One with respect to Canadian quotas on U.S. eggs; four with respect to EC import regulations and subsidies against U.S. egg albumen, malt, wheat flour, and processed fruits and vegetables; and one with respect to discrimination against U.S. merchant ships by Guatemala. Before taking any responsive action, the President must provide opportunity for presentation of views of interested parties. A public hearing was held in November 1975 with respect to a petition filed by the National Canners Association concerning specified processed fruits and vegetables.

Antidumping Act, 1921

If, under section 201(a) of the Antidumping Act, 1921, as amended, the Secretary of the Treasury determines that foreign merchandise is being, or is likely to be, sold in the United States at less than fair value (LTFV), the case is forwarded to the U.S. International Trade Commission for determination of whether an industry in the United States is being, or is likely to be, injured or is prevented from being established by reason of such imports. If the Commission makes an affirmative determination, the Secretary issues a finding of dumping under which a special dumping duty is assessed on LTFV imports into the United States equal to the amount at which the merchandise is sold below its fair value.

During 1975, the Treasury Department found that LTFV sales occurred in seven of the antidumping complaints that it investigated. The Commission made two injury decisions, and five decisions of no injury. The Secretary of the Treasury issued formal findings of dumping in the cases in which injury was found, and LTFV imports of the articles concerned became subject to special dumping duties.

The Trade Act, among other things, added to the Antidumping Act provision for the Commission to make a preliminary inquiry at the early stages of an investigation if the Secretary concludes that there is substantial doubt whether the requisite injury exists. During 1975, three preliminary inquiries were completed by the Commission. The Commission did not determine there was not reasonable indication of injury with respect to all three cases. The Treasury Department was therefore required to continue its investigations under section 201(2) of the Antidumping Act. Table 6 on the following page, summarizes the antidumping investigations made in 1975.

Table 5.--Antidumping cases: Preliminary inquiries and full investigations conducted by the U.S. International Trade Commission, 1975

Merchandise and country of origin	Date of finding	Finding
Preliminary inquiries:		
Butadiene acrylonitrile rubber from Japan	April 23	Likelihood of injury 1/
Four-wheeled automobiles from Belgium, Canada, France, Italy, Japan, Sweden, United Kingdom, and West Germany	September 8	Likelihood of injury 1/
Portland hydraulic cement from Mexico	December 18	Likelihood of injury 1.
Full investigations:		
Tapered roller bearings and certain components thereof from Japan	January 23	Injury
Lock-in amplifiers from the United Kingdom	July 2	No injury
Electric golf cars from Poland	September 16	Injury
Welt work shoes from Romania	June 13	No injury
Portable electric typewriters from Japan	June 19	No injury
Vinyl clad fence fabric from Canada	October 24	No injury
Certain nonpowered hand tools from Japan	December 2	No injury
Birch 3-ply doorskins from Japan	2/	2/

1/ The Commission did not determine there was no reasonable indication of injury.
2/ Not completed in 1975.

The Treasury Department issued a tentative determination to revoke a finding of dumping issued July 1971, in the case of tempered sheet glass from Japan. Written assurances had been received from the sole exporter, Asahi Glass Co., Ltd., that future sales of the product would not be at LTFV. The Treasury modified the dumping findings on television receiving sets and tuners from Japan to exclude from the findings television sets produced by Sony Corporation of Japan and Japanese tuners sold by Tokyo Shibaura. With respect to a case concerning pig iron from Canada, the Treasury announced a modification of the dumping finding because pig iron was no longer being, nor was likely to be, sold at less than fair value.

Countervailing duty statute

Section 303 of the Tariff Act of 1930 provides that whenever the Secretary of the Treasury finds that a bounty or grant has been paid or bestowed on any dutiable import, he shall impose a countervailing duty equal to the amount of such bounty or grant. Countervailing duties are in addition to the normal customs duties.

Section 331 of the Trade Act of 1974 amended section 303 of the Tariff Act of 1930, requiring the Department of the Treasury to issue a public notice upon receipt of all complaints alleging that goods exported to the United States have benefited from bounties or grants in the country of exportation. On January 15, 1975, the Treasury Department published a list of 30 complaints, involving 19 countries, that were currently under investigation. Petitions received prior to enactment of the Trade Act concerned: float glass from Belgium, Italy, France, West Germany, and the United Kingdom; processed asparagus from

Mexico; dairy products from the European Communities; ferrochrome from South Africa; footwear from Taiwan; cheese from Austria and Switzerland; leather handbags from Brazil; nonrubber footwear from Korea; canned hams from the European Communities; shoes from West Germany; leather products from Argentina; steel products from the United Kingdom, Austria, West Germany, France, and Benelux; textiles from India; cast iron soil pipe and fittings from India; tie fabrics from Korea, Japan, and West Germany; and oxygen sensing probes from Canada. Final determinations in each of these cases were to be issued by January 15, 1976. Under the Trade Act, Treasury is required to issue a preliminary determination within 6 months after receipt of a complaint but is granted an additional 6-month period to determine whether imposition of a countervailing duty is warranted. Six petitions received after enactment of the Trade Act, on which final determinations were pending, concerned: hydrogenated castor oil and hydroyxstearic acid from Brazil; glazed ceramic tile from the Philippines; cheese from Norway, Finland, and Sweden; screws from Italy, and glass beads from Canada.

Ten investigations resulted in affirmative Treasury determinations; countervailing duties were to be assessed on four of them, namely: footwear from Taiwan, nonrubber footwear from Korea, float glass from Italy, and leather handbags from Brazil. The Treasury determined that bounties or grants existed on canned hams and shoulders and dairy products exported from the European Communities, Swiss and Austrian cheese, Korean rubber footwear, and some mexican steel (carbon and high strength plates). Action taken by the countries concerned to to reduce the impact of the bounties or grants was deemed adequate, however, and except on some Mexican steel, and countervailing duties would not be collected.

Unfair practices in import trade

Pursuant to section 337 of the Tariff Act of 1930, as amended by section 341 of the Trade Act of 1974, the U.S. International Trade Commission is authorized to investigate alleged unfair practices in the import trade of the United States. The Commission is granted final adjudicative authority--subject to Presidential disapproval for policy reasons and to court review--to determine whether there is violation of section 337. The Commission may order that articles involved in violation of the statute be excluded from entry into the United States or that those engaged in such violations cease and desist from engaging in such acts.

In 1975, seven petitions under section 337 were filed with the Commission. These petitions are descrqbed below:

Article	Date filed	Date determination due
Record players	March 18, 1975	July 24, 1976
Monolithic catalytic converters	May 2, 1975	1/
Glass fiber optic devices	May 12, 1975	August 27, 1976
Bismuth molybdate catalysts	May 30, 1975	October 15, 1976
Infants' booties, sweaters, and bonnets	May 30, 1975	2/
Dry wall screws	August 20, 1975	November 13, 1976
Reclosable plastic bags	October 20, 1975	January 15, 1977

1/ Suspended on December 4, 1975.
2/ Instituted on the Commission's own motion under section 603 of the Trade Act.

Under section 337, prior to its amendment by the Trade Act, the Commission acted in an advisory capacity to the President, and only the President was empowered to direct the exclusion of articles from entry into the United States. During 1975, the Commission dealt with cases under section 337 as follows: (1) in the unlicensed importation and sale of convertible game table and components thereof found violation of section 337 of the Tariff Act of 1930 and recommended issuing an exclusion order, (2) in an investigation on certain golf gloves found the criteria of section 337 of the Tariff Act of 1930 for a finding of unfair methods of competition or unfair acts had not been met, (3) ordered termination of an investigation on electronic flash devices, and (4) announced suspension until further notice of an investigation on doxyclycline. Preliminary inquiries were instituted on Angolan Robusta coffee and overlapping digital movements. The Commission also instituted an investigation based on complaints alleging unfair methods of competition and unfair acts in the importation and sale of eye testing instruments incorporating refractive principles.

U.S. Trade With Communist Countries 1/

Section 410 of the Trade Act of 1974 directed the U.S. International Trade Commission to establish an East-West Trade Statistics Monitoring System and to publish a detailed summary of data collected not less frequently than once each calendar quarter. The first of

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1/ The countries included in this grouping are Albania, Bulgaria, Romania, Yugoslavia, Czechoslovakia, Poland, Hungary, German Democratic Republic, Soviet Union, People's Republic of China, Mongolian People's Republic, and Cuba.

the Commission's quarterly reports on trade between the United States and nonmarket economy countries was submitted to the Congress and the East-West Foreign Trade Board, which had been established pursuant to section 411 of the Trade Act, on March 31, 1975.

U.S. trade with the Communist countries, although increasing rapidly in recent years, still represents only a small fraction of total U.S. trade. During 1975, two-way trade between the United States and the Communist countries grew by 22 percent and amounted to $4.6 billion, 2.3 percent of total U.S. trade for the year. U.S. exports to the Communist countries increased by 33 percent, to $3.4 billion, while imports declined slightly to $1.2 billion, 3 percent below the 1974 amount (table 6).

Table 6.--U.S. trade with the Communist countries, 1970-75

(In millions of U.S. dollars)

Year	U.S. imports	U.S. exports	Trade balance
1970	309	519	210
1971	320	557	237
1972	480	1,045	565
1973	737	2,717	980
1974	1,235	2,562	1,327
1975	1,200	3,405	2,205

Source: U.S. International Trade Commission, East-West Trade Statistics Monitoring System.

Increased levels of grain shipments, principally to the Soviet Union, accounted for a large portion of the growth in U.S. exports to the Communist countries in 1975. The value of the grain shipments increased from $836 million in 1974 to $1,456 million in 1975. Total U.S. exports to the Soviet Union in 1975, including $1,105 million in grain, were valued at $1,833 million, more than one-half total U.S. exports to the group of countries. In 1974, the People's Republic of China had been the largest Communist recipient of U.S. goods, but exports to China fell sharply in 1975, and China ranked fourth behind the Soviet Union, Poland, and Yugoslavia.

The slight decline in U.S. imports from the Communist countries in 1975 was caused by a drop in imports of metal manufactures and consumer products. The decline in these imports can be attributed to the sluggish state of the U.S. economy. Of U.S. imports of Communist products in 1975, over 60 percent came, in nearly equal shares, from the Soviet Union, Yugoslavia, and Poland.

One of the most important commercial agreements of the year between the United States and a Communist country was signed in October when the Soviet Union committed itself to the purchase of at least 6 million metric tons of wheat and corn per year for the next 5 years. Under the terms of the agreement, the United States may limit the sales to less than 6 million tons if the estimated total U.S. grain supply falls below 225 million tons in a crop year. Also, under the agreement, the Soviet Union may purchase up to 8 million tons with no consultations with the U.S. government, but purchases above this amount must have government approval. A similar agreement was signed with Poland in November, committing the Poles to purchase approximately 2.5 million tons of U.S. grain annually over the next 5 years. The combined value of the two agreements is nearly $1.5 billion at 1975 market prices. Also during 1975, the negotiations were begun on a 5-year U.S.-Soviet Union oil agreement. The proposed terms of the agreement include the purchase by the United States or by U.S. firms of ten million metric tons of Soviet petroleum per year for 5 years.

A bilateral trade agreement between the United States and the Socialist Republic of Romania entered into force on August 3, 1975. It was the first agreement with a nonmarket-economy country to have been negotiated under title IV of the Trade Act of 1974. Accordingly, the agreement provided for most-favored-nation (MFN) treatment of Romanian goods entering the United States. 1/ The terms of the agreement include the provision of business representations in the territory of the other party and the establishment of safeguards against market disruption of products of the other party. This agreement would remain in force for an initial period of 3 years, to be extended under certain conditions for successive 3-year periods, unless either party notifies the other of a desire to terminate.

Currently there are three joint commissions for bringing U.S. Government representatives together with their counterparts in Communist countries for discussions on trade and economic matters. The three commissions are between the United States and the Soviet Union, Poland, and Romania. No new commissions were established in 1975.

1/ Romania joined Yugoslavia and Poland as the Communist countries currently receiving MFN treatment from the United States.

In addition to the joint commissions involving government representatives, there exist seven joint economic councils involving representatives of U.S. business and their counterparts in the Communist countries. Three councils have been established with groups in Hungary, Yugoslavia, U.S.S.R., Poland, Romania, Bulgaria, and, in 1975, Czechoslovakia. The councils' main function is to improve business relations between commercial groups in the respective countries.

While U.S. trade with most Communist countries continued to grow during 1975, the United States maintained embargos on trade with countries dominated by Communist governments in North Korea, Indochina, and Cuba.

U.S. Trade with Developing Countries

Title V of the Trade Act of 1974 permitted the United States to extend duty-free treatment for a 10-year period to such products of developing countries as would be designated eligible under a system of generalized preferences. The United States would be the 19th developed market-economy country to implement such a preference system.

In order to implement the U.S. Generalized System of Preferences (GSP) that was to become effective with respect to imports entered on or after January 1, 1976, the President on November 24, 1975, issued Executive Order 11888. This Executive order modified the Tariff Schedules of the United States and designated beneficiary countries and articles eligible for GSP. A product that was eligible and met the conditions stipulated in title V of the Trade Act of 1974 would be duty free only if imported directly from a beneficiary country on or after January 1, 1976.

The 2700 items initially certified as eligible for duty-free treatment included: corned beef, sugar, most wood and paper products, certain organic chemical compounds, soap and synthetic detergents, certain mica items, safety razors and blades, calculators, radios (except for use in automobiles), motorcycles, most sports equipment and games, cameras, bentwood furniture, and monochrome television tubes. Section 503 of the Trade Act of 1974 provided that the President may not designate as eligible import-sensitive articles--textile and apparel articles subject to textile agreements, watches, certain electronic articles, certain steel articles, petroleum and petroleum products, certain categories of footwear, certain semimanufactured and manufactured glass products, and any other articles the President determines to be import sensitive in the context of the GSP.

During any calendar year, imports from a single country under GSP may not reach or exceed 50 percent of the total value of U.S. imports of the subject article, but the 50-percent ceiling would not apply if there were no like or directly competitive article produced in the United States.

Among the countries that were not to be granted preferences were Communist countries--unless their products were receiving nondiscriminatory treatment, they were contracting parties to the GATT and members of the International Monetary Fund, and were not dominated or controlled by international communism; countries withholding supplies of vital commodities, including the countries participating in such arrangements as the Organization of Petroleum Exporting Countries; countries nationalizing U.S. property without effective compensation; and countries supplying illegal narcotics.

The 1975 trade value of imports from all countries of the more than 2,700 items covered by GSP came to approximately $24 billion. The value of 1975 imports of GSP items from designated beneficiary countries amounted to $4.8 billion, of which $2.3 billion would have been eliminated by the competitive need criteria, leaving a net of $2.5 billion. Thus, slightly more than 50 percent of the exports of beneficiary countries to the United States could be entered duty free beginning January 1, 1976.

CHAPTER 2

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Introduction

During the 28 years since the General Agreement on Tariffs and Trade (GATT) became effective in 1948, this multilateral agreement has been the United States principal instrument for working with its trading partners to reduce or eliminate tariff and nontariff barriers and other obstacles that hamper U.S. international trade. It has virtually replaced the bilateral agreements concluded with the market-economy countries. It has also given rise to an institution with a complex organization, structured to carry out its provisions. This organization consists of numerous standing committees, special committees, working parties and groups, and study panels.

In 1975, the main work in GATT centered on the seventh round of multilateral trade negotiations (MTN), convening in Geneva. This was, however, the second successive year of large deficits or reduced surpluses in the foreign accounts of some leading industrial and many developing countries, and there were some reservations about the commitment to a "high-level of trade liberalization." No MTN group had yet been formed to deal with revising the GATT, but governments appeared to be interested as much in permitting more exceptions to rules as they were in tightening requirements for reconciliation through consultation. Some wanted assurances of both supplies of raw materials and markets for their products, but all officially wanted to liberalize trade.

The GATT seemed to be at a crossroads, and contracting parties, particularly developing countries, wanted to come to grips with issues. To this end, they set up the Consultative Group of Eighteen to "ensure quick and flexible GATT responses" to trade developments and to forestall unacceptable unilateral actions; they intended it to provide a broad perspective on GATT's role and its relationship to other international bodies. This new group, chaired by Director-General Olivier Long, would first consider recent developments in trade policy, subsequently taking up trade and payments adjustments and the interrelated roles of the International Monetary Fund and the GATT.

In recent years, as the trading world had rapidly become more global and interdependent, as patterns of trade and distribution of economic power had changed, and as tariff levels already had been significantly lowered, nontariff measures became relatively more visible. Paradoxically, the more interdependent the trading world became, the more reluctant it seemed to be to to eliminate discrimination. In opening the 31st Session of Contracting Parties, held in November 1975, the Chairman, Mr. Lai of Malaysia, called on the major trading nations to reconfirm their intention to refrain from imposing import restrictions or using export subsidies to avoid balance-of-payments difficulties.

Participation in GATT

In 1975, there were no new accessions to the General Agreement. The only revision made in the list of contracting parties was concerned with the name change of Dahomey to Benin. During the year, provisional accession for the Philippines and for Tunisia was extended through 1977, a declaration on the provisional accession of Colombia was opened for acceptance, and newly independent Surinam and Papua New Guinea were added to the list of former territories of contracting parties undertaking to apply GATT principles in their trade pending further decisions on their commercial policies. The following 105 countries were contracting parties or were otherwise participating in the GATT.

<u>Contracting parties</u>:

Argentina
Australia
Austria
Bangladesh
Barbados
Belgium
Benin
Brazil
Burma
Burundi
Cameroon
Canada
Central African Republic
Chad
Chile
Congo
Cuba
Cyprus
Czechoslovakia
Denmark
Dominican Republic
Egypt
Finland
France
Gabon
Gambia
Germany, Federal Republic of
Ghana
Greece
Guyana
Haiti
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Kenya
Korea, Republic of
Kuwait
Luxembourg
Madagascar
Malawi
Malaysia
Malta
Mauritania
Mauritius
Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Poland
Portugal

Romania	Sri Lanka	Uganda
Rwanda	Sweden	United Kingdom
Senegal	Switzerland	United States
Sierra Leone	Tanzania	Upper Volta
Singapore	Togo	Uruguay
South Africa	Trinidad and Tobago	Yugoslavia
Southern Rhodesia	Turkey	Zaire
Spain		

Acceded provisionally:

Colombia	Philippines	Tunisia

Countries that maintain *de facto* application of the GATT:

Algeria	Grenada	Swaziland
Bahamas	Lesotho	Tonga
Bahrain	Maldives	United Arab Emirates
Botswana	Mali	Yemen, People's Democratic Republic of
Cambodia	Papua New Guinea	Zambia
Equatorial Guinea	Qatar	
Fiji	Surinam	

Late in the year, Paraguay announced interest in becoming a contracting party, and a working party concerned with this accession was set up. The United States, among other contracting parties, planned to undertake tariff negotiations with Paraguay with a view to eliminating the bilateral agreement entered into under the Trade Agreements Act of 1934, the general provisions of which were still in force. Also during the year, Mexico requested and received formal observer status in the GATT Council of Representatives and in GATT working parties.

Multilateral Trade Negotiations: The Seventh GATT Round

In early 1975, the substantive phase of the seventh round, the so-called Tokyo Round, of multilateral trade negotiations (MTN) was at last under way in Geneva. Preparations for it had been going on since soon after the Kennedy Round ended in 1967, but formal prenegotiation procedures awaited firm commitments. According to the historic Tokyo Declaration, issued in late 1973, the new round was to be concluded within 2 years--in 1975. To engage in actual bargaining was not practical, however, unless or until Congress renewed the President's basic authority to enter into trade agreements for the reciprocal lowering of tariffs and other trade barriers. This was accomplished through enactment of the Trade Act of 1974 on January 3, 1975. In February, the important Trade Negotiations Committee, which then comprised about 90 members, convened for its first meeting of the year.

Even under a realistic time limitation, the rapidly increasing interdependence of the trading world and changing distribution of economic and political power would restrain progress of the MTN. The aims of the negotiations, specified and endorsed by representatives of the European Communities and 102 nations at Tokyo, were ambitious; such as: (1) to "achieve expansion and ever-greater liberalization of world trade . . .," inter alia through, "progressive dismantling of obstacles to trade" and improving "the international framework for the conduct of world trade," and (2) to "secure additional benefits for the international trade of developing countries . . .," including improved market access for their products and stable and equitable prices for primary products. As negotiations progressed, there was concern about the interrelation between monetary and trade issues and about what could be done to improve the trade system in the post-1973 economic environment, which was characterized by uncertain monetary relationships, wide swings in exchange rates, differential inflation, high levels of unemployment, and deteriorating terms of trade of many developing countries. There was particular concern about agreeing on a suitable unit of account for use in the highly complex bargaining of the latest round and about the new emphasis on guaranteed access to supplies.

Open to all nations, including those not parties to the GATT, the MTN would generally adhere to the GATT principles of mutual commitment, reciprocity, and most-favored-nation treatment--despite calls for special and differential treatment for developing countries and the significant participation of countries with nonmarket economies. Special procedures were to be established for negotiating between developed and developing countries--about 20 of the 90 or so participants were not contracting parties and about 70 considered themselves to be "developing." Thus, use of the one-country-one-vote procedure could result in small countries having a large voice in arriving at decisions.

Besides "differential measures" for developing countries, some of which were far more advanced and richer than others in the same category--some of which were petroleum producers, but many of which were dependent on imports and meet oil needs--the plant for the Tokyo negotiations called for systematic tariff reduction, negotiating concessions on nontariff measures (a broader concept than that of nontariff barriers), and adopting supplementary codes for more generalized control of trading behavior. Throughout 1975, the working units of the Trade Negotiations Committee had to cope with the six aspects of negotiation that had been laid down in the declaration. Work in connection with certain products centered on seeking avenues not only to greater market access but also "in the new consciousness of resource vulnerability," to assurance of steady supplies at reasonable prices. In contrast to past negotiations, which had been chiefly concerned with market access, criteria for export restrictions would also be extended.

There were differing attitudes, but the most pervasive one stemmed from the positions of the United States and the EC on agriculture. The United States maintained that agricultural issues, including tariffs on agricultural products, could not be treated as isolated issues. Under heavy pressure from France, the EC contended that agricultural matters must be treated only by a group or committee dealing only in agriculture and that any other procedure would "call into question" the Economic Community's basic elements of a customs union, a common agricultural policy, and a common commercial policy. In the U.S. view, this was economically unrealistic and would only preclude concessions being offered in industrial markets for concessions in agricultural markets; all products should be treated according to the relevant trade measures involved.

Since the MTN aimed to liberalize trade by bringing countless regulations considered by exporting countries to obstruct trade "under more effective international discipline," as well as by additional tariff reductions, negotiators were obliged to examine the interrelationship between tariffs and other restrictions and to judge actual world practices against commercial ideals. Furthermore, they were yet to decide whether to recommend revising the Agreement in its entirety or reforming it piecemeal. Revision was, however, an imperative; the Tokyo Declaration had provided for it, and the United States was prepared to take the initiative under section 121 of the new trade act. From the outset, the United States sought to broaden and strengthen the existing Agreement but not to replace it.

Throughout 1975, accelerating the MTN was urged in every important assembly concerned with international economic problems. Completion in 1977 was proposed in November at the Rambouillet Conference of six principal nonCommunist industrial nations and in December by the United States and several other governments at the year's third and final meeting of the Trade Negotiations Committee. In order to meet this target date, the United States was willing to commit itself to negotiate to reach agreement on the following nine goals, and pressed other governments to do likewise:

1. Agreements on tropical products;
2. A tariff formula as a starting point for achieving a substantial reduction in tariffs;
3. A framework for dealing with subsidies and countervailing duties;
4. A draft standards code;
5. An agreed procedure for achieving meaningful liberalization of quantitative restrictions;

6. Agreement on the basic concepts that should be covered by improved safeguard provisions;

7. A review and selection of sectors where complementary negotiations are feasible and would contribute to the goal of maximum achievable liberalization;

8. Parallel progress in achieving special and differential treatment for the developing countries in the various elements of the negotiations;

9. Negotiating approaches to a number of issues which had not yet received adequate attention in the deliberations, such as:

    a. Restraints affecting exports;

    b. A government procurement code that was being explored elsewhere;

    c. Dispute settlement procedures relevant to a number of negotiating issues;

    d. Treatment of tax practices affecting trade flows;

    e. Developing a code of conduct to eliminate unethical practices that threaten distortion of trade.

There appeared to be a consensus on setting 1977 as the target year and some acceptance of several of the interim goals proposed by the United States.

Although by the close of 1975 the MTN had yielded no firm commitments, agreement on some issues seemed possible for early in 1976. Industrial countries were sanguine about the near-term performance of their own economies; the apparent reluctance and lack of genuine concern for liberalization on a high level during the first negotiating year were attributed to nationalist and protectionist attitudes brought on by two years of economic hardships. Multilateral commitments in some areas may have been only postponed by strenuous efforts to reach preliminary agreement bilaterally or through private discussion. Progress was considered to have been fairly satisfactory with respect to tropical products, product standards, subsidies and countervailing duties, meat, and dairy products, but work on tariffs, quantitative restrictions and import licensing procedures, safeguards, and sectoral approaches had lagged; negotiation on government procurement were being discussed in the OECD, but had not been started in the MTN. The obstacles to negotiating industrial products and agricultural products jointly or separately were still to be overcome, however.

Despite reports of little success in resolving the agriculture impasse, the idea that the MTN was an "individual unity" had weakened. If the round were not to extend beyond 1977, some modifications in the total MTN undertaking as it had been charted at Tokyo would have to be made. Moreover, concrete actions would likely be restrained in 1976, a year of national elections in the United States and in West Germany and other important trading nations of Europe.

Functional organization of the seventh round

In November 1975, the following 92 nations--24 of which were not contracting parties--were participating in the MTN as members of the Trade Negotiations Committee, the committee set up in 1973 to manage the negotiations:

*Algeria
Argentina
Australia
Austria
Bangladesh
Belgium
Benin
*Bolivia
*Botswana
Brazil
*Bulgaria
Burma
Cameroon
Canada
Chile
**Colombia
Congo
*Costa Rica
Cuba
Czechoslovakia
Denmark
Dominican Republic
*Ecuador
Egypt
*El Salvador
*Ethiopia
Finland
France
Gabon
Germany,
Federal Republic of
Ghana
Greece
*Guatemala
Haiti
*Honduras
Hungary
Iceland
India
Indonesia
*Iran
*Iraq
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Kenya
Korea
Luxembourg
Madagascar
Malawi
Malaysia
Mauritius
*Mexico
Netherlands
New Zealand
Nicaragua
Nigeria
Norway
Pakistan
*Panama
Peru
**Philippines
Poland
Portugal
Romania
Senegal
Singapore
*Somalia
South Africa
Spain
Sri Lanka
*Sudan
*Swaziland
Sweden
Switzerland
Tanzania
*Thailand
Togo
Trinidad and Tobago
**Tunisia
Turkey
Uganda
United Kingdom
United States
Uruguay
*Venezuela
*Vietnam
Yugoslavia
Zaire
*Zambia

* Not a contracting party.
** A provisional contracting party.

The MTN work was structured around the following six negotiating areas that had been designated in the Tokyo Declaration: tariffs, nontariff measures, the role and use of industry or product sectors as a complementary technique, adequacy of the multilateral safeguard system, agriculture, and tropical products. In 1975, six groups and seven subgroups were carrying on the work under the direction of the parent committee (fig. 1).

The substantive work of the U.S. delegation was organized in project teams and subteams generally corresponding to the MTN groups and subgroups. The delegation also included a project team concerned with national trading systems and a fifth subteam set up under the nontariff measures team to deal with government procurement--the number of state-trading countries was increasing, since in many developing countries foreign trade was largely controlled by the government.

Figure 1.--Multilateral trade negotiations: Functional organization of the seventh round, 1975

- Trade Negotiations Committee
  - Negotiating Groups
    - Tariffs
    - Nontariff Measures
      - Quantitative Restrictions (including import licensing, import prohibitions, and export restraints)
      - Technical Barriers (such as standards, including packaging and labeling, and marks of origin)
      - Customs Matters (including customs procedures and valuation, nomenclature, documentation and other formalities)
      - Subsidies and Countervailing Duties
    - Sectors
    - Multilateral Safeguards
    - Agriculture
      - Grains
      - Meat
      - Dairy Products
    - Tropical Products

The U.S. mandate

Enactment of the Trade Act of 1974, on January 3, 1975, restored the President's negotiating authority and enabled the United States to pursue a leading role in the effort to carry out commitments of the Tokyo Declaration. The statute's six general purposes, to be attained "through trade agreements affording mutual benefits," reflect the importance of this legislation with respect to MTN objectives. They were set forth in the act as follows:

1. To foster the economic growth of and full employment in the United States and to strengthen economic relations between the United States and foreign countries through open and nondiscriminatory world trade;

2. To harmonize, reduce, and eliminate barriers to trade on a basis which assures substantially equivalent competitive opportunities for the commerce of the United States;

3. To establish fairness and equity in international trading relations, including reform of the General Agreement on Tariffs and Trade;

4. To provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition, and to assist industries, firms, workers, and communities to adjust to changes in international trade flows;

5. To open up market opportunities for United States commerce in nonmarket economies; and

6. To provide fair and reasonable access to products of less developed countries in the United States market.

"Substantially equivalent competitive opportunities" was to become the slogan of the U.S. delegation in bargaining for reciprocal concessions or comparable trade obligations; whereas "special and differential treatment" was to become the axiom of the developing countries in bargaining for exceptions to general trading rules.

The President's negotiating authority which under the Trade Act of 1974 was granted for 5 years--until January 3, 1980--generally conformed to the structure outlined at Tokyo, but was more specific. One of its main features called for negotiating industrial and agricultural matters together "to the maximum extent feasible." Throughout 1975, the United States held that to negotiate all products on the basis of relevent trade measures would not conflict with the Tokyo guideline that the negotiations should take account of "the special characteristics and problems" of agriculture. This was not the view of the EC, which regarded its special measures to boost farm income as a separate problem.

The U.S. statute further specified that, "to the extent feasible," manufactured products should be dealt with on the basis of "product sectors of manufacturing." The corresponding provision of the Tokyo Declaration merely called for examining the possibilities for using the sector approach as a "complementary technique."

In the U.S. act, two principal negotiating objectives were designated: (1) to obtain internationally approved safeguard procedures, which would allow use of temporary measures to ease adjustment to changes in domestic markets--at the least, this meant agreeing on broader provisions for emergency (escape clause) action than GATT articles, chiefly article XIX, included; and (2) to enter trade agreements to assure "fair and equitable access" to supplies of materials needed in the U.S. economy--this was intended to mean that trade agreements entered into should be based on prices that would be fair for both producers and consumers.

The authority to reduce tariffs is broad. In percentage terms, it could result in reductions of 60 percent in duties over 5 percent, with elimination of lower duties. In scope and specificity the authority for negotiating on nontariff barriers was unprecedented, but no agreement providing for the "harmonization, reduction, or elimination of nontariff barriers to (or other distortion of) international trade" was to be entered without prior consultation with the Congress. According to the act, subsidies, meaning primarily export subsidies, and the American-selling-price basis of customs valuation were considered to be barriers.

That the General Agreement has been outdated and should be supplanted or modernized to reflect trading conditions far different from those of 1948 was implied in the U.S. negotiating objectives; accordingly, the trade act provided for such changes. The United States would seek, inter alia, adjustment of the decisionmaking procedures to the divergent economic interests of the greatly enlarged participation in the GATT; an effective international safeguard mechanism, primarily through strengthening article XIX; realistic treatment of the so-called border taxes; provision for the wider use of instruments, such as export controls and possibly commitments respecting commodity agreements to govern access to supplies of food, raw materials, and manufactured or semimanufactured products; and measures that would alleviate urgent balance-of-payments problems.

Tariffs

Agreement on how tariffs should be reduced constituted the first issue before the MTN Tariffs Group. Selecting a formula or formulas suitable for "as general application as possible" implied agreeing on criteria for judging alternatives. Study papers submitted by the EC and several industrialized countries, including the United States, hypothesized the trade effects of tariff reductions in terms of various specific assumptions as to distribution and depth of cuts and the consequences of such cuts for domestic economies.

When negotiating started it soon became clear that many developing countries and some developed countries viewed the prospect of liberal tariff reduction with dismay. Low or zero duties could not only destroy margins of preference but also remove bargaining room for future lowering of high rates in export markets. Developing countries viewed these tariff negotiations as offering them an opportunity to press for fewer exceptions to, and other modifications of, donor schemes under the Generalized System of Preferences (GSP).

Again, the United States and the EC were not in basic agreement. The United States viewed some form of predominantly linear bargaining as the simplest and fairest method, and urged choosing a formula that could be applied to all products--agricultural as well as industrial--with zero tariffs as the ideal primary goal. The EC, on the other hand, wanted the principal market-economy countries to give equal weight to tariff reduction and tariff harmonization--that is, the higher the tariff, the larger the reduction; reductions could be repeated several times, but rates should not drop below a set floor. It continued its stand for negotiating agricultural products separately, for "concerted discipline" on some agricultural products and for international commodity agreements providing for stocking and pricing on others. Officially, U.S. policy continued generally to oppose commodity agreements that fixed prices and controlled supplies.

As in the Kennedy Round--when a simple linear method (equal percentage cuts applied on all items not excepted from negotiation) was used--progress was plagued by problems of tariff comparison, owing to the great differences in national tariff levels and rate disparities with respect to particular products.

A comparison of weighted average tariff rates of dutiable industrial imports in 1972, excluding petroleum, has been developed for the United States and its chief trading partners, as follows (in percent ad valorem):

United States	8.98
European Communities	9.60
Canada	14.61
Japan	10.68

Although U.S. rates range widely, the estimated distribution of U.S. imports in 1972 shows about 85 percent of the total to have been either duty free or dutiable at rates of 10 percent or below. Of the 85 percent, about one-third of which was duty free, somewhat under one-third fell between 0.1 percent and 5.1 percent, and somewhat more than one-fifth fell in the 5.1-10 percent range. These estimates include no quantification of nontariff restrictions.

During 1975 the MTN Tariffs Group discussed the technical questions of the rates to be used for statistical reference; the most equitable unit of account; methods for adjusting f.o.b., c.i.f., and other systems of customs valuation; and procedures for retaining existing bound rates. However, none of these questions was settled. The matter of reducing the impact of tariff escalation (progressive increases of tariffs according to the degree of processing) was also considered, but the issue of effective tariff protection (price consequences of nominal rates) was not formally posed.

Agreement on a tariff reduction plan was not reached before the close of 1975. In fact, the United States, the EC, and Japan, among other participants, postponed presenting formal proposals until 1976.

In the United States, consultations between the Government and the private sector, through the President's Advisory Committee for Trade Negotiations, were continuing. The U.S. International Trade Commission submitted to the President its advice on the probable economic effects of various rate reductions on domestic industries and on consumers.

<u>Nontariff measures</u>

In 1975, despite unfavorable trends in international accounts, many trading nations reportedly refrained from unilaterally imposing new trade and payments restrictions. In this, they were cooperating with the GATT and subscribing to the IMF declaration concerning trade and other current-account measures; in May 1975, OECD members renewed for another year their 1974 pledge to avoid new restraints on imports and new subsidies directly related to deficits induced by rising energy costs. In this apparently cooperative environment, participants in the MTN started to deal firmly with existing nontariff measures--to carry out the Tokyo commitment to negotiations designed to eliminate, reduce, or to bring such measures "under more effective international discipline." This was an historic move toward a main GATT objective. Public and private organizations throughout the trading world had for several years been reporting to the GATT on countless direct and indirect, and often interrelated, practices they considered to be artificially distorting, impeding, or promoting trade. Many were longstanding and traditional, particularly those affecting agriculture, but many had been introduced in the recent period of lower tariffs. According to the GATT Secretariat, nontariff measures fall into about thirty basic types; the following eleven were earmarked for initial action:

1. Quantitative restrictions, including import prohibitions and export restraints;
2. Import licensing procedures;
3. Subsidies;
4. Countervailing duties;
5. Standards;
6. Packaging and labeling requirements;
7. Marks of origin;
8. Customs valuation;
9. Customs nomenclature;
10. Customs procedures;
11. Import documentation.

Separate subgroups for quantitative restrictions, technical barriers, customs matters, and subsidies (and countervailing duties) were set up; but matters concerning tropical products, designated "a special and priority sector," and agricultural products were negotiated through their own two specialized groups.

Work on quantitative restrictions proceeded slowly in 1975. It overlapped the work of the GATT standing committee on balance-of-payments restrictions, the Textile Surveillance Body, the Textile Committee, and the MTN group on agriculture. It was hampered by the U.S.-E.C. stalemate on agriculture and also by the technicalities of reciprocity and the restrictions imposed under article XIX. Developing countries strongly favored removal of quantitative restrictions on a non-MFN basis. Many bilateral discussions and consultations were requested, but relatively few were held during the year.

Progress on customs matters--valuation systems, import documentation requirements, customs procedures, consular formalities, and nomenclature--was more satisfactory. In 1975, the work of this subgroup concerned mainly valuation systems, including fair valuation in trade between associated firms (multinational corporations). This centered largely on resolving differences in views on the Brussels Definition of Value.

Although some participants viewed enforcement of supplementary codes of conduct beyond the administrative power of many national governments, attempts were being made to negotiate such codes in several areas, particularly for certain technical barriers, such as standards and subsidies.

Standards.--In 1975, the Subgroup on Technical Barriers was considering a draft of a technical standards code that had been drawn up by a working group before the negotiating started. Definitions had been agreed on, but some important substantive questions, such as treatment of patents, trademarks, and copyrights were still to be resolved. By the end of the year, agreement on such a code of conduct appeared possible.

Subsidies and countervailing duties.--Of the measures projected for early action in 1975, subsidies (and bounties) and duties imposed to countervail (offset) their effects proved to be the most difficult to negotiate. Furthermore, this represented an important area of disagreement between the United States and the EC and one in which some revision of the General Agreement seemed inevitable.

The relevant GATT articles, which do not distinguish between industrial and agricultural products, require that subsidies, including income and price supports, that operate to increase exports or reduce imports must be reported and an estimate of certain of their subsidization effects must be submitted. GATT article XVI provides for triennial reporting of changes in subsidy measures. In January 1975, the contracting parties were invited to submit notifications under this requirement.

The GATT rules against applying countervailing duties, unless the subsidization effect is such as to cause or threaten material injury to an established industry or to retard materially establishment of a domestic injury. The longstanding U.S. law on countervailing duties provides no precondition of injury except in the case of duty-free imports.1/

1/ Thus, U.S. law would permit imposition of countervailing duties when injury to a domestic industry is found to exist in consequence of imports from developing countries entered duty free under the generalized preferences to be introduced by the United States on January 1, 1976.

Where in the functional organization of the MTN the issue of border tax adjustment would be negotiated had not been settled by the close of 1975. However, it was an important matter for the United States which preferred separate treatment and expected to take the initiative toward changing relevant GATT provisions.

It has been a GATT precept that taxes should be adjusted so as to be trade neutral, but the Agreement proscribes levying duties to offset exemption from or refund of taxes on products destined for export on the assumption that such taxes are not passed on to the ultimate consumer--value-added taxes, such as the EC's VAT, are therefore not countervailable. The U.S. view that countries relying on direct taxation were disadvantaged with respect to GATT treatment of border adjustments for internal taxes was firmly stated in the new trade act.

On the subsidy issue, lines were clearly drawn between the participants favoring either a separate code or entirely new GATT articles and those favoring rewording of existing provisions. Some believed that injury should be retained as a precondition for imposing countervailing duties and that nations should be allowed considerable freedom of action in levying such duties. During the year, a number of papers were introduced, and in what was described in the press as a major move, the United States proposed a code that covered three categories of subsidies. It included an injury test, a definition of export subsidies, supplementary protocols, countermeasures for third-country subsidization, and differentiated treatment for developing countries. Papers submitted by developing countries generally emphasized the importance to them of measures that stimulate economic growth and the establishment of needed but high-cost industries.

Toward the close of 1975, consideration was being given by the Nontariff Measures Group to moving ahead in the areas of government procurement, antidumping practices, variable levies and minimum import prices, and prior import deposits. Appropriate specialized subgroups would be set up.

Trade and Development

The relationship between developed and developing nations was clearly at issue during the first year of the MTN. Much of the two-day 31st Session of Contracting Parties held in November 1975 was devoted to the presentation of statements by developing countries. The well publicized Seventh Special Session of the U.N. General Assembly, at which it was resolved that concerted efforts should be made toward expanding and diversifying developing countries' trade, had occurred in September 1975, about a year and a half after a resolution setting forth a Program of Action for Establishment of a New International Economic Order had been adopted at the Sixth Special Session. Ten years had passed since part IV was added to the General Agreement, and the developing countries were now seeking further changes in the Agreement, primarily through the MTN, which they viewed as a practical opportunity for revising the rules so as to permit them a larger share in the benefits of trade.

During the year, the GATT Committee on Trade and Development made its required annual review of the implementation of part IV, undertook to examine the record of the adequacy of part IV in terms of objectives, and agreed to follow closely progress in the MTN with respect to medium and long-term interests. The committee reported the concern of many developing countries about growing balance-of-payments deficits brought on by declining commodity prices and rising costs of petroleum and other imported products, and the continuing maintenance of existing restrictions and the imposition of new ones by some countries on products of export interest to them--notably textiles and footwear. The countries that were not producers of petroleum especially wanted an absolute standstill on such restrictions. It was their view that developed countries should recognize when developing countries possessed a comparative advantage and when they should provide for adjustment assistance, not protection, for domestic industries.

Other important subjects considered by this committee in 1975 included the generalized preference system, technical assistance, and the Protocol Relating to Trade Negotiations Among Developing Countries of 1973, under which sixteen developing countries were negotiating concessions among themselves. The EC and many developed countries reviewed the outstanding features of their particular programs undertaken in behalf of developing countries.

Although the GATT had become firmly involved in the problems of developing countries, its role overlapped those of other international organizations, particularly the UNCTAD, with respect to commodity matters, the GSP, access to supplies, and diversification of production and exports. This was viewed as a problem, and many delegations looked to the newly setup Consultative Group of Eighteen for more effective coordination with efforts being made elsewhere, including those in the OECD and the IMF.

Restrictive Trade Practices

Restrictive actions taken by governments for safeguarding balance-of-payments positions, "escaping" injury from imports of particular products, or for other reasons are matters of GATT concern. Full consultation is an obligation under the provision for the use of restrictions to alleviate balance-of-payments difficulties (article XII) and under the escape clause for emergency action on imports (article XIX). Consultation is also required with respect to the GATT provision for taking measures to promote economic development of poor countries (article XVIII).

Although the Balance of Payments Committee lacked real examining authority, it was concerned that GATT procedures were being both disregarded and challenged, particularly by developing countries. Some types of restrictions were not being reported for review largely because they impinged on integration policies and programs, including those of the EC and the EFTA. In the case of many actions, distinguishing between trade and payments measures and between the roles of GATT and the IMF was not possible. The entire matter of measures for balance-of-payments adjustment was posing problems too important to avoid being considered in the MTN. The new U.S. trade act anticipated agreement on new international rules governing measures and procedures.

In November 1975 at the 31st Session of Contracting Parties, the great restraint to avoid the use of restrictive measures that had been exercised throughout 1975 was noted. The record was somewhat marred, but mostly by the use of temporary selective restrictions, not major adjustment instruments. Balances on current accounts of many industrial countries showed marked improvement in 1975, but the United Kingdom and the more developed "nonpetroleum" primary producing countries were facing severe problems.

National actions to offset imbalances on external accounts reported under article XII had been numerous, and there had been plenty of resort to emergency action under article XIX. Some actions were reported with reference to other GATT articles; some were reported without reference to any particular GATT provision. Although the trade effect of most of these measures was not considered to have been serious, their rather widespread use reflected national attitudes and national problems during a period of falling trade. Import deposit schemes and temporary import surcharges seem to have become established practices for countries with balance-of-payments problems, 1/ just as tariff quotas and quantitative restrictions on imports of particular products had become standard injury remedies. Some of the restrictive measures--except those under the Arrangement Regarding International Trade in Textiles and other voluntary controls--that were reported, discussed, or consulted on during the year are listed below:

1/ Provisions of the U.S. Trade Act of 1974 authorized the President to seek modifications in international agreements that would permit use of surcharges (in place of quantitative restrictions) as a measure for balance-of-payments adjustment.

Actions taken in 1975 respecting imports of particular products:

By	GATT article	Products
Australia	XIX 1/	Motor vehicles Opthalmic frames and sunglasses Carpets Sheets and plates of iron or steel Certain textiles Footwear
Canada	XI 2/	Eggs and egg products
Sweden	XXI 3/	Leather shoes Plastic shoes Rubber boots
Greece	Not notified	Meat

Trade measures instituted during 1975:

By	Measures
Brazil	Import deposit scheme affecting about 600 products
Finland	Import deposit scheme
Yugoslavia	Import surcharges and prior approval of certain imports
United Kingdom	Export insurance scheme
New Zealand	Prior import deposits
Portugal	Import surcharges

1/ Article XIX, the GATT "escape clause," provided for temporary relief from obligations incurred under the General Agreement, including tariff concessions.

2/ Article XI provided for exceptions to the general elimination of quantitative restrictions.

3/ Article XXI provided for exceptions for reasons of national or international security.

Trade measures that in 1975 were continuing or had been extended in modified form:

By	Products
EC	Beef and veal
Canada	Live cattle Fresh and frozen beef and veal Shirts
United States	Beef from Canada Ball bearings
Japan	Beef and veal

Trade measures abolished during 1975:

By	Measures
Italy	Prior import deposits

In 1975, grave concern about the international meat situation was felt. The continuing meat restrictions were the subject of numerous consultations, and they were also being taken up in the MTN. In February the Council of Representatives agreed to set up the International Consultative Group on Meat. This group would provide for continuing intergovernmental consultations on trade in, and would make studies on world supply and demand of, meat and cattle. There was also concern and consultation about Australia's growing number of import restrictions. The export credit insurance scheme of the United Kingdom, instituted to compensate exporters of capital equipment (to markets outside the EC) for increases in production costs, was sharply criticized as being a subsidy. No action was taken to deal with it, however, since EC country schemes were considered to be matters for the EC Commission whose authority had recently been strengthened.

Customs Unions and Other Integrated Trading Arrangements

The most outstanding event in economic integration reported to the GATT in 1975 was the signing of the Lomé Convention, a trade and aid pact between the EC and 46 developing countries of Africa, the Caribbean area, and the Pacific region. 1/ Twenty-one of these 46 countries had formerly been associated with the EC, and 18 countries were members of the British Commonwealth. One of the innovations of this 5-year pact, the text of which was circulated in the GATT, was its scheme for increasing and stabilizing export earnings and for maintaining a satisfactory relationship between the prices of certain primary products and those of manufactured goods. One of the delegates to the 31st session, in observing that customs unions and free-trade areas had become a dominant factor in international trade, alluded to the importance of the GATT examination of the Lomé Convention in light of the relevant provisions of the General Agreement. A GATT working party was set up to undertake such an examination of this convention, which was to provide a commercial linking of the EC with 46 countries having a total population of some 268 million.

GATT activities in 1975 with respect to integrated trading arrangements are summarized below:

1/ Bahamas, Barbados, Benin, Botswana, Burundi, Cameroon, Central African Republic, Chad, People's Republic of the Congo, Equatorial Guinea, Ethiopia, Fiji, Gabon, The Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Ivory Coast, Jamaica, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Trinidad and Tobago, Uganda, Upper Volta, Western Samoa, Zaire, and Zambia.

Enlargement of the EC through accession in 1973 of Denmark, Ireland, and the United Kingdom	Continued negotiations between the EC and third countries as required under GATT article XXIV:6 resulted in an agreement between the EC and Canada except on certain cereal items. Discussions were being held with a view to finding solutions to the problems of trade in cereals. 1/ The working party on accessions to the EC continued to be unable to agree on a methodology for assessing the general incidence of duties and regulations of commerce in effect before and after the formation of the EC customs union.
EC-Israel trade agreement	A new agreement between the EC and Israel was signed in May 1975 and a GATT working party was set up in July 1975. This agreement replaced a much narrower agreement entered into in 1970. According to the President of the EC Commission, signing this agreement marked the first step toward a global Mediterranean policy. It aims to establish a free-trade area between the EC and Israel in the industrial sector and inter alia provides for cooperation in the exchange of technological know-how.

1/ For a discussion of the complexities of these negotiations, see Operation of the Trade Agreements Program, 26th report, USITC pub. 765, pp. 61-3.

EC association agreements:

EC-Greece	A protocol to the EC-Greece agreement was signed in April 1975. A GATT working party was set up to examine the new protocol and a related agreement, which were a consequence of the enlargement of the EC. 1/
EC-Lebanon	Negotiations for an agreement between the EC and Lebanon had been carried on for many years. In February 1975 a GATT working party reported inability to reach a position on a provisional agreement it had examined.
EC-Tunisia) EC-Morocco)	Negotiations continued in 1975 for extending and broadening the agreements between the EC and Tunisia and between the EC and Morocco that had expired in 1974.
EC-African and Malagasy states) EC-East African states) EC-Turkey)	Reports on developments under these agreements were submitted to the GATT council in February 1975.

Agreement between Finland and CEMA countries:

Finland-Bulgaria) Finland-Czechoslovakia) Finland-German Democratic Republic) Finland-Poland Finland-Romania	These agreements for the reciprocal removal of obstacles to trade were being examined in the GATT for compatibility with provisions of the General Agreement. Treatment of agreements to which countries with nonmarket economies were parties posed a fundamental problem, since when GATT was created, state trading was considered to be an exception.

1/ In June 1975, Greece applied for full membership in the EC.

Agreement signed by Bangladesh, India, Korea, People's Democratic Republic of Laos, Philippines, Sri Lanka, and Thailand.	This new trade agreement, known as the Bangkok Agreement, was reported to the GATT in October 1975. The agreement was open to any developing country member of the ESCAP (U.N. Economic and Social Commission for Asia and the Pacific).

Reports were submitted to the GATT by participating parties on the operation of the following existing trade agreements:

Association agreements between Finland and the member states of EFTA.

Tripartite agreement between Egypt, India, and Yugoslavia.

Anglo-Irish Free Trade Agreement.

New Zealand/Australia Free Trade Agreement.

Antidumping Practices

The GATT Committee on Antidumping Practices, set up in 1968 to administer the agreement to implement GATT article VI, obliged participating parties 1/ to report annually on antidumping activities and changes in relevant laws and regulations. Following is the committee's summary of the number of antidumping cases reported for the 12-month period July 1974 through June 1975.

	Canada	EC	Greece	Norway	United Kingdom	United States
Cases pending as of July 1974	7	1	9	-	2	9
Investigations opened	7	-	12	1	6	10
Cases on which provisional action taken	6	-	-	-	2	5
Cases on which final decision reached:						
Antidumping duties imposed	4	-	-	-	1	-
Cases settled through "arrangements"	-	-	-	-	3	-
Cases dismissed	4	1	-	-	-	7
Revocation of antidumping duties	2	-	-	-	1	5
Cases pending as of June 30, 1976	6	-	12	1	4	10

1/ In 1975, the parties to the agreement to implement article VI of the General Agreement were the United States, the EC and its member states, Austria, Canada, Czechoslovakia, Finland, Greece, Hungary, Japan, Malta, Norway, Portugal, Spain, Sweden, Switzerland, Yugoslavia. As a signatory to this agreement, the United States subscribed to the International Antidumping Code on the condition that the code would be applied only to the extent that it did not conflict with domestic law or limit the discretion of the U.S. Tariff Commission (subsequently the U.S. International Trade Commission) in making injury determination.

One of the cases reviewed by the committee was the U.S. investigation of the dumping of automobiles, which in terms of the value of trade involved appeared to have been the largest in history.

The provisions of the U.S. Trade Act of 1974 that amended the U.S. antidumping law so as to bring the time limits on examination of dumping and of injury closer together met with favor, but the act's provision for valuing goods produced by multinational corporations promoted discussion of the International Antidumping Code and led to a committee decision to inventory the issues and problems that had arisen in applying the code. The United States suggested that the code be reviewed in the MTN. Delegations to the 31st Session of Contracting Parties generally agreed with committee members that institution of the code as an instrument for carrying out provisions of the General Agreement and for reaching uniform application of the rules was an impressive achievement.

Trade in Textiles

Monitoring trade in textiles governed by restraints under the Arrangement Regarding International Trade in Textiles was an important continuing GATT activity. During 1975, the eight-member Textile Surveillance Body reviewed about fifty bilateral agreements and a few unilateral restrictions. Operation of this arrangement--usually referred to as the multifiber arrangement (MFA)--concerned many contracting parties. At the end of 1975, the EC and about forty other countries were parties to the arrangement.

Waivers of GATT Obligations

Waiver of GATT obligations warranted by exceptional circumstances was provided for under article XXV of the Agreement. Waiver decisions require a two-thirds majority of votes cast, such majority to consist of more than half the number of contracting parties.

In 1975, decisions to extend waivers were reached concerning the following:

Brazil's renegotiation of schedule (increase in bound duties)

Indonesia's renegotiation of schedule (increase in bound duties)

Turkey's stamp duty

India's auxiliary customs duties

The following reports were accepted in 1975 under the requirements of two longstanding waivers that had been granted to the United States:

Imports subject to restrictions under section 22 of the Agricultural Adjustment Act, as amended--

> As a condition of the 1955 GATT decision to waive obligations under the General Agreement that would rule out measures imposed under the U.S. domestic price support program, the Contracting Parties would review--on the basis of reports submitted annually by the United States--relevant U.S. actions affecting these restrictions and the steps taken to solve problems of agricultural surpluses.
>
> The 18th such report, which covered the period from September 1973 through August 1974, was received with keen dissatisfaction by New Zealand and Australia. Additionally, Australia viewed the U.S. position on negotiating dairy products in the MTN as not removing the obligation under the waiver to relax restrictions when circumstances no longer required them

Elimination of customs duties on imports of automotive products from Canada--

The 1965 waiver granted to the United States permitted duty-free treatment of certain automotive products as provided for under the U.S.-Canada automotive products agreement--such treatment would not be extended to other contracting parties. The waiver decision required annual reports and a biennial review on the basis of such reports. The eighth annual report, submitted in February 1975, covered 1973 and included statistical data on trade between the United States and Canada in automotive products for the years 1964 through 1973. The fourth biennial review was considered to have been made.

CHAPTER 3

DEVELOPMENTS IN MAJOR TRADING AREAS

The European Community 1/

The year 1975 for the European Community (EC) was marked by a deep recession and by continued inflation, the degree of which differed from one member to another (inflation rates ranged between 6 percent in Germany and 22-23 percent in Ireland and the United Kingdom). Five million people were unemployed by the end of 1975, compared with 3.5 million at the beginning of the year, an increase of almost 43 percent. The recession also had its impact on trade. A greater decline in EC imports than in EC exports, associated with a shift in the terms of trade in favor of the Community, wiped out current account deficits and resulted in small surpluses in the member States, with the exception of the United Kingdom. Because of the economic slowdown, budgetary and monetary expansion policies were in effect during the year.

The return of the French franc to the Community currency exchange system, known as the snake, on July 12, 1975, was regarded as a recognition of the feasibility of this system for limiting fluctuations of

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1/ The European Community consists of three entities: the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community. Frequent reference is made in the context to two EC institutions--the Commission and the Council. The Commission is the administrative branch of the EC and the initiator of the general policies of the communities. The Council overrides the Commission's decisions and has the power to reject or approve policies suggested by the Commission.

exchange rates. 1/ By the end of the year, the Italian lira, the Irish pound, and the pound sterling were the only currencies which continued to float separately on the exchange markets. Negotiations were held to associate the Swiss franc with the snake, but unanimous agreement was not achieved and further consideration of this matter was deferred.

A monetary unit of account (EUA) was introduced in 1975, based on a composite of the Community currencies, to replace other units of account which were in use. The weights used in constructing this new unit of account were based on GNP, intra-Community trade, and shares in the system of short-term monetary support. The new EUA is considered to have two main advantages: it reflects the monetary identity of the Community, and it represents a milestone toward monetary union. The value of the EUA is calculated daily on the basis of the exchange rates of the currencies associated with it.

Two propositions were adopted in 1975 to increase financial cooperation between members of the Community. The first was the authorization of Community loans to finance balance-of-payments deficits of member States resulting from higher oil prices. The second was consideration of the case for the creation of a European Export Bank responsible for financing multinational export projects involving exporting companies for several member States.

1/ The EC currency exchange system is referred to as the snake because it permits the intraunion exchange rate to fluctuate within a maximum rate of 2.25 percent, while the currencies of the EC countries participating in the system float together as a bloc against outside currencies. Fluctuations beyond the maximum rate are corrected through intervention in the exchange market by monetary authorities.

Regional policy

Progress toward eventual monetary union requires that regional imbalances and differences within the Community be eliminated. Regional disparities within the Community and within each member country include differences in per capita income, levels of productivity and rates of economic growth, concentration of the population, regional unemployment, infrastructure housing, and educational systems. In 1970, the per capita income of the more prosperous regions was five times as great as per capita income in the less prosperous regions.

During 1975, a European Regional Development Fund and a Regional Policy Committee were created. These two institutions, which were proposed by the Commission in 1973, are considered to constitute a major step towards regional harmonization and towards eventual European integration. The European Regional Development Fund Committee is composed of the representatives of the member States. The Fund's regulations provide for the types of investments which should be financed, namely, industrial or service sectors, infrastructure in projects which boost tourist activities, and infrastructure in projects in hillside farming and in certain other less favored areas.

The Commission also suggested that the Fund should observe two other stipulated principles in financing regional projects. The first is the principle of complementarity, that is, loans granted must not substitute for but complement and add to the available resources provided by member States. The second principle is the concentration of the Fund on those regions which have the greatest need for loans. On the suggestion of the Commission, the member States agreed to provide information on the relevance of the projects to the region concerned and on their complete regional development plans, as an essential part of applications for loans.

The Regional Policy Committee acts as an advisory body responsible for examining measures for offsetting regional imbalances. To this end the Committee was authorized to draft regional development programs common to all member States, analyze economic and social problems, and identify development goals and measures employed and resources allocated to achieve these goals. The Committee suggested that more comprehensive regional studies be undertaken. In order to increase the availability of information on regional development, a pilot study was decided upon to determine the relationships between regional policy targets, industrial structures, and regional aid.

Energy policy

In 1975, the EC promoted the implementation of a common energy policy designed to reduce dependence of the Communities on energy imports and to develop a common negotiating position with other consuming countries and with petroleum-producing nations. The principles of the energy policy are embodied in a communication released in 1974 and entitled "Towards a New Energy Policy Strategy for the Community."

The Council adopted important resolutions concerning this problem and measures to achieve the objectives of the energy policy. The guidelines on energy policy cover the types of investment needed, as well as matters involving the demand for and the supply of energy. Action on the demand side involves the reduction of energy consumption through research and development. On the supply side, action was recommended to develop alternative sources of energy under satisfactory economic, social, and environmental conditions.

At a meeting in March 1975, the Council adopted general guidelines for international cooperation in developing energy resources which can be summarized as follows: (a) recognition of the rights of consuming countries to access to energy supplies; (b) nondiscriminatory practices with respect to consumers in other countries and respect to prices and access to energy resources; (c) regular review of progress realized and obstacles encountered in pursuing these objectives; (d) cooperative efforts to develop additional energy resources and to share the cost among participating countries according to the benefits accruing to each; (e) balanced distribution of advantages and disadvantages among participating countries as the ultimate achievement of the new program.

During 1975, a conference between energy producing and energy consuming countries took place in Paris at the invitation of France. The Community was represented as a body. Difficulties which arose at that time over linking energy with other raw materials, however, made it difficult to reach agreement and the conference was adjourned without action.

In order to increase the supply of energy, the Commission encouraged development of new technologies for petroleum exploration, production, storage, and transport. An amount totaling 44.6 million units of account (U.A.) was allocated to establish 38 projects over the period 1975-77. In the coal sector, the Council introduced a resolution that coal production should be maintained at the present level through 1985. The Commission, on the other hand, stressed the need to increase capital investment and strengthen the financial position of the coal industry by means of a pricing policy which will enable it to pay off production costs. In the nuclear energy sector, plans of action were solicited to promote nuclear energy production and use, taking into account protection of health and conservation of the environment.

Recognizing the importance to consumers of forces of competition in pricing policies, the Council and the Commission, in February 1975, requested the establishment of an information system to provide price comparisons, which would be followed by consultations at Community levels to correct excessive price differences whenever they are revealed.

Common agriculture policy

The EC's Common Agricultural Policy (CAP) is designed to support farm income through a common price policy. Agricultural prices are fixed annually by the Council for nearly all major agricultural products. The prices are agreed upon after taking account of the divergent views of producers, consumers, and taxpayers.

Protection of the market is based on three sets of prices fixed by the Council of Ministers: target prices, intervention prices, and threshold prices. Target prices are theoretical prices, fixed with the purpose of ensuring reasonable prices to consumers and reasonable income to producers, and of enhancing harmonious growth of international trade in agricultural commodities. The intervention prices are guaranteed prices at which governments undertake support buying of some agricultural products, whenever deemed necessary. They range from 40-95 percent of the target prices. Thus, the intervention prices serve as the floor prices in the market, although farmers have to pay the cost of transportation to invervention centers. Threshold prices are the minimum prices allowed for imports of agricultural commodities to enter the Community. If world prices are lower than threshold prices, a variable levy is imposed to bring import prices up to the threshold prices.

Determining the prices of agricultural products is an important task upon which market stability depends. In order to minimize market disruptions and imbalances, the Commission, in determining future prices of agricultural commodities, took into account the changes in the cost of production in the years 1973 and 1974 and the rise in incomes in the nonagricultural sector. Accordingly, the Commission proposed an increase in the prices of agricultural commodities amounting to 7.5 percent for the 1975-76 and 1976-77 agricultural years. In order to protect agricultural producers against risks resulting from competition, or a loss of income because of the lack of a sound common monetary policy, the Commission proposed that the rates applicable for monetary compensation reflect prevailing economic conditions.

World monetary problems had repercussions on the Common Agricultural Policy during the year 1975, although somewhat less pronounced than those of 1974. The Community established five zones, rather than the previous six, in which different monetary compensation is to be made: Germany, Benelux, Ireland, and the United Kingdom compose one zone each and the fifth consists of other member States. In addition, the compensation to be paid to member States as a result of the fluctuations in their exchange rates appears to have been reduced as a result of the introduction for all currencies, except the Danish krone, of new representative rates to be applied under the Common Agricultural Policy for the conversion into national currencies of amounts fixed in units of accounts. These new rates made it possible to reduce the discrepancy between the rates applied under the Common Agricultural Policy (units of accounts) and the narmal market exchange rates.

In spite of continuous efforts to improve the workability of the CAP, some members feel that the program is becoming too expensive. In 1975, ministers of the Nine were called upon to approve a supplementary farm budget of 200 million units of account (UA). Preliminary forecasts were made that a supplementary budget of 500 million (UA) would be necessary for 1976; this estimate has since risen to one billion (UA), following later currency fluctuations.

The CAP requires an open-ended commitment, because the amount of expenditures required for its survival depends on uncontrollable factors that are difficult to forecast, such as the weather, movements of world prices, and currency fluctuations. In the course of discussions within the Communities over the survival of the CAP, proponents argue that the cost of the CAP has soared in absolute amounts but declined as a proportion of the Community's G.D.P. The CAP has not been able to stabilize markets as it was intended to do by the Treaty of Rome, but it has generally been able to assure availability of agricultural supplies. Farm productivity has risen, despite many workers leaving the land; fewer people in Europe are now producing more food. Opponents of the CAP maintain that the size of the supplementary budget and the latest world monetary difficulties confirm that the system is a failure and should be terminated.

The industrial policy of the EC

The industrial policy of the EC is still in an embryonic stage, remaining very much the prerogative of national governments. The Common Industrial Policy (CIP) of the EC was outlined in a communique of the Paris Summit in 1972. The communique calls for (a) maintenance of fair competition in domestic as well as external markets, (b) abolition of barriers to trade, (c) transformation and conversion of declining industries under acceptable social conditions, (d) promotion, on a Community scale, of competitive firms in the field of advanced technology, (e) elimination of fiscal and legal barriers which hinder cooperation and mergers between firms, (f) rapid adoption of a European company statute, and (g) adoption of measures to ensure that mergers between firms in the EC are compatible with the economic and social aims of the Community.

In recent years, conflict between domestic and international objectives has characterized the industrial policies of the European Communities. The factors which helped to create such a conflict can be identified as:

(a) The adoption by the governments of Western Europe of domestic policies to achieve full employment, economic growth, and regional development has induced these governments to look inward rather than outwoard and imposed obstacles to the full liberalization of trade;

(b) The failure of the Treaty of Rome to identify specifically the obligations which member countries must assume if they are to achieve trade liberalization;

(c) The failure of the European governments to cope with the persistent disequilibrium in international payments.

In general, the economic situation which the industrialized world experienced during 1974 and 1975 did not draw the Communities nearer on industrial policy; few decisions were made during 1975. The economic crisis and the decline of demand compelled member States to take nationalistic measures to assist their industries. The Commission is trying to contain these trends, holding the view that short and long-term solutions for problems of worldwide scope can only be implemented successfully in a community rather than by individual national actions.

In order to coordinate the industrial objectives and strategies of member States, the Commission initiated general consultations in 1975 on the industrial policies of these members and the methodology employed to support their policies. Studies were made in different

(b) The failure of the Treaty of Rome to identify specifically the obligations which member countries must assume if they are to achieve trade liberalization;

(c) The failure of the European governments to cope with the persistent disequilibrium in international payments.

In general, the economic situation which the industrialized world experienced during 1974 and 1975 did not draw the Communities nearer on industrial policy; few decisions were made during 1975. The economic crisis and the decline of demand compelled member States to take nationalistic measures to assist their industries. The Commission is trying to contain these trends, holding the view that short and long-term solutions for problems of worldwide scope can only be implemented successfully in a community rather than by individual national actions.

In order to coordinate the industrial objectives and strategies of member States, the Commission initiated general consultations in 1975 on the industrial policies of these members and the methodology employed to support their policies. Studies were made in different areas, such as public contracts, to achieve more uniformity in the clauses applied by member States to provide fairer comparisons between various bids. Uniformity in the clauses of contracts is considered to be an aid to the growth of intra-Community trade in sectors of special relevance to industrial policy. Also discussed were problems encountered by small business, mainly in the field of financing, and the role of Community institutions in solving these problems. Subcontracting and ways to create a coordinated network of contracts and

Economic and monetary policy

In 1975, members of the Communities had to deal with the recession affecting the world in general and industrial countries in particular. The reduced volume of international trade had an appreciable impact on the exports of the EC. Because the decline of imports was proportionately greater than that of exports, the external balance of the Communities, with the exception of the United Kingdom, was restored and small surpluses appeared in the trade balances of some countries. The decrease in imports of the Communities was attributable to the significant decline in domestic demand and the consequent decline of investment and industrial output. Consumer spending rose only slightly during the year. The most critical problems with which the Communities' institutions had to cope during the year 1975 were the decline of production by 2.5 percent, the varying rates of inflation in member countries, and the increase in unemployment.

Short-term economic policies proposed for 1975 were concentrated on the economic budgets prepared for each member State. Restrictive policies were urged for countries with deficits (Italy and the United Kingdom), and reflationary policies were suggested for countries with surpluses (West Germany and the Netherlands). Borrowing conditions in some countries deteriorated as the recession worsened, and measures were taken to increase public revenues for combating unemployment. In the United Kingdom, restrictions were imposed on direct investment and on capital movements of personal nature. As the year progressed, budget deficits of most member States became of growing concern.

In the monetary field, a marked reduction in interest rates was a common policy adopted by member States, except the United Kingdom, in which the minimum lending rate was allowed to rise. This parallel downward trend of the short-term interest rates in all member States was regarded as a successful step towards bringing monetary policies of different countries closer together.

The return of the French franc to full membership in the snake bloc, and the satisfactory operation of this device in limiting exchange-rate fluctuations, were also considered as indicative of the successful coordination of the monetary policy of the Communities during 1975. By the end of the year, the Italian lira, the Irish pound, and the pound sterling were the only currencies floating separately on the exchange market. Other Community currencies, together with the Norwegian and Swedish krona, were held within the 2.25 percent margin of fluctuation allowed by the Community, through the intervention of central banks in the market.

European financial cooperation was strengthened during 1975 by two measures: (a) authorization by the Commission for Community loans to finance member States' balance of payments deficits,(b) creation of a Community institution responsible for financing export projects involving companies from several member States, namely, a "European Export Bank," authorized to finance and insure multinational contracts of the Community relating to exports.

Monetary union

The monetary union of Europe is still only a remote possibility as long as a formula for bringing all Community members into the community exchange system has not been put forward. Monetary union requires a common monetary authority or central bank to manage internal liquidity and the exchange rate of Community currency vis-a-vis other foreign currencies.

Little progress was accomplished in the area of monetary integration within the Community during 1975. Proposals designed to strengthen the European Monetary Cooperation Fund were submitted to the Monetary Committee, and to the Committee of the Governors of the Central Bank, the Economic and Social Committee, and the Parliament, but examination of these proposals was deferred to a later date. Another step taken to encourage monetary integration was the amendment of the rules of the Community currency exchange system so as to allow automatic renewal for 3 months of debts contracted as a result of intervention on the exchanges, and to eliminate gold as a means of settlement of balances. The only assets to be used for settlements are Special Drawing Rights (SDR), the reserve position with the IMF, and reserve currencies.

Another development in the area of monetary integration in the year 1975 was the introduction of a new unit of account (EUA). The new unit of account is based on a composite of the Community currencies. The value of EUA is calculated each day on the basis of the exchange rates of the currencies associated with it. Weights given to these currencies are based on gross national product, intra-Community trade, and shares in the system of short-term monetary support. The introduction of the EUA was considered to represent progress towards Monetary union.

Customs union

During 1975, the establishment of a customs union was attempted through the development of a simplification program and the achievement of greater harmonization of customs legislation. Creation of a customs union would require the introduction of common and flexible rules and the removal of controls on intra-Community trade. Obstacles were encountered which have been mainly attributable to the multiplicity of preferential agreements, the complexity of the common agricultural policy, and the delays in establishing economic and monetary union.

The Commission drew up a simplification program in 1975 covering three areas: (a) simplification of the tariff nomenclature and production of an integrated tariff/statistical nomenclature, numerically coded, for the application of tariff measures,(b) simplification of the rules of origin forming the basis of the various preferential arrangements, and(c) relaxation of the Community transit procedure, which ensures unimpeded movement of goods within the Community.

The EC and developing countries

New negotiations between certain Commonwealth countries and the EC designed to establish special trade relations followed the accession of the United Kingdom to the Community. A treaty known as the Lomé Convention was signed on February 28, 1975, between the Nine and 46 African, Caribbean, and Pacific States. The Lomé Convention featured duty-free access of goods for signatories and improved financial and technical cooperation. It also provided for the stabilization of export earnings. The main provisions of the Lomé Convention can be summarized as follows:

> Trade agreements and trade cooperation to allow products of the 46 countries duty-free access to the Common Market.
>
> Stabilization of export earnings in order to protect the developing countries from fluctuations in commodity prices and thereby guarantee them stable export receipts vital for the implementation of their development plans. When a country's earning's from exports to the EC fall below an agreed level because of fluctuation in prices, a compensation fund advances the difference, which the country in question is expected to repay when the situation improves. The aid ceiling under this provision has been set in 375 million units of account.
>
> Financial and technical cooperation, which provides for stable financial help for countries that are members of the agreement. The total amount of aid provided for in the Lomé Convention is 3,390 million units of account, composed of: 2,100 million for grants, 430 million for loans on special terms, 95 million for risk capital, and 375 million for the stabilization of export earnings. In addition, 390 million units of account will be made available for loans by the European Investment Bank.
>
> Industrial cooperation, which will help to diversify industrial production in these countries by providing for the exchange of information on research and technology and for direct contacts between productive units.

A number of agreements were also concluded in 1975 with several Mediterranean countries, in recognition of the historical and cultural ties which link the Community and these countries. Because of the varied levels of economic development and industrialization, and the diverse political regimes involved, the Community negotiated different types of agreements with these countries. Association agreements were signed with most of the countries in the Mediterranean basin, and a more comprehensive policy for the establishment of the free movement of goods and for the promotion of cooperation has been agreed upon by the Community. The overall policy will cover the countries having a Mediterranean coastline. The Community also succeeded in establishing a common position with the Arab countries, initiating negotiations on economic, technical, and cultural cooperation in industry, agriculture, energy, raw materials, transport, and finance.

The nine Member states expressed their intention to allocate 0.7 percent of their GNP to aid developing countries and to improve the geographical distribution of aid. At the present time the generalized scheme of preferences (GSP) of the Community extends to 104 developing countries and covers processed and semiprocessed agricultural and manufactured products. Tariff reductions vary with the product and the country concerned. The estimated value of imports qualifying for concessions under the GSP in 1975 was 600 million units of account for agricultural products and 2.85 billion units of account for industrial products.

Foreign trade of the EC

In 1974 and 1975, the impact of recession and inflation on world trade was significant. The EC countries, like most other countries, experienced a decline in both exports and imports during these years. The value of EC imports expanded faster than the value of its exports, owing to the strong deterioration of the terms of trade. The trade deficit of the EC as a whole reached the equivalent of US $18.4

billion in 1974, and was reduced to around the equivalent of US $2 billion in 1975. (See table 8.) Trade balances of individual countries varied widely in 1975, ranging from a trade suprlus for the Federal Republic of Germany to deficits in Italy, the United Kingdom, and France.

Table 8.--Foreign trade flows of the European Community, 1974-75

(In billions of U.S. dollars)

	1974	1975	Percent change
Total exports	275.10	292.03	6.2
Of which:			
Intra-EC trade	139.05	142.80	2.7
Exports to 3d countries	136.05	149.23	9.7
Total imports	293.50	294.10	2.0
Of which:			
Intra-EC trade	139.05	142.80	2.7
Imports from 3d countries	154.45	152.30	-1.0
Balance of trade	-18.40	-2.07	

Source: Organization for Economic Cooperation and Development, Statistics of Foreign Trade, Series A, Paris, 1975.

Canada

Economic conditions

During 1975 the Canadian economy was in a relatively depressed state. Declines in foreign trade, investment, and consumer spending were largely responsible for the miniscule real gain in the gross national product (GNP) for the year, amounting to only two-tenths of 1 percent. The total GNP rose to $154.8 billion in 1975, 9.9 percent over the 1974 level. More than 9.5 percent of this increase, however, was attributed to inflation.

In 1975, spending on consumer goods and services recorded its lowest real growth in 5 years, and capital investment grew less than it had in the previous 2 years. Corporate profits registered a small (2.9 percent) decline, the first experienced since 1970, and investment in residential construction also declined. Developments in Canadian foreign trade in 1975 were also unsatisfactory, as rapidly rising imports and declining exports resulted in a record deficit of $5.5 billion in the trade balance. In the final quarter of 1975, consumer spending started to recover, as did residential construction. However, the balance of trade continued to deteriorate.

Energy policy

In 1975, there was a marked deterioration of the Canadian trade balance for crude petroleum. From a surplus position in previous years, a deficit of $0.3 billion was registered in 1975. Barring any major discoveries, exports of petroleum to Canada's only import customer for these products, the United States, will be gradually phased out by 1981.

In late 1974, the Canadian Government announced that petroleum exports would not be allowed to increase in 1975 and that the petroleum quota would actually be decreased by 6 percent later in the year. The Canadian energy administrator announced in 1975 that quotas would be lowered another 27 percent in the beginning of 1976, to be followed by a further reduction of 25 percent after the Sarnia-Montreal pipeline became operational later in 1976. The last of these reductions would reduce U.S. petroleum imports from Canada to 385,000 barrels a day and, in effect, lower the Canadian petroleum exports from an average of 700,000 barrels per day in 1975 to 460,000 barrels per day in 1976. This latter development would represent a continuation of the trend set in 1975, when U.S. petroleum exports from Canada declined by 22 percent under the level of the preceding year.

Along with these quota reductions, price adjustments have been decreed in order to keep Canadian exports at prices comparable with other petroleum products imported by the United States. For example, after a lowering of the petroleum tax earlier in 1975, the Canadian Government later announced a $1.05 per barrel increase to raise the export tax to $4.50 per barrel for high quality petroleum and to $4.00 per barrel for heavy oil. This tax, which is not applied to Canadian domestic crude oil, serves to subsidize petroleum imports for the Eastern half of Canada; its effect has been to keep Canadian domestic petroleum at prices below the international level.

<u>Beef and eggs</u>

The long-standing dispute between the United States and Canada over their joint trade in beef ended in late 1975, only to be followed by the new problems in the egg trade.

The "beef war" ended when both countries lifted their import quotas on beef and veal. It is expected that U.S. imports of Canadian beef will return to the annual level of 40.5 million pounds that obtained before the United States imposed an annual beef quota of 17 million pounds in 1974. The two countries had agreed in August 1975 to remove mutually restrictive import ceilings on livestock and pork that were also imposed in 1974.

Lifting of these import restrictions ended a dispute that began when, on April 9, 1974, Canada banned the importation of cattle fattened with the synthetic hormone, diethyl stilbestrol, after tests linked this hormone to cancer. The ban was lifted on August 2, 1974, after an agreement was reached between the Canadian and United States governments on methods for certifying freedom from contamination. However, Canada later imposed worldwide quotas on veal and beef products and cattle, in order to protect producers from the effects of an international surplus. The U.S. Government responded on November 16, 1974, imposing, retroactive to August 12, import quotas on many Canadian cattle, beef, veal, and pork products.

New difficulties also arose in the U.S.-Canadian egg trade. On July 4, 1975, the Canadian Government imposed strict limits on egg imports, which will permit foreign producers to supply only 0.36

percent of the Canadian domestic market in 1976. The remainder of 1975 was placed under a transitory quota, not quite as severe as the one to be imposed in 1976. The effect of the pending 1976 quota is expected to reduce the number of eggs imported by Canada from the United States to 4.29 million dozen, compared with exports of 6 million dozen in 1974. The United States has protested this action to the GATT.

Color TV Dumping

In 1975, Canada investigated alleged dumping on the Canadian market of color television sets from Japan, Singapore, Taiwan, and the United States. On October 29, 1975, U.S. sets were absolved of dumping charges but television sets from Taiwan, Singapore, and Japan were determined to have a high likelihood of causing future damage to Canadian manufacturers, even though it was determined that they had not as yet caused such injury. Possible courses of action by the Canadian government against these foreign manufacturers were still under review at the close of 1975.

United States-Canadian automotive products agreement

The U.S.-Canadian automotive agreement of 1965 came under increasingly close scrutiny in Canada, following that country's continued deterioration in its automotive trade balance. While the United States permits only Canadian-made automobiles and automotive parts to be imported duty free, Canada allows the duty-free importation of automotive parts from any most favored nation, provided they are to be installed under certain Canadian content requirements in Canadian-manufactured vehicles. Total automotive trade deficits for Canada have increased from $440 million in 1973 and $1.33 billion in 1974 to a record high of $2.1 billion in 1975. These increasing deficits led in 1975 to formation by the Canadian Government of a task force under the Department of Industry, Trade, and Commerce to study the automotive agreement and its effect on the Canadian automotive parts industry.

In the United States, the Senate Committee on Finance requested the United States International Trade Commission in July 1975 to report on the results of the U.S.-Canadian automotive agreement. The Commission's report was released in January 1976. 1/ It showed that U.S.-Canadian automotive trade was 17 times greater in 1975 than in 1964, averaging annual increases of 34 percent in the first 10 years of operation under the pact. The Canadian percentage of U.S. automotive trade has risen, in the years in which the agreement has been in effect, from 20 percent in 1964 to 54 percent in 1976.

Canadian trade

Canada's trade surplus of $1.5 billion in 1974 was replaced by a deficit of $0.8 billion in 1975. The worldwide recession brought about an appreciable decline in the volume of world trade in 1975 and a marked slowing of the rise in prices; these developments were reflected in Canada's merchandise trade. The volume of exports declined

1/ Canadian Automobile Agreement; United States International Trade Commission Report on the United States-Canadian Automobile Agreement: Its History, Terms, and Impact . . ., Committee on Finance, U.S. Senate, 94th Cong., 1st Sess., January 1976.

by 7 percent compared with 1974, although there was some renewal of growth earlier in the year. The 5 percent decline in the volume of imports was more moderate and reflected the relatively mild recession occurring in Canada.

By far the most important influence contributing to the weakness of Canadian exports in 1975 was the low level of economic activity in the major industrial countries. The volume of Canadian exports of a wide range of products declined in 1975. In addition, strikes in Canada may have had the effect of further reducing the export of some commodities during the year.

In recent years motor vehicles and parts have accounted for nearly one-fifth of the value of total Canadian exports; developments in this area, therefore, are particularly important for Canadian trade. In 1975, the value of such exports reached $6.3 billion, an increase of $0.7 billion compared with 1974. However, more than half of the increase was attributable to higher prices. The automotive market in the United States remained depressed throughout most of the year and the volume of Canadian exports to that market was unchanged from the low level of 1974. There was a marked increase in Canadian shipments to other world markets, particularly Venezuela and Iran.

In Canada, the flow of imports in 1975 reflected a more moderate decline in aggregate real demand than experienced in most other industrial countries. The automotive market was one of the areas where demand in Canada was much stronger than in the United States. In contrast to the continuing slump in U.S. sales, the number of automobiles sold in Canada increased by 5 percent in 1975. As average import prices increased significantly, the value of Canada's total imports rose by $1.2 billion in $8.4 billion in 1975.

Japan

Economic conditions

Japan was the only major Western nation to restore a postive growth rate to its economy in 1975. Real GNP, which had declined by 1.2 percent in 1974, reversed itself and posted a 2 percent increase in 1975. Real expenditures of wage earners rose by 4.5 percent and led the way to real increases in consumer expenditures. Further, in September 1975 the Government prepared a "fourth recovery package" designed to generate new demand valued at the equivalent of more than US$10 billion.

The Government succeeded in slowing inflation considerably in 1975 through its tight monetary and fiscal policies instituted in the previous year. The consumer price index, which had risen by 17.4 percent in 1974, was held to a 9 percent rise in 1975. The wholesale price index rose by only 2.4 percent in 1975, much lower than the 10.4 percent rise of 1974.

Yen

Throughout 1975, the yen remained at levels that were considerably below the average 1973 exchange rate of ¥ 265 = US $1. By December 1975, the yen had depreciated in value to ¥ 305 = US $1, down from ¥ 301 = US $1 at the beginning of the year.

Government actions

Textiles.--In recognition of the decreasing Japanese threat to the U.S. textile industry, practically all specific quotas on imports of

Japanese textiles were lifted in 1975. In recent years, Japanese textile exports have been falling consistently below the 1974 U.S. quota of 550 million square yards for cotton textiles and 1,150 million square yards for manmade and woolen textiles. Specific restrictions were lifted for 12 months for all cotton textiles and 12 artificial fibers. The new textile agreement has the effect of lifting all quotas on Japanese textiles except those on wool. Under the pact, the United States reserved the right to consult with the Japanese, in the event of a sharp rise in these U.S. imports.

Agriculture.--On November 7, 1975, the Japanese received a written pledge from the U.S. Secretary of Agriculture to sell to Japan an annual amount of at least 14 million tons of U.S. grains and soybeans over the next 3 years. At current prices, this would total approximately $3 billion in yearly sales. Under the Agreement, the Japanese would purchase at least three million tons of wheat, three million tons of soybeans, and eight million tons of feed and corn.

Japanese beef quotas.--Japan's beef purchases from the United States resumed in June 1975, after having been suspended in February 1974. U.S. shipments of beef to Japan in 1975 amounted to 8,026 metric tons valued at $26.6 million, up from 1974 when such shipments totaled 6,059 tons at $17.8 million. These shipments in both years were below the level of U.S. exports to Japan in 1973, which amounted to 11,236 metric tons valued at over $35 million.

Citrus.--The Japanese announced on February 6, 1975, that Florida citrus and California grapefruit would once again be accepted for importation if the proper fumigation certification was provided. In 1973-74, eight million cartons of California grapefruit were imported before the finding of live Caribbean fruit fly larvae halted all Japanese imports of U.S. produce in June 1974.

Shortly after the ban on U.S. citrus was lifted, the Japanese Ministry of Health and Welfare once again held up those U.S. imports, in this case because of unacceptable fungicides being used on California lemons and on Florida grapefruit. Over 250,000 cartons of fruit (mainly lemons, but also oranges and grapefruit) were rejected because of such action in April and May 1975, at a cost in excess of US$2 million to Japanese importers and U.S. shippers.

After the fungicide "diphenyl" was substituted for the prohibited chemicals, U.S. citrus exports were permitted to enter the Japanese market again.

Investment liberalization

In 1975, Japan continued as scheduled toward completing liberalization of foreign investment in domestic industry. In May 1973, Japan accepted the principle of permitting (after routine review) 100 percent foreign ownership in all but four industries (agriculture-forestry-fishing, petroleum refining, mining, and leather manufacture and sales); these four may be only 50 percent decontrolled (and then only after individual investor screening). In June 1975, retail businesses were liberalized; in December 1975, liberalization of the production, sale, and leasing of electronic computers was achieved. The manufacture of information processing equipment, fruit juices, and photographic sensitized material will be liberalized in 1976, thereby fulfilling the Japanese pledge of 1973.

Even with the increasing liberalization of Japanese industry, the recession, combined with rising labor and raw material costs, served in 1974 and 1975 to keep foreign investment below its peak year level of 1971. Many obstacles still remain for foreigners seeking to invest in Japan. For instance, the recently liberalized retail trade sector will probably not attract much foreign capital because of the high cost of land and construction, the complexity of Japanese distribution systems, and the domestic regulations limiting the size and location of large retail outlets. Furthermore, even in liberalized industries certain foreign manufacturers have experienced delays in obtaining approval for certain types of direct investment. For example, Dow Chemical initially withdrew its application for manufacturing caustic soda and chlorine in order to obtain approval from MITI (Ministry of International Trade and Industry) to build facilities for manufacturing agricultural chemicals. When Dow reapplied, after first obtaining approval for constructing agricultural chemical facilities, MITI delayed approval of the $200 million soda and chlorine producing complex for at least 3 months. The Japanese Ministry of Finance chided MITI for its action, as the industry had been declared liberalized in 1973. Domestic pressures from Japanese companies which felt threatened by the advanced Dow technology were believed to be responsible for MITI's action.

Another device for discouraging foreign investment was the combination of all domestic Japanese computer companies into two "super corporations" in preparation for their direct competition with IBM following liberalization of the electronic computer industry. MITI has authorized an expenditure of the equivalent of US$300 million on research and development for this industry, with half of this sum coming from MITI funds. As MITI considers computer manufacturing to be of crucial importance to the Japanese economy, it is likely that it will extend aid to this sector.

Trade

General imports and exports.--In 1975, Japan's exports amounted to the equivalent of $55.8 billion, an increase of 0.5 percent over the preceding year. This is the lowest annual growth rate registered since 1953, the year in which the economy was seriously affected by the aftermath of the Korean War. Japanese imports in 1975 recorded their first yearly decrease since 1962, declining in value by the equivalent of 6.8 percent to $57.8 billion.

Trade prices.--The growth rate of prices of Japanese exports and imports slowed considerably in 1975. Export prices rose by 5.8 percent in 1975, compared with 22 percent in 1974. Declines in the prices of metals and metal products accounted for the slowing of the rate of increase in 1975. Import prices rose by only 2.9 percent in 1975, contrasted to 34.7 percent and 53.3 percent in 1973 and 1974, respectively. The decline of food prices and the leveling off of petroleum prices were the main factors responsible for the improved situation in 1975.

Trade by commodity.--The leading value shares of the Japanese export market in 1975 were accounted for, as in past years, by steel (18.2 percent), automobiles (11.1 percent) and ships (10.8 percent). In general, however, Japanese exports were more diversified than in past years. Iron and steel, Japan's number one export item, was affected most seriously by the worldwide recession and continued to decline in export value throughout 1975. Consumer items, such as autos (up by 18.5 percent) and TV receivers (up by 20.4 percent) experienced large value increases in 1975. These increases were largely due to the reviving U.S. economy in the late autumn and winter of 1975.

Petroleum products accounted for over one-third of all Japanese imports in 1975. Although the quantity of petroleum purchased fell by 5.4 percent, the value of petroleum imports increased by 4 percent because of the 10 percent rise in world petroleum prices. Agricultural products, Japan's second largest import category, rose in value by 8.5 percent in 1975; these commodities have accounted for 15 percent of the value of total Japanese imports in recent years.

Trade with Communist nations.--Since 1960, Japan's trade with Communist nations has grown steadily and rapidly. In 1975, 8.4 percent of the value of all Japanese exports was destined for communist bloc nations--almost five times their share in 1960. In 1975, the People's Republic of China (PRC) and the Soviet Union accounted for 4 percent and 3 percent, respectively, of the total value of Japanese exports.

In 1975, as in past years, Japanese trade with the PRC expanded. Japanese exports to this market were up 14 percent; imports rose by 17.3 percent. Steel, machinery, transportation equipment and chemical fertilizers, together, represented 80 percent by value of Japanese export trade to the PRC. The remaining 20 percent consisted mainly of synthetic fibers, yarns, fabrics, chemical elements and compounds, and paper and paper products.

Japanese trade with the Soviet Union increased in exports (48.4 percent by value) but decreased in imports (17.5 percent by value). The Japanese, however, have experienced considerable difficulty in purchasing items from the Soviet Union. Soviet products often fall short of Japanese quality requirements. Finally, numerous administrative regulations of the Soviet Government have helped to multiply the difficulties of Japanese trade representatives in locating sources of new imports available from that country.

Trade with the United States.--In 1975, Japan's exports to the United States totaled the equivalent of $11.268 billion (f.a.s.) down by 8.7 percent from the previous year. It was the first time in 14 years that Japanese shipments to the United States declined. The U.S. share of Japanese exports fell to 20 percent after rising above 30 percent in the years prior to 1972. U.S. imports of household appliances, automobiles, and industrial supplies and materials also declined. U.S. purchases of iron and steel from Japan managed to hold constant as the U.S. economy recovered during late 1975.

U.S. exports to Japan, which currently represent 20 percent by value of all Japanese imports, improved slightly during the third quarter of 1975, but remained generally weak throughout the entire year without evidencing any real signs of recovery. U.S. exports of domestic and foreign merchandise to Japan totaled $9.565 billion in 1975 (f.a.s.), or 10.4 percent less than their value in 1974. Classified by end use, U.S. exports to Japan of food, feed, and beverages came to $2.658 billion (down by 6 percent from 1974); capital goods (excluding automotive products) amounted to $1.706 billion (down by 20 percent); consumer goods (excluding automotive products) were valued at $509 million (down by 4.7 percent); and industrial supplies and materials were valued at $4.294 billion (down by 11.4 percent).

Latin America (Including the Caribbean Area)

Traditionally, Latin America's system of trading agreements has been a major means of advancing regional economic development. Foreign trade is critical to the economies of these countries which are generally unable to support efficient and sustained growth within their own national markets.

Latin American participation in the international economic system

During 1975, the economies of most of the Latin American countries were disrupted and their balance-of-payments problems were aggravated by the rapidly falling prices for their industrial raw materials resulting from a sharp contraction in demand on world markets. These conditions only served to increase Latin American dissatisfaction with the existing international trading order and to intensify efforts of Latin American countries to revise the pattern, composition, and terms of their trade with the developed world.

During 1975, Latin American trade initiatives included active participation in the seventh round of trade negotiations under the GATT and leadership in the creation and implementation of new producers' cartels and commodity agreements. In the realm of Western Hemisphere affairs, many Latin American countries advocated the suspension of the the trade embargo of the Organization of American States against Cuba and coordinated protests against the U.S. Generalized System of Preferences (GSP). Latin American dissatisfaction with the GSP and with the pace of regional integration efforts led to the establishment of a new mechanism for regional economic development called the Latin American Economic System (SELA).

Latin America and the Multilateral Trade Negotiations (MTN).--
It is the opinion of many in Latin America that the post war trading system developed under the auspices of GATT has been solely a vehicle of the industrialized nations, advancing their interests at the expense of the lesser developed countries. The Latin American countries are determined to bring about some long-needed changes in their system. They realize that the MTN constitutes the important opportunity for advancing measures calculated to benefit their economies. For this reason, many Latin American countries are now participating in these discussions for the first time. Their basic objectives are to protect hard-won preferential tariff concessions from erosion through general duty reductions, to gain new preferences in such sectors as textiles and agriculture, and to obtain these new concessions with a minimum of reciprocity.

The most significant forum from the Latin American point of view is the Tropical Products Group, in which these countries have been most assertive. As major world exporters of many tropical products, Latin American countries have exerted considerable pressure on this Group. During 1975, the lesser developed countries participating in the Tropical Products Group (including Brazil, Ecuador, Colombia, Mexico, Argentina, Jamaica, Trinidad-Tobago, Venezuela, and the

Central American Common Market countries) individually presented request lists of desired tariff concessions to the United States and other developed countries. These lists were discussed bilaterally during 1975 and counter offers were to be tabled in early 1976 by the industrial countries. However, while progress has been encouraging to date, there are controversial issues still to be resolved before the hard bargaining process can begin in earnest. Discussion of these basic issues--the composition of the Group and the question of reciprocity--was simply postponed in 1975.

Latin America and the Generalized System of Preferences (GSP).--The year 1975 also saw the culmination of the longstanding Latin American efforts to secure preferential trading benefits from the countries of the developed world. Since 1971, when the Contracting Parties to the GATT agreed to demands of the less developed countries (LDC's) and adopted a temporary waiver of the most-favored-nation tariff treatment obligation, Latin American nations have eagerly anticipated the inauguration of the GSP program of the United States, the largest single trading partner of most of them. However, when the U.S. list of eligible countries and product restrictions was announced, the Latin American countries were unanimously disappointed in the program. The provision incurring their greatest disapproval was the denial of the eligibility to Venezuela and Ecuador, members of OPEC. In addition, Latin American countries were disappointed by the lengthy list of products excluded from duty free treatment and by the dollar limitations placed on other items.

Based on 1975 trade data, some 21 percent of all Latin American exports to the United States became eligible for GSP tariff treatment in 1976. After dollar limitations are applied, however, this amount is reduced to about 10 percent of current U.S. imports from Latin America. As trade patterns begin to adjust to the new market opportunities created by the duty free treatment, the composition of Latin American exports should change, through substantial increase of shipments of existing export commodities and by diversification through expanded exports of manufactured products.

Producers' cartels and commodity agreements.--Latin American countries view the deliberations on both MTN and GSP as critical to their longrun goals of equalizing the future composition and pattern of world trade. At the same time, they are also quite concerned with affecting the present trading pattern and revising the existing price relationships among internationally traded goods. As a result, they are committed to methods--such as producers' cartels and international commodity agreements (ICA's)--established for the purpose of achieving some redistribution in the benefits of world trade and moderating the price fluctuations now plaguing the region's major exports.

Latin American nations support such strategies because they are currently dependent on only 15 primary commodities 1/ for over 50 percent of the value of the region's total exports. In fact, in some countries the export commodity situation is even more critical. Some are almost totally reliant on one or two products to provide the major

1/ Petroleum, coffee, copper, sugar, beef, iron ore, cotton, bananas, corn, fish meal, wheat, shrimps, cacao (cocoa and chocolate), soybeans, and wool.

portion of their export revenues, such as Venezuela, which derives 93 percent from petroleum; Chile, with as much as 75 percent from copper; Jamaica, with about 60 percent from bauxite; Barbados and the Dominican Republic, with over 50 percent from sugar; and Colombia, with about 50 percent from coffee.

This dependence on a few basic export commodities is tenuous because of the tendency for prices of food and raw materials to fluctuate widely as demand and supply conditions vary in world markets. (In 1975, for example, overall raw material prices were down about 45 percent from the 1974 average.) Since the revenues derived from the export of such commodities, on the average, account for 75 percent of foreign exchange earnings of all LDC's and these earnings are of vital importance in financing industrial imports for development, the ability of Latin American governments to plan growth policies is severely hampered by this instability of their export commodity prices.

Attempts to rectify this situation through the establishment of systems of international price supports were largely unsuccessful until 1973, when OPEC demonstrated that the industrial world's increasing dependence on foreign resources made them vulnerable to the demands of commodity exporters. Attempts to duplicate OPEC's example, however, have met with only limited success. The International Bauxite Association was set up in 1974, and in 1975 Latin American producers were active in organizing the Primary Tungsten

Association, the Association of Iron Ore Exporting Countries (AIOEC), and a regional meat exporting association, the Permanent International Office of Meat. In addition, Latin American countries were involved in drafting a number of new international commodity agreements in coffee, cacao, tin, sugar, and wheat, products which are among the most vital of Latin American exports.

Latin American regional trading agreements

For many years, the agreements which have been most important in expanding intraregional trade and furthering developmental goals have been embodied in the charters of the various integration groups: the Latin American Free Trade Area (LAFTA), the Andean Common Market (ANCOM), the Central American Common Market (CACM), and the Caribbean Community (CARICOM). These groups and the countries that compose them are listed below:

Latin American Free Trade Area (LAFTA)

Argentina	Mexico
Bolivia	Paraguay
Brazil	Peru
Chile	Uruguay
Colombia	Venezuela
Ecuador	

Andean Common Market (ANCOM)

Bolivia	Ecuador
Chile	Peru
Colombia	Venezuela

Central American Common Market (CACM)

Costa Rica	Honduras
El Salvador	Nicaragua
Guatemala	

Caribbean Community (CARICOM)

Antiqua	Jamaica
Barbados	Montserrat
Belize	St. Kitts-Nevis-Anquilla
Dominica	St. Lucia
Grenada	St. Vincent
Guyana	Trinidad/Tobago

The Latin American Free Trade Area (LAFTA)

LAFTA developments.--Little progress was made in revitalizing the LAFTA integration movement in 1975. No actions were taken which would have helped dispel widespread fears that the organization has reached the limits of its capacity to influence economic and social change in the area. On the contrary, the continued failure of the members to reach agreement on the future of the organization only served to underscore LAFTA's growing impotence.

Primarily responsible for this lack of progress are the fundamental divisions which exist within the organization--differences caused by the vast disparities in geographic area, population, and developmental prospects among member nations.

Brazil, Argentina, and Mexico are the mainstays of one subgroup. Each possesses a large and relatively industrialized economy, sizable markets and healthy prospects for economic growth. These countries view LAFTA primarily as a coordinator of joint activities which should not interfere with national economic decisions. A second subgroup, composed mainly of Andean Pact members, views LAFTA as a means of enhancing their collective bargaining power and of accelerating mutual economic development in the most equitable way possible.

In 1975 as in 1974, the main revitalization efforts were concentrated in the "Collective Negotiations." This round of conferences was mandated by the Treaty of Montevideo, in which LAFTA was founded, in order to evaluate the policies, progress, and future of the organization.

During the year, two sessions were held, the major discussion being concerned with reforms sponsored by members of the Andean Group. Included were proposals aimed at accelerating LAFTA's tariff-reduction program and to provide greater nonreciprocal benefits to the least developed members (Paraguay, Uruguay, Ecuador, and Bolivia) and replacing LAFTA's chief decisionmaking organism--the Annual Conference of the Contracting Parties--with a Commission vested with greater control over the daily operations of the organization. These proposals constituted an attempt by ANCOM partners to extend their concept of economic integration to the LAFTA as a whole. Because of conflicting interests within the parent organization, their efforts to reach agreement have been unsuccessful.

The continuing inability of the participants of the Collective Negotiations to arrive at a consensus on concrete policy recommendations constituted a serious deficiency of the 15th Annual Conference of the Contracting Parties held in November 1975. The Conference tabled resolutions growing out of the 1974-75 negotiations, but agreement remained elusive. The meeting closed without a clear program for the future of LAFTA reform, or even for its very continuation as an organization. There was some hope that the newly instituted Council of Foreign Ministers would be able to provide direction and impetus to the organization. The creation of the Council, the LAFTA's highest authority, was given final approval in 1975, when Chile ratified a 1966 protocol establishing it.

At the annual conference, the only nonprocedural resolutions ultimately adopted were concerned with matters of interest to the lesser developed countries. In addition, only 21 new tariff concessions were added to the national lists of items subject to annual duty reductions throughout the LAFTA; some nonreciprocal concessions were granted to Ecuador and Uruguay by certain of the more developed members of the region.

During the year, customs experts met as they have in the past to continue discussions of the need for revision of the LAFTA classification nomenclature. They also considered the desirability of harmonizing the diverse customs documentation and procedures of the various members of LAFTA.

In spite of the decline of LAFTA, two mechanisms established by the movement have continued to function normally--the Sectoral Negotiating Committees and the Multilateral System of Payments and Reciprocal Credit.

Since the early seventies, the Sectoral Negotiating Committees have served as the principal mechanism for the expansion of trade within LAFTA. These committees, composed of industry representatives from the various countries, have continued to meet annually to discuss duty extensions and additions to existing complementation agreements (limited trade agreements in specifically negotiated items designed to liberalize trade among participating member nations).

During 1975, about 15 meetings of various industrial sectoral committees were held and representatives proposed numerous changes in complementation agreements on behalf of their respective governments. However, at the Annual Conference, only one new complementation agreement--in the chemical sector--was ultimately approved by the governments involved. The new agreement permits Argentina, Brazil, Chile, and Mexico to lower duties to each other on 166 chemical products. This is the sixth of the 21 complementation agreements covering the chemical and petrochemical fields in effect at the close of 1975. Additions of items were also approved for the already existing photographic, petrochemical, and paints and dyestuffs complementation agreements.

The second LAFTA integration mechanism which has continued to further the growth of intraregional trade is the regional payments system, a multilateral credit clearinghouse designed to reduce the utilization of foreign exchange in financing intraregional trade. The program began in 1966, when 16 bilateral payments agreements were signed accounting for the equivalent of $106.4 million in credit extensions. By 1975, the program had expanded to 49 agreements with credits totaling about $2.4 billion.

Trade.--In 1975, as in the past several years, the value (in U.S. dollar equivalents) of the intraregional exports of the LAFTA countries represented about 11 percent of the value of worldwide LAFTA exports. Particularly important has been the growth of intraregional trade in manufactured goods. During 1975, Argentina and Brazil dominated LAFTA intraregional trade--Brazil accounted for over 55 percent of the total value of this trade, while Argentina accounted for over 20 percent.

In contrast to 1974, LAFTA exports to the United States in 1975 were considerably reduced. After increasing by 88 percent in value in 1974, these exports declined 17 percent in 1975 to the equivalent of $10.1 billion. LAFTA exports to the United States continued to consist principally of primary and raw material products. These accounted for almost 75 percent by value of exports during 1975, with approximately 41 percent of the value represented by petroleum exports alone.

U.S. exports to the LAFTA expanded by 10 percent in value in 1975. Exports of nonagricultural products, particularly machinery and transport equipment, which accounted for some 88 percent by value of U.S. shipments to the region, were mainly responsible for this increase.

In recent years, about 80 percent of the total value of U.S.-LAFTA trade has been accounted for by U.S. trade with Mexico, Brazil, and Venezuela. In 1975, the United States registered trade surpluses with Mexico and Brazil and a trade deficit with Venezuela.

Andean Common Market (ANCOM)

The Andean Common Market (ANCOM) was initiated by the middle-size members of the LAFTA because of their frustrations over the slow pace of economic integration and industrial development attempted by LAFTA, as well as the unequal distribution of the benefits of integration within the parent organization. Since its inception the value of trade within ANCOM has grown from about 2.5 percent of the area's total exports in 1968 to approximately 7 percent in 1975.

According to the Agreement of Cartagena in 1969 which set up the Andean Group, 1975 was to be a pivotal year in determining the longrun viability of the group. By the end of the year, critical decisions were due on the two most important aspects of the integration process--the Sectoral Development Program and the Common External Tariff (CET). Unfortunately, however, the statutory deadlines were not met.

Problem areas.--The primary issue which concerned the Andean Group during 1975 was the allocation to member countries of production rights in certain basic industrial sectors under the Sectoral Programs for Industrial Development (SPID's). This industrial allocation has been the key element of ANCOM's integration scheme, the Group's method for equalizing the benefits of the integration process. Encompassing about one-third of all items in the subregion's tariff schedule, the Sectoral Programs attempt to create one viable subregional market out of six small ones, through the mechanism of subregional industrial planning and complementary industrial development.

Under the terms of the program, all country assignments in affected sectors were to be made by December 31, 1975. After this date, an automatic intraregional tariff reduction program was to begin on unassigned items. By the end of 1975, however, only 2 of about 10 possible sectoral programming agreements had become operational (in metalworking in 1972 and petrochemicals in 1975). While agreement on the SPID's for the automotive and fertilizer industries was near completion by the close of the year, the multisectoral proposals on glass, chemicals, pesticides, and dyestuffs were still in the drafting stage, and proposals on steel, electronics, and pulp and paper had yet to be drafted.

The successful negotiations of the petrochemical SPID, approved in late August 1975, was viewed as an important step forward in Andean economic integration. This achievement of final approval of the agreement after nearly 5 years of negotiations spurred efforts to conclude the remaining SPID's. In the petrochemical SPID, the production rights of 56 petrochemical items were ultimately assigned among the six member countries; some of these rights were assigned on a shared production basis. Since some of these commodities are already being produced in the Andean region, an increase in trade may be experienced in the near future. Countries are also allowed 2 1/2 years to conclude feasibility studies on new projects. The total investment required to put this one SPID into operation is estimated at $2.5 billion.

The tariff concessions granted on products assigned under the SPID program give almost monopolistic advantages to the designated countries; within the subregion, product assignments enter other countries duty free while imports from non-Andean sources are subject to a 20 to 35 percent ad valorem common external tariff. The establishment of enterprises in unassigned countries is not forbidden; however, such production must not harm the industry in the country assigned production rights, must utilize only Andean raw materials, and must be designated solely for export outside the region.

There was much controversy at the end of 1975 over what to do with the remaining unassigned SPID industries. The six members of the

Group were divided among themselves over whether to extend the assignment deadline or to begin reducing tariffs. Agreement finally was reached to extend the timetable for negotiating the remaining SPID's.

The other critical issue facing ANCOM during 1975 was the final approval of a plan establishing a Common External Tariff (CET). At its second meeting of the year, the Andean Group Council of International Commerce reached agreement on the criteria and objectives of the tariff; however, the most controversial issue--whether the final tariff level would be highly protective or more liberalized--was not resolved. Under the Agreement of Cartagena, the target date for final approval of the CET was December 31, 1975, and on that date, a CET setting a minimum tariff level was to have been installed as a preliminary step. Uniform compliance did not take place on schedule, however. Because the deadlines were not met, ANCOM members agreed to a 2-year extension of the implementation schedule.

Other issues.--In spite of current problems in establishing Common External Tariff rates, the intraregional automatic tariff reductions proceeded on schedule through 1975. By the end of the year, Colombia, Peru, and Chile had made their fifth annual 10 percent tariff reductions while Venezuela, a late entrant in the organization, had made its second reduction. Since 1974, many of the products of Bolivia and Ecuador, the most underdeveloped countries of the subregion, have entered the other Andean countries free of import duties.

The intraregional tariff reduction program has been criticized by representatives of industries such as textiles and footwear.

Largely as a result of such criticism, ANCOM is now planning an "industrial rationalization program" to aid those industries hurt by the tariff reductions. The program has not yet been totally formulated, but need for prompt action was becoming increasingly urgent in 1975 as unilateral administrative restrictions and other nontariff trade measures have been imposed on intraregional trade.

Some countries have been more successful than the others in exploiting the advantages of freer trade. Colombia, for example, has been most aggressive in expanding exports of manufactured products to its neighbors, and by 1975 accounted for 25 percent of the value of intraregional exports, but for only 12 percent of intraregional imports. In 1975, Colombia, Venezuela, and Ecuador together accounted for 78 percent of the value of the region's exports, while Chile and Peru accounted for over 50 percent of the value of intraregional imports. In recent years, trade in petroleum has accounted for almost 50 percent of intraregional trade. This imbalance is viewed as a threat to the whole concept of equalization of benefits.

Another area of considerable controversy has been ANCOM's strict Foreign Investment Code. Also known as Decision 24, the Code calls for phased divestiture of foreign ownership, profit remittance ceilings, and limitations on trade marks, patents, and licensing. Some ANCOM members have come to believe that the Code is too restrictive and requires substantial revisions if members are to attract the capital necessary to implement their ambitious development programs. The program's restrictiveness has inspired variations in interpretation, implementation, and enforcement of the Code by individual member countries, increasing tension within the Andean Group.

Central American Common Market (CACM)

The forward progress in the Central American integration movement may have reached a turning point in 1975. The two previous years had constituted a period of considerable evaluation of the role of a restructured organization, and this period ended in December 1974 with the presentation of the draft Treaty of the Central American Economic and Social Community (CESCA). The completion of the working document has been instrumental in revitalizing interest in the integration process.

Early in 1975, the High Level Commission for Improving and Restructuring the CACM began intensive consideration of the draft treaty. By the end of the year, 12 meetings had been held and substantial progress had been made in completing a revised version for the deadline of January 31, 1976. This revised draft addresses the problems which led to the threatened collapse of the Common Market--primarily the inequality in the distribution of the benefits of integration.

The work of the High Level Commission was given strong encouragement with the signing of the La Flor Declaration by the Presidents of Guatemala, El Salvador, Costa Rica, Honduras, and Nicaragua. This document reiterated the deep commitment of the respective governments to establishing a viable "economic and social integrative order," and instructed the High Level Commission to proceed expeditiously with their examination.

The La Flor Declaration also urged the Presidents of El Salvador and Honduras to seek a solution for their joint problems. Accordingly, the Presidents of both countries met in midyear to discuss their longstanding border dispute and other differences. Since it was the 1969 war between the two countries which resulted in the serious weakening of CACM, this meeting was heralded as a major step in the eventual revitalization of the integration movement.

Tariff and trade developments.--The CACM has been operating not as one customs union but as two. The four countries (excluding Honduras) which continue to adhere to the provisions of the GATT maintain free trade on some 90 percent of all items traded. A second, less comprehensive customs union developed informally between Honduras and the other CACM members (excluding El Salvador) shortly after Honduras abrogated its treaty obligations under the five-country CACM. Under this arrangement, limited free trade is conducted through a system of preferential bilateral treaties, all of which are designed to limit the Honduran trade deficit.

During the past year, the pressures of severe inflation and serious balance-of-payments problems resulting from high petroleum prices led to the imposition of unilateral trade restrictions on some products, such as textiles and shoes. These actions have caused friction within the organization. Particularly noteworthy was Nicaragua's continued used of the temporary trade restraints which it was granted following the 1972 earthquake. By the close of 1975, however, the situation was resolved by the appointment of a regional group of auditors to oversee the operation of intraregional trade. Another action of importance to deal with intraregional disagreements was the approval of sorely needed regulations establishing procedures for the conciliation of disputes between firms operating within the Common Market.

The Common External Tariff (CET) also came under close scrutiny. The existing classification system has long been considered inadequate for the needs of the Common Market, and efforts to revise the system have been under consideration for several years. In 1974, it was planned that a more rational CET would be operational by July 1, 1975. However, this deadline was not met, although some progress had been made.

By midyear 1975 a technical group was appointed to review in its final phase the correlation and conversion of the Uniform Tariff Nomenclature of the CACM to the Brussels Tariff Nomenclature for Central America (NABCA) and the conversion of all duties to ad valorem values. Efforts were also made to move beyond the discussion phase and to consider instruments providing for the uniform administration and application of the program. To aid these efforts, the customs directors of the member countries (including Honduras) have requested technical assistance and financing from the United Nationa Development Program. The new tariff schedule was not expected before 1977.

The customs deliberations have been accompanied by discussion of the regionwide Fiscal Incentives for Industrial Development Program. These incentives, applied as duty exemptions, have not been responsive in the past to the objectives of integrated regional development. Steps were taken in 1975 to replace the current law with more selective instruments administered through the planned customs law. The new rules were expected to eliminate unnecessary protection, provide incentives for production of raw materials and intermediate products, and reduce current levels of fiscal exemptions.

Other integration activity.--Of importance in its support of the integration process was the 10th meeting of the Committee on Economic Cooperation of the Central American Isthmus held early in 1975. While supporting the longrange restructuring efforts, this respected nongovernmental body has concentrated on promoting short-term mechanisms to strengthen the Common Market's existing institutions.

In response to proposals, the Common Market developed several new areas of cooperation during 1975, in fields as diverse as energy, export promotion, agriculture, and transportation. In agriculture, a regional "Plan of Action" was approved to aid in regional production, marketing, and storage of foodstuffs, particularly basic grains, in the hope of achieving regional self-sufficiency by 1980. In the field of energy, a Central American Energy Commission was established and plans laid for a regional energy program.

Of special importance was the initiation of a $5 million project for improving ports and developing a regional maritime system. Entitled TRANSMAR, the project's ultimate aim is to capture more of the CACM's shipping business. Although 95 percent of the region's commerce is transported by sea, vessels of the five countries currently carry only a small portion of this trade.

<u>Trends in trade</u>.--In 1975, intraregional trade continued at approximately 20 percent of the region's total trade, a pattern unchanged since 1969. Much of the intraregional trade is in manufactured products, with most spectacular growth occurring in the chemical sector. El Salvador and Guatemala, which together account for 62 percent by value of intraregional exports, sustained trade surpluses.

Panama, while not a member of the CACM, maintains close trade ties with it through a series of bilateral treaties with all CACM members except Honduras. In addition, Panama participates in several of the CACM's regional institutions such as the regional payments system and the CACM developmental bank. During 1975, there was little new discussion of the incorporation of Panama into the CACM. Chiefs of State did meet in November, however, and signed the Declaration of Guatemala affirming regional support for Panama's efforts to gain control over the Canal Zone.

The countries of the CACM and Panama did not follow the general trend in trade between the United States and Latin America in 1975. In terms of value, CACM imports from the United States declined 6.1 percent. CACM expanded its share of U.S. imports, albeit slightly, during a year when overall Latin American exports to the United States declined some 13 percent. There was no single group of commodities which accounted for this trend. Both agricultural and nonagricultural exports participated in the modest expansion in trade. The 30 percent increase by value in TSUS item 807 imports from Central America in 1974, in contrast to the 2.5 percent decline in the global value of such imports, may well explain the CACM's deviation from the general trend of United States-Latin American trade. The decline in CACM imports from the United States was attributable solely to a fall in demand for nonagricultural commodities, especially chemicals and manufactured products, as measures to halt inflation and trade imbalances become effective. Nevertheless, both the CACM members and Panama continued to experience trade deficits with the United States.

The Caribbean Community (CARICOM)

Under the terms of the Treaty of Georgetown which established CARICOM, the three more developed countries of the region--Guyana, Jamaica, and Trinidad and Tobago--were slated to introduce a Common External Tariff (CET) based on the Brussels Tariff Nomenclature by August 1, 1976, while Barbados and the East Caribbean Common Market members were given substantially more time. By the beginning of 1976, however, all of the CARICOM countries had placed their coordinated tariff schedules in effect, some as much as 7 years ahead of schedule.

In spite of these very real accomplishments, several areas of serious disagreement have recently arisen. The major complaint has been with the existing internal pattern of trade. Several of the CARICOM members have suffered increasing intraregional trade deficits and have identified the widespread abuse of the Community's country-of-origin rule as a primary cause of their problems. Yet another complaint has been an increasing use of intraregional trade restrictions, especially on agricultural products.

In their meeting in July, the Common Market Council, which serves as the main organ of CARICOM, promulgated measures to deal with these problems. The Council authorized preparation of a study to be implemented by May 1976 which would close the loopholes in the country-of-origin rules by defining the degree of processing necessary for a commodity to qualify as a CARICOM product. In addition, they appointed a committee to prepare measures aimed at regulating agricultural trade in the area.

As in the past, the Council focused much of its attention on the problems and progress of economic development within the community. A continuing area of concern has been the problem of agriculture and the region's dependence on agricultural imports. The treaty establishing CARICOM contained an Agricultural Marketing Protocol which was expressly designed to correct this serious problem through the encouragement of increased agricultural production within the community. To aid production goals, the Protocol prohibited imports of specific commodities (vegetables, pork, and citrus fruits) from foreign sources until community supplies are exhausted. Certain other commodities such as rice were also regulated by separate intraregional trade agreements.

The primary purpose of the Protocol has not met with much success. Productive capacity of the community has increased only slightly and marketing services still require considerable improvement. Because of these failures, the Council has finally decided that fundamental revisions of the Protocol are in order.

The Council is considering measures to develop regional production of starch and flour and has authorized an export promotion program to aid in the marketing of regional tropical fruits and exotic products. In addition, the decision has been made to establish a system of model farms called the Caribbean Food Corporation in order to demonstrate the profitability of cattle, pork, dairy, and poultry operations in the area.

The Council has also been considering ways to rationalize region-wide industrial production. At its July meeting, the Council approved measures to protect the infant industries of the lesser developed members of the region, examined the expansion of the region's textile industry and the measures necessary for its protection, and approved other proposals aimed at insuring a higher degree of regional self-sufficiency. The encouragement of binational joint ventures through tax incentives was also discussed.

One of the major difficulties faced by the group has been the purely physical problem of being dispersed over 3,000 miles of ocean. The comparative isolation of its members greatly complicates the coordination of regional programs. To improve communication of regional views to the outside world, 12 Caribbean States established the Committee of Development and Cooperation of the Caribbean (CDCC) during a meeting in Cuba in November 1975. This body will serve as the consulting organ in Caribbean affairs to the United Nations Economic Commission for Latin America. The Council also approved plans for an improved regional transportation system. A new corporation called Regional Shipping Services will replace the old West Indies Shipping Company and will invest in the purchase of a new fleet of ships operating among ports in the region.

Perhaps the most significant event of the year for the future of the Caribbean was the signing of the Lomé Convention in February 1975. Caribbean participants include the Bahamas, Barbados, Guyana, Grenada, Jamaica, and Trinidad and Tobago, the independent states of the region. The Convention is of particular importance to the countries of the Caribbean because it directly affects trade in many of their major export products. The EC has agreed to purchase specific quotas of sugar from treaty members and to establish a price stabilization fund for other commodities such as bananas, coffee, cocoa, and palm oil. In the longer run, the Community is also very interested in provisions which have been included in the Convention relating to industrial promotion and financial and technical cooperation.

The area's heads of state met in December 1975 and expressed concern over their common problems of inflation and accelerating balance-of-payments deficits. They authorized the establishment of a CARICOM working group to draft proposals to counteract the negative effects of world inflation. Among the proposals which are scheduled to become operative by April 1976 are an expanded intraregional compensatory financing program and a regional financial security net.

Trends in trade.--Caribbean intraregional trade constitutes about 6 percent by value of the area's total trade, the share having quadrupled between 1968 and 1974. The largest countries of the region continue to dominate both external and internal trade. Petroleum, chemicals, and foodstuffs are principal items traded, although manufactured goods are also increasing in importance.

U.S. exports to the Caribbean increased 10 percent in value between 1974 and 1975, while the value of U.S. imports from the region dropped by about 11 percent. In spite of this, the U.S. continues to maintain a sizeable trade deficit with the region.

The product primarily responsible for the US $2.8 billion deficit with the area is petroleum, imported mostly from the major oil refineries in the Netherland Antilles, Trinidad and Tobago, and the Bahamas. In addition, the United States maintains a considerable deficit with Jamaica from which the United States imports 56 percent of its bauxite. These two products alone account for 90 percent of all U.S. imports from the region in terms of value.

Almost 75 percent of the value of Caribbean imports consists of nonagricultural products, particularly machinery and transportation equipment. Agricultural imports are also important, with grains accounting for nearly 40 percent of the value of total agricultural imports.

The Latin American Economic System (SELA)

In October 1975, 25 Caribbean and Latin American countries (including Cuba) embarked on a new regional integration effort called the Latin American Economic System (SELA).

The charter establishing SELA describes the organization as a body whose major purposes are "consultation, coordination, and joint economic and social promotion." SELA's activities to date indicate that it will be active in formulating unified bloc positions in international meetings, in negotiating with multinational corporations, and in initiating and supporting regional commodity agreements. In addition, the group will promote the creation of Latin American multi-company enterprises. While not directly related to the operations of the existing system of Latin American trade agreements, the program has the potential to affect the trade relations of the area.

The organization, which will be headquartered in Caracas, was conceived by the Presidents of Mexico and Venezuela. According to its supporters, SELA was not created to duplicate the work of the regional integration programs. It will attempt instead to fill the vacuum created by the slow progress of the various regional groups.

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