UNITED STATES TARIFF COMMISSION

Operation of the

TRADE AGREEMENTS PROGRAM

10th Report

July 1956–June 1957

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UNITED STATES TARIFF COMMISSION

Operation of the

TRADE AGREEMENTS PROGRAM

10th Report

July 1956–June 1957

PREPARED IN CONFORMITY WITH SECTION 3 OF THE TRADE AGREEMENTS EXTENSION ACT OF 1955 AND EXECUTIVE ORDER 10082 ISSUED OCTOBER 5, 1949

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UNITED STATES TARIFF COMMISSION

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Foreword

This, the 10th report of the United States Tariff Commission on the operation of the trade agreements program, covers the period from July 1, 1956, through June 30, 1957. The 10th report has been prepared in conformity with the provisions of section 3 of the Trade Agreements Extension Act of 1955 and Executive Order 10082 of October 5, 1949. Section 3 of the Trade Agreements Extension Act of 1955 requires the Tariff Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program. Before the passage of the Trade Agreements Extension Act of 1955, various Executive orders had directed the Commission to prepare similar annual reports and to submit them to the President and to the Congress. The latest of such orders—Executive Order 10082 of October 5, 1949—is still in effect.

During the period covered by the 10th report, the Contracting Parties to the General Agreement on Tariffs and Trade did not sponsor any multilateral tariff negotiations. The United States, however, engaged in limited trade-agreement negotiations, under the General Agreement, with Cuba and with the United Kingdom and Belgium. The report describes these negotiations and analyzes the concessions that the United States granted to and obtained from Cuba, as well as the compensatory concessions that it granted to the United Kingdom and to Belgium.

The 10th report also covers other important developments during 1956–57 with respect to the trade agreements program. These include the proposed legislation concerning United States participation in the Organization for Trade Cooperation; the major developments relating to the general provisions and administration of the General Agreement; the actions of the United States relating to its trade agreements program; the recent developments with respect to European economic integration, such as the Common Market and the proposed European free-trade area; the present relationship to the General Agreement of the various multilateral associations and regional groupings of countries that have grown up since World War II; and the changes made in exchange controls and quantitative trade restrictions by countries with which the United States has trade agreements.

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Chapter 1

United States Trade Agreements Legislation

During the period covered by this report,[1] the United States conducted its trade agreements program under the Trade Agreements Act of 1934,[2] as amended, the Trade Agreements Extension Act of 1951,[3] as amended, and the Trade Agreements Extension Act of 1955.[4]

House bill 6630, which proposed to authorize the President to accept membership for the United States in the proposed Organization for Trade Cooperation, was introduced in the House of Representatives on April 4, 1957, and was referred to the Committee on Ways and Means. By June 30, 1957, the end of the period covered by this report, the committee had not reported on the proposed legislation.

PRINCIPAL PROVISIONS OF THE TRADE AGREEMENTS EXTENSION ACT OF 1955

The Trade Agreements Extension Act of 1955 (sec. 2) extends from June 12, 1955, until the close of June 30, 1958, the period during which the President is authorized to enter into trade agreements with foreign countries. In extending the President's authority, the Congress reiterated the caveat it included in every previous extension act since 1951 that enactment of the act "shall not be construed to determine or indicate

[1] The first report in this series was U. S. Tariff Commission, *Operation of the Trade Agreements Program, June 1934 to April 1948*, Rept. No. 160, 2d ser., 1949. Hereafter that report will be cited as *Operation of the Trade Agreements Program* (first report). The second, third, and succeeding reports of the Tariff Commission on the operation of the trade agreements program will hereafter be cited in a similar short form. Copies of the Commission's earlier reports on the operation of the trade agreements program may be purchased from the Superintendent of Documents, United States Government Printing Office, Washington 25, D. C.

[2] 48 Stat. 943.

[3] 65 Stat. 72.

[4] 69 Stat. 162.

For the provisions and legislative history of the Trade Agreements Act of 1934 and the subsequent extension acts, see *Operation of the Trade Agreements Program:* First report, pt. II, ch. 2; second report, ch. 2; third report, ch. 2; fourth report, ch. 2; sixth report, ch. 2; seventh report, ch. 2; and eighth report, ch. 1.

the approval or disapproval by the Congress of the executive agreement known as the General Agreement on Tariffs and Trade" (sec. 3).

Section 3 of the extension act of 1955 amends section 350 of the Tariff Act of 1930 (sec. 1 of the Trade Agreements Act of 1934, as amended). As so amended, section 350 increases the President's authority to reduce United States import duties pursuant to trade-agreement negotiations by alternative methods.[5] The first method permits reductions in import duties of not more than 15 percent of the rates existing on January 1, 1955. Under this provision, the amount of reduction that may become initially effective at one time may not exceed 5 percent of the rate that existed on January 1, 1955. No part of any such reduction after the first part may become initially effective until the immediately previous part has been in effect for not less than 1 year, and no part of any reduction may become initially effective after the expiration of the 3-year period which began on July 1, 1955. In effect, this method authorizes the President to reduce United States rates of duty by a maximum of 5 percent of the rates that existed on January 1, 1955, in each of 3 consecutive 12-month periods, the first such period beginning on July 1, 1955. The President's authority to make such reductions is not cumulative from period to period. Because the rates of duty that were reduced pursuant to the trade-agreement negotiations with Japan and other countries in 1955 became effective after the base date of January 1, 1955, rates of duty reduced by 15 percent or more in those negotiations may not be further reduced under the authority granted to the President by the first method.

The second method permits the reduction of import duties that are higher than 50 percent ad valorem (or the equivalent thereof) to a rate of 50 percent ad valorem (or the equivalent thereof). Under this provision also, not more than one-third of the reduction in rates of duty may become initially effective at one time, and no part of any reduction after the first part may become initially effective until the immediately previous part has been in effect for not less than 1 year. In contrast to the first method, however, section 3 of the act does not prohibit reductions in rates of duty under the second method from becoming effective after the expiration of the 3-year period beginning July 1, 1955. The President may, therefore, reduce rates of duty under the second method after June 30, 1958, if such reduction is required to carry out a trade-agreement commitment entered into on or before that date.

Section 3 of the Trade Agreements Extension Act of 1955 also amends section 350 of the Tariff Act of 1930 to provide that the President may—within carefully specified limits—exceed the duty-reduction limitations

[5] The Trade Agreements Act of 1934 originally authorized the President to reduce import duties, pursuant to trade-agreement negotiations, by not more than 50 percent of the "existing" rates. The Trade Agreements Extension Act of 1945 authorized the President to reduce import duties by not more than 50 percent of the rates in effect on January 1, 1945.

set forth in the act if he determines that such action will simplify the computation of the import duties involved.

Section 3 of the extension act of 1955 further amends the existing trade agreements legislation by providing that the President shall submit to the Congress an annual report on the operation of the trade agreements program. The President's report is to include information regarding new negotiations, modifications made in import duties and import restrictions, reciprocal concessions obtained in trade agreements, modifications made in existing trade agreements (including the incorporation therein of escape clauses), and other information relating to the trade agreements program and to the trade agreements entered into under it.[6] Section 3 of the act also provides that the Tariff Commission shall at all times keep informed concerning the operation and effect of provisions relating to duties or other restrictions contained in trade agreements that have already been entered into or that hereafter may be entered into, and directs the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program.[7]

Section 5 of the extension act of 1955 amends the escape-clause procedure (sec. 7 of the Trade Agreements Extension Act of 1951, as amended)[8] by providing that the Tariff Commission shall immediately make public its findings and recommendations to the President (including any dissenting or separate findings and recommendations), and that it shall publish a summary of such findings and recommendations in the *Federal Register*.[9]

Section 6 of the extension act of 1955 amends the escape-clause procedure by specifying—somewhat more definitely than did the previous legislation—the extent to which increased imports must affect an industry before serious injury can be attributed to such imports, and by defining a "domestic industry" for escape-clause purposes. Under the amendments increased imports, either actual or relative to domestic production, are

[6] The President submitted his first annual report on February 11, 1957 (H. Doc. 93, 85th Cong., 1st sess., *First Annual Report on the Operation of the Trade Agreements Program; Message from the President of the United States Transmitting the First Annual Report . . .*).

[7] Since 1947 various Executive orders have directed the Tariff Commission to make a factual report to the President and to the Congress, at least once each year, on the operation of the trade agreements program. The latest of such orders—Executive Order 10082 of October 5, 1949—is still in effect.

[8] For a detailed discussion of the escape-clause procedure, see ch. 3 of this report and *Operation of the Trade Agreements Program* (fourth report), pp. 31–32.

[9] Before this amendment, the law required only that the Tariff Commission submit a copy of its report and recommendations to the Senate Committee on Finance and the House Committee on Ways and Means within 60 days after it had made its report to the President, or sooner if the President had acted on the Commission's recommendations. In practice, the Commission made public its report at the same time that it submitted the report to the two congressional committees.

to be considered as the cause or threat of serious injury to the domestic industry producing like or directly competitive products when the Tariff Commission finds that such increased imports have contributed substantially toward causing or threatening serious injury to such industry.

Under the amended escape-clause provision, the term "domestic industry producing like or directly competitive products" is defined as "that portion or subdivision of the producing organizations manufacturing, assembling, processing, extracting, growing, or otherwise producing like or directly competitive products . . . in commercial quantities." Where the producing organizations are engaged in operations involving the production of more than one product, section 6 directs the Tariff Commission to distinguish or separate from the other operations of the producing organizations, so far as practicable, those operations that involve the like or directly competitive products concerned in an escape-clause investigation.

Section 7 of the extension act of 1955 amends the existing trade agreements legislation by providing that whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President. If the President agrees that there is reason for such belief, he shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation and findings and of recommendations made in connection therewith, the President finds that the article is being imported in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security.

PROPOSED LEGISLATION CONCERNING UNITED STATES PARTICIPATION IN THE ORGANIZATION FOR TRADE COOPERATION

The General Agreement on Tariffs and Trade does not specifically provide for any organization for its administration. From time to time the Contracting Parties have met to consider matters arising out of the application of the agreement, but without a permanent organization.

As originally adopted, the General Agreement contemplated that its general provisions would be superseded by the proposed Charter for an International Trade Organization.[10] In 1950, when it became apparent that the proposed International Trade Organization would not be established in the foreseeable future, the Contracting Parties decided to devise

[10] For discussions of the proposed Charter for an International Trade Organization, see *Operation of the Trade Agreements Program:* First report, pt. II, pp. 17–19; third report, pp. 31–32.

methods for dealing with urgent problems that arise when the Contracting Parties are not in session, as well as for conducting tariff negotiations in the interim between full-scale conferences. As a result of discussions at their Sixth Session in 1951, the Contracting Parties established the ad hoc Committee for Agenda and Intersessional Business (later renamed the Intersessional Committee) to consider problems that require immediate action between the regular sessions of the Contracting Parties. They also adopted rules for conducting tariff negotiations under the General Agreement without convening full-scale conferences of the Geneva-Annecy-Torquay type.

At their Eighth Session in 1953, the Contracting Parties decided to convene a session, beginning in October 1954, to review the General Agreement and determine to what extent it would be desirable to amend or supplement the existing provisions, and what modifications should be made in the arrangements for dealing with matters theretofore dealt with in periodic sessions of the Contracting Parties and by the Intersessional Committee.

The review of the General Agreement began on November 8, 1954, during the Ninth Session of the Contracting Parties, which was held from October 28, 1954, to March 7, 1955. Besides agreeing on a number of amendments to the general provisions of the General Agreement, and extending the assured life of the tariff concessions until December 31, 1957, the delegates to the Ninth Session negotiated an Agreement on the Organization for Trade Cooperation (OTC).

The principal function of the proposed Organization for Trade Cooperation would be to administer the General Agreement on Tariffs and Trade.[11] Under the proposed organization, the functions that have been performed by the Contracting Parties in their informal periodic sessions would be transferred to the OTC. Under the new arrangement, the periodic multilateral tariff negotiations that the Contracting Parties have sponsored would be sponsored by the OTC. The Organization would also serve—as have the periodic sessions of the Contracting Parties—as an intergovernmental forum for consultations on questions relating to international trade. The Organization would study questions relating to international trade and commercial policy and, where appropriate, make recommendations thereon. It would also collect, analyze, and publish information and statistical data relating to international trade and commercial policy, having due regard for the activities of other international bodies in this field. The Organization would have no authority to amend the provisions of the General Agreement; and no decision or other action of the Assembly or any subsidiary body of the Organization

[11] For a detailed discussion of the proposed Organization for Trade Cooperation, see *Operation of the Trade Agreements Program* (eighth report), pp. 20–27.

would have the effect of imposing on a member any new obligation that a member had not specifically agreed to assume.

The Contracting Parties approved the Agreement on the Organization for Trade Cooperation in plenary session on March 7, 1955, and it was opened for signature at Geneva on March 10, 1955. The agreement was signed by the United States—subject to approval by the United States Congress—on March 21, 1955. The agreement will enter into force when it is accepted by countries that account for 85 percent of the foreign trade conducted by the Contracting Parties to the General Agreement. Under this arrangement the agreement cannot enter into force unless it is accepted by the United States, since the United States accounts for more than 20 percent of the total foreign trade of the contracting parties. On June 30, 1957, the Agreement on the Organization for Trade Cooperation had been signed definitively by Austria, Burma, Denmark, Greece, Haiti, India, Nicaragua, Pakistan, and the United Kingdom. It had been signed ad referendum or subject to ratification by Belgium, Chile, the Federal Republic of Germany, Luxembourg, the Netherlands, the Federation of Rhodesia and Nyasaland, Turkey, and the United States.

In a special message to the Congress on April 14, 1955, the President of the United States recommended that the Congress enact legislation authorizing United States membership in the proposed Organization for Trade Cooperation. In response to the President's recommendation, House bill 5550 was introduced in the House of Representatives on April 14, 1955, and was referred to the Committee on Ways and Means.[12] The bill proposed to amend the Tariff Act of 1930 by inserting after section 350 a new section authorizing the President to accept membership for the United States in the Organization for Trade Cooperation. On March 26, 1956, after public hearings that extended from March 1 through March 16, the Committee on Ways and Means reported favorably on House bill 5550; in approving the proposed legislation, the committee adopted a number of amendments.[13] The House of Representatives, however, did not act on House bill 5550 during the second session of the 84th Congress. With the adjournment of the Congress on July 27, 1956, therefore, the proposed legislation lapsed.

On January 10, 1957, in his message to the Congress on the state of the Union, the President again recommended that the Congress enact legislation authorizing United States membership in the Organization for Trade Cooperation.[14]

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[12] For the legislative history and a discussion of the provisions of H.R. 5550, see *Operation of the Trade Agreements Program* (ninth report), pp. 7–8.

[13] See H. Rept. 2007, 84th Cong., 2d sess., *The Agreement on the Organization for Trade Cooperation: Report . . . To Accompany H. R. 5550*, Apr. 18, 1956.

[14] H. Doc. 1, 85th Cong., 1st sess., *Message from the President of the United States Transmitting a Report on the State of the Union*, Jan. 10, 1957.

On April 3, 1957, in a message to the Congress, the President again recommended that the Congress enact legislation providing for United States membership in the proposed Organization for Trade Cooperation, and stated that the Secretary of Commerce was submitting, for consideration by the Congress, proposed legislation authorizing such membership.[15] According to the President, the proposal that the Secretary of Commerce was submitting contained features not contained in House bill 5550 as amended by the House Committee on Ways and Means in 1956. These features, the President stated, were designed to provide further safeguards to insure that United States participation in the proposed OTC would be responsive to the problems and needs of United States agriculture, labor, and industry. The proposal also contained provisions that further clarified the substantive safeguards endorsed by the Committee on Ways and Means in 1956.

In response to the recommendations of the President and the Secretary of Commerce, House bill 6630 and House bill 6631 (an identical bill) were introduced in the House of Representatives on April 4, 1957, and were referred to the Committee on Ways and Means. With a few exceptions, the provisions of House bill 6630 were similar to those of House bill 5550, which was not acted upon by the House during the second session of the 84th Congress. House bill 6630 proposed to amend the Tariff Act of 1930 by inserting after section 350 a new section authorizing the President to accept membership for the United States in the OTC (sec. 351 (a)). This section provided—as had House bill 5550—that the President should appoint a chief representative of the United States to the OTC by and with the advice and consent of the Senate, that the chief representative should represent the United States in the Assembly of the OTC, and that he should perform such other functions in connection with United States participation in the OTC as the President might direct (sec. 351 (b)). This section of House bill 6630, however, differed from House bill 5550 in several respects. It did not specify that the chief representative of the United States should have the rank of ambassador; it specifically required that he at all times act in accordance with the President's instructions; and it limited his tenure to 3 years under any one appointment.

Section 351 (b) of House bill 6630—like the provisions of House bill 5550—provided that the President might appoint additional United States representatives and alternates to the proposed OTC, and that he might make appointments under the bill without regard to the civil-service laws and the Classification Act of 1949, as amended. A provision of House bill 6630 that was not contained in House bill 5550 would

[15] H. Doc. 146, 85th Cong., 1st sess., *Message from the President of the United States Recommending United States Membership in the Organization for Trade Cooperation*, Apr. 3, 1957.

require the chief representative to make an annual report to the President on OTC activities, for transmittal to the Congress; the report was to give particular attention to the effect of such activities on United States labor, industry, and agriculture. Another provision of House bill 6630 that had no counterpart in House bill 5550 would require the President to appoint an advisory committee of not more than six members representative of the interests of United States labor, industry, agriculture, and the public, to advise and consult with the chief representative on matters coming before the OTC that affect the United States.

The remaining provisions of House bill 6630 followed closely those of House bill 5550 as amended by the House Committee on Ways and Means during the second session of the 84th Congress. Specifically, these provisions made it clear that nothing in the bill should be construed to enlarge or otherwise alter the President's authority to negotiate trade agreements; to repeal or modify by implication or otherwise any existing legislation; to constitute approval or disapproval by the Congress of the tariff and trade obligations provided for in the General Agreement on Tariffs and Trade; or to commit the United States to enact any specific legislation regarding any matter referred to either in the Agreement on the OTC or in the General Agreement. These provisions of the bill also stated that it was the understanding of the Congress that the functions of the OTC should be limited to the administration of the General Agreement and the facilitating of intergovernmental cooperation solely in the field of trade; that the OTC should not be brought into a specialized agency relationship with the United Nations; and that neither the President nor any other person or agency should accept on behalf of the United States any amendment to the Agreement on the OTC unless the Congress by law authorized such action.

By June 30, 1957, the end of the period covered by this report, the House Committee on Ways and Means had not reported on the proposed legislation authorizing United States membership in the Organization for Trade Cooperation.

Chapter 2

Developments Relating to the Operation of the General Agreement on Tariffs and Trade

INTRODUCTION

The General Agreement on Tariffs and Trade (GATT), the most important and most comprehensive agreement that the United States has entered into under the provisions of the Trade Agreements Act, is a multilateral agreement in which the United States and 34 other countries now participate.[1] The General Agreement consists of two parts: (1) The so-called general provisions, which consist of numbered articles that set forth rules for the conduct of trade between contracting parties [2] and (2) the schedules of tariff concessions that have resulted from the various multilateral negotiations sponsored by the Contracting Parties. On June 30, 1957, the following 35 countries were contracting parties to the General Agreement: Australia, Austria, Belgium, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Czechoslovakia, Denmark, the Dominican Republic, Finland, France, the Federal Republic of Germany, Greece, Haiti, India, Indonesia, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Peru, the Federation of Rhodesia and Nyasaland, Sweden, Turkey, the Union of South Africa, the United Kingdom, the United States, and Uruguay.

At the end of the period covered by this report, the General Agreement embraced the original agreement concluded by the 23 countries that negotiated at Geneva in 1947; the Annecy Protocol of 1949, under which 10 additional countries acceded to the agreement; the Torquay Protocol

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[1] For the earlier history of the General Agreement, see *Operation of the Trade Agreements Program:* First report, pt. II, ch. 3; second report, pp. 19–21; third report, pp. 31–32; and fifth report, pp. 23–26.

[2] The term "contracting parties," when used without initial capitals (contracting parties), refers to member countries acting individually; when used with initial capitals (Contracting Parties), it refers to the member countries acting as a group.

of 1951, under which 4 other countries acceded; and the Protocol of Terms of Accession of Japan, under which that country acceded in 1955. Indonesia, on behalf of which the Netherlands negotiated concessions at Geneva in 1947, became an independent contracting party in 1950. At one time or another during the period commencing with the Geneva Conference in 1947 and ending June 30, 1957, a total of 39 countries became contracting parties to the General Agreement. Four of these countries, the Republic of China, Lebanon, Liberia, and Syria, all of which acceded to the agreement as a result of negotiations at Geneva in 1947 or at Annecy in 1949, have since withdrawn from it.

Article XXV of the General Agreement provides that the Contracting Parties shall meet from time to time to further the objectives of the agreement and to resolve operational problems that may arise. Between the Geneva Conference in 1947 and June 30, 1957, the Contracting Parties met in 11 regular sessions. From the time that the ad hoc Committee for Agenda and Intersessional Business—now called the Intersessional Committee—was established in 1951, it has held one or more meetings each year.

The 11th Session of the Contracting Parties, which was held at Geneva from October 11 to November 17, 1956, was attended by representatives of 33 of the 35 contracting parties to the General Agreement. Two contracting parties—Haiti and Uruguay—did not send delegates to the 11th Session; Haiti was represented by an observer, instead of a delegate, and Uruguay did not send either a delegate or an observer. Represented by observers were the following 15 countries that were not contracting parties to the agreement: Argentina, Afghanistan, Colombia, Ecuador, Egypt, Iran, Israel, Laos, Libya, Panama, Portugal, Switzerland, Tunisia, Venezuela, and Yugoslavia. Also represented by observers were the United Nations, the International Labor Organization, the Food and Agriculture Organization, the International Monetary Fund, the Organization for European Economic Cooperation, the Council of Europe, the European Coal and Steel Community, and the Customs Cooperation Council.

The following discussion of the principal developments relating to the General Agreement during the period covered by this report is divided into four sections: (1) Items arising out of the operation of the agreement; (2) tariffs and tariff negotiations; (3) other developments relating to the agreement; and (4) the status and administration of the agreement. The first section—items arising out of the operation of the agreement—considers deviations from the General Agreement by contracting parties either under specific provisions for such deviations or as breaches of the rules of the agreement. These deviations may be divided into the following four categories: (a) Deviations with respect to which interested contracting parties have complained to the Contracting Parties under the

the provisions of article XXIII;[3] (b) waivers of obligations that the Contracting Parties have granted under article XXV; (c) releases from obligations that the Contracting Parties have authorized under article XVIII; and (d) import restrictions that contracting parties impose for balance-of-payments reasons under the provisions of articles XII and XIV.[4]

ITEMS ARISING FROM THE OPERATION OF THE GENERAL AGREEMENT

Article XXIII of the General Agreement provides that if any contracting party considers that any benefit accruing to it under the agreement is being nullified or impaired by the action of another contracting party, it may bring the alleged impairment to the attention of the contracting party concerned. If this action does not result in an adjustment that is satisfactory to both contracting parties, the matter may be referred to the Contracting Parties for examination and appropriate recommendation. Matters brought before the Contracting Parties in this manner are known as complaints. At their 11th Session in 1956, the Contracting Parties considered a total of 9 complaints; at its meeting in April 1957, the Intersessional Committee considered 1 additional complaint. By June 30, 1957, the end of the period covered by this report, 1 of these complaints had been settled. One additional complaint that was made at the 10th Session in 1955—that on United States (Territory of Hawaii) regulations on imported eggs [5]—was not discussed at the 11th Session and remains unsettled.

Complaint Settled by June 30, 1957

In August 1956 Chile placed in effect a new tax law, one provision of which establishes a progressive tax on automobiles. The tax is levied on five categories of motor cars; the third, fourth, and fifth categories apply to cars valued at more than $1,500 c.i.f.[6] As all automobiles imported into Chile from the United States are valued at more than $1,500, the United States complained to the Contracting Parties at their 11th Session that the new tax impaired the value of the concession that Chile had granted to it on automobiles.

[3] Unless otherwise specified, the numbers of the articles of the agreement, as used in this chapter, are those of the unamended agreement. The amended agreement was not yet in force as of the end of the period covered by this report.

[4] For the texts of discussions, resolutions, and reports of the 11th Session, see Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents:* Fifth Supplement, *Decisions, Reports, etc. of the Eleventh Session, Procedures and Index;* Sales No.: GATT/1957–1, Geneva, 1957.

[5] See *Operation of the Trade Agreements Program* (ninth report), pp. 15–16.

[6] Cost, insurance, and freight.

Since the United States and Chile had been consulting on this matter during the 11th Session, the United States requested only that the Contracting Parties note that the consultation was taking place. Because of Chile's assurances that legislation to correct the impairment of the concession would be proposed to the Chilean Congress, the United States requested no formal action at that time. However, the United States did request that the Contracting Parties place the matter on the agenda for the 12th Session, and they agreed to do so.

At the meeting of the Intersessional Committee in April 1957, the United States representative announced that Chile had rectified the matter of the licensing tax to the satisfaction of the United States and that, accordingly, the United States considered the complaint settled.

Complaints Not Settled by June 30, 1957

Brazilian internal taxes (art. III)

The complaint regarding Brazil's internal "consumption" taxes (impostos do consumo), which that country applies to certain domestic and imported commodities, has been on the agenda of the Contracting Parties since 1949.[7] These consumption taxes, which are substantially higher on certain imported products than they are on like products of domestic origin, violate the provisions of article III of the General Agreement, which require that a contracting party refrain from imposing upon imports of another contracting party internal taxes or other charges in excess of similar charges levied on like products of domestic origin. Over the years, the Brazilian Government has made continued efforts to obtain approval by the Brazilian Congress of legislation that would eliminate the discriminatory aspects of its consumption taxes.

The status of Brazil's consumption taxes was discussed again at the 11th Session of the Contracting Parties. According to the Brazilian representative, the Brazilian legislature had not acted on the matter of the consumption taxes because it had been considering the adoption of an entirely new fiscal code. Pending legislation for revision of the Brazilian excise-tax law provides that the same rates and methods of computation will be applied to both imported and domestic products. Adoption of such legislation would remove the discriminatory aspects of the law and thus remove the basis of the complaint regarding Brazil's consumption taxes. The Contracting Parties, therefore, took no further action on the matter at their 11th Session, but expressed the hope that the question would soon be settled.

French compensatory tax on imports (art. II)

At their Ninth Session in 1954–55, the Contracting Parties considered

[7] See *Operation of the Trade Agreements Program:* Seventh report, pp. 37–39; eighth report, p. 39.

Italy's complaint with respect to France's special temporary compensation tax on imports, and concluded that the tax violated the provisions of the General Agreement.[8] France accepted this conclusion and undertook to remove the special compensation tax as soon as possible. The Contracting Parties instructed the Intersessional Committee to follow closely the measures that France took toward this end, and requested that France report to the committee regarding the matter before the 10th Session convened.

At the 10th Session, the Intersessional Committee submitted its report to the Contracting Parties. The Committee reported that, since January 1955, France had eliminated the compensation tax on some items and had reduced it on others. It stated, however, that France had also extended the tax by applying it to most of the products from which quantitative restrictions had been removed in September 1955 under the liberalization program of the Organization for European Economic Cooperation (OEEC). The committee's report also noted that France had confirmed its intention to gradually remove the compensation tax.

Progress by France in eliminating the tax and reducing its discriminatory effects was slight during the interim between the 10th and 11th Sessions. The reductions that were made during this period were offset somewhat by France's imposition of the tax on the new items that it added to its OEEC liberalization list in January and April 1956. Because of its adverse balance-of-payments position during 1956, the effect of the severe winter of 1955–56 on French agricultural production, and extraordinarily large defense expenditures during 1956, France could not foresee further substantial progress in eliminating the tax or in reducing its discriminatory effects during 1957.

At their 11th Session, the Contracting Parties again expressed disappointment at the lack of progress by France, and called for the reduction or elimination of the tax and its discriminatory effects as promptly as possible. They particularly recommended that France reduce the rate of the tax on a number of articles on which the tax had remained constant for more than 12 months, since the volume of trade in those articles was relatively small. The Contracting Parties agreed to review the matter again at their 12th Session, and requested that France report to the Intersessional Committee by September 1, 1957, on further developments with respect to the tax.

French internal tax on automobiles (art. III)

On June 30, 1956, the French Parliament enacted legislation that established a national solidarity fund for old people. Revenue for the fund was to be obtained by levying a uniform tax on all passenger automobiles rated at more than 16 horsepower and registered after January 1,

[8] See *Operation of the Trade Agreements Program* (eighth report), pp. 34–36.

1950. By a decree of September 3, 1956, however, cars more than 6 years old were exempted from the tax; the rate on cars between 2 and 4 years old was reduced by 50 percent, and that on cars between 4 and 6 years old, by 75 percent. A new tax was levied on cars of 16 horsepower or less, but at a much lower rate than that on cars of more than 16 horsepower.

In 1956 at the 11th Session of the Contracting Parties, the United States noted that French production of automobiles rated at more than 16 horsepower is negligible and that therefore the French tax applies almost exclusively to imported cars, particularly United States makes. The United States felt that for these reasons the tax was discriminatory and contrary to the provisions of article III of the General Agreement, which prohibits the use of internal taxes to protect domestic producers. Moreover, according to the United States, the effect of the tax was to nullify benefits to which the United States was entitled under existing French tariff concessions on automobiles. France contended that the United States complaint was technically improper, since it was made under the wrong article of the General Agreement, and that the tax had not been levied as a protective measure, but to provide revenue.

The United States indicated that it would continue to consult with France on the question of the automobile tax. The Contracting Parties requested that, if these consultations did not result in a satisfactory solution, the United States refer the matter to the Intersessional Committee for further examination.

French stamp tax on imports (art. II)

The French stamp tax on imports, which is levied in addition to the regular import duties, is designed to defray the costs of clearing imported commodities through the customs. The General Agreement authorizes such taxes by providing (art. II) that a contracting party shall not be prevented from imposing fees or other charges on imports commensurate with the cost of services it renders in connection therewith. At the Ninth Session of the Contracting Parties in 1954–55, the United States asserted that France had increased its stamp tax beyond the allowable limits. The matter was temporarily resolved, however, when the French representative noted that France had not increased the tax—and did not intend to increase it—beyond the point necessary to meet the cost of services rendered, as authorized by the General Agreement.[9] In August 1955, however, France increased the tax from 2 percent to 3 percent, with the specific provision that the increase in the proceeds from it be applied to the budget for agricultural family allowances.

The United States immediately complained to the Contracting Parties that France's action was inconsistent with its obligations under the General Agreement. When the matter came before the Contracting

[9] See *Operation of the Trade Agreements Program* (eighth report), pp. 34–36.

Parties at their 10th Session, the French representative agreed that the increase in the tax violated the agreement. But, he stated, France had decided on the increase in exceptional circumstances—when it had been necessary to finance his country's program of agricultural family allowances and when there seemed to be no possibility of financing such allowances by normal methods. Also, he noted, the increase in the level of protection involved was small and did not seem to be of such a nature as to seriously damage the interests of the contracting parties or to alter the channels of trade. He assured the Contracting Parties, however, that his Government would adjust the tax as soon as possible.

At the 11th Session, the French delegate informed the Contracting Parties that the draft of his country's Finance Act for 1957 provided for the reduction of the stamp tax from 3 to 2 percent. The Contracting Parties requested the French Government to inform them when the measure had been approved. As approved by the French National Assembly on December 29, 1956, however, the Finance Act continued the stamp tax at the rate of 3 percent. For this reason, the Contracting Parties placed the United States complaint on the agenda for their 12th Session.

German (Federal Republic) turnover tax on imports of printed matter (art. III)

In the latter part of 1954 the customs authorities of the Federal Republic of Germany began to calculate the country's 4-percent compensatory turnover tax on imported printed matter on its "wholesale" price—that is, on the ultimate German retail price reduced by a fixed percentage. Formerly, the tax had been based on the invoice price, which is the contractual price paid by the publisher to the printer, and which is still used as the base for the tax on domestic printed matter. At the 11th Session the Netherlands complained that, under the new method of calculating the tax, the taxable value of imported printed matter includes copyright, royalty, and other cost elements, whereas the taxable value of domestic printed matter does not include them. Moreover, according to the Netherlands, the method of calculating the tax is not in accordance with the principles of article III of the General Agreement, which provides for "national" treatment of imported products for purposes of internal taxation. The difference in calculating the tax results in a higher tax on foreign printed matter than on such matter obtained from German printing establishments.

During the 11th Session the delegates of the Netherlands and the Federal Republic of Germany and the delegate from Austria—which is also an interested party—expressed hope that the matter could be settled satisfactorily through consultations by the contracting parties concerned. Accordingly, the Contracting Parties took no action on the matter at that session.

Greek increase of bound duties (art. XIX)

On October 3, 1956, Greece increased the duties it had bound in the General Agreement on refrigerators and long-playing phonograph records. In its complaint concerning the increased duties at the 11th Session in 1956, the Federal Republic of Germany requested that the Contracting Parties examine only the increased duty on phonograph records. Inasmuch as Greece had increased the duty on refrigerators under what it believed to be the "critical circumstances" envisioned in paragraph 2 of article XIX of the General Agreement, Western Germany did not insist that its complaint on that item be discussed at the 11th Session. However, it reserved the right to bring the matter to the attention of the Contracting Parties later if consultations show that the prerequisite conditions for action by Greece under article XIX do not exist. Greece claimed that the possibility of injury to domestic producers of refrigerators arises, not because the domestic product cannot compete with the imported product, but because of heavy imports resulting from the ability of importers to sell imported refrigerators to domestic purchasers on the installment plan—which type of financing is made possible by foreign capital loaned for that purpose to the retailers of refrigerators in Greece.

At the time that Greece bound its duty on phonograph records at Annecy and Torquay, long-playing records (33⅓ and 45 revolutions per minute) were a new development and were not imported by Greece. The Greek concession on phonograph records did not mention record speed. In the opinion of the German delegation to the 11th Session, as well as that of a group of experts that the Contracting Parties appointed during the session, the general practice in classifying new or modified products is to apply provisions of the tariff item that specify the products by name, or, if no such item exists, to assimilate the new products into existing classifications in accordance with the principles established by national tariff legislation. It was the opinion of the experts that long-playing records should have been included under the bound item, and that, if Greece had desired to modify its concession on phonograph records, it should have resorted to the procedures provided in articles XVIII, XIX, and XXVIII of the General Agreement.

After the discussion, the Contracting Parties decided to refer the matter to the Intersessional Committee, which in turn was to refer it to a working party. The Contracting Parties directed the working party to consider both the technical and the policy aspects of the problem.

United Kingdom subsidization of exports of eggs, cattle, and potatoes (art. XVI)

At its meeting that began on April 24, 1957, the Intersessional Committee considered a complaint by Denmark that during the first few months of 1957 the United Kingdom had begun to export large quantities of eggs, cattle, and potatoes to Denmark's traditional European markets.

The Danish representative expressed the opinion that the exports in question were the result of production in excess of the United Kingdom's domestic requirements, and that such excess production resulted from the operation of the United Kingdom's guaranteed-price program for these products. According to the Danish representative, his country was willing to await future developments with respect to the United Kingdom's action to reduce its exports of cattle and potatoes. He felt, however, that the United Kingdom had failed to take sufficient action with respect to exports of eggs, and that he must ask the United Kingdom to discuss with Denmark the possibility of limiting the exportation of subsidized eggs in accordance with the provisions of article XVI of the General Agreement. The Danish complaint was supported by the Netherlands, Belgium, Germany, and Sweden.

After discussion, the Intersessional Committee recommended that the United Kingdom and Denmark continue the consultations that they had undertaken and that, in determining its future policy with respect to subsidies on the products in question, the United Kingdom consider the views expressed by the various contracting parties. The Committee also appointed a panel to examine the Danish complaint. The panel is to examine the complaint if the contracting parties concerned report to the Executive Secretary of the Contracting Parties that their consultations have not led to a satisfactory settlement of the problem.

United States subsidization of poultry exported to Germany (Federal Republic) (art. XVI)

On September 27, 1956, the United States Department of Agriculture announced that the United States was granting an export subsidy of 5½ cents per pound on about 3 million pounds of whole frozen ready-to-cook poultry intended for sale in the Federal Republic of Germany. Western Germany has been a traditional market for Danish poultry products, and Denmark had obtained tariff concessions from Western Germany, under a bilateral trade agreement in 1951, as a principal supplier of those products.

At the 11th Session of the Contracting Parties, Denmark asked the Contracting Parties to review the United States subsidy on poultry exported to Western Germany. According to Denmark, the United States subsidy was not compatible with the spirit of the present article XVI of the General Agreement, and was clearly inconsistent with the revised article XVI, which the United States already has accepted. The revised article states that contracting parties should avoid subsidies on the exportation of primary products, including agricultural products.

The Contracting Parties noted the Danish complaint and the fact that Denmark and the Netherlands (which also is an interested contracting party) proposed to consult with the United States on the matter under the provisions of article XVI.

United States restrictions on imports of dairy products (art. XI)

In 1951, at the Sixth Session of the Contracting Parties, Denmark and the Netherlands, supported by Australia, Canada, France, Italy, New Zealand, and Norway, complained that United States restrictions on imports of certain dairy products violated the provisions of article XI, which require the general elimination of quantitative restrictions on imports. Furthermore, these countries maintained, the restrictions in question impaired concessions that the United States had made in the General Agreement, and the complaining parties were therefore—in retaliation—entitled to request suspension of certain of their obligations to the United States, as provided for in article XXIII. At their Seventh Session in 1952, the Contracting Parties authorized the Netherlands—in retaliation—to limit imports of wheat flour from the United States to 60,000 metric tons a year. At the Eighth Session in 1953, the Contracting Parties requested the United States to report annually on the import restrictions in question.[10]

The United States report on its restrictions on imports of dairy products has been incorporated in the more comprehensive report that the United States submits to the Contracting Parties under the terms of the section 22 waiver that they granted to the United States in 1955. This latter report is discussed in a later section of this chapter. During 1956 the United States continued to restrict the importation of certain dairy products. At their 11th Session in 1956, therefore, the Contracting Parties authorized the Netherlands—as they have each year since 1952—to limit imports of wheat flour from the United States to 60,000 metric tons during the next calendar year.[11]

Waivers of Obligations Granted at the 11th Session

Article XXV of the General Agreement provides that, in exceptional circumstances, the Contracting Parties may waive an obligation imposed on a contracting party by the General Agreement. Any such waiver of an obligation must, however, be approved by a two-thirds majority of the votes cast, and such majority must comprise more than half of the contracting parties. This exception to the general rule of decision by majority vote of the representatives present and voting emphasizes the importance that the Contracting Parties attach to the waiving of an obligation imposed on a contracting party by the agreement.

Since the General Agreement entered into force, the Contracting Parties have, on a number of occasions, granted to individual contracting parties waivers of their obligations under the agreement. Two such waivers were granted at the 11th Session; they are discussed below. Also

[10] See *Operation of the Trade Agreements Program:* Fifth report, pp. 32–33; sixth report, pp. 43–45; seventh report, pp. 59–61; eighth report, pp. 59–62; and ninth report, pp. 16–17

[11] See *Operation of the Trade Agreements Program* (ninth report), pp. 16–17.

discussed are 10 reports, submitted at the 11th Session, that relate to the operation of waivers that the Contracting Parties had granted at earlier sessions.

At the 10th Session of the Contracting Parties in 1955, the Cuban delegate expressed concern about the voting procedure and the criteria employed in granting to contracting parties waivers of their obligations under part I of the General Agreement.[12] Accordingly, the Contracting Parties directed the Intersessional Committee to study these procedures and criteria and to determine whether they were too lenient. After considering the matter, the Intersessional Committee recommended at the 11th Session that the Contracting Parties affirm their intention to proceed with caution in considering requests for waivers from obligations specified in part I of the agreement and from other important obligations, such as those set forth in articles XI and XIII.[13] The Committee also recommended that, to safeguard the interests of the other contracting parties, the Contracting Parties adopt the following principles: (1) Insure that adequate advance notice has been given and that consultations among interested parties have taken place before acting on an application for a waiver; (2) in general, do not grant a waiver if the legitimate interests of other contracting parties are not adequately safeguarded; and (3) include in waivers provisions for annual reports, reviews, and consultations and, where appropriate, for arbitration by the Contracting Parties. Several of these principles have been followed at previous sessions of the Contracting Parties in determining whether waivers should be granted. The Contracting Parties agreed to adopt these principles to guide them in granting future waivers.

Revision of the Brazilian tariff (art. II)

At the 10th Session in 1955, Brazil advised the Contracting Parties that it intended to submit a draft of a new customs tariff to the Brazilian Congress; the draft tariff was submitted to the Congress in 1956. According to Brazil, its old tariff did not provide sufficient revenue or protection and the nomenclature was confusing and obsolete. For these and other reasons, Brazil had been forced to impose quantitative restrictions on imports and to adopt exchange controls.

At their 11th Session the Contracting Parties discussed the effect of Brazil's proposed new tariff on its obligations under article II of the General Agreement. The Brazilian representative stated that, although exchange controls would still be necessary to maintain currency stability and to assist in his country's economic development, the new tariff would result in no change in the volume or composition of imports. According

[12] Part I contains the most-favored-nation rule and provisions for applying and binding tariff concessions.

[13] Articles XI and XIII restrict the use of quantitative balance-of-payments restrictions on imports, especially those that are discriminatory.

to him, the new tariff would merely entail the obtaining from import duties of revenue currently obtained under the auction system of exchange control. Because of the urgency and exceptional nature of the circumstances it felt applied to its case, Brazil requested the Contracting Parties to grant it a waiver under the provisions of article XXV rather than under the provisions of article XXVIII, which are applicable to a complete tariff revision.

The Contracting Parties granted Brazil a waiver from the provisions of paragraph 1 of article II, under the general waiver power provided for in paragraph 5 (a) of article XXV. Under the terms of the waiver, Brazil is relieved of the obligation to renegotiate existing tariff concessions before it makes effective the somewhat higher rates of its new tariff. However, Brazil must conduct such renegotiations within 1 year from the time its new tariff enters into force. The Contracting Parties also established a tariff-negotiations committee to arrange for the renegotiations and to consider questions of general concern relating to them. The Committee is composed of the following countries: Brazil, Australia, Austria, the Benelux countries, Burma, Canada, Chile, Czechoslovakia, Finland, France, Greece, India, Italy, Japan, Norway, Peru, Sweden, the Union of South Africa, the United Kingdom, and the United States.

Central American free-trade area (art. I)

In August 1952 the Central American Committee on Economic Cooperation, under the guidance of the United Nations Economic Commission for Latin America (ECLA), commenced work on a program for a gradual and limited integration of the economies of 5 Central American countries. In March 1956, by utilizing the services of an ad hoc commission, the Committee completed a draft treaty for a multilateral free-trade area and for economic integration of the 5 countries. Included in the arrangements are Nicaragua—a contracting party to the General Agreement—and 4 countries that are not contracting parties—El Salvador, Costa Rica, Guatemala, and Honduras.

When it submitted its annual report on its free-trade-area treaty with El Salvador to the Contracting Parties at their 11th Session, Nicaragua also submitted for approval a "Draft Multilateral Central American Free Trade and Economic Integration Treaty" and a "Draft Regulation for the Integration of Central American Industries." The draft treaty for the Central American free-trade area—the first step toward formation of a customs union—provided for a list of articles that would be exempt from any intra-area customs duties, restrictions, or control measures, and for the harmonization of customs duties imposed on imports into the area of those items and the raw materials employed in their manufacture. Under the provisions of the draft treaty, a commission on Central American trade would—among its other functions—recommend additions to the list of free-trade products, and take steps toward the unification of the customs regulations of the participating countries. Both the expansion of the list of free-trade products and the equalization of duties would be studied by the commission with respect to their effect on the products of the industries selected to come under the industrial-integration regulations

Under the provisions of the regulation for industrial integration the new "integrated" industries would be accorded financial assistance, tax exemptions, and other forms of assistance. The products of these new industries would then automatically be added to the list of free-trade commodities.

In submitting the 5-nation free-trade-area treaty to the Contracting Parties for approval, Nicaragua requested that they make a decision similar to that of October 25, 1951, which recognized Nicaragua's right to the benefits of article XXIV with respect to its free-trade-area treaty with El Salvador.[14] For the purposes of the 5-nation treaty, Nicaragua desired a release from its obligation to extend to other contracting parties the same treatment it proposed to grant to the other 4 Central American countries concerned. In addition, Nicaragua declared its intention to conclude with Costa Rica and Guatemala bilateral free-trade-area treaties similar to the one it had already concluded with El Salvador; it hoped to be able to submit these treaties to the Contracting Parties before the 12th Session convened.

The Contracting Parties unanimously approved these arrangements as an interim agreement in the sense of article XXIV. At the request of the Contracting Parties, Nicaragua undertook to complete the formation of the 5-nation free-trade area within 10 years from the date the treaty enters into force. It also undertook to seek agreement with the other 4 countries on a definite plan and schedule for the completion of the free-trade area, to submit the plan and schedule to the Contracting Parties not later than September 1, 1960, and to report annually on the progress that is made in eliminating tariffs and other restrictions on trade. The Contracting Parties agreed to review their decision approving the arrangements by January 1, 1961, in the light of the plan and schedule that is to be submitted not later than 1960. With respect to the bilateral free-trade-area arrangements that Nicaragua proposed to conclude with Costa Rica and Guatemala, the Contracting Parties requested Nicaragua to submit the proposed treaties to the Intersessional Committee for consideration before the 12th Session. During the discussion of the proposed free-trade area, some contracting parties expressed concern that the proposed arrangements might constitute a precedent for similar arrangements in other parts of the world; they felt that each proposal for such arrangements should be considered on its own merits.

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[14] For a discussion of the waiver relating to the Nicaragua-El Salvador free-trade area, see the section of this chapter entitled "Nicaragua-El Salvador free-trade area (fifth annual report)."

Reports on Existing Waivers of Obligations

Australian special customs treatment of products of Papua and New Guinea (third annual report) (art. I)

At their Eighth Session in 1953, the Contracting Parties granted Australia a waiver of its most-favored-nation obligations under article I of the General Agreement, to permit Australia to assist in the economic development of the territories of Papua and New Guinea.[15] The waiver permitted Australia to accord duty-free treatment to primary products imported from the specified territories without regard to the rates of duty on like products imported from any other contracting party, as long as the primary products were not subject to Australian tariff concessions under the General Agreement. During 1955 Australia discovered that the terms of the waiver were not sufficiently broad to permit Australia to give Papua and New Guinea the assistance those territories desired. After an investigation of the territorial lumber industry, the Australian Tariff Board had recommended that Australia accord duty-free treatment to certain timber products imported from Papua and New Guinea. These products, however, were subject to Australian tariff concessions under the General Agreement, and therefore could not be considered as within the scope of Australia's waiver.

In order to implement the recommendations of its Tariff Board, Australia—at the 10th Session of the Contracting Parties—requested and was granted a supplementary waiver from the provisions of article I that relate to most-favored-nation treatment and margins of preference. Under this waiver, Australia was permitted to accord duty-free treatment to imports of certain forest products from Papua and New Guinea, whether or not these products were subject to Australian tariff concessions under the General Agreement. The intent of the supplemental waiver—as of the original waiver—was to promote the development of the territories as a part of the Australian economic system. The forest products for which the special treatment was primarily intended are unsawn logs, dressed and undressed timber, and veneers. The Contracting Parties did not require Australia to submit an annual report on its actions under the supplemental waiver. Such actions, together with their effect on the trade of the territories and third countries, have been incorporated in the annual report that Australia makes under the original waiver.

In its third annual report to the Contracting Parties, submitted at the 11th Session, Australia noted that it had recently completed action under the waiver on seven forestry products that were not specified in its schedule of the General Agreement. Several of these products (for example, doors and moldings) were not primary products, but Australia felt that action on them was within the intent of the waiver. Australia,

[15] See *Operation of the Trade Agreements Program* (seventh report), pp. 32–34.

therefore, requested that the word "primary" be deleted from the original waiver. On the recommendation of a working party, the Contracting Parties agreed instead to include in the waiver—together with primary products—those products of the territories that are not specified in Australia's schedule of the General Agreement but are substantially derived from primary products.

Belgian quantitative restrictions on imports (first annual report) (art. XI)

On May 16, 1955, Belgium requested the Contracting Parties to waive its commitments under article XI of the General Agreement to permit the retention of a number of quantitative restrictions that it had instituted on agricultural products when it was free to resort to such restrictions for balance-of-payments reasons. Article XI requires the general elimination of quantitative restrictions on imports from or exports to other contracting parties. Belgium's request for the waiver pointed out that, because of conditions prevailing in Belgium's agricultural system—primarily the high cost of agricultural production—removal of the restrictions would subject Belgian agriculture to damaging competition from the Netherlands. The request noted that Belgium was aware of its obligation to eliminate the quantitative restrictions in question. To this end, and yet to enable them to remove the threat to their agriculture, Belgium, the Netherlands, and Luxembourg had entered into an agreement to harmonize their agricultural policies. In view of this agreement, Belgium felt that it could limit its request for a waiver to a period of 7 years. By the end of such a period, Belgium felt, the threat to its agricultural system would have been removed, and it would be able to comply with the provisions of article XI.

Rather than grant Belgium a waiver for a 7-year period under the provisions of article XXV, the Contracting Parties did so for a 5-year period under the terms of the so-called hard-core decision of 1955.[16] Because of the exceptional circumstances surrounding the harmonization of the agricultural policies of the Benelux countries, the Contracting Parties—pursuant to the provisions of article XXV—extended until December 31, 1962, their concurrence with respect to those restrictions that Belgium may not be able to eliminate under the terms of the hard-core decision.

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[16] See *Operation of the Trade Agreements Program* (eighth report), p. 47. This decision recognizes that, for some countries, persistent balance-of-payments difficulties make quantitative restrictions necessary over a period of years, and that the sudden elimination of such restrictions would make adjustments difficult. The decision, therefore, provides for a temporary waiver of the obligation to eliminate quantitative restrictions where their immediate removal would result in serious injury to a domestic industry or branch of agriculture. The decision provides, however, that no waiver shall be granted for a period of more than 5 years.

By the beginning of the 11th Session of the Contracting Parties, Belgium had established working parties to function under its Committee on the Harmonization of Agricultural Policies. The working parties had completed the collection of data and were in the process of examining it, but were not yet ready to submit any specific recommendations. Because the Belgian committee had not made any recommendations and because the Benelux ministers had not met before the 11th Session, Belgium was unable to present a specific program looking toward harmonization. In the first annual report on its quantitative restrictions on imports, Belgium pointed out that it had completely eliminated the quotas on several products and had increased those on a few more. In addition, it had shortened the seasonal periods during which it prohibited imports of certain fruits and vegetables. However, the shortening of these quota periods was the result of a late domestic harvest season, and Belgium could give no assurance that these short quota periods could be continued in succeeding years. During 1956, to improve the efficiency of its agriculture, Belgium had passed a law making it compulsory for owners of individual farms to consolidate their fragmentary land holdings.

During the discussion of the Belgian report at the 11th Session, the contracting parties in general expressed disappointment that Belgium had not made more substantial progress in eliminating its quantitative restrictions on imports. They felt that Belgium's next annual report should contain the kind of information that would enable the Contracting Parties to form an opinion at the 12th Session of Belgium's proposed tariff actions relating to the harmonization program. The Contracting Parties therefore requested that, in future annual reports, Belgium include information on (1) the reasons why it maintains restrictions, (2) its commitments under bilateral agreements with respect to imports of the products covered by the waiver, and (3) information on import quotas and relevant administrative regulations. With regard to the third requirement, the Contracting Parties emphasized the need for Belgium and other countries to provide importers with advance information on new quotas and relevant administrative regulations before placing them in effect.

Czechoslovak and New Zealand exchange-agreement obligations (second annual report) (art. XV)

Article XV is one of the articles of the General Agreement that deals with the problem of quantitative restrictions imposed by contracting parties for balance-of-payments reasons.[17] The article attempts to insure uniformity in exchange practices by obligating contracting parties either to join the International Monetary Fund or to enter into a special

[17] For a discussion of the provisions of article XV, see *Operation of the Trade Agreements Program* (eighth report), p. 51.

exchange agreement with the Contracting Parties. At the Ninth Session in 1954–55, Czechoslovakia and New Zealand—neither of which is a member of the Monetary Fund—asked the Contracting Parties to waive their obligations under the exchange-agreement provisions of article XV. The Contracting Parties granted their requests, subject to certain conditions, one of which was that the two countries consult annually with the Contracting Parties on the operation of the waivers.

At the 11th Session, both Czechoslovakia and New Zealand reported no changes since the 10th Session in their foreign-exchange activities that were pertinent to their waivers. As in previous years, the working party that conducted the discussions on balance-of-payments restrictions under article XV consulted with New Zealand and exchanged views with Czechoslovakia, but made no formal separate report on their waivers from the requirement to enter into special exchange agreements.

European Coal and Steel Community (fourth annual report) (arts. I and XIII)

On April 18, 1951, Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands concluded a treaty constituting the European Coal and Steel Community, as well as a convention providing for certain transitional arrangements connected with its establishment.[18] The six participating countries then requested the Contracting Parties to waive their most-favored-nation commitments under article I of the General Agreement and their commitments regarding the nondiscriminatory application of quantitative restrictions under article XIII. At their Seventh Session in 1952 the Contracting Parties granted such a waiver. In effect the waiver permitted the member countries to form a limited customs union for the purpose of establishing a common market within the Community for coal, iron ore, scrap iron, and steel products. The waiver also required the Community to make an annual report on its progress in implementing the treaty.[19]

At the 11th Session, the European Coal and Steel Community submitted its fourth annual report to the Contracting Parties. The report indicated that the previously reported shortage of scrap iron, resulting from increased production of steel, continued during 1956 despite the system of equalization payments and other measures that the Community had instituted in 1955.[20] During 1956 the Community had attempted

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[18] For the text of the treaty and the convention, see European Coal and Steel Community, *Treaty Constituting the European Coal and Steel Community and Convention Containing the Transitional Provisions*, 1951.

[19] For the text of the waiver and for the report of the working party that considered the problem, see Contracting Parties to GATT, *Basic Instruments . . .*, First Supplement, Sales No.: GATT/1953–1, Geneva, 1953, pp. 17–22 and 85–93.

[20] For a discussion of these measures, see *Operation of the Trade Agreements Program* (ninth report), pp. 23–24.

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to ease the shortage by suspending customs duties on some kinds of hematite pig iron, and had taken various other steps to encourage investment for increasing the production of pig iron. This latter measure was not expected to bring an immediate reduction in the consumption of scrap within the Community. The working party that the Contracting Parties established to review the Community's report expressed the hope that the Community would take the necessary steps to maintain, as far as practicable, the traditional channels of trade in scrap iron—that is, the export of scrap to Sweden and Austria.

At the 11th Session, Austria complained that other countries were obtaining an increasing proportion of the Community's exports of coal, whereas Austria was finding it difficult to obtain coal. However, working-party discussions indicated that exports of coal to the other countries were not of coking coal, such as Austria required, but of a lower grade coal. The working party noted that Austria and the Community were to hold bilateral discussions with a view to preventing a further decline in exports of coking coal to Austria. According to the High Authority of the Community, the Community's capacity to produce coking coal was barely adequate to meet current requirements. It was, therefore, encouraging investment in coking plants, and had also assigned a substantial part of the Community's recently obtained loan funds for this purpose. The working party noted that the Community was sponsoring technical research to develop means of using coal previously considered unfit for the production of coke and to determine the feasibility of employing low-shaft blast furnaces that consume less coke. Success of these efforts, however, would not result in increased production of coke for several years.

A large part of the discussion of the Community's report to the Contracting Parties concerned prices charged for exports from the Community. Denmark and Sweden were concerned about the differential between the prices charged for exports from the Community and the Community's domestic prices for iron and steel products. The High Authority pointed out that it had endeavored to maintain exports to traditional customers, despite increased consumption within the Community. With respect to coke, the Community has been obliged to satisfy a substantial part of its requirements with the more costly coke made in the Community from imported coal—as do third countries—instead of using entirely the coke produced in the Community from Community coal. The High Authority assured the Contracting Parties that it would make every effort to keep export prices for coke within equitable limits, and that exporters would not be allowed to take advantage of current market conditions by charging traditional customers abnormally high prices.

The working party noted with satisfaction that the previous system of differential prices for steel exported to various destinations had been abolished. The price-differential system was eliminated when the major steel exporters in the Community formed an association in March 1953. The association established minimum prices for steel exported from the Community whenever the sale is made directly by a Community producer to a foreign user. However, when a sale is made by a Community exporter to an importer in a third country, there is no guaranty that minimum prices will be applied. The working party felt that, in the main, minimum prices were being charged. As it had in previous years, the working party expressed concern as to possible nullification of the competitive advantage that accrued to third countries in manufacturing certain products by virtue of the lower priced fuel and steel they obtained from some of the countries within the Community. Such nullification might result from the agreement by the Community's coal and steel producers to apply uniform export prices for Community products at a level determined by the highest prices prevailing in any member country.

In summary, the working party felt that the Community's fourth annual report reflected a substantial improvement in trade conditions between it and third countries—an improvement that resulted from the 1956 tariff negotiations. In addition, during the year Italy had placed in effect unilateral tariff reductions on Community products; this action was part of the program for the reduction and harmonization of duties provided for in the Community's treaty and in the waiver that the Contracting Parties granted to the Community. The working party expressed the hope that the Community's next annual report would show continued progress.

Italian preferential customs treatment of Libyan products (fourth annual report) (art. I)

At their Sixth Session in 1951, the Contracting Parties granted Italy a waiver of its most-favored-nation obligations under article I of the General Agreement. The waiver, which permitted Italy to accord—for a period of 1 year—duty-free entry to a specified list of products of which Libya is its principal foreign supplier, was intended to facilitate the development of Libya's economy during that country's transition to an independent status. At their Seventh Session in 1952, the Contracting Parties—at Italy's request—extended the waiver until December 31, 1955, and requested annual reports by Italy on the development of Italian-Libyan trade and by Libya on that country's economic progress.[21]

At the 10th Session, the Contracting Parties considered the requests of Italy and Libya that the operation of the waiver be allowed to continue. After a working party reported that there had been a considerable expansion of Libyan exports to Italy and to other countries, the Con-

[21] See *Operation of the Trade Agreements Program:* Seventh report, pp. 31–32; eighth report, pp. 33–34.

tracting Parties extended the waiver until December 31, 1958. The reports that these two countries submitted at the 11th Session, which were similar to those they submitted at the 10th Session, indicated that Libya will require assistance for some time in solving its trade problems.

Luxembourg's quantitative restrictions on imports (first annual report) (art. XI)

On May 17, 1955, Luxembourg requested the Contracting Parties to waive its obligations under article XI of the General Agreement (requiring the general elimination of quantitative restrictions on imports) to permit it to maintain certain restrictions on imports of agricultural products. Luxembourg's economic structure, the request pointed out, is based essentially on the steel industry and agriculture. Agriculture is, therefore, a vital branch of the national economy and is indispensable to its structural and political balance. However, because of excessive fragmentation of agricultural holdings, unfavorable productive conditions, and a very narrow market, Luxembourg's agriculture is in a precarious position, and can be maintained in a satisfactory position only with the support of the state. For more than a century this precarious position has made it necessary to protect agriculture, the request stated, and Luxembourg is not now able to relinquish such protection. Consequently, Luxembourg desired permission to maintain quantitative restrictions on imports of certain agricultural products, of which Belgium and the Netherlands are the principal suppliers.

Luxembourg's request for a waiver was considered by an intersessional working party. At the meeting of this group, the representative of Luxembourg made it clear that his country's need for agricultural protection was structural in nature, and could not be regarded as transitional or temporary. Consequently, he pointed out, Luxembourg had requested the waiver pursuant to article XXV, rather than under the hard-core decision of March 5, 1955. The representative also explained the relationship between Belgium's request for a waiver and the request that Luxembourg had submitted. Restrictions that were specified in the requests of both countries, he noted, would be maintained by Luxembourg after they had been eliminated by Belgium. Restrictions that were specified only in the Belgian list would control importation into the whole territory of the Belgo-Luxembourg Economic Union, but when they were eliminated by Belgium no restrictions would remain on imports into Luxembourg. In administering restrictions appearing only on its list, Luxembourg would not discriminate between sources of supply; restrictions specified in the Luxembourg list would be applied to Belgian goods as well as to those of other countries.

Because the arrangements for protecting Luxembourg's agriculture were so closely related to those requested by Belgium (which applied to the entire Belgo-Luxembourg Economic Union) the working party recommended that the Contracting Parties consider Luxembourg's request at the 10th Session, together with the Belgian request. At their 10th Session, the Contracting Parties granted Luxembourg a waiver permitting it to continue its existing restrictions, with the understanding that Luxembourg would actively pursue the harmonizing of its agricultural policy with the policies of Belgium and the Netherlands, would adopt all measures necessary to make its agriculture more competitive, and would, so far as practicable, relax restrictions then in force. The waiver has no time limit.

In its first annual report to the Contracting Parties at the 11th Session, Luxembourg reported that its agricultural position had not changed substantially. Studies of a practical nature on methods of improving the country's agriculture were being made, but by the 11th Session they had not resulted in any solutions. It is expected that, because of the actions Belgium and the Netherlands will have to take in harmonizing their agricultural policies, Luxembourg also will have to make major policy decisions concerning this problem, probably before the 12th Session. As there were no specific requests that the Contracting Parties review Luxembourg's report at a plenary session, they did not do so.

Nicaragua-El Salvador free-trade area (fifth annual report) (arts. I and XIII)

At their Sixth Session in 1951, the Contracting Parties approved a waiver relating to the Nicaragua-El Salvador free-trade area. The waiver freed Nicaragua from its most-favored-nation obligations respecting the products covered in its treaty with El Salvador, which became effective August 21, 1951. Under the terms of the treaty, each country agreed to accord reciprocal duty-free treatment to specified products originating in the other country.

In its annual report to the Contracting Parties at their 11th Session,[22] Nicaragua noted that—as in previous years—Nicaragua and El Salvador were satisfied with the results of the free-trade treaty. The report stated that during 1955 Nicaraguan treaty imports accounted for 80 percent of total imports from El Salvador. The value of Nicaraguan treaty imports had declined from 1.3 million dollars in 1954 to $960,000 in 1955. Nicaraguan treaty exports were valued at $740,000 in 1955, compared with 1.8 million dollars in 1954. The total nontreaty goods imported by Nicaragua from El Salvador, as a percentage of total imports from that country, increased from 15 percent in 1954 to 19 percent in 1955. As in previous years, however, such imports appeared to be mainly products from third countries transshipped through El Salvador.

[22] Inasmuch as El Salvador is not a contracting party to the General Agreement, only Nicaragua is obliged to report to the Contracting Parties on developments under the waiver. For the origin of the waiver, see *Operation of the Trade Agreements Program* (sixth report), p. 50.

Waiver of certain United Kingdom obligations with respect to products entered free of duty from Commonwealth countries (third annual report) (art. I)

At their Eighth Session in 1953, the Contracting Parties granted the United Kingdom a waiver of its obligations under the provisions of article I of the General Agreement, which prohibit increases in margins of preference. The waiver permitted the United Kingdom to alter margins of preference accorded to Commonwealth countries by increasing rates of duty on imports of unbound items from non-Commonwealth countries without imposing comparable duties on those items when imported from Commonwealth countries. The waiver applied only to items on which no concessions were in effect under the General Agreement at the time it was granted.

At the Ninth Session of the Contracting Parties in 1954–55, the United Kingdom requested, and was granted, an amendment to the waiver permitting it to increase margins of preference on items on which concessions were in effect under the General Agreement at the time the waiver was approved but had subsequently been removed or modified in a manner consistent with the agreement. In requesting an amendment to the waiver, the United Kingdom stated—as it had in requesting the original waiver—that it desired to accord itself greater protection only in a limited number of instances where the need for tariff protection had been demonstrated, and that it did not intend to use the waiver to divert trade to the Commonwealth.[23]

In submitting its third annual report under the margin-of-preference waiver at the 11th Session, the United Kingdom noted that it had invoked the waiver during 1956 with respect to the most-favored-nation rates of duty on fruit stocks of malling varieties, Kentia palm, bananas, and lime oil. The duties on fruit stocks and Kentia palm, however, had not been altered by the end of the session. With respect to bananas and lime oil, the United Kingdom during 1956 had also invoked its waiver for assistance to its dependent overseas territories. According to the United Kingdom, it had notified the interested contracting parties and they had not objected to the increased duties.

Waiver with respect to special problems of dependent overseas territories of the United Kingdom (second annual report) (art. I)

During the Ninth Session in 1954–55, the United Kingdom submitted to the Contracting Parties a proposed amendment to the General Agreement that would broaden the scope of action by a contracting party in assisting the economic development of its dependent territories. The United Kingdom desired such an amendment because it believed its social and political responsibilities to dependent territories could not otherwise be

[23] See *Operation of the Trade Agreements Program:* Seventh report, pp. 27–30; eighth report, pp. 30–32.

fulfilled under the provisions of the General Agreement. Because of its broad scope, however, and because its adoption would be tantamount to recognizing as permanent a problem they regarded as transitional, the Contracting Parties did not favor the proposed amendment. They decided, instead, to waive certain of the United Kingdom's obligations under the agreement, in order to permit the United Kingdom to accord its dependent territories treatment commensurate with its responsibilities as it recognized them.[24]

In its second annual report under its dependent overseas territories waiver, submitted to the Contracting Parties at their 11th Session, the United Kingdom noted that it had invoked the waiver for the first time. During 1956, to assist the trade in bananas from Jamaica, Nigeria, and certain other small colonies, and the trade in lime oil from Jamaica and Dominica, the United Kingdom had increased its most-favored-nation rates of duty on those products. Brazil, the only contracting party that had an interest in the United Kingdom's concessions on those products, did not object to the invocation of the waiver.

Waiver with respect to United States restrictions on imports of agricultural products (second annual report) (art. XI)

Article XI of the General Agreement prohibits a contracting party from imposing nontariff restrictions on its imports from other contracting parties. This article has been particularly significant to the United States, since the United States maintains governmental programs with respect to several agricultural products, and, on various occasions, has found it necessary to restrict imports of such products in order to carry out domestic programs for them. The United States use of the agricultural exception has been of considerable concern to those countries that export agricultural products to the United States and that have granted tariff concessions to the United States in return for concessions granted by the United States on agricultural products.

United States programs for agricultural products have taken various forms, including those designed to control production, to assist in the orderly marketing of agricultural commodities for domestic consumption and export, to provide for the disposal of surplus commodities, and to establish quality and grading standards. The principal objective of such programs has been to stabilize prices at levels that would provide a fair return to producers, consistent with the interests of consumers.

To the extent that these programs have had the effect of maintaining domestic price levels for agricultural products above the duty-paid, laid-

[24] A more detailed discussion of the United Kingdom dependent overseas territories will be found in *Operation of the Trade Agreements Program* (eighth report), pp. 76–78. For the text of the waiver, see Contracting Parties to GATT, *Basic Instruments . . .*, Third Supplement, *Decisions, Resolutions, Reports, etc. of the Ninth Session*, Sales No.: GATT/1955–2. Geneva, 1955, pp. 21–25.

down prices of comparable imports, they have tended to stimulate a greater quantity of imports than would have prevailed had there been no domestic program. Such artificially stimulated imports tend to increase the cost of relevant programs and to interfere with the realization of their objectives. To provide for such contingencies, section 22 of the United States Agricultural Adjustment Act, as amended, authorizes the President to restrict the importation of commodities by imposing either fees or quotas (within specified limits) if such importation tends to render ineffective or materially interfere with the agricultural commodity programs of the United States Department of Agriculture. Section 22, as amended by the Trade Agreements Extension Act of 1951, specifically provides that no trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of section 22.

To resolve the differences between its domestic legislation and the provisions of the General Agreement, the United States—at the Ninth Session of the Contracting Parties in 1954–55—requested a waiver of its commitments under the General Agreement, insofar as such commitments might be regarded as inconsistent with action it is required to take under section 22.[25] Besides establishing certain rules of procedure and certain conditions as to consultation, the waiver that the Contracting Parties granted to the United States at the Ninth Session required the United States to report annually on its actions under the waiver.

At the 11th Session of the Contracting Parties, held during October and November 1956, the United States submitted its second annual report under the waiver. The report, which covered the period between the 10th and 11th Sessions, presented an explanation of United States action with respect to each of the commodities that were under control during the reporting period. Besides presenting, for each commodity, data on domestic production, consumption, purchases by the Commodity Credit Corporation, exports, and imports, the report described the quotas in effect and the steps that the United States had taken toward resolving the problem of commodity surpluses. The report noted that import controls were in effect on only 6 of the 9 groups of products originally covered by the waiver, the same number as in the previous year, except for two modifications—the increased coverage of the quota on long-staple cotton, and the temporary increase in the quota on peanuts.

The report also described the positive steps that the United States had taken toward reducing surpluses of certain agricultural commodities. These actions were intended to reduce existing crop surpluses, discourage the creation of future surpluses, and encourage consumption. Acreage-allotment programs and marketing quotas had been instituted during previous years. Early in the fall of 1956 the United States soil-bank

[25] See *Operation of the Trade Agreements Program* (eighth report), pp. 43–47.

program became effective; the program is designed primarily to reduce surpluses that prevented the flexible features of the United States price-support program from effectively coordinating production with prospective markets at fair prices. As the soil-bank program became effective shortly before the opening of the 11th Session, it was not possible for the United States to report the extent to which the program will be effective in reducing surpluses and in balancing domestic production with consumption in the United States and in export markets.

The Danish delegate, as well as the delegates of the Netherlands, Australia, New Zealand, and Canada, expressed concern about several aspects of United States agricultural quotas. One of their concerns was that, although United States stocks of dairy products had declined, the United States had not increased the small import quotas on those products. The Danish delegate pointed out that the United States partly eliminated its stocks of butter by increasing exports, which action seriously affected Denmark's normal exports of that product. It was the view of the Danish delegate that the United States should not have introduced measures to increase prices to producers before relaxing quantitative restrictions on imports; increased prices that were not accompanied by increased imports, he felt, would provide further incentive for increased production in the United States. Other contracting parties also expressed concern about the lack of any significant elimination by the United States of its import restrictions on the commodities covered by the waiver. After a plenary discussion of the working party's report, the Contracting Parties accepted the second annual report of the United States.

Releases From Obligations Considered at the 11th Session

Article XVIII of the General Agreement permits contracting parties to employ nontariff protective measures for purposes of economic development or reconstruction, provided the proposed measures meet the criteria established for them under the agreement.[26] The article specifies, among other things, that the measures must be nondiscriminatory, and must (1) be intended to promote an industry that processes an indigenous primary commodity, external sales of which have been reduced by increased foreign production, or (2) be necessary to develop resources that would otherwise be wasted and that, if conserved, would in the long run be beneficial to the applicant country. The measures must not be more restrictive than other practicable measures that would be permitted under the General Agreement. Permission to apply such measures may involve a release from a negotiated commitment, a release from other obligations

[26] See Contracting Parties to GATT, *Basic Instruments . . .*, vol. 1, *Text of the Agreement and Other Instruments and Procedures*, Sales No.: GATT/1952–3, Geneva, 1952, pp. 41–46.

under the General Agreement, or both. A contracting party that desires to take action under article XVIII is obligated to notify the Contracting Parties of its proposed action, so that other contracting parties may indicate whether their interests would be adversely affected by it. Approval of the proposed measure by the Contracting Parties is mandatory if the measure meets the standards outlined above.

At their 11th Session, the Contracting Parties considered an application by Ceylon for releases under article XVIII of the General Agreement. Ceylon requested permission to limit imports of bicycles, dry batteries, accumulators (storage batteries), safety-razor blades, and cotton sarongs [27] and saris by applying to such imports—for a period of 5 years—the provisions of its Industrial Products Act No. 18 of 1949.[28] Under this act Ceylon may require an importer to purchase a specified quantity of a domestic product in order to obtain a license to import a specified quantity of a "regulated" product. Such quantitative limitations, Ceylon stated, were necessary to afford special protection for the development of the industries concerned.

Ceylon's requests for releases were examined by a working party, which found them to be consistent with the provisions of article XVIII. Accordingly, the Contracting Parties granted the releases, subject to certain technical provisions. Under these provisions, annual quotas of a predetermined amount were not established for the products concerned. Instead, the Contracting Parties devised "standard" ratios for determining the quantity of the local product that an importer must purchase in order to obtain a license—an action that was consistent with the purposes of Ceylon's Industrial Products Act.

Examination of Quantitative Import Restrictions Imposed for Balance-of-Payments Reasons (Arts. XI–XV)

Articles XI through XV of the General Agreement deal with the problem of the use of quantitative restrictions on imports in trade between contracting parties. Article XI prohibits a contracting party from imposing nontariff restrictions—such as import restrictions, quotas, licensing systems, or other quantitative control measures—on its imports from other contracting parties. Article XII, however, permits certain exceptions to this general rule for those contracting parties that are faced with balance-of-payments difficulties. Article XIII sets forth the general rule that any quantitative restriction applied pursuant to the provisions of the agreement must be nondiscriminatory in nature, but

[27] Cotton sarongs were included in the application because the release previously granted on them at the Ninth Session in 1954–55 was due to expire on October 13, 1957.

[28] Cotton towels and toweling were also included in the application, but were subsequently withdrawn by Ceylon during the discussion with the working party.

article XIV permits certain exceptions to this rule for countries faced with balance-of-payments difficulties that are regarded as transitional in character. Article XV recognizes the interrelationship—in balance-of-payments problems—of quantitative restrictions on imports that are within the jurisdiction of the Contracting Parties and of exchange problems that are within the jurisdiction of the International Monetary Fund. This it does by providing for consultation between the two organizations and by delineating the sphere of action of each in balance-of-payments problems.

In essence, these five articles of the General Agreement impose on contracting parties an obligation to forego the use of quantitative restrictions except in the most compelling circumstances. Although articles XII and XIV make it clear that balance-of-payments difficulties may justify the resort to quantitative restrictions, these articles provide also that a contracting party that resorts to such restrictions must consult in some instances with the Contracting Parties regarding the nature and extent of the restrictions and their justification. Furthermore, article XIV requires the Contracting Parties to prepare an annual report on the discriminatory application of the quantitative restrictions permitted by the provisions of that article.

Contracting parties that wish to apply discriminatory import restrictions may do so under the provisions of paragraph 1 (b) of article XIV [29] of the General Agreement. Under the provisions of this paragraph, deviation from the provisions of article XIII is permitted to the same extent that it is permitted under article XIV of the Articles of Agreement of the International Monetary Fund or under paragraph 6 of article XV of the General Agreement, both of which provide for special exchange agreements. If, on March 1, 1948, a contracting party was applying—for balance-of-payments reasons—import restrictions that deviated from the rules of nondiscrimination set forth in paragraph 1 (b) of article XIV of the General Agreement, it could elect to continue to apply such restrictions under paragraph 1 (c) of that article, and could adapt such deviation to changing circumstances. If a contracting party did not wish to be bound by the provisions of paragraphs 1 (b) or 1 (c) of article XIV of the General Agreement and had signed the Protocol of Provisional Application before July 1, 1948, it could elect to be governed by the provisions of annex J to the General Agreement.

By electing to be bound by the provisions of annex J to the General Agreement, a contracting party has the advantage of being permitted to apply restrictions that are not permitted to members of the International Monetary Fund under paragraph 1 (b) of article XIV of the General

[29] These, and other similar provisions, were adopted by the Contracting Parties in recognition of the transitional exchange problems that faced various contracting parties after World War II.

Agreement. In return, it must consult annually with the Contracting Parties on these discriminatory restrictions, and must adhere to the limiting requirements of annex J. By deciding to apply certain of its restrictions under the provisions of paragraph 1 (c), a contracting party has the advantage of being permitted to do so when it is not permitted, as a member of the International Monetary Fund, to do so under paragraph 1 (b). In return it must consult annually with the Contracting Parties on that part of its restrictions that exceed the limits set forth in paragraph 1 (c). This latter alternative is useful to those contracting parties that wish to distinguish between the discriminatory restrictions they apply for balance-of-payments reasons under the International Monetary Fund Agreement—on which they may not wish to consult with the Contracting Parties—and those they apply for other reasons. Therefore, these contracting parties have an advantage, in that only the discriminatory restrictions they apply under paragraph 1 (c) of article XIV of the General Agreement become the subject of the required consultations.

Seventh annual report on discriminatory application of quantitative import restrictions (art. XIV)

The seventh annual report of the Contracting Parties on the discriminatory application of quantitative import restrictions was devoted primarily to an examination of developments during the period from November 1955 to November 1956. The report indicated that, of the 35 contracting parties to the General Agreement, the following 23 maintained discriminatory quantitative import restrictions to safeguard their balance-of-payments position under the provisions of paragraph 1 (b) and/or 1 (c) of article XIV, or under annex J: Australia, Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, France, the Federal Republic of Germany, Greece, India, Italy, Japan, the Netherlands, New Zealand, Norway, Pakistan, the Federation of Rhodesia and Nyasaland, Sweden, Turkey, the United Kingdom, and Uruguay. Of these 23 contracting parties, 4 contracting parties—Ceylon, New Zealand, the Federation of Rhodesia and Nyasaland, and the United Kingdom—maintained discriminatory quantitative import restrictions for balance-of-payments reasons under the special provisions of annex J to the General Agreement, and 1 contracting party—Australia—maintained such restrictions under the provisions of paragraph 1 (c) of article XIV. Two contracting parties—Indonesia and the Union of South Africa—maintained nondiscriminatory quantitative restrictions for balance-of-payments reasons under the provisions of article XII. The remaining 10 contracting parties—Belgium, Canada, Cuba, Czechoslovakia, the Dominican Republic, Haiti, Luxembourg, Nicaragua, Peru, and the United States—did not maintain quantitative restrictions for balance-of-payments reasons.

As the report pointed out, the basis of the more favorable balance-of-payments position of many countries during the last few years has been their economic recovery from the destruction caused by World War II, and the sustained high level of commercial activity, especially in Europe. Reserves of dollars and other convertible currencies held by many countries that apply quantitative restrictions for balance-of-payments reasons were greater in 1956 than in other recent years; as a result there was an increasing tendency for such countries to settle deficits in gold and convertible currencies. The increased use of multilateral rather than bilateral payments arrangements during the last 2 years indicates the progress that has been made toward fully multilateral and nondiscriminatory arrangements in trade and payments.

The report also noted that, to the extent that European countries become more efficient in producing manufactured goods—especially capital goods—their payments problem tends to be less one of a shortage of dollar reserves. The report recognized that the continuation of large overseas expenditures by the United States Government is necessary to bridge the so-called dollar gap. However, it also expressed the opinion that if the trade relationships of the rest of the world with the United States were more firmly based on "normal" commercial and financial transactions other contracting parties might have more confidence in removing discriminatory restrictions. According to the report, the prospect for continued improvement in the payments positions of the industrial countries appears to be favorable, but such improvement is dependent also on whether the increasing inflationary pressures that faced such countries during 1956 can be arrested. The greater market instability of primary commodities and the necessity for countries that produce them to obtain equipment necessary for their economic development continued to create serious balance-of-payments problems for such countries during 1956.

During 1955–56 there was a continuation of the tendency—noted in the sixth report of the Contracting Parties—for countries with balance-of-payments difficulties to seek the solution of such difficulties by employing measures other than those designed to restrict imports. The seventh report suggested that—in the interest of continued progress in solving balance-of-payments problems—not only should countries that have such problems adopt corrective measures, but also those that do not have such problems should adjust their internal policies to take account of their effects on other countries. In conclusion, the report noted that the consultations that the Contracting Parties would undertake during 1957 probably would provide new information on the use and effects of existing import restrictions and on the prospects for eliminating them.

Consultations during 1956 (arts. XII and XIV)

During 1956 five countries completed consultations with the Contracting Parties, pursuant to paragraph 1 (g) of article XIV, on their continued application of discriminatory quantitative restrictions on imports. Of these countries, Australia had been applying such restrictions under the provisions of paragraph 1 (c) of article XIV of the General Agreement; Ceylon, New Zealand, the Federation of Rhodesia and Nyasaland, and the United Kingdom had been applying them under the provisions of annex J. In conjunction with its consultations under article XIV: 1 (g), Australia also consulted, under the provisions of article XII, regarding its substantial intensification of import restrictions in July 1956. According to the Australian delegate, this intensification was necessary to introduce a greater selectivity and flexibility in the control of imports, to further restrain the increased flow of imports resulting from inflationary pressures, and to strengthen Australia's long-term balance-of-payments position. Pursuant to article XV, the International Monetary Fund participated in the consultations, and in each instance provided pertinent information and background material for the consulting contracting parties. The Contracting Parties agreed that in 1957 they would combine the consultations required under paragraph 1 (g) of article XIV with those scheduled for the same countries under article XII.

United States proposal to expand consultations on import restrictions for balance-of-payments reasons (art. XII)

Up to and including their 11th Session, the Contracting Parties conducted consultations on the application of balance-of-payments restrictions pursuant to paragraph 1 (g) of article XIV only with those contracting parties that were applying such restrictions under the provisions of paragraph 1 (c) of article XIV and annex J and—in instances of intensification of restrictions—under paragraph 4 (b) of article XII. At the 11th Session, the United States delegate proposed that the Contracting Parties hold consultations during 1957 under the previously unused provisions of paragraph 4 (b) of article XII, which provides for such consultations with all contracting parties that apply quantitative import restrictions for balance-of-payments reasons. Such a project would involve consultations with about 20 countries—a much more comprehensive undertaking than the previous consultations, which involved only 5 countries that applied discriminatory balance-of-payments restrictions under the provisions of paragraph 1 (c) of article XIV, annex J, and paragraph 4 (b) of article XII.

The consultations under paragraph 4 (b) of article XII, besides involving more countries, would be broader in scope than those under article XIV. Consultations under article XIV concentrate on the technical details of the restrictions, such as their discriminatory effects; consultations under article XII would include an examination of all the financial problems faced by each consulting country, the procedures it employs to regulate imports, and the effects of its restrictions on its internal and external trade. Moreover, consultations under article XII would consider possible alternative measures that the consulting country might employ to improve its balance-of-payments position.

It was the United States view that many changes had taken place in the economic position of the countries concerned since the Contracting Parties conducted their general examination of quantitative import restrictions in 1951—for example, changes in production, patterns of trade, monetary reserves, and currency stability. In fact, during the 10-year life of the General Agreement the Contracting Parties had conducted no consultations with the majority of the contracting parties that apply such restrictions. Since there had been no opportunity for comprehensive consultations on such restrictions, the United States hoped that the consultations it proposed would contribute to the general program for eliminating restrictions.

The need for such consultations was recognized in the general review of the General Agreement that the Contracting Parties conducted at their Ninth Session in 1954–55. At that time the Contracting Parties decided to revise article XII to require all contracting parties that maintain import restrictions for balance-of-payments reasons to consult on them every year or, in the case of underdeveloped countries, every 2 years. These consultations were to be implemented under the provisions of the Agreement on the Organization for Trade Cooperation. The United States proposal was designed to serve as a stopgap until such time as the Agreement on the OTC becomes effective.

The working party on balance-of-payments restrictions, which considered the United States proposal, reported favorably on it and suggested a tentative schedule of consultations and an agenda for them. At their 11th Session, the Contracting Parties adopted the recommendations of the working party and established a consultations committee. The consultations were scheduled in three stages: (1) Those with 9 contracting parties, during June and July 1957;[30] (2) those with 6 contracting parties, immediately before the 12th Session; and (3) those with 5 contracting parties, early in the 12th Session.

TARIFFS AND TARIFF NEGOTIATIONS

Plans for future tariff reductions

As the Contracting Parties did not include a plan for automatic tariff reductions in the negotiating rules that they adopted at their 10th Session, a number of European "low tariff" countries requested that the Contracting Parties consider the possibility of adopting such a plan at a later session. These countries subsequently proposed that the Organization for European Economic Cooperation (OEEC) adopt such a plan as a part of its own program for tariff liberalization.

[30] Consultations with 8 of these 9 contracting parties were completed on June 29, 1957. The consultation with the remaining contracting party was postponed until the second stage.

In July 1956 the Council of the OEEC met at the ministerial level to consider the suggested plan for automatic tariff reductions. They postponed their decision on adopting such a plan, however, pending completion of a study of the possible ways in which OEEC members that are not included in the proposed European Common Market might become associated with that organization. Although the Chairman of the Contracting Parties suggested at the 11th Session that the Contracting Parties defer consideration of the plan for automatic tariff reductions until the OEEC had acted, the Contracting Parties—at the request of Denmark and Sweden—agreed instead to review the plan at their 12th Session.

Proposals for European economic integration

In June 1955, with a view to more closely integrating their economies, the six members of the European Coal and Steel Community—Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands—agreed to study the possibility of creating a customs union to be known as the European Common Market, as well as a European community for the exploitation of atomic energy (Euratom). The efforts of these countries culminated in the signing of treaties for the Common Market and Euratom in Rome on March 25, 1957.

By June 1956 a movement was under way within the Organization for European Economic Cooperation to form an association embracing not only the members of the European Common Market, but also members of OEEC who were not included in the Common Market. The OEEC decided that such an association should take the form of a European free-trade area, within which the six-member Common Market would function as a single member.

In November 1956, at their 11th Session, the Contracting Parties discussed the problems associated with the creation of the Common Market and the proposed European free-trade area. At that time some of the contracting parties expressed concern that, without proper regulation, the common external tariff of the Common Market might become more protective than were the former tariffs of its individual members. The Contracting Parties noted that the six contracting parties concerned were prepared to submit the Common Market Treaty to them for consideration before its ratification, in accordance with the procedures set forth in article XXIV of the General Agreement. The Contracting Parties directed the Intersessional Committee to follow the developments with respect to the Common Market, and to report to them at their 12th Session.

Because of the rapid progress that the six countries made in drafting and signing the Common Market Treaty, the Intersessional Committee met in April 1957 to discuss preparations for consideration of the treaty by the Contracting Parties. Several members of the Committee expressed the opinion that if the Contracting Parties did not definitively consider the treaty at an early date there might not be an opportunity for such consideration before its ratification. After considerable discussion, the Committee established a procedure by which individual contracting parties might submit questions concerning the treaty to the members of the Common Market; the members were to submit their answers to the Intersessional Committee at its meeting in August 1957. The Committee also decided that after it had considered these answers it would recommend procedures for definitive consideration of the treaty by the Contracting Parties—either at a special session or at their 12th Session.[31]

Uniform application of the tariff of Rhodesia and Nyasaland

On September 3, 1953, the self-governing territory of Southern Rhodesia and the protectorates of Northern Rhodesia and Nyasaland joined to form the Federation of Rhodesia and Nyasaland. Later that year the Federation assumed responsibility for the external affairs of its member territories, and on July 1, 1955, it adopted a Federal tariff that replaced the individual tariffs of those territories.[32]

At their 10th Session in 1955, the Contracting Parties considered the question of whether the Federal tariff was compatible with the General Agreement on Tariffs and Trade.[33] The tariff accorded no preferential treatment to imports into the Federation's "conventional" area since such treatment would have been contrary to the provisions of the Congo Basin Treaty of 1885.[34] It did, however, accord preferential treatment to imports into the "nonconventional" area from the self-governing Commonwealth countries, from South-West Africa, and from the Republic of Ireland. The tariff accorded an even greater degree of preference to imports into the nonconventional area from the United Kingdom, its territories, colonies of the Commonwealth, and British protectorates. Although the Federal tariff of 1955 provided for some preferences that were not included in the former individual tariffs of the member territories, and increased some of the margins of preference that were contained in them,[35] the Contracting Parties decided that, on the whole, it eliminated and reduced more preferences than it created or increased. They con-

[31] For a detailed discussion of the European Common Market, see ch. 4 of this report.

[32] See *Operation of the Trade Agreements Program* (eighth report), pp. 63–64.

[33] The Federation of Rhodesia and Nyasaland became a contracting party to the General Agreement on October 30, 1953.

[34] For customs purposes, the Federation of Rhodesia and Nyasaland is divided into two parts: The Congo Basin area, or "conventional" area, and the rest of the Federation, known as the "nonconventional" area. The conventional area, comprising all of Nyasaland and the northeastern part of Northern Rhodesia, is subject to a special customs regime calling for commercial equality for imports from all nations. This arrangement dates from the conclusion of the Congo Basin Treaty in 1885.

[35] See *Operation of the Trade Agreements Program* (ninth report), pp. 63–67.

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cluded, therefore, that the Federal tariff of 1955 conformed to the spirit and objectives of the General Agreement. Accordingly, they decided—pursuant to article XXV (waiver of obligations)—that the provisions of article I of the General Agreement would not be permitted to prevent the application of the preferences established by the Federal tariff, or to prevent the individual territories from completing the adjustment of their tariffs to the Federal tariff.[36]

During 1955 and 1956, the Federation of Rhodesia and Nyasaland found that the preferential treatment of imports into the nonconventional area created a number of difficult problems. These problems, which resulted from the wide disparity in the resources, economic development, and social legislation of the Federation's three constituent territories, weakened the unity of the newly created state. Moreover, the effective application of two separate tariffs in an undeveloped territory like central Africa proved difficult because of the long customs frontier that was required to separate the conventional area from the rest of the Federation. Because of these problems, the Federation—at the 11th Session—requested that the Contracting Parties permit it to apply a uniform tariff to the entire Federation, and to recognize such action as a further adjustment within the terms of their 1955 decision approving the preferential tariff.

Under the Federation's proposal, the new uniform tariff would extend to the conventional area the four-column tariff that has applied to the rest of the Federation. In so doing, it would extend to the entire Federation those preferences previously accorded certain imports into the nonconventional area. The Federation stated that it was prepared to consult with any contracting party that claimed to be substantially affected by the proposed adjustment, and to reduce the margins of preference on a number of tariff items.

During the discussion of the proposed new arrangement at the 11th Session, the United States, the Netherlands, and Italy contended that the Federation's proposal affected the validity of the Congo Basin Treaty, which established for the signatories the right to equal treatment in the conventional area. The United States declared its intention to abstain from voting on the matter in order to reserve the right to equal treatment in the conventional area that it obtained by signing the Treaty of Saint-Germain-en-Laye in 1919.[37] In a decision adopted on November 17, 1956, the Contracting Parties agreed that establishment of a uniform tariff for the entire Federation came within the terms of their decision of December 3, 1955. They recognized, however, that establishment of a uniform

[36] For the complete text of the decision, see Contracting Parties to GATT, *Basic Instruments . . .*, Fourth Supplement, *Decisions, Reports, etc. of the Tenth Session*, Sales No.: GATT/1956–1, Geneva, 1956, pp. 19–20.

[37] 49 Stat. 3027; Treaty Series 877.

tariff under the provisions of the General Agreement could have no legal effect on the Federation's rights and obligations under other international agreements. The Federation of Rhodesia and Nyasaland extended the uniform tariff to the conventional area on March 8, 1957.

Franco-Tunisian Customs Union

At the Ninth Session of the Contracting Parties in 1954–55, France announced that—under the appropriate provisions of the General Agreement—France and Tunisia intended to join in a customs union. The proposed customs union was established on June 3, 1955, by the provisions of article II of the Economic and Financial Convention that was signed by the two countries in Paris. By January 1, 1956, the date that the convention entered into force, the Franco-Tunisian Customs Union was substantially complete. Most of the quotas that applied to trade between the two countries had been abolished, and, with certain exceptions, Tunisia was applying the French customs tariff to imports of goods from third countries.

At the last meeting of the 11th Session, France notified the Contracting Parties that the formation of the customs union had been completed. Accordingly, the Contracting Parties could take no action on it at that time under article XXIV of the General Agreement, which provides for reports and recommendations by the Contracting Parties relating to a "proposed" customs union. Examination of the treaty constituting the customs union, therefore, will take place under the provisions of article XXV, and will involve examination of the treaty and supporting information in the light of the provisions of article XXIV. The Contracting Parties directed the Intersessional Committee to examine the question and report to them at their 12th Session in 1957. Because the proposed Common Market Treaty provided for the association of Tunisia with the Common Market, however, the Intersessional Committee—at its April 1957 meeting—agreed to defer its examination of the treaty until the 12th Session of the Contracting Parties.

The Franco-Tunisian Customs Union is not a completely new one. On March 30, 1928, France established a limited customs union that covered the greater part of Franco-Tunisian trade. The conventions of June 3, 1955, converted this limited customs union into a complete one. Under the new arrangement, no direct intercountry shipments within the union are subject to any prohibitions or customs duties, or to internal taxes or charges in excess of those applied to like domestic products. With minor exceptions, products that originate within the union are not subject to less favorable treatment than the same kind of products that are of foreign origin. This freedom from restriction also applies to foreign goods imported into one of the countries of the union after payment of common customs duties, except when the goods are altered in one of the countries before shipment to the other, or for those few commodities for which the import duties of the two countries differ.

Proposed accession of Laos and Tunisia

Article XXVI of the General Agreement provides that a contracting party may sponsor the accession to the agreement of its territories, on behalf of which it has previously accepted the rights and obligations of the agreement. Prerequisite to such accession is a declaration by the contracting party concerned that the customs authorities of the territory in question possess full autonomy to conduct the territory's external commercial relations.

France made such a declaration with respect to Laos on September 13, 1956, and with respect to Tunisia on October 8, 1956, and asked the Contracting Parties to place the question of the accession of those territories on the agenda for the 11th Session. According to France, the Royal Government of Laos—under the provisions of the Pau Agreements of March 8, 1949—had acquired the right to negotiate and sign trade agreements and to adopt its own customs legislation and regulations. Tunisia had obtained internal autonomy under the conventions of June 3, 1955, and had obtained its independence under the Protocol of Agreement of March 20, 1956. Before the 11th Session of the Contracting Parties began, however, France asked the Contracting Parties to drop from the agenda consideration of the proposed accession of Laos and Tunisia, and the Contracting Parties agreed to do so.

Proposed accession of Switzerland

On September 15, 1956, Switzerland asked the Contracting Parties to consider—at their 11th Session—its provisional accession to the General Agreement under the provisions of article XXXIII. Switzerland recognized the existence of certain special problems in connection with its accession, but preferred to defer their solution until after it had acceded by making several reservations to the provisions of the General Agreement. The Swiss Government pointed out that tariff negotiations, which are prerequisite to provisional accession, would be possible after the Swiss Federal Council and Parliament had approved a revision of the Swiss customs tariff.

The Contracting Parties approved Switzerland's request that it be permitted to undertake tariff negotiations with a view to provisional accession to the General Agreement. The arrangements and procedures that the Contracting Parties agreed upon are similar to those that were employed for the provisional accession of Japan. They will consist of (1) a decision by the Contracting Parties inviting Switzerland to participate in the activities of the Contracting Parties,[38] and (2) a declaration,

[38] For the Decision of October 23, 1953, inviting Japan to accede to the General Agreement, see Contracting Parties to GATT, *Basic Instruments . . .*, Second Supplement, Sales No.: GATT/1954-2, Geneva, 1954, p. 30.

signed by Switzerland and those contracting parties that wish to do so, providing that trade between the signatories and Switzerland will be governed by the terms of the declaration, and providing for entry into force of the tariff concessions that result from the negotiations. The terms of the declaration will include all the provisions of the General Agreement, but will be subject to such reservations as may be made by Switzerland and approved by the Contracting Parties, and to the reservations that may be made by the other contracting parties that sign the declaration.

The Contracting Parties directed the Intersessional Committee to arrange for the proposed tariff negotiations and to establish a negotiations committee to draft the declaration relating to Switzerland's provisional accession. The Contracting Parties decided that the provisions of the declaration will be effective for a period of 2 years from the date it is accepted by Switzerland—subject to the possibility of renewal by mutual consent—or until such time as Switzerland definitively accedes to the General Agreement, whichever is earlier. The Contracting Parties also agreed that, at their first regular session following the signature of the declaration, they will adopt a resolution inviting Switzerland to participate in the work of the Contracting Parties. This resolution would continue in effect for the same period as the declaration.

In requesting permission to accede to the General Agreement on a provisional basis, Switzerland stated that it must make three reservations. The first reservation relates to the maintenance of quantitative restrictions on imports of certain agricultural products and on trucks—restrictions that Switzerland is required to maintain by existing legislation. According to Switzerland, its Federal law on agriculture, its alcohol monopoly law, and its wheat monopoly law require it to maintain import restrictions on certain agricultural products in order to prevent a further decline in the rural population, to combat alcoholism, and to assure an adequate supply of bread. Restrictions on the importation of trucks, according to Switzerland, are essential to the country's defense; the Swiss Army is authorized to mobilize civilian trucks in times of emergency, and it would be impossible for it to maintain stocks of spare parts for several dozen makes. The Swiss representative pointed out, however, that despite Switzerland's reservation as to quantitative restrictions, Switzerland—as a member of OEEC—still would be subject to the limitations that organization imposes on their use.

The contracting parties particularly concerned with the exportation of agricultural products objected to the Swiss reservation on the ground that no country acceding to the General Agreement should be granted a waiver that, in any respect, goes beyond the terms of the so-called hard-core decision of March 5, 1955. They maintained that the Swiss reservation did not satisfy the requirements set forth in that decision, as it had no time limit and did not provide for the progressive elimination of restrictions. Switzerland, however, pointed out that it seeks only provisional accession to the General Agreement, and that the hard-core decision applies to countries that accede to the agreement definitively.

Another objection that some contracting parties raised to Switzerland's provisional accession was that there is no sufficient indication that Switzerland would be able to accept fully the obligations of the General Agreement within a reasonable period of time. These contracting parties felt, therefore, that provisional accession—accompanied by the proposed reservation—would tend to become a permanent arrangement, and would create a precedent for the accession of other countries with similar broad reservations. Most of the contracting parties felt, however, that the Swiss reservation would be acceptable if it were limited to a 2-year period, and if Switzerland were willing to consult with the Contracting Parties on its quantitative import restrictions as soon as its provisional accession became effective.

The second reservation that Switzerland proposed concerns the provisions of articles XI–XIV, which deal with restrictions that contracting parties impose for balance-of-payments reasons. In place of the obligations specified in these articles, Switzerland desired to substitute the rules provided in the OEEC Code of Liberalization. According to Switzerland, it was necessary for it to make this reservation because it has no balance-of-payments difficulties, as defined in the General Agreement. By accepting the provisions of articles XI through XIV, Switzerland felt that it would be placed in a less favorable position than other OEEC countries that have such difficulties and that may apply the more lenient OEEC rules with respect to trade restrictions for balance-of-payments reasons. The Contracting Parties felt, however, that this reservation constituted such a radical departure from the basic provisions of the General Agreement that it would not be acceptable, even for provisional accession to the agreement. The Contracting Parties also felt that articles XII and XXIII of the agreement provide adequate protection against the difficulties that Switzerland envisaged in accepting without reservation the provisions of articles XI–XIV.

The third reservation that Switzerland proposed concerned the provisions of article XV of the General Agreement, which require acceding countries either to join the International Monetary Fund or to enter into a special exchange agreement with the Contracting Parties.[39] Switzerland felt that it would be impossible for it to join the Monetary Fund because of its traditional neutrality and because of the convertibility of the Swiss franc. Under the rules of the Monetary Fund, the shares of a

[39] For the text of the draft special exchange agreement, adopted by the Contracting Parties on June 20, 1949, that contracting parties were to accept if they were not willing to become a member of the International Monetary Fund, see Contracting Parties to GATT, *Basic Instruments . . .*, vol. 2, *Decisions, Declarations, Resolutions, Rulings and Reports*, Sales No.: GATT 1952–4, Geneva, 1952, pp. 117–123.

member's currency that are held by the Fund may be drawn upon by the other members. Because of this feature of the Fund's mechanism and because such drawings would result in an increase in the volume of Swiss francs in circulation, Switzerland felt that membership in the Fund would be incompatible with its efforts to maintain the stability of its economy.

Instead of the required membership in the International Monetary Fund or acceptance of the provisions of a special exchange agreement, Switzerland proposed that it be allowed to conclude an agreement similar to those that the Contracting Parties had concluded with New Zealand and Czechoslovakia. Under such an arrangement, Switzerland would make a declaration concerning its monetary policy, would agree in exchange matters to act in accordance with the intent of the General Agreement, and would agree not to frustrate the intent of any of its provisions.

The arrangements recommended by the working party and approved by the Contracting Parties for the provisional accession of Switzerland included approval of the first and third Swiss reservations discussed above. However, the Contracting Parties did not approve Switzerland's second reservation, which relates to the maintenance of import restrictions for balance-of-payments reasons. At the close of the period covered by this report there had been no further developments with respect to the provisional accession of Switzerland.

OTHER DEVELOPMENTS RELATING TO THE AGREEMENT

Application of article XXXV in the accession of Japan

In 1952 Japan notified the Contracting Parties that, in accordance with the established procedure for negotiating with nonmember countries, it desired to negotiate for accession to the General Agreement. Japan's notification resulted in an extended discussion among the contracting parties, many of whom doubted that the General Agreement provided sufficient safeguards to prevent a sudden flooding of certain markets with Japanese goods and a consequent disruption of established channels of trade. This concern on the part of many countries, coupled with the difficulty of scheduling a tariff conference, prevented immediate action on Japan's request for accession.

At their Eighth Session in 1953, the Contracting Parties approved Japan's provisional participation in the General Agreement. Negotiations for Japan's definitive accession to the agreement began in February 1955 and were concluded in June of that year; Japan became a contracting party to the agreement on September 10, 1955.[40] Although the Con-

[40] For a detailed discussion of Japan's accession to the General Agreement, see *Operation of the Trade Agreements Program:* Sixth report, pp. 51–54; seventh report, pp. 75–79; and eighth report, pp. 71–72.

tracting Parties unanimously approved the terms of Japan's accession, 14 contracting parties believed it would not be to their advantage to apply the provisions of the General Agreement to that country. Those countries, therefore, did not negotiate tariff concessions with Japan. Instead, they invoked the provisions of article XXXV of the agreement, which permit a contracting party to refrain from applying the agreement to an acceding country with which it has not negotiated tariff concessions. Such a widespread invocation of article XXXV was of serious concern to Japan, and it therefore requested that the matter be placed on the agenda for the 10th Session of the Contracting Parties.

At the 10th Session, the contracting parties that had invoked article XXXV took the view that the General Agreement did not contain satisfactory safeguards against competition from Japanese goods. Most of the contracting parties expressed the belief that the most satisfactory way to resolve the problem was to continue bilateral consultations between Japan and the contracting parties concerned. The Contracting Parties decided to follow this plan; they directed the Intersessional Committee to keep the problem under consideration, and agreed, if necessary, to reconsider the problem at their 11th Session.

The only development during 1956–57 with respect to the invocation of article XXXV in the accession of Japan occurred at the 11th Session of the Contracting Parties. At that session Brazil announced that when its new tariff becomes effective it will withdraw its invocation of article XXXV and will enter into tariff negotiations with Japan. The Contracting Parties instructed the Intersessional Committee to keep under review the problem of the application of article XXXV in the accession of Japan and to include it in the agenda for the 12th Session.

Norwegian proposal for study of legislation on antidumping and countervailing duties

During the review of the General Agreement by the Contracting Parties at their Ninth Session in 1954–55, Norway proposed that the agreement be amended to direct the Organization for Trade Cooperation (OTC) to work toward the standardization of rules governing the imposition of antidumping and countervailing duties. The Contracting Parties did not adopt the proposed amendment. They indicated, however, that the Agreement on the OTC permitted that Organization to undertake a study of procedures relating to antidumping and countervailing duties and to make appropriate recommendations thereon.

At the 10th Session of the Contracting Parties, Norway noted that, as a result of increasing international competition, the problem of antidumping and countervailing duties had become more pressing. Inasmuch as the Agreement on the OTC would not become effective during the 10th Session, Norway suggested that the Contracting Parties institute a survey of the problems resulting from the lack of standard procedures for levying antidumping and countervailing duties. To this end, Norway proposed that all contracting parties be requested to submit to the Contracting Parties—before the 11th Session—the texts of their national laws and regulations relating to antidumping and countervailing duties. In conjunction with Norway's proposal, Sweden suggested that the contracting parties be asked to comment on their experience with such laws in their own country and in other countries. The Contracting Parties approved the Norwegian and Swedish proposals, and directed the Executive Secretary to request the contracting parties to provide the information desired, for consideration at the 11th Session. The request was transmitted to the contracting parties in March 1956.

At their 11th Session, the Contracting Parties directed the Secretariat—with the assistance of experts from the governments concerned—to analyze the information that had been made available, and to submit a report on antidumping legislation to the Intersessional Committee or to the Contracting Parties at their 12th Session.

Nomination of officers of the Interim Coordinating Committee for International Commodity Arrangements

The Interim Coordinating Committee for International Commodity Arrangements (ICCICA) was established in 1947 pursuant to a resolution of the United Nations Economic and Social Council. Its activities consist principally of preparing yearly statements regarding intergovernmental collaboration in the field of commodity problems. In some instances, however, the Committee advises the Secretary-General of the United Nations on specific problems in the field of intergovernmental commodity collaboration. The Committee consists of a chairman nominated by the Contracting Parties to the General Agreement, a representative of the Food and Agriculture Organization, and two other members. The term of office of the chairman is determined by the Contracting Parties to the General Agreement; the term of office of the other three members is indefinite.

At their 11th Session, the Contracting Parties unanimously nominated Sir Edwin McCarthy, Deputy High Commissioner for Australia in London, to be chairman of the Committee for a period of 1 year. Sir Edwin replaces Sir Claude Corea, of Ceylon, who was nominated as chairman in 1955. The Contracting Parties also agreed that the chairman of the ICCICA should submit to them each year a review of the annual report prepared by the ICCICA.

Proposed agreement on commodity arrangements

At their Ninth Session in 1954–55, the Contracting Parties established a working party to consider and report on proposals for intergovernmental action designed to settle problems that arise with respect to international trade in primary commodities.[41] When the working party made its report to the Contracting Parties, it also submitted a draft of an agreement designed to facilitate the preparation and conclusion of intergovernmental commodity agreements. The Contracting Parties discussed the report and the draft agreement and, as a result of their discussion, revised the draft agreement.

At their 10th Session, the Contracting Parties discussed at length the revised draft agreement on commodity arrangements. Since they continued to disagree on the provisions of the agreement, the Contracting Parties authorized the Intersessional Committee—should it appear that agreement could be reached—to establish a subcommittee to prepare a final draft agreement for consideration by the Contracting Parties at their 11th Session.

As no agreement was reached before the 11th Session the Contracting Parties at that session reconstituted the working party on commodity problems and directed it to consider alternative approaches to the problem. On the recommendation of the working party, the Contracting Parties adopted a resolution that provided for consideration of problems related to international trade in primary commodities. Under the terms of the resolution, which recognized the competence of other international organizations in the field of primary commodities, the Contracting Parties will discuss at future sessions the trends and developments in international trade in primary commodities, as outlined by the chairman of the ICCICA in his annual report and as indicated by consultations held under the various provisions of the General Agreement.

Restrictive business practices

In 1953 the United Nations Economic and Social Council recognized the detrimental effects of restrictive business practices in international trade on economic development, employment, and international trade, and adopted a resolution stating that both national action and international cooperation are necessary to deal with such practices. At the Ninth Session of the Contracting Parties in 1954–55, the delegations of Denmark, Norway, and Sweden—in response to this resolution—proposed that the Contracting Parties revise the General Agreement to provide for the control of restrictive business practices in international trade. Because of a procedural misunderstanding between the Contracting Parties and the United Nations Economic and Social Council, however, the Contracting Parties postponed consideration of the proposal.

At the 11th Session of the Contracting Parties, Norway and the Federal Republic of Germany made individual proposals with respect to

[41] The United States did not accept membership on the working party. At the 10th and 11th Sessions the United States took the position that an additional agreement in this field was neither necessary nor desirable, and that the United States did not intend to participate in a commodity convention should such a convention be concluded.

restrictive trade practices. Western Germany proposed that the Contracting Parties recognize that such business practices may have adverse effects on trade between various contracting parties. Germany also proposed that the Contracting Parties require any contracting party that maintains restrictive trade practices affecting international trade to consult with interested contracting parties, and to take appropriate domestic legal action to eliminate such practices. The Norwegian delegate likewise proposed that the Contracting Parties recognize the adverse effects of restrictive business practices. He suggested that the Contracting Parties establish a working party to consider whether they should undertake to control such practices. Should the working party so recommend, he suggested that it also recommend at the 12th Session the appropriate provisions that should be added to the General Agreement—or included in a supplemental agreement—to establish such controls.

After discussion, the Contracting Parties referred the German and Norwegian proposals to the Intersessional Committee, with instructions that it submit a report and recommendations to them at their 12th Session.

Disposal of surplus agricultural products

To prevent the disposal of surplus agricultural commodities from unduly disturbing world markets, the Contracting Parties—at their Ninth Session in 1954–55—adopted a resolution urging contracting parties that are planning to dispose of such surplus stocks to consult with the principal suppliers of the commodities involved, and with any other interested parties.

During their 10th Session, at the request of Australia, the Contracting Parties discussed the disposal of surplus agricultural products in world trade since they adopted the resolution mentioned above. The discussion made it clear that disposal of surplus agricultural commodities, as well as the consultations relating to such disposal, were of serious and continuing concern to many contracting parties. Some of the contracting parties indicated that, in their opinion, the consultations that had been held pursuant to the resolution had contributed to the more orderly disposal of surpluses. Most of the contracting parties, however, believed that the consultations had not been greatly effective. A few contracting parties believed that insufficient time had elapsed to permit the Contracting Parties to adequately assess the success of consultations held pursuant to the resolution.

At the 11th Session of the Contracting Parties a number of contracting parties expressed concern at what they considered to be the growing threat of the United States surplus disposal program to their traditional markets for agricultural products. As at the 10th Session, contracting parties also complained that the United States had not provided adequate notice of its intention to release surplus products in world markets and that, therefore, they had not been able to undertake effective consultations with the United States. Because of the many problems that still existed with respect to the disposal of surplus agricultural commodities, the Contracting Parties agreed to consider the matter again at their 12th Session.

Trade and customs regulations

In June 1951 the International Chamber of Commerce adopted a number of resolutions relating to the reduction of trade barriers. The resolutions dealt with customs treatment of commercial samples and advertising materials, documentary requirements for the importation of goods, consular formalities, valuation of goods for customs purposes, the nationality of imported goods, and formalities connected with the administration of quantitative restrictions on imports.[42]

A working party considered these resolutions at the Sixth Session of the Contracting Parties in 1951, and again at the Seventh Session in 1952. As a result of the working party's report, the Contracting Parties adopted a draft convention for the importation of samples and advertising material, a code of standard practices relating to documentary requirements for the importation of goods, a code of standard practices relating to consular formalities, and a resolution regarding the application of import- and export-licensing restrictions to existing contracts. The Contracting Parties also recommended that individual contracting parties abolish their requirements for consular invoices and consular visas by December 31, 1956, and requested that they report each year on the progress they had made in doing so.[43]

At their Eighth Session in 1953 and their Ninth Session in 1954–55, the Contracting Parties continued their discussions on the valuation of goods for customs purposes, on the nationality of imported goods, and on practices relating to consular formalities. They also made recommendations with respect to the convention on the importation of samples and advertising material, and with respect to proof of origin in determining the nationality of imported goods.[44] At the 10th Session the Contracting Parties continued their discussions on the nationality of imported goods. They also considered two interpretative questions submitted to them by the Customs Cooperation Council with respect to the convention on the importation of samples and advertising material,[45] and reviewed the

[42] For a detailed discussion of the resolutions adopted by the International Chamber of Commerce, see *Operation of the Trade Agreements Program* (sixth report), pp. 61–64.

[43] See *Operation of the Trade Agreements Program* (seventh report), pp. 89–94.

[44] See *Operation of the Trade Agreements Program:* Seventh report, pp. 89–94; and eighth report, pp. 79–81.

[45] This convention entered into force on November 20, 1955, after its acceptance by 15 contracting parties.

progress that the contracting parties had made in abolishing consular invoices and consular visas. Each of these matters was placed on the agenda for consideration again at the 11th Session in 1956.

At their 10th Session, the Contracting Parties also considered two resolutions that the International Chamber of Commerce had submitted to the Contracting Parties in May 1955. The first resolution proposed that the Contracting Parties reword their earlier recommendation with respect to proof of origin in determining the nationality of imported goods; the other related to adoption of a set of guiding principles for an international arrangement designed to prevent the misuse of marks of origin. The Contracting Parties did not study these resolutions in detail at their 10th Session, but agreed to do so at the 11th Session.

Because it was apparent at the 11th Session that the individual contracting parties would not be able to abolish their consular formalities completely by the final date agreed upon at the 10th Session, the Contracting Parties decided not to establish any new date for the abolition of those formalities. However, they reaffirmed their previous recommendation that the contracting parties continue to eliminate the consular formalities they still maintained. The Contracting Parties agreed to alter the rules they had recommended with respect to proof of origin, as proposed to them by the International Chamber of Commerce at the 10th Session. They postponed until their 12th Session their decision on whether to establish a common definition of the nationality of imported goods and rules on marks of origin.

At their 11th Session the Contracting Parties also agreed to ask the Secretary-General of the United Nations to recommend that those countries that are not contracting parties to the General Agreement accept the convention on the importation of samples and advertising material if they had not already done so. By June 30, 1957, the convention—which entered into force during the 10th Session—had been accepted by 22 countries.[46]

Training program for government officials of contracting parties to the General Agreement

At the Ninth Session of the Contracting Parties in 1954–55, Chile proposed a program to familiarize young government officials of the contracting parties with the problems dealt with by the GATT Secretariat in administering the agreement. The Contracting Parties referred the proposal to the Executive Secretary, with a request that he study its financial and administrative aspects.

At the 10th Session, the Executive Secretary reported to the Contracting Parties that arrangements could be made to establish a modest

[46] By June 30, 1957, the United States had signed the convention, but had not yet ratified it.

training program for university-trained men and women. The persons selected for training would be permanent government officials of contracting parties that were eligible to receive assistance under the United Nations technical assistance program. The Secretary envisaged a program consisting of two courses. One course would begin early in 1956 and the other, later in the year. Each course would be of 6 months' duration, and each would be designed to acquaint the trainees with practical procedures appropriate for dealing with such commercial and economic problems as might confront them during their careers with their respective governments. The cost of the program, the Executive Secretary noted, would be shared by the United Nations Technical Assistance Administration and the governments of the officials undergoing the training. The GATT Secretariat would conduct the program.

At their 10th Session the Contracting Parties tentatively approved the training program and authorized the Executive Secretary to place it in effect on an experimental basis. At the 11th Session, the Intersessional Committee, the Secretariat, and the countries concerned reported their satisfaction with the program that had been conducted in the interim between the 10th and 11th Sessions. As a result of these reports, the Contracting Parties unanimously endorsed the training program as one of the positive achievements of GATT, and extended it into 1957. Because of the success of the program, the Contracting Parties increased the number of trainees in each course from 6 to 10, effective for the second half of 1957. Financing of the increased number of trainees was made possible by the United Nations Technical Assistance Administration, which granted additional fellowships.

Discrimination in transport insurance

In 1951, at the suggestion of the International Chamber of Commerce, the United Nations Transport and Communications Commission agreed to consider the problems arising from the application of national laws that restrict the freedom of importers and exporters to purchase cargo insurance in the countries of their choice. The Commission requested the Secretary-General of the United Nations to make a study of such restrictive national legislation. In his report, the Secretary-General recommended that the matter be studied by the Contracting Parties to the General Agreement on Tariffs and Trade.

At their Eighth Session in 1953, the Contracting Parties noted the problem of discrimination in transport insurance, and directed their Executive Secretary to prepare a report on the issues involved.[47] The report was considered by the Contracting Parties at their Ninth Session, and the subject was retained on the agenda for further consideration at the next regular session.

[47] For a more detailed discussion of this problem, see *Operation of the Trade Agreements Program* (seventh report), pp. 95–96.

At the 10th Session, the United States proposed that the Contracting Parties adopt a resolution recommending that contracting parties refrain from interfering with the freedom of buyers or sellers of transport insurance to determine for themselves in which market they would obtain such insurance. The Contracting Parties referred the resolution to a working party for study. The working party proposed that the Contracting Parties adopt a resolution calling on contracting parties to avoid the enactment of measures relating to transport insurance that would have a more restrictive effect on international trade than those that now apply, and to eliminate—as rapidly as circumstances permit—any restrictive measures currently in force. The Contracting Parties agreed to consider the recommendation at their 11th Session.

At the 11th Session a divergence of opinion among the contracting parties indicated that further discussion of the proposed resolution would be necessary before the matter could be taken up at a plenary meeting of the Contracting Parties. Accordingly, the Contracting Parties decided to defer consideration of the working party's recommendation until their 12th Session in 1957.

STATUS AND ADMINISTRATION OF THE AGREEMENT

Resolution of March 7, 1955, respecting definitive application of the General Agreement

Article XXVI of the General Agreement provides that the agreement shall enter into force when it has been accepted by contracting parties that account for 85 percent of the total foreign trade of all contracting parties to the agreement. The General Agreement, however, has never definitively entered into force under the provisions of article XXVI. It has been accepted pursuant to a protocol of provisional application, which requires that the signatories apply parts I and III of the agreement fully, and part II (which contains most of the trade rules) to the fullest extent not inconsistent with domestic legislation in effect on a specified date. Originally, if contracting parties desired to accept the agreement definitively pursuant to article XXVI, they were required immediately to modify domestic legislation that was inconsistent with the provisions of the agreement.

Although the Contracting Parties have desired definitive acceptance of the General Agreement at as early a date as possible, they have recognized that it would not be practicable for certain contracting parties to bring their domestic legislation into conformity with part II of the agreement immediately after such an acceptance. To surmount this obstacle, the Contracting Parties—at their Ninth Session in 1954–55—prepared a resolution which provided that an acceptance of the agreement pursuant to article XXVI would be valid even if accompanied by a reservation that legislation presently acceptable under the provisional application of the agreement would remain acceptable under the definitive application of the agreement. The resolution provided, however, that the Contracting Parties would periodically review the progress that contracting parties had made in bringing such "excepted" legislation into conformity with the General Agreement. The resolution entered into force during the 11th Session, after it had been accepted by all the contracting parties.

Protocols of amendment, and Agreement on the Organization for Trade Cooperation

At their Ninth Session in 1954–55, the Contracting Parties conducted a review of the General Agreement to determine to what extent it should be modified in order to attain its objectives more effectively. As a result of the review, the Contracting Parties proposed a series of amendments to the General Agreement, and negotiated an Agreement on the Organization for Trade Cooperation.[48] The proposed amendments (which were incorporated in three protocols), as well as the Agreement on the Organization for Trade Cooperation, were then submitted to the contracting parties for acceptance. By June 30, 1957, the close of the period covered by this report, neither the proposed amendments to the General Agreement nor the Agreement on the Organization for Trade Cooperation had entered into force.

Protocols of rectifications and modifications of schedules, and proposed consolidation of schedules

Tariff concessions negotiated under the General Agreement are incorporated into the agreement by means of the schedules of tariff concessions. A schedule is a listing of all the concessions negotiated—pursuant to the provisions of the General Agreement—by one particular contracting party with other contracting parties. Each such country schedule contains, for each product on which the contracting party has granted a concession, the number under which the product is classified in the tariff of the particular contracting party, a description of the product, and the rate of duty applicable to it. Article II of the General Agreement makes each of the schedules of concessions an integral part of the agreement.

From time to time the Contracting Parties find that the texts of the schedules should be modified formally to take into account changes that have, in fact, become effective by action of the Contracting Parties or in accordance with procedures established by the Contracting Parties.[49]

[48] See *Operation of the Trade Agreements Program* (eighth report), ch. 2.

[49] Changes in the schedules may be substantive or nonsubstantive. An example of a substantive change is the modification of a rate of duty pursuant to article XXVIII of the agreement; an example of a nonsubstantive change is the correction of a textual spelling error.

Accordingly, they prepare protocols of rectifications and modifications, which list the changes necessary to bring the schedules up to date. The protocols, which are then submitted to the individual contracting parties for acceptance, formally enter into force when they have been accepted by all the contracting parties. However, since the modifications or rectifications contained in the protocols have already been placed in effect by action of the Contracting Parties, there is slight incentive for individual contracting parties to "accept" them formally.

On June 30, 1957, the Second, Third, Fourth, Fifth, and Sixth Protocols of Rectifications and Modifications, prepared by the Contracting Parties and submitted to the contracting parties during the period 1952–56, had not yet entered into force, but the concessions listed in them had been placed in effect by the contracting parties concerned. The Sixth Protocol of Modifications and Rectifications, which was prepared during the 11th Session, was approved by the Contracting Parties and opened for signature on February 15, 1957. This protocol incorporated changes in the schedules of 22 contracting parties that resulted from the multilateral negotiations at Geneva in 1956.

At the 10th Session, several of the contracting parties expressed serious concern over the complexity of the schedules of concessions in the General Agreement. They pointed out that the original concessions and the subsequent rectifications and modifications were scattered among more than 20 legal instruments and several GATT documents. The Contracting Parties, therefore, explored the possibility of preparing a set of up-to-date, consolidated schedules. Toward the close of the session they adopted a tentative plan to prepare such consolidated schedules, and agreed to consider the plan again at their 11th Session in 1956.

By the 11th Session, copies of new consolidated schedules for several individual contracting parties were available. As completion of those for most of the contracting parties had been delayed, however, the Contracting Parties deferred until the 12th Session consideration of the form in which they will be published and of a plan for keeping them up to date.

Election of Chairman and Vice Chairmen of the Contracting Parties

At the beginning of the 11th Session, the Contracting Parties elected Sir Claude Corea, High Commissioner of Ceylon in the United Kingdom, as Chairman of the Contracting Parties, and Dr. Andrés Vargas Gomez, Director of International Economic Affairs, Cuban Ministry of State, and Mr. Pierre A. Forthomme, Belgian Ambassador to Switzerland, as Vice Chairmen. Sir Claude replaced Mr. L. Dana Wilgress, Canadian representative on the North Atlantic Council.[50]

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[50] The North Atlantic Council is the supreme authority of the North Atlantic Treaty Organization.

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Procedures for intersessional administration of the General Agreement

The General Agreement does not specifically provide for any organization for its administration. Article XXV provides that the contracting parties shall meet from time to time to consider matters arising out of the application of the agreement, but does not provide any mechanism for administering the agreement during the period when the Contracting Parties are not in session. As a result of discussions at their Sixth Session in 1951, the Contracting Parties established—on an experimental basis—the ad hoc Committee for Agenda and Intersessional Business to deal with matters that might require immediate action during the period between the sessions of the Contracting Parties. This arrangement for intersessional administration of the agreement—modified somewhat at the Ninth Session in 1954–55—has since been continued.

The Intersessional Committee, as it is now termed, is authorized to consider matters that require urgent action between sessions, but for which the Contracting Parties have made no special arrangements. The Intersessional Committee also is authorized to establish working parties to consider special problems, and may request the convening of special sessions of the Contracting Parties to consider matters that require their immediate attention. The Committee is also directed to meet 4 to 6 weeks before the opening of each regular session of the Contracting Parties, to prepare the agenda and order of business.

Members of the Committee are selected in such a manner as to insure that the Committee will be representative of the broad geographical areas to which the contracting parties belong and of the different degrees of economic development and divergent economic interests that are to be found among them. At their 11th Session the Contracting Parties reconstituted the Committee and increased its membership from 17 to 18 contracting parties. This they did by electing 17 members and co-opting Denmark. The following contracting parties were elected to the Intersessional Committee: Australia, Belgium, Brazil, Canada, Chile, France, the Federal Republic of Germany, Greece, India, Indonesia, Italy, Norway, Pakistan, Peru, the Federation of Rhodesia and Nyasaland, the United Kingdom, and the United States.

Because of the rapid progress that six European countries made after the close of the 11th Session in drafting a treaty looking toward the formation of a Common Market, the Intersessional Committee decided to consider questions relating to the proposed arrangement at its meeting in April 1957.[51] Because of this important change in the agenda for the meeting, the Committee co-opted—at their request—the following contracting parties for the discussion on the Common Market: Austria,

[51] The contracting parties involved in the arrangements for the Common Market are Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands. For a detailed discussion of the Common Market, see ch. 4 of this report.

Ceylon, Cuba, Czechoslovakia, the Dominican Republic, Japan, Luxembourg, the Netherlands, New Zealand, and the Union of South Africa. Represented at the meeting by observers were the following countries that are not contracting parties to the General Agreement: Ghana (formerly the British Crown Colony of the Gold Coast), Portugal, Switzerland, and Yugoslavia.

Financial and budgetary matters

At their 11th Session, the Contracting Parties approved the audit of the 1955 accounts and the report by the Executive Secretary on the financing of the 1956 budget. They also adopted an estimated budget of $451,600 for 1957, the United States contribution to which was $74,520. As has been true for the past 4 years, the budget estimate for the year ahead (1957) was higher than that for the previous year. The higher budget resulted from a permanent increase in the workload of the GATT Secretariat.

During the 10th Session, considerable sentiment developed for a review of the then existing system of computing financial contributions by the contracting parties to the General Agreement. Originally, contributions were based on the shares of each of the contracting parties in the total foreign trade of the Contracting Parties during the period 1949–53. As important changes have taken place since then in the respective trade shares of individual contracting parties, the Contracting Parties agreed to examine at their next session the question of revising the scale of contributions.

At the 11th Session the Contracting Parties revised the scale of contributions for the 1957 budget. The revised scale was based on the total external trade of the Contracting Parties for 1953–55—the latest 3 years for which adequate statistics were available. In addition, the Contracting Parties specified a minimum contribution of $2,000 for those individual contracting parties whose share of the total trade of the Contracting Parties was less than 0.55 percent. The Contracting Parties also decided that, before each annual session, the Secretariat should prepare a draft scale of contributions based on the total foreign trade of the Contracting Parties during the last 3 consecutive years for which adequate statistics were available. On the basis of this draft, the Contracting Parties will decide whether changes in the shares of individual contracting parties in the total trade of the Contracting Parties have been significant enough to require an adjustment of the scale of contributions for the following year.

Attendance of foreign ministers at sessions of the Contracting Parties

In September 1956 the Executive Secretary of the Contracting Parties proposed to the Intersessional Committee that the foreign ministers of the contracting parties attend the 11th Session and succeeding sessions.

In his opinion, attendance of the foreign ministers would make possible a wider exchange of views than was otherwise possible and would contribute to a more effective operation of the General Agreement. As a result of inquiries, however, it was found that such a ministerial meeting could not be arranged for the 11th Session.

During the 11th Session the Contracting Parties agreed that meetings of the foreign ministers, held in the early stages of succeeding sessions, would be highly advantageous. They decided, therefore, to arrange for such a ministerial meeting at their 12th Session in 1957, the ministers themselves to decide at that time whether they would hold meetings at subsequent sessions.

Chapter 3

Actions of the United States Relating to Its Trade Agreements Program

UNITED STATES TRADE-AGREEMENT OBLIGATIONS

On June 30, 1957, the United States was a party to trade agreements with 41 countries, which agreements it had negotiated under the authority of the Trade Agreements Act, as amended and extended.[1] These countries may be considered in two groups.

1. The first group consists of 33 countries that were contracting parties to the General Agreement on Tariffs and Trade on the aforementioned date.[2] These countries, together with the dates on which the United States gave effect to the tariff concessions that it had initially negotiated with them, are listed below:

Country	*Date*	*Country*	*Date*
Australia	Jan. 1, 1948	Chile	Mar. 16, 1949
Austria	Oct. 19, 1951	Cuba [1]	Jan. 1, 1948
Belgium [1]	Jan. 1, 1948	Denmark	May 28, 1950
Brazil [1]	July 31, 1948	Dominican Republic	May 19, 1950
Burma	July 30, 1948	Finland [1]	May 25, 1950
Canada [1]	Jan. 1, 1948	France [1]	Jan. 1, 1948
Ceylon	July 30, 1948	Germany (Federal Republic)	Oct. 1, 1951

See footnotes at end of tabulation.

[1] For more detailed data on the trade agreements that the United States has concluded with foreign countries, see U. S. Tariff Commission, *Trade Agreements Manual: A Summary of Selected Data Relating to Trade Agreements That the United States Has Negotiated Since 1934*, 2d ed., 1957 [processed].

[2] Four countries withdrew from the General Agreement between October 30, 1947, and June 30, 1957—the Republic of China, Lebanon, Liberia, and Syria. On June 30, 1957, a total of 35 countries, including the United States, were contracting parties to the General Agreement. Although Czechoslovakia was a contracting party to the agreement on that date, neither Czechoslovakia nor the United States had any obligations to the other under the agreement. On September 29, 1951, the United States, with the permission of the Contracting Parties, suspended all its obligations to Czechoslovakia under the General Agreement. Subsequently, effective November 2, 1951, the United States suspended the application of trade-agreement concessions to imports from Czechoslovakia.

Country—Con.	*Date*	*Country*—Con.	*Date*
Greece	Mar. 1, 1950	Norway	July 11, 1948
Haiti [1]	Jan. 1, 1950	Pakistan	July 31, 1948
India	July 9, 1948	Peru	Oct. 7, 1951
Indonesia [2]	Mar. 11, 1948	Rhodesia and Nyasaland [3]	July 12, 1948
Italy	May 30, 1950	Sweden [1]	Apr. 30, 1950
Japan	Sept. 10, 1955	Turkey [1]	Oct. 17, 1951
Luxembourg	Jan. 1, 1948	Union of South Africa	June 14, 1948
Netherlands [1]	Do.	United Kingdom [1]	Jan. 1, 1948
New Zealand	July 31, 1948	Uruguay [1]	Dec. 16, 1953
Nicaragua	May 28, 1950		

[1] The bilateral trade agreements that the United States had previously concluded with these countries have been either suspended or terminated.

[2] The Netherlands negotiated concessions on behalf of the Netherlands Indies at Geneva in 1947. On Feb. 24, 1950, the Contracting Parties recognized the United States of Indonesia (now the Republic of Indonesia) as a contracting party to the General Agreement in its own right.

[3] The Federation of Rhodesia and Nyasaland, composed of Southern Rhodesia, Northern Rhodesia, and Nyasaland, formally came into existence on Sept. 3, 1953. On Oct. 30, 1953, it succeeded to the status of Southern Rhodesia as a contracting party to the General Agreement, and to the interests of Northern Rhodesia and Nyasaland, to which the agreement previously had applied as areas for which the United Kingdom had international responsibility.

2. The second group consists of those 8 countries that had trade agreements with the United States but were not contracting parties to the General Agreement. These countries, together with the effective dates of the respective bilateral trade agreements, are as follows:

Country	*Date*	*Country*	*Date*
Argentina	Nov. 15, 1941	Iran	June 28, 1944
El Salvador	May 31, 1937	Paraguay	Apr. 9, 1947
Honduras	Mar. 2, 1936	Switzerland [1]	Feb. 15, 1936
Iceland	Nov. 19, 1943	Venezuela [2]	Dec. 16, 1939

[1] A supplementary trade agreement between the United States and Switzerland became effective July 11, 1955.

[2] A supplementary trade agreement between the United States and Venezuela became effective Oct. 11, 1952.

During the period covered by this report, the United States continued—as required by section 5 of the Trade Agreements Extension Act of 1951—to suspend the application to imports from Communist-controlled countries or areas, of reduced rates of duty and import tax established pursuant to any trade agreement. The United States also continued—pursuant to section 11 of the extension act of 1951—to prohibit the entry, or withdrawal from warehouse, for consumption, of specified furs that are the product of the Soviet Union or of Communist China.[3]

[3] For details of United States action under secs. 5 and 11 of the Trade Agreements Extension Act of 1951, see *Operation of the Trade Agreements Program* (sixth report), pp. 77–78.

The agenda for the 12th Session of the Contracting Parties to the General Agreement, scheduled for October 1957, included the question of extending, for an additional period after January 1, 1958, the period during which the tariff concessions contained in the agreement would not be modified or withdrawn—except in special circumstances—under the procedures outlined in article XXVIII.

In 1955, at their Ninth Session, the Contracting Parties drafted an amendment to article XXVIII that provides—except in special circumstances—for automatic extensions for successive 3-year periods of the assured life of the tariff concessions in the General Agreement. Since the amended article XXVIII could not take effect until two-thirds of the Contracting Parties had signed the pertinent amending protocol, the Contracting Parties on March 10, 1955, prepared a Declaration on the Continued Application of Schedules. The period covered by the declaration will end on December 31, 1957.[4] Since it is probable that the amended form of article XXVIII will not be in effect on that date, the Contracting Parties propose to consider, at their 12th Session, the desirability of making another supplementary arrangement for the assured life of the tariff concessions.[5]

On May 22, 1957, with a view to preparing the United States position on this question, the Interdepartmental Committee on Trade Agreements invited interested parties to submit their views on any aspect of such arrangement, including possible changes in individual concessions that the United States has obtained or granted in the General Agreement. The Committee for Reciprocity Information (CRI), which has the same membership as the Interdepartmental Committee on Trade Agreements, announced that it would receive written statements on the subject until June 18, 1957, on which day it was to hold a public hearing to afford interested persons an opportunity to present any pertinent views.

TRADE-AGREEMENT NEGOTIATIONS DURING 1956–57

During the period covered by this report, the United States participated in limited trade-agreement negotiations with Cuba and with the United Kingdom and Belgium under the General Agreement on Tariffs and Trade. The United States carried out its preparations for the tariff negotiations with Cuba and with the United Kingdom and Belgium under the procedures specified in the Trade Agreements Act, as amended and extended, and in Executive Order 10082 of October 5, 1949. During the period covered by this report, the United States also participated in the renegotiation by Canada of its tariff concession on potatoes.

[4] See *Operation of the Trade Agreements Program* (eighth report), pp. 73–74.

[5] The amended article XXVIII, as well as certain of the other amendments to the General Agreement that were drafted in 1955, became effective with respect to 26 contracting parties—including the United States—on October 7, 1957, during the 12th Session.

Cuba

On October 8, 1956, the Interdepartmental Committee on Trade Agreements issued formal notice that the United States intended to participate in limited trade-agreement negotiations with Cuba. The Committee announced that in exchange for concessions by Cuba the United States would consider tariff concessions on certain types of unmanufactured tobacco, that the negotiations would supplement those that the United States conducted with Cuba at Geneva in 1956, and that any resulting exchange of tariff concessions would be embodied in the United States and Cuban schedules of the General Agreement.

In an annex to its public notice, the Trade Agreements Committee listed the imported commodities that the United States would consider for concessions in the negotiations. The list involved 2 paragraphs of the Tariff Act of 1930, and covered 5 statistical classifications of imports.[6]

At the same time that the Trade Agreements Committee issued the above-mentioned public notice, the Committee for Reciprocity Information[7] issued notice that it would hold a public hearing, beginning November 14, 1956, to receive oral statements from interested persons on all phases of the proposed negotiations, including tariff concessions that might be granted or sought by the United States. The CRI held its public hearing on November 14 and 15, 1956.

As required by section 3 (the "peril point" provision) of the Trade Agreements Extension Act of 1951, as amended, the President on October 8, 1956, transmitted to the Tariff Commission the list of imported articles that the Trade Agreements Committee had published on that date. The Commission instituted the required peril-point investigation on the same day. On November 14 and 15, 1956, the Commission held a public hearing, as required by law, to afford interested parties an opportunity to present their views with regard to the listed items. The Commission submitted its report to the President on December 7, 1956.

In preparing for the negotiations with Cuba, the interdepartmental trade agreements organization followed its usual procedures.[8] As required by Executive Order 10082, and at the request of the Trade Agreements Committee, the Tariff Commission submitted tariff, trade, and other data on the articles on which the United States proposed to consider granting concessions to Cuba. The Department of Commerce submitted corre-

[6] The products listed were certain wrapper and filler tobacco (par. 601), and scrap tobacco (par. 603). (See 21 F.R. 7747.)

[7] The primary functions of the Committee for Reciprocity Information, which was created by Executive order in 1934, are (1) to provide an opportunity for all interested parties to present their views on proposed trade agreements, and (2) to bring those views to the attention of the Trade Agreements Committee.

[8] For a detailed discussion of the procedures that the trade agreements organization follows in preparing for trade-agreement negotiations and participating in them, see *Operation of the Trade Agreements Program* (fourth report), ch. 4.

sponding information on products exported to Cuba by the United States. On the basis of these and other data, including written and oral information presented to the Committee for Reciprocity Information, the Trade Agreements Committee recommended to the President schedules of concessions that the United States should offer and request in the negotiations. The negotiations, which were held in Havana during April, May, and June 1957, took place on the basis of the proposals of the Trade Agreements Committee that were approved by the President.

On June 20, 1957, Cuba and the United States signed the supplemental trade agreement that resulted from the above-mentioned negotiations at Havana. The agreement provided for concessions by the United States on 5 types of cigar tobacco provided for in paragraphs 601 and 603 of the Tariff Act of 1930,[9] in exchange for concessions by Cuba on certain tinplate and tinned sheets, certain artificial colors in powder or lumps, and motors of all kinds and certain parts and accessories therefor.

Under the agreement, the preagreement rates of duty on the United States and Cuban products involved are to be reduced by 10 percent in two annual stages. The first stage of the concessions granted by both countries became effective June 29, 1957; the second stage will normally become effective a year later. Four of the five types of cigar tobacco on which the United States granted concessions to Cuba were subject to preagreement rates of duty, when imported from Cuba, that were lower than those applicable to the same kinds of tobacco when imported from other countries. The agreement provides that when the reductions in duty that the United States granted to Cuba on these products are made effective, the rates of duty applicable to the same products when imported from other countries will be equally reduced to avoid widening the margins of Cuban preference on four types of tobacco and to avoid creating a margin of Cuban preference on the fifth type.[10]

Imports into the United States for consumption in 1956 of the products on which the United States granted concessions in the negotiations with Cuba were valued at 28.1 million dollars, of which 25.6 million came from Cuba and 2.5 million, from other countries. United States exports to Cuba in 1955 of the products on which Cuba granted concessions to the United States were valued at 8.8 million dollars.

United Kingdom and Belgium

On March 18, 1957, the Trade Agreements Committee issued formal notice that the United States intended to participate in limited trade-agreement negotiations with the United Kingdom and Belgium under

[9] Leaf for cigar wrappers, unstemmed; leaf for cigar wrappers, stemmed; cigar leaf (filler), unstemmed; cigar leaf (filler) stemmed; and scrap tobacco.

[10] For complete details of the concessions that Cuba and the United States exchanged, see U. S. Department of State Press Release No. 376, June 20, 1957.

the General Agreement on Tariffs and Trade. The proposed negotiations were to be held in connection with requests by those countries for tariff concessions to compensate them for the increase by the United States in 1956 of its rate of duty on certain linen toweling.[11] The President increased this duty under the escape-clause provision of the General Agreement, after the United States Tariff Commission had found that the domestic industry was being seriously injured as a result of increased imports caused in part by a tariff concession that the United States had initially negotiated with the United Kingdom.

In an annex to its public notice, the Trade Agreements Committee listed the imported commodities that the United States would consider for concessions in the negotiations. The list involved 11 tariff paragraphs and covered 14 statistical classifications of imports. At the same time that the Trade Agreements Committee issued the above-mentioned public notice, the Committee for Reciprocity Information issued notice that it would hold a public hearing beginning April 24, 1957. The CRI held its public hearing on April 24, 1957. In preparing for the negotiations with the United Kingdom and Belgium, the interdepartmental trade agreements organization followed the procedures outlined above for the negotiations with Cuba.

As required by section 3 of the Trade Agreements Extension Act of 1951, as amended, the President on March 18, 1957, transmitted to the Tariff Commission the list of imported articles that the Trade Agreements Committee had published on that date. The Commission instituted the required peril-point investigation on the same day and on April 24, 1957, held a public hearing. The Commission submitted its report to the President on May 2, 1957. Formal negotiations with the United Kingdom and Belgium began in Washington on May 17, 1957.

On June 27, 1957, as a result of these negotiations, the United States signed two agreements supplementary to the General Agreement on Tariffs and Trade. One of the agreements was with the United Kingdom; the other was with Belgium (on behalf of the Belgo-Luxembourg Economic Union) and the Netherlands.

The supplementary agreements provide for tariff concessions by the United States to compensate the United Kingdom and Belgium and the Netherlands for the 1956 increase—from 10 percent to 40 percent ad valorem—in the United States rate of duty on certain linen toweling. The agreements also provide that, should the reduced rate of duty on linen toweling be restored, the parties to the agreement will consult promptly with a view to reaching a satisfactory adjustment. Should a mutually satisfactory adjustment not be reached the United States may

[11] The increase from 10 percent to 40 percent ad valorem in the rate of duty on linen toweling became effective on July 26, 1956.

withdraw the additional concessions in the agreements, as may be appropriate. The agreement with the United Kingdom also provides, as an additional compensatory adjustment, that the United States will interpose no objection to the modification by the United Kingdom of the concession that it made to the United States in 1947 on salted or pickled pork. In connection with the agreement with Belgium and the Netherlands, a supplementary exchange of notes specified that further consultations may be held if either party considers that the agreement is not resulting in a satisfactory compensatory adjustment.

Specifically, the supplementary agreements provide for reductions of about 10 percent in the existing United States rates of duty on 6 commodities, 3 of which are of principal interest to the United Kingdom, 2 of principal interest to the Belgo-Luxembourg Economic Union, and 1 of interest to both. The first stage of the reductions became effective on June 29, 1957; the second stage will become effective a year later, subject to certain statutory qualifications. The 6 commodities on which the United States granted concessions are textile machinery for preparing flax and other vegetable fibers except cotton or jute; tracing cloth; waterproof cloth; cotton imitation oriental rugs; artists' canvas of flax or other vegetable fiber except cotton; and certain books. Either the United Kingdom or the Belgo-Luxembourg Economic Union, or both, are the predominant suppliers of United States imports of each of these commodities. Total United States imports in 1956 of the articles on which the United States granted compensatory concessions were valued at about 4 million dollars, of which more than 75 percent came from the countries to which the United States granted the concessions.[12] In 1955, imports from the United Kingdom and Belgium of the linen toweling on which the United States increased the rate of duty were valued at $946,000. Of this amount, the United Kingdom accounted for $481,000, and Belgium, for $465,000.

Canada

During 1957, as a result of Canada's desire to increase its rate of duty on imports of potatoes, the United States participated in tariff negotiations with that country. Canada initially negotiated a trade-agreement concession on potatoes with the United States at Geneva in 1947, under the General Agreement on Tariffs and Trade. Canada and the United States carried out the 1957 renegotiations under the procedures provided for in the March 10, 1955, Declaration on the Continued Application of Schedules. Under these procedures, a contracting party that proposes to

[12] For complete details of the concessions that the United States granted to the United Kingdom and to the Belgo-Luxembourg Economic Union, see U. S. Department of State Press Release No. 394, June 27, 1957.

modify a concession negotiates with the country of initial negotiation (and any other interested countries) regarding compensation. In these negotiations the country that proposes the modification may grant new concessions to the interested countries, or the interested countries may withdraw or adjust upward concessions of a value substantially equal to the one modified.

On February 4, 1957, the Committee for Reciprocity Information issued notice that it intended to hold a public hearing on United States participation in the proposed tariff renegotiations with Canada. In its notice the CRI invited interested persons to submit their views with respect to the anticipated effect on United States trade of the modification of the Canadian concession on potatoes, or with respect to products on which the United States might request new or further tariff concessions from Canada as compensation. It also invited views with respect to the possible upward modification, or withdrawal, of tariff concessions in the United States schedule of the General Agreement, including the concessions that the United States granted to Canada on potatoes in that agreement. Because no reductions in United States rates of duty were involved in the renegotiations, the Tariff Commission did not conduct a peril-point investigation. The CRI held its public hearing on March 6, 1957.

As a result of the renegotiations, which took place in Washington during March and April 1957, Canada modified its General Agreement concession on potatoes to provide for a year-round duty of 37½ cents per 100 pounds on all imported potatoes except new potatoes, which will continue to be accorded duty-free entry during the period January 1 to June 14, inclusive. The modified concession replaced one that provided for duty-free entry of all potatoes except those imported during the period June 15 to July 31, inclusive, when the rate of duty was 37½ cents per 100 pounds.

In the renegotiations, the United States modified its General Agreement concession on potatoes by reducing the tariff quota on seed potatoes from 2.5 million bushels to 1.9 million bushels, and by reducing the tariff quota on table-stock potatoes from 1 million bushels to 600,000 bushels. Under the modified concession, the most-favored-nation rate of duty remains at 37½ cents per 100 pounds for imports of seed potatoes within the new tariff quota of 1.9 million bushels, and for imports of table-stock potatoes within the new tariff quota of 600,000 bushels. The United States did not change the "escalator" clause in its original concession, which provides that in any year the tariff quota on table-stock potatoes will be increased by the amount that estimated United States production of such potatoes is less than 350 million bushels.

ACTIONS RELATING TO TRADE-AGREEMENT CONCESSIONS

Entry Into Force of Trade-Agreement Concessions

On June 29, 1957, the United States placed in effect the first stage of the tariff concessions on 5 types of cigar tobacco that it granted to Cuba in the limited trade-agreement negotiations conducted with that country under the General Agreement on Tariffs and Trade during the first half of 1957.[13]

On June 29, 1957, the United States placed in effect the first stage of the tariff concessions that it granted to the United Kingdom and Belgium in the limited trade-agreement negotiations with those countries under the General Agreement during the first half of 1957. The concessions, which were to compensate the United Kingdom and Belgium for the increase in 1956 by the United States of its rate of duty on certain linen toweling, were on certain textile machinery, tracing cloth, certain waterproof cloth, certain cotton rugs, certain artists' canvas, and books by American authors.[14]

On June 30, 1957, the United States placed in effect the second stage of the tariff concessions that it granted in the 1956 multilateral tariff negotiations under the General Agreement at Geneva.[15] The United States granted these concessions in negotiations with the following 21 contracting parties to the General Agreement: Australia, Austria, Belgium, Canada, Chile, Cuba, Denmark, the Dominican Republic, Finland, France, the Federal Republic of Germany, Haiti, Italy, Japan, Luxembourg, the Netherlands, Norway, Peru, Sweden, Turkey, and the United Kingdom.

On June 30, 1957, the end of the period covered by this report, 1 country with which the United States concluded negotiations for tariff concessions under the General Agreement at Torquay—Korea—had not yet signed the Torquay Protocol. The United States, therefore, had not placed in effect the concessions that it initially negotiated with that country.

Withdrawal or Modification of Trade-Agreement Concessions

Potatoes

On May 16, 1957, the President issued a proclamation modifying the concession that the United States had granted on potatoes under the

[13] For a discussion of the concessions that the United States granted in these negotiations, see the section of this chapter on trade-agreement negotiations with Cuba.

[14] For a discussion of the concessions that the United States granted in these negotiations, see the section of this chapter on trade-agreement negotiations with the United Kingdom and Belgium.

[15] For a discussion of the concessions that the United States granted in these negotiations, see *Operation of the Trade Agreements Program* (ninth report), pp. 51–84.

General Agreement in 1947. The modification, which was to become effective on September 15, 1957, consisted of reductions in the quantities of potatoes dutiable at 37½ cents per 100 pounds under the tariff quotas on seed and table-stock potatoes set forth in the United States schedule to the General Agreement. The United States modified its concession as a result of Canada's renegotiation of its trade-agreement concession on potatoes, under the procedures provided for in the March 10, 1955, Declaration on the Continued Application of Schedules.[16]

The United States proclamation giving effect to the reductions in the tariff quotas on potatoes made two supplementary adjustments in the rates of duty on certain potatoes. To prevent an increase in the margin of preference accorded Cuban table-stock potatoes beyond that permitted by paragraph 4 of article I of the General Agreement, the proclamation established an appropriate rate for non-Cuban table-stock potatoes withdrawn from the previous tariff quota and imported during December, January, or February. The proclamation also established a preferential rate for table-stock potatoes withdrawn from the previous quota, if they are the product of Cuba and are imported from March through November. This preference is provided for in the exclusive bilateral agreement that the United States negotiated with Cuba at Geneva in 1947.

Butter substitutes

On April 15, 1957, the President issued a proclamation limiting to 1,800,000 pounds the aggregate quantity of butter substitutes, including butter oil, containing 45 percent or more of butterfat, that may be imported during the calendar year 1957, and limiting to 1,200,000 pounds the aggregate quantity of such products that may be imported during each subsequent calendar year. The President took this action after a report and recommendation to him by the Tariff Commission, which conducted an investigation of the specified butter substitutes under the provisions of section 22 of the Agricultural Adjustment Act, as amended.

The United States granted a concession on butter oil in the General Agreement on Tariffs and Trade in 1947. United States action in establishing a quota on such products, which constituted a modification of the trade-agreement concession, was in accordance with the provisions of a waiver that the Contracting Parties granted to the United States during their Ninth Session in 1954–55. At that session the Contracting Parties waived the commitments of the United States under the General Agreement, insofar as such commitments may be regarded as inconsistent with the action that the United States is required to take under the provisions of section 22 of its Agricultural Adjustment Act, as amended.

[16] For details of the modification of the United States concession on potatoes, see the section of this chapter on trade-agreement negotiations with Canada.

Invocation of Geneva Wool-Fabric Reservation

In a note attached to item 1108 of part I of the United States schedule of concessions in the General Agreement on Tariffs and Trade, the United States reserved the right to increase to 45 percent the ad valorem parts of the compound rates of duty applicable to any of the fabrics provided for in items 1108 or 1109 (a), on any of such fabrics that are entered in any calendar year in excess of an aggregate quantity (by weight) of 5 percent of the average annual production of similar fabrics in the United States during the three immediately preceding calendar years.

By a proclamation of September 28, 1956, the President invoked this so-called Geneva wool-fabric reservation, to permit the establishment—effective January 1, 1957—of a tariff quota on imports of certain woolen and worsted fabrics. Under the proclamation, it is necessary for the President to inform the Secretary of the Treasury of the size of the quota for each year.

On May 24, 1957, the President informed the Secretary of the Treasury that for the calendar year 1957 the tariff quota on woolen and worsted fabrics dutiable under tariff paragraphs 1108 and 1109 (a) would be 14 million pounds. The President found the figure of 14 million pounds to be not less than 5 percent of the average annual domestic production of similar fabrics in the years 1954, 1955, and 1956, which average had been calculated (on a weight basis) to be 277 million pounds. For the last 3 months of 1956, the tariff quota was established at 3.5 million pounds, and for 1957, at 14 million pounds.

Before the United States invoked the Geneva wool-fabric reservation, the rates of duty on the woolen and worsted fabrics covered by the reservation were 30 cents or 37½ cents per pound, depending on the nature of the fabric, plus 20 or 25 percent ad valorem, depending on the nature of the fabric. After the United States invoked the reservation, the rates of duty on imports of the specified woolen and worsted fabrics remained the same for a quantity up to 14 million pounds. Imports in excess of 14 million pounds will be subject to an ad valorem duty of 45 percent; the specific parts of the compound duties are not changed.

ACTIVITIES UNDER THE PERIL-POINT PROVISION

Sections 3 and 4 of the Trade Agreements Extension Act of 1951[17] set forth the statutory requirements for so-called peril-point determinations with respect to proposed trade-agreement negotiations. The peril-point provisions of the 1951 act require the President, before entering into any trade-agreement negotiation, to transmit to the Tariff Commission a list of the commodities that are to be considered for concessions.

[17] 65 Stat. 72.

The Commission is then required to conduct an investigation, including the holding of a public hearing, and to report its findings to the President on (1) the maximum decrease in duty, if any, that can be made on each listed commodity without causing or threatening serious injury to the domestic industry producing like or directly competitive products, or (2) the minimum increase in duty or additional import restrictions that may be necessary on any of the listed products in order to avoid serious injury or the threat of serious injury to such domestic industry.

The President may not conclude a trade agreement until the Commission has made its report to him, or until after the lapse of 120 days from the date he transmits the list of products to the Commission. If the President concludes a trade agreement that provides for greater reductions in duty than the Commission specified in its report, or that fails to provide for the additional import restrictions specified, he must transmit to the Congress a copy of the trade agreement in question, identifying the articles concerned and stating his reasons for not carrying out the Commission's recommendations. Promptly thereafter, the Commission must deposit with the Senate Committee on Finance and the House Committee on Ways and Means a copy of the portions of its report to the President that deal with the articles with respect to which the President did not follow the Commission's recommendations.

During the period covered by this report, the Tariff Commission completed two peril-point investigations under the provisions of section 3 of the Trade Agreements Extension Act of 1951. On October 8, 1956, the Interdepartmental Committee on Trade Agreements issued public notice that the United States intended to engage in limited tariff negotiations during 1957 with Cuba under the General Agreement on Tariffs and Trade. On the same day, the President transmitted to the Tariff Commission a list of the commodities that were to be considered for concessions in the proposed negotiations. The President's list involved 2 tariff paragraphs and covered 5 statistical (schedule A) [18] classifications. The Commission instituted the required peril-point investigation on October 8, 1956, and held its public hearing on November 14 and 15, 1956. The Commission submitted its report to the President on December 7, 1956.

On March 18, 1957, the Trade Agreements Committee issued public notice that the United States intended to engage in limited trade-agreement negotiations during 1957 with the United Kingdom and Belgium under the General Agreement on Tariffs and Trade.[19] On the same day the President transmitted to the Tariff Commission a list of the commodities that were to be considered for concessions in the proposed

[18] U. S. Department of Commerce, *Schedule A, Statistical Classification of Commodities Imported Into the United States.*

[19] The negotiations were held in connection with requests by these countries for compensatory tariff concessions on the basis of the 1956 increase in the United States rate of duty on certain linen toweling.

negotiations. The President's list involved 11 tariff paragraphs and covered 14 statistical (schedule A) classifications. The Commission instituted the required peril-point investigation on March 18, 1957, and held its public hearing on April 24, 1957. The Commission submitted its report to the President on May 2, 1957.

ACTIVITIES UNDER THE ESCAPE CLAUSE OF TRADE AGREEMENTS

Since 1943 all trade agreements that the United States has concluded have contained a safeguarding clause, commonly known as the standard escape clause. The clause provides, in essence, that either party to the agreement may withdraw or modify any concession made therein if, after a concession, imports of the particular commodity enter in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles.

The Trade Agreements Extension Act of 1951 makes it mandatory for an escape clause to be included in all trade agreements that the United States concludes in the future, and, as soon as practicable, in all trade agreements currently in force. The clause must conform to the policy set forth in section 6 (a) of the act. That section provides that no trade-agreement concession made by the United States shall be permitted to continue in effect when the product involved is, as a result, in whole or in part, of the duty or other customs treatment reflecting such concession, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products.

During the period covered by this report, the procedure for administering the escape clause was prescribed by section 7 of the Trade Agreements Extension Act of 1951, as amended, and by Executive Order 10401 of October 14, 1952.

Section 7 of the Trade Agreements Extension Act of 1951, as amended, provides that the Tariff Commission, upon the request of the President, upon resolution of either House of Congress, upon resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, upon its own motion, or upon application by any interested party, must promptly conduct an escape-clause investigation. The Commission must complete its investigation and make a report thereon within 9 months of the date it receives the application. As a part of each investigation, the Commission generally holds a public hearing at which interested parties are afforded an opportunity to be heard. Section 7 (a) of the Trade Agreements Extension Act of 1951, as amended, requires the Commission to hold such a hearing whenever it finds evidence of serious injury or threat of serious injury, or whenever so directed by resolution of either

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the Senate Committee on Finance or the House Committee on Ways and Means. In arriving at its findings and conclusions the Commission is required, without excluding other factors, to consider the following factors expressly set forth in section 7 (b): A downward trend of production, employment, prices, profits, or wages in the domestic industry concerned, or a decline in sales, an increase in imports, either actual or relative to domestic production, a higher or growing inventory, or a decline in the proportion of the domestic market supplied by domestic producers.

Should the Commission find, as a result of its investigation and hearings, the existence or the threat of serious injury as a result of increased imports, it must recommend to the President, to the extent and for the time necessary to prevent or remedy such injury, the withdrawal or modification of the concession, or the suspension of the concession in whole or in part, or the establishment of an import quota. Thereupon, the Commission must immediately make public its findings and recommendations to the President, including any dissenting or separate findings and recommendations, and publish a summary thereof in the *Federal Register*. When, in the Commission's judgment, there is no sufficient reason to recommend to the President that a trade-agreement concession be modified or withdrawn, the Commission must make and publish a report stating its findings and conclusions.

Executive Order 10401, which is discussed fully in a later section of this chapter,[20] directs the Commission to review developments with respect to products on which the United States has modified or withdrawn trade-agreement concessions under the escape-clause procedure, and to make periodic reports to the President concerning such developments.

Applications for Investigations

On July 1, 1956, a total of 7 escape-clause investigations were pending before the Tariff Commission. During the ensuing 12 months, the Commission received 8 additional applications and instituted investigations in response to each of them.[21] Of a total of 15 escape-clause investigations that were pending before the Commission at one time or another during the period covered by this report, the Commission at the close of the period had completed 7 investigations,[22] had discontinued and dismissed 1 investigation at the applicant's request, and had terminated 1 investigation without formal findings. The remaining 6 investigations were still in process on June 30, 1957.

[20] See the section of this chapter on the review of escape-clause actions under Executive Order 10401.

[21] Between April 20, 1948, when it received the first application for an escape-clause investigation, and June 30, 1957, the Commission received a total of 82 applications.

[22] See the section of this chapter on investigations completed or dismissed.

The nature and status of the individual escape-clause investigations that were pending before the Commission at one time or another during the period July 1, 1956, to June 30, 1957, are shown in the following compilation.[23]

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1956–June 30, 1957

Commodity	Status
1. Fresh or frozen groundfish fillets (third investigation). (Investigation No. 47; sec. 7)	*Origin of investigation:* Application by the Massachusetts Fisheries Association, Inc., Boston, Mass., and others. *Application received:* Jan. 12, 1956. *Investigation instituted:* Jan. 16, 1956. *Hearing held:* June 5–8, 1956. *Investigation completed:* Oct. 12, 1956. *Recommendation of the Commission:* Modification of concession. *Vote of the Commission:* 6–0. *Action of the President:* Recommendation rejected by the President Dec. 10, 1956. *Reference:* U. S. Tariff Commission, *Groundfish Fillets (1956): Report to the President on Escape-Clause Investigation No. 47* . . ., 1956 [processed].
2. Velveteen fabrics (not including ribbons), cut or uncut, whether or not the pile covers the entire surface, wholly or in chief value of cotton. (Investigation No. 49; sec. 7)	*Origin of investigation:* Application by the Crompton Co., West Warwick, R. I., A. D. Julliard & Co., Inc., New York, N. Y., and the Merrimack Manufacturing Co., Inc., Lowell, Mass. *Application received:* Jan. 24, 1956. *Investigation instituted:* Jan. 26, 1956. *Hearing held:* June 19–21, 1956. *Investigation completed:* Oct. 24, 1956. *Recommendation of the Commission:* Modification of concession. *Vote of the Commission:* 6–0. (Commissioner Jones dissented on the remedy recommended by the Commission.) *Action of the President:* The President announced on Dec. 21, 1956, that he was extending the period of his consideration of the Commission's report. On Jan. 22, 1957, the President announced that, in view of Japan's announcement of a broad program for the control of its cotton-textile exports to the United States, he had decided not to take action on the recommendation of the Commission. *Reference:* U. S. Tariff Commission, *Cotton Velveteen Fabrics: Report to the President [on] Escape-Clause Investigation No. 49* . . ., 1956 [processed].

[23] This compilation shows the status of only those escape-clause investigations that were pending before the Commission at one time or another during the period covered by this report. Lists of applications received before the period covered by this report, and their status on various dates, are given in earlier reports on the operation of the trade agreements program. For a résumé of the status of all escape-clause applications filed with the Commission between April 20, 1948, and February 4, 1957, see U. S. Tariff Commission, *Investigations Under the "Escape Clause" of Trade Agreements: Outcome or Current Status of Applications Filed With the United States Tariff Commission for Investigations Under the "Escape Clause" of Trade Agreements, as of February 4, 1957*, 7th ed., 1957 [processed].

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1956–June 30, 1957—Con.

Commodity	Status
3. Pillowcases, wholly or in chief value of cotton. (Investigation No. 51; sec. 7)	*Origin of investigation:* Application by Riegel Textile Corp., New York, N. Y. *Application received:* Feb. 21, 1956. *Investigation instituted:* Mar. 6, 1956. *Hearing held:* Sept. 11, 1956. *Investigation completed:* Nov. 21, 1956. *Recommendation of the Commission:* No modification of concession. *Vote of the Commission:* 3–2. *Reference:* U. S. Tariff Commission, *Cotton Pillowcases: Report on Escape-Clause Investigation No. 51* . . ., 1956 [processed].
4. Straight (dressmakers' or common) pins (second investigation). (Investigation No. 52; sec. 7)	*Origin of investigation:* Application by Vail Manufacturing Co., Chicago, Ill., and others. *Application received:* Apr. 30, 1956. *Investigation instituted:* May 10, 1956. *Hearing held:* Sept. 18–19, 1956. *Investigation completed:* Jan. 30, 1957. *Recommendation of the Commission:* Modification of concession. *Vote of the Commission:* 4–2. *Action of the President:* Recommendation rejected by the President on Mar. 29, 1957. *Reference:* U. S. Tariff Commission, *Straight (Dressmakers' or Common) Pins: Report to the President on Escape-Clause Investigation No. 52* . . ., 1957 [processed].
5. Safety pins (second investigation) (Investigation No. 53; sec. 7)	*Origin of investigation:* Application by DeLong Hook & Eye Co., Philadelphia, Pa., and others. *Application received:* Apr. 30, 1956. *Investigation instituted:* May 10, 1956. *Hearing held:* Sept. 19–20, 1956. *Investigation completed:* Jan. 30, 1957. *Recommendation of the Commission:* Modification of concession. *Vote of the Commission:* 4–2. *Action of the President:* The President requested on Mar. 29, 1957, that the Commission supply additional information. *Reference:* U. S. Tariff Commission, *Safety Pins: Report to the President on Escape-Clause Investigation No. 53* . . ., 1957 [processed].
6. Certain cotton cloth (gingham) (Investigation No. 54; sec. 7)	*Origin of investigation:* Application by Association of Cotton Textile Merchants, New York, N. Y. *Application received:* June 5, 1956. *Investigation instituted:* June 12, 1956. *Hearing scheduled:* Oct. 23, 1956; postponed to Dec. 4, 1956. *Hearing held:* Dec. 4–6, 1956. *Investigation discontinued and dismissed at applicant's request:* Jan. 29, 1957. *Vote of the Commission:* 5–0.
7. Violins and violas (Investigation No. 55; sec. 7)	*Origin of investigation:* Application by Jackson-Guldan, Inc., Columbus, Ohio. *Application received:* June 19, 1956. *Investigation instituted:* June 22, 1956. *Hearing held:* Sept. 6, 1956. *Investigation completed:* Jan. 29, 1957. *Recommendation of the Commission:* Modification of concession.

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1956–June 30, 1957—Con.

Commodity	Status
	Vote of the Commission: 3–2. *Action of the President:* Recommendation rejected by the President on Mar. 30, 1957. *Reference:* U. S. Tariff Commission, *Violins and Violas: Report to the President on Escape-Clause Investigation No. 55 . . .*, 1957 [processed].
8. Certain jute fabrics (Investigation No. 56; sec. 7)	*Origin of investigation:* Application by Patchogue-Plymouth Corp., New York, N. Y. *Application received:* Nov. 2, 1956. *Investigation instituted:* Nov. 8, 1956. *Hearing held:* Mar. 19, 1957. *Investigation completed:* May 15, 1957. *Recommendation of the Commission:* No modification of concession. *Vote of the Commission:* 5–0. *Reference:* U. S. Tariff Commission, *Certain Jute Fabrics: Report on Escape-Clause Investigation No. 56 . . .*, 1957 [processed].
9. Spring clothespins (fourth investigation). (Investigation No. 57; sec. 7)	*Origin of investigation:* Application by Clothespin Manufacturers of America, Washington, D. C., and others. *Application received:* Dec. 20, 1956. *Investigation instituted:* Jan. 2, 1957. *Hearing held:* May 7, 1957. *Investigation in process.*
10. Bicycles (third investigation) (Investigation No. 58; sec. 7)	*Origin of investigation:* Application by Bicycle Manufacturers Association of America, New York, N. Y. *Application received:* Jan. 11, 1957. *Investigation instituted:* Jan. 28, 1957. *Hearing held:* Apr. 9–11, 1957. *Investigation in process.*
11. Toyo cloth caps (Investigation No. 59; sec. 7)	*Origin of investigation:* Application by Empire State Hat & Cap Association, Inc., New York, N. Y. *Application received:* Apr. 1, 1957. *Investigation instituted:* Apr. 5, 1957. *Hearing scheduled:* Aug. 20, 1957. *Investigation discontinued and dismissed and hearing canceled:* June 21, 1957. *Vote of the Commission:* 4–0.
12. Wool felts, nonwoven (Investigation No. 60; sec. 7)	*Origin of investigation:* Application by American Felt Co., Glenville, Conn., and others. *Application received:* Apr. 8, 1957. *Investigation instituted:* Apr. 12, 1957. *Hearing scheduled:* July 23, 1957. *Investigation in process.*
13. Stainless steel flatware (Investigation No. 61; sec. 7)	*Origin of investigation:* Application by Stainless Steel Flatware Manufacturers Association, Englishtown, N. J. *Application received:* Apr. 11, 1957. *Investigation instituted:* Apr. 18, 1957. *Hearing scheduled:* July 16, 1957. *Investigation in process.*
14. Umbrella hardware (Investigation No. 62; sec. 7)	*Origin of investigation:* Application by Umbrella Frame Association of America, Inc., of Philadelphia, Pa., and individual members thereof. *Application received:* Apr. 22, 1957. *Investigation instituted:* Apr. 25, 1957. *Hearing scheduled:* July 30, 1957. *Investigation in process.*

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1956–June 30, 1957—Con.

Commodity	Status
15. Clinical thermometers (Investigation No. 63; sec. 7)	*Origin of investigation:* Application by American Clinical Thermometer Guild, Inc., New York, N. Y. *Application received:* May 23, 1957. *Investigation instituted:* May 29, 1957. *Hearing scheduled:* Sept. 4, 1957. *Investigation in process.*

Investigations Completed or Dismissed

During the period covered by this report the Tariff Commission completed 7 escape-clause investigations, dismissed 1 investigation at the applicant's request, and terminated 1 investigation without formal findings. In 2 of the completed investigations—those of cotton pillowcases and certain jute fabrics—the Commission found that escape-clause relief was not warranted. In 5 of the completed investigations—those of fresh or frozen groundfish fillets, velveteen fabrics, straight pins, safety pins, and violins and violas—the Commission found that escape-clause relief was warranted. The investigations that the Commission completed or dismissed during the period covered by this report are discussed further below.

Groundfish fillets (third investigation)

In response to an application by the Massachusetts Fisheries Association, Inc., of Boston, Mass., and others, the Tariff Commission on January 16, 1956, instituted a third escape-clause investigation of fresh or frozen groundfish fillets provided for in paragraph 717 (b) of the Tariff Act of 1930.[24] The Commission held a public hearing from June 5 to 8, 1956.

In this investigation, a report on which was submitted to the President on October 12, 1956,[25] the Commission unanimously found that escape-clause relief was warranted with respect to the specified products. The Commission also found that in order to remedy the serious injury to the domestic industry concerned it was necessary that the duty on imports that enter under the tariff quota be increased from 1⅞ cents per pound to 2.8125 cents per pound, and that the duty on imports in excess of the quota be increased from 2½ cents per pound to 3.75 cents per

[24] Cod, haddock, hake, pollock, cusk, and rosefish, fresh or frozen (whether or not packed in ice), all the foregoing, filleted, skinned, boned, sliced, or divided into portions.

[25] U. S. Tariff Commission, *Groundfish Fillets (1956): Report to the President on Escape-Clause Investigation No. 47 . . .*, 1956 [processed].

pound. Accordingly, the Commission recommended that the President modify the tariff concession that the United States had granted on these products in the General Agreement on Tariffs and Trade.

On December 10, 1956, the President announced that he had decided not to increase the import duties on groundfish fillets.

Velveteen fabrics

On January 26, 1956, in response to an application by the Crompton Co., of West Warwick, R. I., A. D. Julliard & Co., Inc., of New York, N. Y., and the Merrimack Manufacturing Co., Inc., of Lowell, Mass., the Tariff Commission instituted an escape-clause investigation of velveteen fabrics classifiable under paragraph 909 of the Tariff Act of 1930.[26] The Commission held a public hearing from June 19 to 21, 1956.

In this investigation, a report on which was submitted to the President on October 24, 1956,[27] the Commission unanimously found that escape-clause relief was warranted with respect to the specified cotton velveteen fabrics. The Commission also found (Commissioner Jones dissenting) that in order to remedy the serious injury to the domestic industry concerned it was necessary that the duty on imports of plain-back velveteens be increased to 46⅞ percent ad valorem and the duty on imports of twill-back velveteens be increased to 56¼ percent ad valorem. (Commissioner Jones found that an adequate remedy for the serious injury would be provided if a duty of 44 percent ad valorem were imposed on imports of all cotton velveteens, plain-back as well as twill-back.) Accordingly, the Commission recommended that the President modify the tariff concession that the United States had granted on these products in the General Agreement on Tariffs and Trade.

On December 21, 1956, the President informed the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means that he was extending the period of his consideration of the escape-clause case relating to cotton velveteen fabrics.

On January 22, 1957, the President announced that, in view of Japan's announcement of a broad program to control its exports of textiles to the United States, he had decided not to act on the Tariff Commission's recommendations with respect to cotton velveteen fabrics.

Cotton pillowcases

In response to an application by the Riegel Textile Corp., of New York, N. Y., the Tariff Commission on March 6, 1956, instituted an escape-clause investigation of pillowcases, wholly or in chief value of cotton,

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[26] Velveteen fabrics (not including ribbons), cut or uncut, whether or not the pile covers the entire surface, wholly or in chief value of cotton.

[27] U. S. Tariff Commission, *Cotton Velveteen Fabrics: Report to the President* [*on*] *Escape-Clause Investigation No. 49 . . .*, 1956 [processed].

provided for in paragraph 911 (b) of the Tariff Act of 1930. The Commission held a public hearing on September 11, 1956.

In this investigation, the report on which was issued on November 21, 1956,[28] the Commission found (Commissioners Brossard and Schreiber dissenting)[29] that escape-clause relief was not warranted with respect to the specified cotton pillowcases and that, accordingly, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951, as amended.

Straight pins (second investigation)

On May 10, 1956, in response to an application by the Vail Manufacturing Co., of Chicago, Ill., and others, the Tariff Commission instituted a second escape-clause investigation of straight (dressmakers' or common) pins provided for in paragraph 350 of the Tariff Act of 1930. The Commission held a public hearing on September 18 and 19, 1956.

In this investigation, a report on which was submitted to the President on January 30, 1957,[30] the Commission found (Commissioners Schreiber and Sutton dissenting) that escape-clause relief was warranted with respect to straight pins. The Commission also found that in order to prevent serious injury to the domestic industry concerned it was necessary that the duty on such pins be increased to 35 percent ad valorem. Accordingly, the Commission recommended that the President modify the tariff concession that the United States had granted on such pins in the General Agreement on Tariffs and Trade.

On March 29, 1957, the President rejected the Commission's recommendation for an increase in the existing import duties on straight pins.

Safety pins (second investigation)

In response to an application by the DeLong Hook & Eye Co., of Philadelphia, Pa., and others, the Tariff Commission on May 10, 1956, instituted a second escape-clause investigation of safety pins provided for in paragraph 350 of the Tariff Act of 1930. The Commission held a public hearing on September 19 and 20, 1956.

In this investigation, a report on which was submitted to the President on January 30, 1957,[31] the Commission found (Commissioners Schreiber and Sutton dissenting) that escape-clause relief was warranted with respect to safety pins. The Commission also found that in order to prevent serious injury to the domestic industry concerned it was necessary

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[28] U. S. Tariff Commission, *Cotton Pillowcases: Report on Escape-Clause Investigation No. 51 . . .*, 1956 [processed].

[29] Commissioner Talbot was absent on leave during the hearings in the investigation and did not participate in the Commission's decision or in the preparation of the report.

[30] U. S. Tariff Commission, *Straight (Dressmakers' or Common) Pins: Report to the President on Escape-Clause Investigation No. 52 . . .*, 1957 [processed].

[31] U. S. Tariff Commission, *Safety Pins: Report to the President on Escape-Clause Investigation No. 53 . . .*, 1957 [processed].

that the duty on safety pins be increased to 35 percent ad valorem. Accordingly, the Commission recommended that the President modify the tariff concession that the United States had granted on such pins in the General Agreement on Tariffs and Trade.

On March 29, 1957, the President asked the Commission to supply additional information on a number of points raised by the report on safety pins. By June 30, 1957, the end of the period covered by this report, the Commission had not yet transmitted its supplemental report to the President.

Certain cotton cloth (gingham)

On June 12, 1956, in response to an application by the Association of Cotton Textile Merchants, of New York, N. Y., the Tariff Commission instituted an escape-clause investigation of certain cotton cloth (gingham), provided for in paragraph 904 (c) and (d) of the Tariff Act of 1930.[32] The Commission originally scheduled a public hearing for October 23, 1956, but postponed it to December 4, 1956. The Commission held the public hearing from December 4 to 6, 1956.

On January 29, 1957, the Commission announced that it had voted unanimously to grant the request of the Association of Cotton Textile Merchants that the Commission discontinue its escape-clause investigation of ginghams. The association's request resulted from Japan's voluntary 5-year program of quota limitation on exports to the United States of cotton textiles and cotton-textile products, including specific annual quotas on shipments of gingham.

Violins and violas

In response to an application by Jackson-Guldan, Inc., of Columbus, Ohio, the Tariff Commission, on June 22, 1956, instituted an escape-clause investigation of violins and violas, provided for in paragraph 1541 (b) of the Tariff Act of 1930.[33] The Commission held a public hearing on September 6, 1956.

In this investigation, a report on which was submitted to the President on January 29, 1957,[34] the Commission found (Commissioners Schreiber and Sutton dissenting)[35] that escape-clause relief was warranted with respect to the aforementioned violins and violas valued not over $25 each. The Commission also found that in order to remedy the serious injury

[32] Cotton cloth, printed, dyed, or colored, containing yarns the average number of which exceeds 20 but does not exceed 50, woven with 2 or more colors or kinds of filling.

[33] Violins and violas of all sizes, wholly or partly manufactured or assembled, made after the year 1800.

[34] U. S. Tariff Commission, *Violins and Violas: Report to the President on Escape-Clause Investigation No. 55 . . .*, 1957 [processed].

[35] Commissioner Jones, who was absent on leave during the hearings on this investigation, did not participate in the Commission's decision or in the preparation of its report.

to the domestic industry concerned it was necessary that the duty on such violins and violas valued not over $25 each be increased to $1.875 each plus 52.5 percent ad valorem. Accordingly, the Commission recommended that the President modify the tariff concession that the United States had granted on these products in the General Agreement on Tariffs and Trade.

On March 30, 1957, the President announced that he had decided that escape-clause action would be inappropriate with respect to violins and violas.

Certain jute fabrics

On November 8, 1956, in response to an application by the Patchogue-Plymouth Corp., of New York, N. Y., the Tariff Commission instituted an escape-clause investigation of certain jute fabrics classifiable under paragraph 1008 of the Tariff Act of 1930.[36] The Commission held a public hearing on March 19, 1957.

In this investigation, a report on which was issued on May 15, 1957,[37] the Commission unanimously found that escape-clause relief was not warranted with respect to the specified jute fabrics and that, accordingly, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951, as amended.

Toyo cloth caps

In response to an application by the Empire State Hat & Cap Association, Inc., of New York, N. Y., the Tariff Commission on April 5, 1957, instituted an escape-clause investigation of caps, known as Toyo caps or Toyo cloth caps, classifiable under the provision in paragraph 1413 of the Tariff Act of 1930 for "manufactures of paper, or of which paper is the component material of chief value, not specially provided for." The Commission scheduled a public hearing for August 20, 1957.

In accordance with its usual practice in escape-clause investigations, the Commission submitted to the domestic producers of Toyo cloth and other summer-type caps questionnaires calling for information of a kind considered necessary in formulating the findings it is required to make under section 7 of the Trade Agreements Extension Act of 1951, as amended. Of the large number of producers to whom the questionnaires were sent, only a small proportion responded, and the responses were

[36] Woven fabrics, wholly of jute, not specially provided for, not bleached, printed, stenciled, painted, dyed, colored, or rendered noninflammable: Wider than 114 inches, having a minimum thread count of 25 per square inch counting the warp and the filling, and weighing between 8 and 24 ounces per square yard. In the application, the above-described fabrics are referred to as jute backing for tufted rugs and carpets.

[37] U. S. Tariff Commission, *Certain Jute Fabrics: Report on Escape-Clause Investigation No. 56 . . .*, 1957 [processed].

incomplete, or otherwise inadequate. Urgent followup letters to the producers were ignored. Thus, in the opinion of the Commission the domestic industry displayed a lack of interest and cooperation to a degree that warranted discontinuation and dismissal of the investigation without further consideration. On June 21, 1957, therefore, the Commission by unanimous vote ordered the investigation discontinued and dismissed and the scheduled hearing canceled.

Review of Escape-Clause Actions Under Executive Order 10401

The standard escape clause and section 7 (a) of the Trade Agreements Extension Act of 1951, as amended, contemplate that any escape-clause action that the President takes with respect to a particular commodity will remain in effect only "for the time necessary to prevent or remedy" the injury. By Executive Order 10401, issued October 14, 1952, the President established a formal procedure for reviewing escape-clause actions. Paragraph 1 of this order directs the Tariff Commission to keep under review developments with regard to products on which trade-agreement concessions have been modified or withdrawn under the escape-clause procedure, and to make periodic reports to the President concerning such developments. The Commission is to make the first such report in each case not more than 2 years after the original action, and thereafter at intervals of 1 year as long as the concession remains modified or withdrawn in whole or in part.

Paragraph 2 of Executive Order 10401 provides that the Commission is to institute a formal investigation in any case whenever, in the Commission's judgment, changed conditions warrant it, or upon the request of the President, to determine whether, and, if so, to what extent, the escape-clause action needs to be continued in order to prevent or remedy serious injury or the threat thereof to the domestic industry concerned. Upon completing such an investigation, including a public hearing, the Commission is to report its findings to the President.

During the period covered by this report, the Tariff Commission reported to the President, under the provisions of Executive Order 10401, on developments with respect to watch movements, dried figs, hatters' fur, and alsike clover seed.

Watch movements

Effective July 27, 1954, after an escape-clause investigation and report by the Tariff Commission, the President modified the concession that the United States had granted on watch movements in the bilateral trade agreement with Switzerland, increasing the import duties on such watch movements.

As required by paragraph 1 of Executive Order 10401, the Commission on July 25, 1956, submitted to the President its first periodic report on the watch movements involved in the escape action. In its report,[38] the Commission unanimously concluded that the conditions of competition with respect to imported and domestic watch movements had not so changed since the modification of the trade-agreement concession on July 27, 1954, as to warrant the institution of a formal investigation under the provisions of paragraph 2 of Executive Order 10401. On October 5, 1956, the President approved the Commission's conclusion.

Dried figs

After an escape-clause investigation and report by the Tariff Commission, the President modified, effective August 30, 1952, the concession that the United States had granted on dried figs in the General Agreement on Tariffs and Trade, increasing the import duty on such figs from 2½ cents to 4½ cents per pound.

As required by paragraph 1 of Executive Order 10401, the Commission on August 30, 1956, submitted to the President its fourth periodic report on the dried figs involved in the escape action. In its report,[39] the Commission unanimously concluded that the conditions of competition with respect to the trade in imported and domestic dried figs had not so changed as to warrant the institution of a formal investigation under the provisions of paragraph 2 of Executive Order 10401. On October 12, 1956, the President approved the Commission's conclusion.

Hatters' fur

Effective February 9, 1952, after an escape-clause investigation and report by the Tariff Commission, the President modified the concession that the United States had granted on hatters' fur in the General Agreement on Tariffs and Trade, imposing on that product a duty of 47½ cents per pound, but not less than 15 percent nor more than 35 percent ad valorem.

As required by paragraph 1 of Executive Order 10401, the Commission on February 4, 1957, submitted to the President its fourth periodic report on the hatters' fur involved in the escape action. In its report,[40] the Commission unanimously concluded that the conditions of competition with respect to the trade in imported and domestic hatters' fur had not so changed as to warrant the institution of a formal investigation under the provisions of paragraph 2 of Executive Order 10401. On March 15, 1957, the President approved the Commission's conclusion.

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[38] U. S. Tariff Commission, *Watch Movements: Report to the President (1956) Under Executive Order 10401*, 1956 [processed].

[39] U. S. Tariff Commission, *Figs, Dried: Report to the President (1956) Under Executive Order 10401*, 1956 [processed].

[40] U. S. Tariff Commission, *Hatters' Fur: Report to the President (1957) Under Executive Order 10401*, 1957 [processed].

Alsike clover seed

On March 14, 1957, the President requested the Tariff Commission to conduct an investigation, under the provisions of paragraph 2 of Executive Order 10401, to determine whether, and, if so, to what extent, the modification of the trade-agreement concession on alsike clover seed, which became effective on June 29, 1955, would remain necessary after June 30, 1957. The President requested further that the Commission report its findings to him not later than May 15, 1957.

The President modified the trade-agreement concession on alsike clover seed under the escape-clause procedure, after investigation and report to him by the Tariff Commission. Alsike clover seed was originally dutiable under paragraph 763 of the Tariff Act of 1930 at the rate of 8 cents per pound. Pursuant to concessions granted in trade agreements the United States reduced the rate successively to 4 cents per pound and 2 cents per pound. The 2-cent rate became effective January 1, 1948, pursuant to a concession in the General Agreement on Tariffs and Trade. Subsequently the United States modified this concession by escape-clause action providing for a tariff quota during the 12-month period beginning July 1, 1954, of 1,500,000 pounds, subject to a duty of 2 cents per pound; imports in excess of that quantity during the quota year were to be subject to a duty of 6 cents per pound. For each of the two 12-month periods beginning July 1, 1955, and July 1, 1956, the tariff quota was 2,500,000 pounds, subject to a duty of 2 cents per pound; overquota imports were to be dutiable at 6 cents per pound. Under the proclamation of June 29, 1955, the tariff quota was to expire at the close of June 30, 1957.

In accordance with the President's request, the Commission instituted an investigation of alsike clover seed on March 14, 1957, and held a public hearing on April 15, 1957. In its report to the President on May 8, 1957,[41] the Commission unanimously found that continuation of the modification of the trade-agreement concession on alsike clover seed beyond June 30, 1957, as set forth in the proclamation of June 29, 1955, would remain necessary in order to prevent serious injury to the domestic industry concerned.

On June 24, 1957, the President issued a proclamation extending in modified form the tariff quota on imports of alsike clover seed. In accepting the recommendation of the Tariff Commission that the existing tariff quota be extended after June 30, 1957, the President ordered a 2-year extension and increased from 2.5 million to 3 million pounds the annual imports on which the duty will be 2 cents per pound. Annual imports in excess of that amount will be dutiable at 6 cents per pound.

[41] U. S. Tariff Commission, *Alsike Clover Seed: Report to the President . . . Under Paragraph 2 of Executive Order 10401*, 1957 [processed].

ACTIVITIES UNDER THE NATIONAL SECURITY PROVISION

Section 7 of the Trade Agreements Extension Act of 1955[42] provides that whenever the Director of the Office of Defense Mobilization (ODM) has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President. If the President agrees that there is reason for such belief, he shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation and of findings and recommendations made in connection therewith, the President finds that the article is being imported in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security.

Between June 21, 1955, the date that the President approved the Trade Agreements Extension Act of 1955, and June 30, 1957, the end of the period covered by this report, the ODM received a total of 13 requests for investigation under section 7 of the extension act of 1955. Of these requests, 1 (that on cordage) had resulted in a negative decision by the ODM, 2 (those on photographic shutters and stencil silk) had been withdrawn, and the hearing in connection with another (that on fluorspar) had been canceled at the petitioner's request. On June 30, 1957, therefore, a total of 9 requests for investigation under the provisions of section 7 of the Trade Agreements Extension Act of 1955 were pending before the Office of Defense Mobilization. The pending requests were those on jeweled watches; clinical fever thermometers; analytical balances; wool textiles; the clock, pin-lever watch, and timer industry; wool felt; oil; wooden boats; and fine-mesh wire cloth.

The nature and status of the individual requests for investigation that the ODM received through June 30, 1957, are shown in the accompanying list.

Status of requests for investigation presented to the Office of Defense Mobilization between June 21, 1955, and June 30, 1957

Commodity or industry	Status
1. Fluorspar	*Petitioner:* Committee representing American Fluorspar Producers, Elizabethtown, Ill. *Request filed:* June 21, 1955. *Hearing scheduled:* Nov. 12, 1956. *Hearing canceled at request of petitioner:* Nov. 1, 1956.
2. Cordage (hard fiber cordage and twine).	*Petitioner:* Cordage Institute, New York, N. Y. *Request filed:* July 12, 1955. *Hearing held:* Sept. 11–12, 1956. *Negative decision rendered:* Mar. 7, 1957.

[42] 69 Stat. 162.

Status of requests for investigation presented to the Office of Defense Mobilization between June 21, 1955, and June 30, 1957—Con.

Commodity or industry	Status
3. Stencil silk	*Petitioner:* Albert Godde Bedin, Inc., New York, N. Y. *Request filed:* Nov. 2, 1955. *Request withdrawn:* Apr. 5, 1956.
4. Watches, jeweled	*Petitioner:* American Watch Manufacturers Association, Inc., Washington, D. C. *Request filed:* Dec. 29, 1955. *Hearing held:* Jan. 7–9, 1957.
5. Thermometers, clinical fever	*Petitioner:* American Clinical Thermometer Guild, New York, N. Y. *Request filed:* Jan. 13, 1956.
6. Analytical balances	*Petitioner:* Scientific Apparatus Makers Association, Chicago, Ill. *Request filed:* Feb. 6, 1956.
7. Photographic shutters	*Petitioner:* Wollensak Optical Co., Rochester, N. Y. *Request filed:* Feb. 24, 1956. *Request withdrawn:* Apr. 17, 1956.
8. Wool textiles	*Petitioner:* National Association of Wool Manufacturers, New York, N. Y. *Request filed:* Mar. 14, 1956. *Hearing held:* June 3–4, 1957.
9. Clock, pin-lever watch, and timer industry.	*Petitioner:* Clock and Watch Manufacturers Association of America, Inc., Washington, D. C. *Request filed:* Apr. 18, 1956. *Hearing held:* Jan. 7–9, 1957.
10. Wool felt	*Petitioner:* The Felt Association, New York, N. Y. *Request filed:* Apr. 20, 1956.
11. Oil	*Petitioner:* Independent Petroleum Association of America, Washington, D. C. *Request filed:* Aug. 7, 1956. *Hearing held:* Oct. 22–24, 1956. *Case referred to the President:* Apr. 23, 1957.
12. Wooden boats	*Petitioner:* American Boat Builders & Repairers Association, Inc., New York, N. Y. *Request filed:* Sept. 14, 1956.
13. Fine-mesh wire cloth	*Petitioner:* The Industrial Wire Cloth Institute, New York, N. Y. *Request filed:* May 6, 1957.

During the period covered by this report the Office of Defense Mobilization referred to the President 1 of the requests for investigation under the national security provision—that on crude oil. On August 7, 1956, the Independent Petroleum Association of America, of New York, N. Y., filed a request with the ODM for an investigation of crude oil under the provisions of section 7 of the Trade Agreements Extension Act of 1955. The ODM held a public hearing from October 22 to 24, 1956.

On April 23, 1957, the Director of the Office of Defense Mobilization advised the President that, as a result of the investigation, he had reason to believe that crude oil was being imported into the United States in such quantities as to threaten to impair the national security. On April 25, 1957, the President advised the Director of the ODM that he agreed with the Director's conclusion, and that he would, therefore, cause an investigation to be made to determine the facts, as required by section 7 of the Trade Agreements Extension Act of 1955. The President requested that while the investigation was being conducted the Director of the ODM carefully examine the possibility that imports of oil might effectively be limited by individual voluntary action of the importing companies.

On June 26, 1957, the President appointed a special committee, consisting of 6 members of his Cabinet, to investigate imports of crude oil and to determine whether such oil is being imported into the United States in such quantities as to threaten to impair the National security. The Committee, which will be known as the Special Committee To Investigate Crude Oil Imports, consists of the Secretaries of State, Defense, Treasury, Commerce, Interior, and Labor. The President designated the Secretary of Commerce as chairman of the Committee.

QUANTITATIVE RESTRICTIONS ON IMPORTS INTO THE UNITED STATES

During all or part of the last half of 1956 and the first half of 1957 the United States applied quantitative restrictions to imports of the following commodities: (1) Certain cotton and cotton waste, wheat and wheat flour, certain dairy products, certain butter substitutes, peanuts, and rye, under section 22 of the Agricultural Adjustment Act, as amended, to prevent imports from interfering with domestic programs affecting the production or marketing of those commodities; (2) sugar, under the sugar act, to control the quantity of sugar supplied from both foreign and domestic sources; and (3) sugar, cordage, cigars, cigar filler and scrap tobacco, coconut oil, and buttons of pearl or shell imported from the Republic of the Philippines, as part of a program to gradually eliminate the United States preferential customs treatment accorded Philippine products entering the United States. These restrictions are discussed in detail in the following sections of this chapter.

Under various legislative acts, the United States also prohibits or restricts imports of a wide range of other articles to protect public morals; to protect human, animal, or plant life or health; to control the importation of gold or silver; to facilitate customs enforcement; to protect patents, trademarks, and copyrights; to prevent deceptive practices, misrepresentations, and unfair competition; and to prevent importation of the products of forced labor. These prohibitions and restrictions were discussed in some detail in the Commission's fourth report on the operation of the trade agreements program.[43]

[43] Ch. 7.

Restrictions Under Section 22 of the Agricultural Adjustment Act

During all or part of the period July 1, 1956, to June 30, 1957, the United States applied quantitative restrictions (quotas [44]) on the importation of certain cotton and cotton waste, wheat and wheat flour, certain dairy products, certain butter substitutes, peanuts, and rye under the provisions of section 22 of the Agricultural Adjustment Act, as amended.[45] During this period the United States also charged, under the provisions of section 22, fees on the importation of flaxseed, linseed oil, and peanut oil; these fees were in addition to the regular import duties levied on those products.

Section 22 of the Agricultural Adjustment Act, as amended, authorizes the President to restrict the importation of commodities, by the imposition either of fees or of quotas (within specified limits), whenever such imports render or tend to render ineffective, or materially interfere with, programs of the United States Department of Agriculture relating to agricultural commodities. Section 22 requires the Tariff Commission, on direction of the President, to conduct an investigation, including a public hearing, and to make a report and recommendation to the President. Under subsection (f), as amended by section 8 (b) of the Trade Agreements Extension Act of 1951, no trade agreement or other international agreement entered into at any time by the United States may be applied in a manner inconsistent with the requirements of section 22.

Section 8 (a) of the Trade Agreements Extension Act of 1951,[46] as amended, establishes special procedures for invoking section 22 in emergency conditions due to the perishability of any agricultural commodity. When the Secretary of Agriculture reports to the President and to the Tariff Commission that such emergency conditions exist with respect to any agricultural commodity, the Tariff Commission must make an immediate investigation under section 22 (or sec. 7 of the Trade Agreements Extension Act of 1951), and make appropriate recommendations to the President. The Commission's report to the President and the President's decision must be made not more than 25 calendar days after the case is submitted to the Commission. Should the President deem it necessary, however, he may take action without awaiting the recommendations of the Commission.

[44] This discussion, as well as the following discussion on restrictions under the sugar act, relates only to quotas that limit the total quantity of imports. Such "absolute" quotas are to be distinguished from "tariff" quotas established for a number of individual articles in various trade agreements. Under tariff quotas, specified quantities of the articles may enter the United States at the ordinary rates of duty; imports in excess of the quota are subject to higher rates of duty but may be entered in unlimited quantities.

[45] 49 Stat. 750; 62 Stat. 1247; 64 Stat. 261; 7 U.S.C. 624.

[46] 65 Stat. 72.

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An amendment to section 22 of the Agricultural Adjustment Act by section 104 of the Trade Agreements Extension Act of 1953 [47] provides that the President may take immediate action under section 22 without awaiting the Tariff Commission's recommendations whenever the Secretary of Agriculture determines and reports to him, with regard to any article or articles, that a condition exists requiring emergency treatment. Such action by the President may continue in effect pending his receipt of the report and recommendations of the Commission after an investigation under section 22, and his action thereon. Under section 8 (a) of the extension act of 1951, the President's authority to take action before he had received a report from the Commission was limited to perishable agricultural products. No President thus far has ever taken action under either of the foregoing emergency provisions.

Cotton and cotton waste (continuing investigation)

Since 1939, under the provisions of section 22 and in accordance with recommendations of the Tariff Commission, the United States has restricted imports of most types of cotton and some types of cotton waste. During the period 1939–51, the Commission conducted a number of investigations to determine whether further restrictions were required on any type (such as short harsh or rough cotton), whether supplemental import quotas were necessary for certain types of long-staple cotton, or whether certain minor changes were advisable to facilitate administration of any of the quotas applicable to the various types. Although the Commission has not since 1951 conducted any investigations relating to either short-staple cotton, long-staple cotton, or cotton waste, it has continued to watch the developments with respect to those products.

Wheat and wheat flour (continuing investigation)

Since 1941, under the provisions of section 22 and in accordance with recommendations of the Tariff Commission, the United States has restricted imports of wheat and wheat flour, semolina, crushed or cracked wheat, and similar wheat products, in order to prevent interference with programs of the Department of Agriculture to control the production or marketing of domestic wheat. Imports in any quota year are limited to 800,000 bushels of wheat and to 4 million pounds of wheat flour, semolina, and similar wheat products. The quotas are allocated by country; in general, they are in proportion to imports from the several countries in the 12-year period 1929–40. Since their adoption in 1941 the basic quotas have not been changed, but exceptions have been made for distress shipments, seed wheat, wheat for experimental purposes, and wheat imported during the war by the War Food Administrator (virtually all of which was used for animal feed). Although the Commission has not

[47] 67 Stat. 472.

completed any investigations relating to wheat, wheat flour, and other wheat products since 1943,[48] it has continued to watch the developments with respect to those products.

Dried figs and fig paste

On October 2, 1956, at the direction of the President, the Tariff Commission instituted an investigation of dried figs and fig paste, under the provisions of section 22. The Commission held a public hearing on October 30 and 31, 1956.

The institution of the investigation was followed by litigation in the United States District Court for the District of Columbia. On October 5, 1956, a certain importer of dried figs and fig paste filed a motion in that court[49] for a preliminary injunction enjoining the Secretary of Agriculture—pending the final hearing and determination of the case—from making any representation or presenting any evidence, factual data, or arguments to the United States Tariff Commission in its investigation, and enjoining the Commission from conducting its hearing and from reporting to the President the results of its investigation of dried figs and fig paste. The motion for a preliminary injunction was heard by the United States District Court for the District of Columbia on October 25, 1956. After hearing the arguments, the court denied the motion.

The Commission reported the results of its investigation of dried figs and fig paste to the President on December 17, 1956.[50] On the basis of its investigation, the Commission unanimously found that dried figs and fig paste were not practically certain to be imported during the 1956/57 crop year under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the Federal fig marketing-order program undertaken by the Department of Agriculture, or to reduce substantially the amount of products processed in the United States from domestic figs or fig paste with respect to which that program is being undertaken. The Commission, therefore, made no recommendation to the President for the imposition of import restrictions on dried figs or fig paste under the provisions of section 22.

Dates

On October 2, 1956, at the direction of the President, the Tariff Commission instituted an investigation of dates, under the provisions of section 22. The Commission held a public hearing on November 1 and 2, 1956.

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[48] Early in 1955 the Commission—at the applicant's request—discontinued and dismissed an investigation of durum wheat (class II) or flour, including semolina, produced from such wheat.

[49] Civil Action No. 4008–56.

[50] U. S. Tariff Commission, *Dried Figs and Fig Paste: Report to the President on Investigation No. 12 Under Section 22 . . .*, 1956 [processed].

The Commission reported the results of its investigation to the President on February 5, 1957.[51] On the basis of its investigation, the Commission unanimously found that dates were not practically certain to be imported during the 1956/57 crop year under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the Federal date marketing-order program and the Department of Agriculture program for the diversion of dates to new uses, or to reduce substantially the amount of products processed in the United States from domestic dates with respect to which such programs are being undertaken. The Commission, therefore, made no recommendation to the President for the imposition of import restrictions on dates under the provisions of section 22.

Butter oil and butter substitutes

On November 20, 1956, at the direction of the President, the Tariff Commission instituted an investigation of butter substitutes, including butter oil, containing 45 percent or more of butterfat, under the provisions of section 22. The Commission held a public hearing on January 15, 1957.

The Commission reported the results of its investigation to the President on March 11, 1957.[52] In its report, the Commission found (Commissioner Jones dissenting) that butter substitutes, including butter oil, containing 45 percent or more of butterfat were practically certain to be imported under such conditions and in such quantities as to materially interfere with the price-support program undertaken by the Department of Agriculture with respect to whole milk and butterfat, and to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. To prevent such interference, the Commission recommended to the President that imports of such butter substitutes be limited to 450,000 pounds for the period April 1 to June 30, 1957, and thereafter, to 1,800,000 pounds for each 12-month period beginning July 1.

On April 15, 1957, the President issued a proclamation limiting to 1,800,000 pounds the aggregate quantity of butter substitutes, including butter oil, containing 45 percent or more of butterfat, that may be imported for consumption during the calendar year 1957, and limiting to 1,200,000 pounds the aggregate quantity of such products that may be imported during each subsequent calendar year.

Tung oil

On March 22, 1957, at the direction of the President, the Tariff Commission instituted an investigation of tung oil, under the provisions of section 22. The Commission held a public hearing on May 2 and 3, 1957.

[51] U. S. Tariff Commission, *Dates: Report to the President on Investigation No. 13 Under Section 22 . . .*, 1957 [processed].

[52] U. S. Tariff Commission, *Butter Substitutes, Including Butter Oil, Containing 45 Percent or More of Butterfat: Report to the President on Investigation No. 14 Under Section 22 . . .*, 1957 [processed].

The Commission reported the results of its investigation to the President on May 31, 1957.[53] On the basis of its investigation, the Commission unanimously found that tung oil was being, and was practically certain to continue to be, imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support program for tung nuts and tung oil undertaken by the Department of Agriculture pursuant to section 201 of the Agricultural Act of 1949, as amended, and to reduce substantially the amount of products processed in the United States from domestically produced tung nuts and tung oil with respect to which such program is undertaken. To prevent such interference, the Commission recommended to the President that for an indefinite period an import fee of 3 cents per pound but not more than 50 percent ad valorem be imposed on imports of tung oil.

By June 30, 1957, the end of the period covered by this report, the President had not acted on the Commission's recommendation with respect to tung oil.

Rye, rye flour, and rye meal

On May 13, 1957, at the direction of the President, the Tariff Commission instituted an investigation of rye, rye flour, and rye meal, under the provisions of section 22. The Commission held a public hearing on June 3, 1957.

The Commission reported the results of its investigation to the President on June 18, 1957.[54] In its report, the Commission unanimously found that rye, rye flour, and rye meal were practically certain to be imported after June 30, 1957, under such conditions and in such quantities as to interfere materially with and to tend to render ineffective the price-support program for rye undertaken by the Department of Agriculture, and to reduce substantially the amount of products processed from domestic rye. To prevent such interference, the Commission recommended that a quota of 95,200,000 pounds, of which not more than 8,000 pounds might be rye flour or rye meal, be imposed for succeeding 12-month periods beginning July 1, 1957. The Commission also recommended that, of the total annual quota, 93,296,000 pounds be allocated to Canada and 1,904,000 pounds, to all other countries. The Commission further recommended that imports of certified or registered seed rye for seeding and crop-improvement purposes be exempted from the quota.

On June 27, 1957, the President issued a proclamation imposing for 2 years an annual quota of 186,000,000 pounds on imports of rye, rye flour, and rye meal. In its report, the Tariff Commission had recommended the imposition of an annual quota of 95,200,000 pounds for an

[53] U. S. Tariff Commission, *Tung Oil: Report to the President on Investigation No. 15 Under Section 22 . . .*, 1957 [processed].

[54] U. S. Tariff Commission, *Rye and Rye Flour and Rye Meal: Report to the President on Investigation 9b Under Section 22 . . .*, 1957 [processed].

indefinite period. In accepting the Tariff Commission's findings that import restriction would remain necessary after June 30, 1957, the President decided to continue for 2 years the then existing annual quota of 186,000,000 pounds. His proclamation continued the historical allocation of the quota—182,280,000 pounds for imports from Canada and 3,720,000 pounds for imports from other countries. The proclamation specified that, of the total permissible imports, not more than 15,000 pounds might be of rye flour or rye meal.

Certain articles containing butterfat

On May 21, 1957, at the direction of the President, the Tariff Commission instituted an investigation of certain articles containing butterfat,[55] under the provisions of section 22. The Commission held a public hearing on June 11, 1957.

The Commission reported the results of its investigation to the President on July 2, 1957.[56] In its report, the Commission found (Commissioners Talbot and Dowling dissenting in part) that certain articles containing 45 percent or more of butterfat or of butterfat and other fat or oil were being or were practically certain to be imported under such conditions and in such quantities as to materially interfere with the price-support program undertaken by the Department of Agriculture with respect to whole milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. To prevent such interference, the Commission recommended to the President (Commissioners Talbot and Dowling dissenting) that imports of such products be prohibited.

By June 30, 1957, the end of the period covered by this report, the President had not acted on the Commission's recommendations with respect to certain articles containing butterfat.

Almonds

On June 28, 1957, at the direction of the President, the Tariff Commission instituted an investigation of shelled almonds and blanched, roasted, or otherwise prepared or preserved almonds, under the provisions of section 22. The investigation was still in process on June 30, 1957, the close of the period covered by this report.

[55] The articles with respect to which the investigation related were articles containing butterfat, the butterfat content of which is commercially extractable, or which are capable of being used for any edible purpose for which products containing butterfat are used, but not including the following: (1) Articles the importation of which is restricted under quotas established pursuant to section 22 of the Agricultural Adjustment Act, as amended; (2) cheeses the importation of which is not restricted by quotas established pursuant to the said section 22; (3) evaporated milk and condensed milk; and (4) products imported packaged for distribution in the retail trade and ready for use by the purchaser at retail for an edible purpose or in the preparation of an edible article.

[56] U. S. Tariff Commission, *Certain Articles Containing 45 Percent or More of Butterfat or of Butterfat and Other Fat or Oil: Report to the President on Investigation No. 16 Under Section 22 . . .*, 1957 [processed].

Restrictions Under the Sugar Act

Beginning with the Sugar Act of 1934 [57] and continuing with the Sugar Acts of 1937 [58] and 1948,[59] all sugar for the United States market, whether domestic or imported, has been limited by absolute quotas, except during periods of emergency when the President has exercised his authority to suspend the quotas. On September 1, 1951, the President approved legislation, which became effective January 1, 1953, to extend the Sugar Act of 1948, in amended form, for 4 years.[60] On May 29, 1956, the President approved legislation which further amended the Sugar Act of 1948 and extended it for a period of 5 years from January 1, 1956.[61]

Under the system of restrictions employed, the Secretary of Agriculture determines the quantity of sugar needed each year to supply the requirements of consumers in continental United States, taking into account "prices which will not be excessive to consumers and which will fairly and equitably maintain and protect the welfare of the domestic sugar industry." The quantity is then allocated, in the manner specified by law, among the producing areas in continental United States and its outlying territories and possessions and in the Republic of the Philippines, Cuba, and other foreign countries.

Except for the Philippines,[62] the allocations have been apportioned according to the shares of domestic consumption that were supplied by the respective sources before the controls were imposed. Under current legislation, the allocations are made in two stages. First, for a quantity of sugar determined by the Secretary of Agriculture in each year up to 8,350,000 tons,[63] the quotas for domestic areas (continental United States, Hawaii, Puerto Rico, and the Virgin Islands) and the Philippines are absolute quantities. The remainder of the total amount determined by the Secretary of Agriculture (up to 8,350,000 tons) is allocated proportionately to Cuba (96 percent) and to other foreign countries exclusive of the Philippines (4 percent). Second, for any part of the quantity of sugar determined by the Secretary of Agriculture that is in excess of 8,350,000 tons, domestic areas are allocated a 55-percent share and foreign countries other than the Philippines, a 45-percent share. Beginning in 1957,[64] the

[57] 48 Stat. 670.

[58] 50 Stat. 903.

[59] 61 Stat. 922; 7 U.S.C. 1100.

[60] 65 Stat. 318.

[61] 70 Stat. 217.

[62] Under the Philippine Trade Agreement Revision Act of 1955 the Philippine quota on sugar is fixed at 952,000 short tons. This quota, expressed in terms of 96° sugar (the basis of quota allocation in the Sugar Act of 1948, as amended), is equivalent to about 980,000 short tons.

[63] The amount of 8,350,000 tons was that initially determined by the Secretary of Agriculture as United States consumption requirements for 1956.

[64] In 1956 any quantity in excess of 8,350,000 tons allocable to foreign countries other than the Philippines was to be prorated to Cuba (96 percent) and other foreign countries (4 percent).

share allocated to foreign countries other than the Philippines has been prorated to Cuba (29.59 percent), Mexico (5.10 percent), the Dominican Republic (4.95 percent), Peru (4.33 percent), and other countries (1.03 percent). Under the legislation in effect immediately before January 1, 1956, any increment in total estimated United States requirements as a result of expanded consumption was conferred on Cuba (96 percent) and on other foreign countries except the Philippines (4 percent). Under current legislation, however, domestic areas are granted 55 percent of future increments in total estimated requirements, and foreign countries other than Cuba and the Philippines are granted considerably larger shares of such increments than they previously had (15.41 percent, compared with 4 percent). The allocation to the Philippines, as noted above, is a fixed amount.

The sugar act provides for reallocation of deficits from any supplying area, and for some areas limits the quantity that may be supplied as refined (direct consumption) sugar. The act also provides for separate and additional quotas on imports of liquid sugar from foreign countries.

Restrictions Under the Philippine Trade Agreement Revision Act of 1955[65]

The Philippine Trade Agreement Revision Act of 1955[66] modified substantially the provisions of the Philippine Trade Act of 1946. Under the 1946 act, most United States imports from the Philippines were dutiable at progressively increasing percentages of the United States rates, but some imports from the Philippines (including a few of the above) were subject to either declining duty-free quotas or absolute quotas.

Under the 1955 revised agreement between the United States and the Philippines, the absolute quotas established in the 1946 agreement on imports of Philippine sugar[67] and cordage were continued, but those on imports of Philippine rice, cigars, cigar filler and scrap tobacco, coconut oil, and pearl or shell buttons were eliminated. United States imports of

[65] The United States-Philippine trade agreement was not concluded under the authority of the Trade Agreements Act of 1934, as amended. Both the Philippine Trade Act of 1946 and the Philippine Trade Agreement Revision Act of 1955, which authorized the President of the United States to enter into the original and revised agreements with the Philippines, specifically prohibited the United States from entering into a trade agreement with the Philippines under the authority of the Trade Agreements Act as long as the United States-Philippine trade agreement remained in force. Because of the preferential duty arrangement between the United States and the Philippines, and the quotas established by the trade agreement on imports of Philippine products entering the United States, however, the quota provisions of the United States-Philippine trade agreement are discussed briefly here.

[66] 69 Stat. 413.

[67] The Philippine Trade Agreement Revision Act of 1955 provides that "the limitations on the amounts of Philippine raw and refined sugar that may be entered, . . . shall be without prejudice to any increases which the Congress of the United States might allocate to the Philippines in the future."

Philippine rice ceased to be subject to any quota under the revised agreement; imports of cigars, cigar filler and scrap tobacco, coconut oil, and pearl or shell buttons, however, continued to be subject to declining duty-free quotas. The schedule of declining duty-free quotas in the revised agreement followed the same pattern as the schedule of increases in United States import duties—that is, the quantity of each of the categories of Philippine articles that is entitled to duty-free entry was reduced, not at the uniform rate of 5 percent of the base quantity each year as provided in the 1946 agreement, but by the same progression as United States import duties were to be increased. The base quantities of the articles on which the annual quotas were to be calculated were the same in the revised agreement as in the 1946 agreement.[68]

UNITED STATES ACTIONS RELATING TO CUSTOMS PROCEDURES

Among other objectives, the Contracting Parties to the General Agreement on Tariffs and Trade have sought to simplify customs regulations and procedures, establish uniform treatment with respect to marks of origin, establish uniform standards of valuation for customs purposes, and protect contracting parties from "dumping" or injurious subsidization. Article VIII of the agreement, for example, establishes standards intended to prevent the use of customs fees and formalities as disguised barriers to imports. Article IX is designed to prevent marking requirements from being used to restrict imports. Article VII states that value for customs purposes should be based on actual value, and establishes standards for determining actual value. Article VI condemns dumping if it threatens or causes material injury to an established industry, or retards the establishment of an industry, in the territory of another contracting party. It also provides that an injured country may use antidumping or countervailing duties, but provides against their excessive or unwarranted use.[69]

For a number of years the Contracting Parties—with the cooperation of the International Chamber of Commerce—have studied the problems

[68] For a detailed discussion of the provisions of the Philippine Trade Agreement Revision Act of 1955, including the schedule of declining duty-free quotas, see *Operation of the Trade Agreements Program* (ninth report), pp. 107–110.

[69] Under the Protocol of Provisional Application of the General Agreement, contracting parties were required only to apply these articles to the fullest extent not inconsistent with legislation existing on October 30, 1947. At their Ninth Session in 1954–55, the Contracting Parties prepared a resolution which provided that a definitive acceptance of the agreement would be valid even if accompanied by a reservation that legislation presently acceptable under the provisional application of the agreement would remain acceptable under the definitive application of the agreement. The resolution entered into force at the 11th Session of the Contracting Parties in 1956, after it had been accepted by all the contracting parties.

associated with customs regulations and procedures, valuation for customs purposes, marks of origin, and dumping. They have also urged contracting parties to bring their legislation on these subjects into conformity with the provisions of the General Agreement, even though such conformity is not presently required. At their Seventh Session in 1952, for example, the Contracting Parties recommended that by December 31, 1956, contracting parties abolish the requirement for consular invoices and visas. They also adopted a Code of Standard Practices designed to limit the number and kind of documents used in connection with the importation of goods.[70] At their Eighth Session in 1953, the Contracting Parties inaugurated a study of the various methods of valuation that contracting parties employ for customs purposes.[70] At their 9th and 10th Sessions, in 1954 and 1955, they continued their discussions on the valuation of goods for customs purposes, the nationality of imported goods, and practices relating to consular formalities. They also considered the problems associated with certificates of origin and marks of origin, and agreed to study them in detail at their 11th Session.

In line with the discussions and recommendations of the Contracting Parties, a number of countries—including the United States—have adopted measures designed to simplify their customs regulations and procedures. United States action to simplify customs procedures resulted in the passage of the Customs Simplification Act of 1953,[71] the Customs Simplification Act of 1954,[72] and the Customs Simplification Act of 1956.[73] The acts of 1953 and 1956 dealt almost entirely with the simplification of United States customs regulations and procedures; the act of 1954 dealt primarily with tariff simplification and with dumping.

On February 2, 1953, in his message to the Congress on the state of the Union, the President recommended that the United States revise its customs regulations to remove procedural obstacles to profitable trade. The Customs Simplification Act of 1953, which the President approved on August 8, 1953, embodied many of the administration's proposals. The provisions of the new law were designed to reduce time and expense in customs administration and to eliminate or simplify some of the formalities required in the importation of goods. Among other things the act (1) repealed special marking requirements for a wide range of articles and made them eligible for marking after importation and for normal exemptions from marking; (2) relaxed entry requirements by making it possible for merchandise valued not in excess of $250 (instead of $100) to be entered informally; (3) relaxed invoice requirements by requiring certified (consular) invoices only for merchandise which is valued at more than

[70] See *Operation of the Trade Agreements Program* (eighth report), pp. 79–81.
[71] 67 Stat. 507.
[72] 68 Stat. 1136.
[73] 70 Stat. 943.

$500 (instead of $100) and which is subject to a rate of duty dependent on value; (4) provided for the liquidation of entries on the basis of appraised value without regard to the entered value, even though the entered value might be higher; (5) permitted the adoption of more modern auditing and accounting procedures to expedite the liquidation of entries; (6) eliminated the requirement for touring permits for automobiles brought into the United States by nonresidents for noncommercial purposes; (7) exempted from the payment of duties and taxes, bona fide gifts not exceeding $10 in value from persons in foreign countries to persons in the United States; (8) extended free-entry provisions to material for the repair of foreign vessels and to ground equipment for foreign aircraft engaged in commerce with the United States; (9) under certain conditions greatly extended the authority of customs collectors to correct clerical errors, mistakes of fact, and inadvertencies in any entry, liquidation, appraisement, or other customs transaction; (10) permitted the temporary entry of many additional articles under bond, without the payment of duty; (11) virtually eliminated requirements for notarized oaths on customs documents; and (12) permitted under specified conditions certain foreign merchandise to be exported under lease to a foreign manufacturer and reimported into the United States without the payment of duty.

On August 2, 1956, the President approved the Customs Simplification Act of 1956. The principal change for which the act provides deals with the method of determining the value of imported articles that are subject to ad valorem duties. Previously, in such instances, customs appraisers were required to determine both the "export value" and the "foreign value" of imported articles; the ad valorem duty was then levied on the basis of the higher of the two values. Under the act of 1956 the primary basis for determining the value of articles for duty purposes is to be the "export value." However, the new valuation procedures are not to apply to all merchandise subject to ad valorem duties. The law directs the Treasury Department to determine those imported articles on which the use of "export value" alone would reduce their dutiable value by 5 percent or more (based on actual imports in 1954). For such articles the customs appraisers are to continue to ascertain both "export value" and "foreign value," and the higher is to be regarded as the dutiable value. The number of such articles is expected to be a small part of all imported articles subject to ad valorem duties. The new valuation provisions will not become effective until 30 days after the Treasury Department has established a final list of excepted articles.

Another change provided for in the Customs Simplification Act of 1956 relates to the conversion of values stated in foreign currencies. In general the act authorizes the Secretary of the Treasury to use, for an entire quarter of a year, the rate of exchange that is first certified for that quarter by the Federal Reserve Bank of New York, unless the rate on any particular day varies from the certified rate by more than 5 percent. Other provisions of the simplification act of 1956 relate to obsolete provisions of customs law that the Treasury Department had recommended for repeal.

Besides making minor changes in customs administrative provisions, the Customs Simplification Act of 1954 also provided for a comprehensive study of United States tariff nomenclature. Title I of that act, which the President approved on September 1, 1954, directed the United States Tariff Commission to make a study of United States laws prescribing the tariff status of imported articles and to submit to the President and to the chairmen of the House Committee on Ways and Means and the Senate Committee on Finance, within 2 years, a revision and consolidation of those laws which, in the judgment of the Commission, would accomplish to the extent practicable the following purposes: (1) Establish schedules of tariff classifications which will be logical in arrangement and terminology, and adapted to the changes that have occurred since 1930 in the character and importance of articles produced in and imported into the United States and in the markets in which they are sold; (2) eliminate anomalies and illogical results in the classification of articles; and (3) simplify the determination and application of tariff classifications.

Immediately after the President approved the above-mentioned act the Tariff Commission initiated the required study and invited importers, domestic producers, customs brokers, and other interested parties to submit suggestions that, in their opinion, would accomplish the purposes mentioned. The Commission will not hold hearings in connection with the study until it has completed its review of the tariff classification laws and has prepared a draft of the revised tariff schedules. Hearings will then be scheduled to afford interested parties the opportunity to be heard with regard to the proposed revised tariff schedules—particularly with respect to the probable effect on domestic industries of any incidental changes in duties that may be involved in the proposed revision.

On March 15, 1955, the Commission submitted an interim progress report on its tariff simplification study.[74] The report was confined to a treatment of the fundamental problems underlying the simplification of the tariff schedules, the principles that the Commission intended to follow in formulating the proposed revision of them, and methods for placing the proposed revision in effect.

[74] U. S. Tariff Commission, *Tariff Simplification Study: Interim Report to the President and to the Chairmen of the Committee on Finance of the Senate and of the Committee on Ways and Means of the House Pursuant to Section 101 (d) of the Customs Simplification Act of 1954*, 1955 [processed].

Because of pending trade-agreement negotiations that involved numerous changes in rates and tariff classifications, the Commission was unable to make any substantial progress on the tariff classification study during 1955 and 1956. For this and other reasons, the Commission requested an extension of time—until May 1958—for completion of the work. Public Law 934, 84th Congress, which was approved August 2, 1956,[75] granted an extension to March 1, 1958. In response to a request from the Commission, the House Committee on Ways and Means and the Senate Committee on Finance subsequently agreed that the Commission might have additional time—up to June 1, 1958—if such time were necessary to complete the study.

Both the Customs Simplification Act of 1954 and the Customs Simplification Act of 1956 dealt with the subject of dumping. Section 301 of the simplification act of 1954 amended the Antidumping Act, 1921, and transferred to the Tariff Commission the function—formerly exercised by the Treasury Department—of making determinations of injury for the purposes of the act. The transfer became effective October 1, 1954. Under the amendment of 1954, whenever the Secretary of the Treasury determines that imports are entering or are likely to enter at less than their "fair value," within the meaning of that term as used in the Antidumping Act, he must refer the matter to the Tariff Commission for determination as to whether a domestic industry is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise. If the Commission makes an affirmative finding, it so reports to the Secretary of the Treasury, who thereupon issues a "finding of dumping"; antidumping duties are thenceforth collected.

Section 5 of the Customs Simplification Act of 1956 provided that the Secretary of the Treasury, after consultation with the Tariff Commission, should review the operation and effectiveness of the Antidumping Act, 1921, as amended, and report thereon to the Congress within 6 months after enactment of the simplification act of 1956. In his report the Secretary of the Treasury was directed to recommend to the Congress any amendment of the Antidumping Act, 1921, as amended, which he considered desirable or necessary to provide for greater certainty, speed, and efficiency in its enforcement.

In his report of February 1, 1957,[76] the Secretary of the Treasury recommended that the Congress amend the Antidumping Act to redefine "foreign market value." He also recommended several other amendments

[75] 70 Stat. 955.

[76] *Report of the Secretary of the Treasury to the Congress on the Operation and Effectiveness of Antidumping Act and on Amendments to the Act Considered Desirable or Necessary*, Feb. 1, 1957 [processed].

to the act that he felt would make for greater efficiency in its administration. The recommendations of the Secretary of the Treasury were embodied in House bill 6006 and House bill 6007 (an identical bill), which were introduced in the House of Representatives on March 14, 1957, and referred to the Committee on Ways and Means. The committee had not reported on the proposed legislation by June 30, 1957, the close of the period covered by this report.

Chapter 4

Relationship of GATT to Existing or Projected Organizations in the Field of International Trade

INTRODUCTION

Although the postwar program of the United States and other countries to restore international trade to a multilateral basis has been grounded primarily in the multilateral General Agreement on Tariffs and Trade, a number of other international organizations and arrangements have similar or related objectives. These organizations and arrangements include the International Monetary Fund (IMF); the Organization for European Economic Cooperation (OEEC) and its subsidiary, the European Payments Union (EPU); the Economic Commission for Europe (ECE); such regional groupings of countries as the Belgo-Luxembourg Economic Union, the Benelux Customs Union, and the European Coal and Steel Community (ECSC); and such multilateral trade arrangements as the "Paris Club" and the "Hague Club." [1] The sterling area also comprises a bloc of countries, mainly British, which cooperate in matters relating to their foreign-exchange reserves, the use of sterling, and restrictions on trade with countries both within and outside the sterling area. Other proposed regional arrangements that have been actively considered for some time include the Nordic Council (Denmark, Finland, Norway, and Sweden), and the Central American free-trade area (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). The World Bank (the International Bank for Reconstruction and Development) and the Export-Import Bank of Washington (an agency of the United States Government) are concerned with long-range problems of economic development, and their activities are therefore of great importance in the field of international trade. The various forms of United States financial aid to foreign countries during the postwar period have likewise served to further the objectives of the General Agreement and of organizations that are

[1] See *Operation of the Trade Agreements Program* (ninth report), p. 134.

concerned with restoring international trade to a multilateral basis and creating conditions favorable to the general convertibility of currencies.

The latest development in the field of international economic cooperation is the establishment of the European Economic Community (EEC) (usually known as the Common Market), the treaty for which was signed in March 1957 by Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands. Under consideration, although still in the formative stage, is the proposed European free-trade area, which involves a much larger group of countries than does the Common Market, and which is intended to operate under a somewhat different set of principles. The European Economic Community, or Common Market, is a direct outgrowth of the European Coal and Steel Community and comprises the same six countries. But, whereas the Coal and Steel Community removed the barriers to trade among the participating countries from coal, iron ore, scrap iron, and steel products only, the Common Market provides for the removal of barriers from the entire trade of the member countries.

Thus, since World War II a complex array of international organizations and arrangements has been created to cope with the problems of international trade. Some of these organizations and arrangements have a broad membership; others operate on a narrower regional basis. All of them, however, are concerned in one way or another with the restoration of international trade to a multilateral basis. Although these organizations and arrangements involve some overlapping of functions, they have resulted in remarkably few conflicts of aim and method. The high degree of coordination that has been achieved by these postwar organizations and arrangements is due in large measure to the fact that one of the earliest of them—the General Agreement on Tariffs and Trade—has served as the framework within which, or alongside which, subsequent steps toward international economic cooperation have been undertaken. The General Agreement anticipated, and in some cases made specific provisions for, the establishment of other international trade organizations such as customs unions and free-trade areas. The customs unions and free-trade areas that have been formed or projected in the postwar period have usually involved contracting parties to the General Agreement; they have been established in such a way as not to conflict with the aims of the agreement, and, indeed, to contribute to the realization of its objectives.

The provisions of the General Agreement on Tariffs and Trade relate primarily to the reduction of import duties through negotiation by the contracting parties. Although the General Agreement is also concerned with eliminating both quantitative import restrictions and exchange controls, this concern is somewhat incidental since the agreement recognizes such restrictions and controls as temporary expedients, applicable only during a transitional period of adjustment when its contracting parties are faced with balance-of-payments problems. The agreement assumes that the external financial difficulties of its contracting parties will be overcome in time, whereas the task of reducing import duties will be one of its continuing functions. The General Agreement also permits the use of quantitative restrictions for other than balance-of-payments reasons, but only on a temporary basis; the only continuing form of import restriction that the General Agreement recognizes is that provided by customs duties.

It is significant that the General Agreement contains no provisions, much less any machinery, for solving the balance-of-payments problems that lead contracting parties to adopt exchange controls and quantitative restrictions on imports. The lack of dollar exchange during and after World War II was the principal reason why most countries adopted restrictions on imports and on exchange transactions. After the war, the United States undertook, by grants of financial aid, to assist a number of Western European countries in improving their external payments positions. It soon became apparent, however, that the recipients of such aid were inclined to build up their reserves of dollars and other scarce currencies by recourse to quantitative restrictions on imports payable in these currencies.[2] The next problem, therefore, was to provide incentives and a mechanism that would make it possible for recipients of dollar aid to cooperate in building up their exchange reserves instead of competing for dollars and other scarce currencies. It was anticipated that with such incentives the countries concerned would make more efficient use of the aid they received, and that the elimination of quantitative trade restrictions and exchange controls would thereby be hastened. Emphasis was to be placed on the use of positive instead of negative measures by the various countries and on the building up of their productive capacity so as to improve the competitive position of their goods in export markets. Moreover, it was hoped that with the employment of more positive measures the countries of Western Europe would be able to place their trade on a multilateral basis instead of relying, as they formerly had, on bilateral trade arrangements. Part of the problem in achieving this objective was to find a means of making the various currencies transferable within a given area.

For Western Europe, the agency established to accomplish the objectives outlined above was the European Payments Union. This agency was created by the countries that comprise the Organization for European Economic Cooperation, which was established in 1948 to administer dollar-aid receipts on a cooperative basis. For a time OEEC[3] undertook

[2] See *Operation of the Trade Agreements Program:* Sixth report, pp. 117–125; seventh report, pp. 128–129.

[3] The OEEC countries are Austria, the Benelux countries (Belgium, Luxembourg, and the Netherlands), Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

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to obtain cooperation among its members in the use of dollar aid, but did not provide adequate incentives for the countries to accept each other's currencies and to relax the quantitative restrictions they maintained on their trade with one another. Not until the European Payments Union was established in mid-1950 did such incentives—together with penalties for failure to meet certain specified obligations—become operative.

As previous reports on the operation of the trade agreements program have pointed out, the operations of EPU have been an important factor in carrying out the objectives of the Western European countries and the sterling-area countries that have been associated with EPU through the United Kingdom's membership therein. Through the EPU mechanism, member countries have been able to transfer the credits they have earned in their trade with other members to pay the deficits they have incurred in trade with still other members. The solution of the transfer problem, in turn, has made it possible for OEEC to achieve a progressive elimination of the quantitative import restrictions on intra-European trade that its various members had established before EPU was created. These cooperative efforts, together with the revival of economic activity in the OEEC countries, have brought the currencies of the cooperating countries closer to convertibility with the dollar. The closer individual countries have come to achieving convertibility of their currencies with the dollar, the greater has been their ability to remove quantitative restrictions on imports payable in dollars. Some of the countries concerned have now progressed so far in liberalizing dollar imports that they maintain little or no discrimination against such imports—that is, they apply virtually the same degree of liberalization to dollar goods as they apply to goods originating in the EPU area itself.

RELATIONSHIP OF THE GENERAL AGREEMENT, THE INTERNATIONAL MONETARY FUND, AND THE WORLD BANK

The General Agreement on Tariffs and Trade, which became effective at the beginning of 1948, was sponsored by the United States and the other contracting parties as a multilateral arrangement to replace the network of bilateral trade agreements that had grown up during the 1930's and early 1940's. More than a decade of experience with bilateral trade arrangements had revealed a number of weaknesses that, it was believed, could be overcome by a multilateral approach to the problems of tariffs, other trade barriers, and exchange restrictions.

As a result of the breakdown of the multilateral system during World War II, the great bulk of world trade in the period immediately after the war was conducted under bilateral arrangements. These arrangements were accompanied by a confusing array of exchange controls and quantitative trade restrictions, as well as by higher import duties. Under these conditions the United States was greatly handicapped in its efforts to maximize the effectiveness of its economic aid to foreign countries. Accordingly the United States took the initiative in proposing the establishment of international agencies that would assist in restoring order to a confused and disrupted world economy.

To accomplish this objective, the United States and other countries early in the postwar period planned to establish a "tripod" set of organizations, each with a permanent secretariat. These organizations were the International Bank for Reconstruction and Development (the World Bank), the International Monetary Fund, and the International Trade Organization (ITO). The World Bank was created to assist member countries in recovering from the effects of World War II and in developing their economies to their maximum productive capacity. To the International Monetary Fund was given the responsibility of assisting members in establishing their currencies on a sound basis and—in collaboration with the other two organizations—of restoring the general convertibility of currencies. As originally conceived, the International Trade Organization was to deal with tariffs, quantitative trade restrictions, customs matters, and other aspects of commercial policy and practice, all in the interest of restoring international trade to a multilateral basis. In addition, ITO was to be concerned with a variety of other problems, including cartels and international commodity agreements. However, the United States Senate did not ratify the ITO Charter, and after the United States withdrew its support in December 1950, other countries did likewise.

Meanwhile, anticipating that ITO would be established, the United States and a number of other countries proceeded to negotiate the multilateral type of trade agreement that ITO was expected to administer. This agreement, known as the General Agreement on Tariffs and Trade (GATT), became effective after the multilateral tariff negotiations at Geneva in 1947. Additional tariff-negotiating conferences under the sponsorship of the General Agreement were held at Annecy, France, in 1949; at Torquay, England, in 1950–51; and at Geneva in 1955 and 1956.

The failure of ITO to materialize did not affect the freedom of countries to negotiate on a multilateral basis with respect to tariffs and other matters. The United States and many other countries merely turned from their earlier practice of negotiating trade agreements on a bilateral basis to negotiating such agreements on a multilateral basis under the General Agreement on Tariffs and Trade. Failure to establish ITO meant, however, that there was no permanent central body to administer the General Agreement. The Contracting Parties to the General Agreement met this problem by agreeing to meet periodically to conduct such business as might arise out of the operation of the agreement. Unlike the World Bank and the International Monetary Fund, which are treaty organizations with permanent secretariats, the General Agreement is a treaty arrangement only and has no permanent secretariat.[4]

Because the International Trade Organization was not established, the idea of a tripod set of international bodies—of which the Fund and the World Bank were the other two—was not completely realized. Failure to establish ITO did not, however, prevent a high degree of collaboration between the Contracting Parties to the General Agreement and the Monetary Fund and the World Bank. Actually, the activities of the General Agreement and those of the World Bank are not closely related in any day-to-day sense. The interests of the General Agreement and those of the International Monetary Fund, on the other hand, are close. The following section of this report, which discusses the provisions of the General Agreement that relate to tariffs and quantitative restrictions on imports, describes the relationship between the General Agreement and the International Monetary Fund.

PROVISIONS OF THE GENERAL AGREEMENT RELATING TO TARIFFS AND QUANTITATIVE RESTRICTIONS ON IMPORTS

One of the basic principles of the General Agreement is the recognition that the application of customs tariffs is the only "normal" method of restricting imports into the territory of any contracting party from the territory of any other contracting party. The agreement permits contracting parties to retain certain existing internal protective taxes (as distinct from regular import duties), but such taxes are subject to negotiation by the interested contracting parties for reduction or elimination, and a contracting party may not impose any new or increased taxes of the same kind without negotiation. Although recognition by the General Agreement of such taxes broadens the scope of protection to include charges on imports other than regular import duties, the agreement makes clear that its ultimate objective is to permit only import duties to be used for the protection of domestic industries.

The General Agreement provides a framework within which the contracting parties, meeting in tariff negotiations conferences, may mutually reduce or bind their import duties or other charges on imports, or bind the duty-free treatment of imported commodities, and may obligate themselves to maintain such reductions or bindings. The agreement contains provisions for altering or adjusting concessions, under certain specified

[4] Because of this difference, the countries that belong to the World Bank and to the Fund are properly spoken of as members of these organizations, whereas the countries that participate in the General Agreement are referred to as contracting parties to the agreement.

conditions, but such alterations or adjustments thus far have affected only a small proportion of the many thousands of concessions that the various countries have granted. Contracting parties to the agreement are free, of course, to take any action they see fit with respect to the tariff treatment of commodities on which the rates of duty are not fixed in the agreement, provided they apply the unconditional most-favored-nation principle. Contracting parties also are free, with the same proviso, to reduce any import duties or other charges on imports by unilateral action, or to remove both quantitative restrictions on imports and exchange controls.

From the long-range viewpoint, the General Agreement deals only with customs tariffs. When the General Agreement was concluded it was anticipated that in time the contracting parties would eliminate all methods of protecting domestic industries other than by the use of tariff duties. The agreement recognizes, however, that during a transition period, exchange controls and quantitative import restrictions imposed for balance-of-payments reasons—and even quantitative import restrictions employed for protectionist reasons under certain specified conditions—would have to be permitted.

In the bilateral trade agreements that the United States negotiated with a number of countries before the General Agreement became effective, contracting parties to the agreements committed themselves (subject to specified exceptions [5]) not to apply quantitative restrictions to imports of commodities listed in their respective schedules of concessions.[6] The contracting parties also agreed not to apply quantitative restrictions, either on scheduled or unscheduled items, in such a manner as to discriminate against imports from the other party to the agreement.

The provisions of the General Agreement with respect to quantitative import restrictions differ in some important respects from the corresponding provisions of the old bilateral trade agreements. Whereas the bilateral trade agreements limited the general rule against the application of quantitative restrictions to commodities listed in the respective schedules of concessions, the General Agreement applies the general rule to all imports into the participating countries. Moreover, whereas the bilateral trade agreements permitted the application of quantitative restrictions only in conjunction with measures that restricted the production or marketing of like domestic commodities, the General Agreement permits the use of such restrictions by contracting parties that are faced with balance-of-payments difficulties. Finally, in contrast with the

[5] The most important exception to this commitment permitted the application of quantitative controls to imports of particular commodities, in conjunction with measures that restricted the production or marketing of like domestic commodities.

[6] Unless, however, specific commitments concerning quotas were set forth in the schedules themselves.

provisions in the bilateral agreements that prohibited the discriminatory application of quantitative restrictions, the General Agreement permits discriminatory application of such restrictions.

With respect to nontariff trade restrictions, there is a division of responsibility between the General Agreement on Tariffs and Trade and the International Monetary Fund. The General Agreement is concerned primarily with restrictions that are directed against imports of commodities from other contracting parties, whereas the Fund is concerned primarily with restrictions directed against the currencies of other countries. Certain provisions of the General Agreement deal directly with such quantitative restrictions as quotas, but they do not deal directly with the use of exchange controls, even though official control of foreign-exchange transactions often is tantamount to quantitative control of imports and may be highly discriminatory. In effect, the General Agreement provides that in exchange matters contracting parties shall be governed by the provisions of the International Monetary Fund Agreement. The Monetary Fund is not directly concerned with import quotas, but it nevertheless becomes involved with them because the General Agreement (art. XV) provides, among other things, that the International Monetary Fund shall determine whether a country's balance-of-payments position warrants the application of such quotas.

When the General Agreement on Tariffs and Trade was being drafted, steps were taken to prevent contracting parties from resorting to exchange arrangements or controls that would circumvent the rules relating to quantitative trade restrictions. Such action was forestalled by the requirement that contracting parties must either become members of the International Monetary Fund or enter into special exchange agreements with the Contracting Parties to the General Agreement. The special exchange agreements must contain essentially the same safeguards with respect to the use of exchange controls as does the Fund Agreement. Both the provisions of the Fund Agreement and the provisions of the General Agreement that deal with the use of quantitative restrictions are subject to balance-of-payments qualifications. The balance-of-payments qualifications permit participating countries to apply exchange controls and quantitative restrictions to safeguard their external financial positions. These qualifications were included in both the Fund Agreement and the General Agreement because after World War II many countries experienced great difficulty in obtaining foreign exchange, especially United States dollars, and would not have adhered to either agreement without such qualifications. Moreover, under conditions then existing or foreseeable, many countries were unwilling to agree to all-out commitments with respect to nondiscrimination.

During the decade that the General Agreement has been in operation, almost all the contracting parties that originally had serious balance-of-payments difficulties have greatly improved their external financial positions. With the increase in their reserves of gold and of dollars and other foreign exchange, some countries have ceased to discriminate against imports from the dollar area by making their import restrictions applicable equally to all countries,[7] and most countries have made great progress in eliminating discrimination against dollar goods. The liberating, or "liberalizing," of trade from exchange controls and quantitative restrictions has been one of the principal achievements of the Organization for European Economic Cooperation, not only with respect to the mutual trade of its member countries, but also with respect to their trade with the dollar area.

It was apparent from the time that the General Agreement became effective—and equally apparent in subsequent rounds of tariff negotiations—that the value to dollar-area countries of tariff concessions granted under the agreement would be greatly limited so long as contracting parties continued to apply quantitative restrictions and exchange controls to imports of dollar goods. It was also apparent that the additional protection afforded by quantitative restrictions maintained for balance-of-payments reasons would encourage the development of new industries in the countries that imposed such restrictions. Industries thus protected would in many instances seek the continuation of protection in some form when it became no longer possible for contracting parties to maintain quantitative restrictions for balance-of-payments reasons.

The General Agreement prohibits contracting parties from employing quantitative restrictions for other than balance-of-payments reasons—that is, for protectionist reasons. It does, however, recognize that for reasons of economic development underdeveloped countries may need to employ temporary restrictive measures that in ordinary circumstances are prohibited by the agreement. This possibility, however, has very limited applicability. Of considerably wider applicability is the provision of the General Agreement that permits contracting parties to apply quotas to imports of agricultural products if the production or marketing of like domestic products is subject to restrictions.

In numerous instances countries have continued to maintain quantitative restrictions on imports when such restrictions were no longer justified by the country's balance-of-payments position. As already has been pointed out, the Contracting Parties to the General Agreement depend upon the International Monetary Fund to determine whether a country's balance-of-payments position warrants the application of quota restrictions on imports. Collaboration between the General Agreement and the Fund in this matter has been a fairly effective means of preventing

[7] That is, to all countries with which they carry on normal commercial relations; there are many exceptions to the application of equal treatment—especially with respect to Communist or Communist-controlled countries.

any protracted abuse of the balance-of-payments quota privilege. Moreover, individual contracting parties to the General Agreement have been quick to call attention to the abuse by other contracting parties of the balance-of-payments quota privilege when their own interests appeared to be adversely affected.

As long as countries with balance-of-payments difficulties were free to employ quantitative import restrictions, there was little need for them to rely on import duties to restrict imports. Moreover, under such conditions, there was less opposition to the reduction of import duties by negotiation than there would have been under more normal conditions. With the relaxation or abolition of quantitative restrictions that has accompanied the improvement in the external financial position of most contracting parties to the General Agreement, there has been a noticeable trend toward increased reliance on import duties to restrict imports. This trend is reflected in increases in rates of duty that are not bound against increase under the agreement, and in the growing number of instances when countries have sought to modify or withdraw their tariff concessions through the mechanism provided in the agreement. On the whole, however, relatively few concessions granted under the General Agreement have thus far been affected by such action, and increases in the duties on nonconcession items have been few, compared with the large number of such items. The decline in the use of quantitative restrictions on imports by contracting parties to the General Agreement as their balance-of-payments positions have improved has therefore resulted in a considerable increase in the value of the tariff concessions that those countries have granted to dollar-area countries.

THE EUROPEAN ECONOMIC COMMUNITY (COMMON MARKET)

Antecedents of the Common Market

Although the European Economic Community, or Common Market, took form very rapidly during 1956 and early 1957, actually it was the outgrowth of many years of planning.[8] The antecedents of the Common Market are to be found in the cooperative efforts of the United States and other countries to provide an orderly basis for postwar reconstruction, to restore general currency convertibility, and to restore international trade to a multilateral basis. The General Agreement recognized that such

[8] The European Atomic Energy Commission (Euratom), which is designed to create new sources of power for industries of the European Economic Community, developed simultaneously with the Common Market, and under the same sponsorship. Both the Common Market Treaty and the Euratom Treaty are open to adherence by nonsignatory European countries.

organizations and arrangements as the World Bank, the International Monetary Fund, and the General Agreement itself were inadequate to meet the more limited needs of specific groups of countries. It therefore provided for the creation of regional customs unions and free-trade areas.

Even before the Common Market Treaty was concluded, the process of European integration had already made considerable headway. The Belgo-Luxembourg Economic Union (BLEU) and the Benelux Customs Union represent limited developments of this kind. Of greater significance, because of its larger scope, is the Organization for European Economic Cooperation and its subsidiary, the European Payments Union. The principal objective of OEEC, which was established in 1948, is to relax and ultimately abolish quantitative restrictions on the mutual trade of the 17 member countries. EPU was established in 1950 to provide the machinery—which OEEC lacked up to that time—for placing the currencies of the OEEC countries on a transferable basis among themselves. The tariffs of the member countries of OEEC are not affected by the principles and rules under which OEEC operates. The 6 Common Market countries are all members of OEEC and EPU, but their obligations to these organizations are quite distinct from their obligations as members of the Common Market.

The most direct antecedent of the Common Market is the European Coal and Steel Community. In 1951 the same 6 countries that have now joined to form the Common Market established the Coal and Steel Community. They abolished import duties and other restrictions on the movement of coal, iron ore, scrap iron, and steel products within the territories of the participating countries, and adopted a common tariff on imports of these commodities from countries outside the Community. This arrangement subsequently became the model for the Common Market, in which tariffs and other restrictions are to be removed from virtually all trade between the 6 member countries, and a common customs tariff applied to imports from third countries.

Thus the Common Market Treaty was drafted by the participating countries with full knowledge of their obligations under the various multilateral and regional arrangements already in force. The Common Market, with ties closer to the General Agreement on Tariffs and Trade than to the other international organizations and arrangements, reflects no major departure from the obligations imposed by that instrument. Nevertheless, the establishment of a customs union on the scale contemplated by the Common Market raises a serious question in many quarters—whether such an integration of European countries will promote or retard the achievement of the kind of worldwide multilateralism in trade and payments which is the objective of both the General Agreement and the International Monetary Fund. Is the Common Market to be an "inner core" of highly integrated countries within a larger free-trade area, or will it develop into an exclusive "club" of countries with a highly protectionist outlook toward the rest of the world?

The treaty establishing the European Economic Community lays down the principle (art. 2) that—

> It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States.

The treaty further states (art. 9), relative to the basis of their common agreement, that—

> The Community shall be based upon a customs union covering the exchange of all goods and comprising both the prohibition, as between Member States, of customs duties on importation and exportation and all charges with equivalent effect and the adoption of a common customs tariff in their relations with third countries.

Relationship of the Common Market to the General Agreement and the OEEC

The Common Market Treaty does not specifically refer to the rights and obligations of contracting parties to the General Agreement on Tariffs and Trade. It does, however, state (art. 229) that the Commission of the European Economic Community "shall be responsible for ensuring all suitable contacts with the organs of the United Nations, of their Specialised Agencies and of the General Agreement on Tariffs and Trade." Article 229 further states that the Commission "shall also ensure appropriate contacts with all international organisations." With respect to the European Economic Community itself, as distinct from its Commission, the treaty states (art. 230) that the Community "shall establish all suitable co-operation with the Council of Europe" and (art. 231) that the Community "shall establish with the Organisation for European Economic Co-operation close collaboration, the particulars of which shall be determined by common agreement."

All the OEEC countries except Iceland and Switzerland are contracting parties to the General Agreement, and operate under its provisions. The members of OEEC constitute a particular group of contracting parties to the General Agreement who have joined to free their mutual trade of quantitative restrictions by first making their currencies mutually transferable. To achieve mutual transferability of their currencies, the OEEC countries found it necessary to establish the European Payments Union. The Payments Union was an entirely new mechanism. Although EPU is not provided for in the General Agreement, the Union has assisted in the achievement of the objectives of the agreement by relaxing and removing the restrictions on the movement of currencies and commodities between member countries. The OEEC is primarily concerned with the removal of these kinds of restrictions; it is not concerned with the customs tariffs of its members. The negotiation of tariff concessions, on the other hand, is the primary and continuing concern of the General Agreement; its concern with quantitative restrictions and exchange controls is secondary because of the assumption that the balance-of-payments difficulties that have led some contracting parties to employ quantitative trade restrictions are temporary. The interests of the Contracting Parties to the General Agreement and of the OEEC, however, coincide in the area of nontariff trade restrictions.

Establishment of the Common Market has resulted in the emergence of still another set of relationships between its member countries and the Contracting Parties to the General Agreement. As contracting parties to the General Agreement, the six Common Market countries are obligated to observe the provisions of the General Agreement and to maintain the tariff concessions they have granted under it. As contracting parties to the General Agreement, without being associated in a common-market arrangement the members of the European Economic Community could reduce their duties on concession items on a purely unilateral basis—that is, without obtaining the consent of other contracting parties to the General Agreement—provided they extended the benefits of the reductions according to the most-favored-nation principle. As Common Market countries, however, they cannot reduce or eliminate import duties on their trade with each other, except on the terms in the General Agreement providing for the establishment of a customs union or a free-trade area. In applying their common tariff on imports of commodities from countries outside the Common Market, they likewise must observe the rules of the General Agreement that relate to most-favored-nation treatment and to the maintenance of tariff concessions that they have granted. Within these broad limitations, any contracting parties to the General Agreement are free to form a customs union such as the Common Market.

Since all the Common Market countries are members of OEEC, however, they also have certain obligations to other members of OEEC. These obligations relate to the maintenance of currency convertibility and to the relaxation of quantitative import restrictions under the OEEC Code of Liberalization. The complete elimination of quantitative trade restrictions among the countries participating in the Common Market is, of course, entirely in harmony with the aims of both the General Agreement and the OEEC. Likewise in complete harmony with the aims of these two organizations is the elimination of quantitative restrictions on the trade of the Common Market as a unit, with other OEEC countries—as provided in the OEEC Liberalization Code; and with the United States and other non-OEEC countries—in accordance with the provisions of the General Agreement.

Provisions of the General Agreement Relating to Customs Unions and Free-Trade Areas

When the General Agreement on Tariffs and Trade was drafted it was anticipated that contracting parties might wish to form groupings such as the European Economic Community. The agreement, therefore, provided for the establishment of such groupings in articles dealing with customs unions and free-trade areas. Paragraph 8 (a) of article XXIV of the General Agreement defines a customs union, for the purposes of the agreement, to mean—

the substitution of a single customs territory for two or more customs territories,[9] so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX [10]) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;[11]

Thus subsection (i) provides for the elimination of import duties and other restrictions on trade between the constituent territories of a customs union, while subsection (ii) provides that the members of such a union shall have a common tariff and a common policy with respect to quantitative and other restrictions on trade.

The purpose of the provisions of paragraph 9 of article XXIV of the General Agreement is to bring the question of preferences within the purview of a customs union or a free-trade area. Paragraph 9 states:

The preferences referred to in paragraph 2 of Article I [12] shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by

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[9] For the purposes of the General Agreement, a customs territory means "any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories" (art. XXIV, par. 2).

[10] These articles provide exceptions to the general rule requiring the elimination of trade restrictions, in order to permit participants in a customs union to apply such restrictions for balance-of-payments reasons (arts. XI–XV) and for various other reasons (art. XX).

[11] For the purposes of the General Agreement, customs unions and free-trade areas are defined in substantially the same way as far as the elimination of duties and other restrictive regulation of commerce between the constituent territories is concerned. Since a free-trade area involves only the elimination of import duties and other trade restrictions—that is, does not involve a common tariff and a common policy with respect to other trade restrictions—there was no need for the General Agreement to state that the participants in a free-trade area would retain their own separate tariffs and trade restrictions. It is clear, of course, that a free-trade area is in the nature of a "halfway house" on the way to a customs union.

[12] The preferences referred to in par. 2 of art. I that are not to "be affected by the formation of a customs union" but "may be eliminated or adjusted by means of negotiations" are the preferences of certain groups of countries, including the British Commonwealth

means of negotiations with contracting parties affected. This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (a) (i) and paragraph 8 (b).

Principal Provisions of the Common Market Treaty

The European Economic Community is provided with an elaborate set of institutions to guide its work.[13] Parliamentary control over the executive body (the Commission) is provided by an Assembly of 142 members appointed by the parliaments of the member states.[14] As a parliamentary body, the Assembly has general supervision over the operation of the Community, as well as certain quasi-legislative powers. The Common Market Treaty, however, appears so detailed as to leave little room for future legislation.

The Commission of EEC is composed of 9 nationals of the member states, appointed for 4-year terms by the governments of member states acting in common agreement. The Commission is the permanent organ of the Community, supranational in character, with authority to administer the treaty in the common interest of the Community. The members of the Commission are independent of governments and are to be chosen for their general competence. They are specifically charged with the responsibility of supervising the application of the treaty and of measures adopted by the Council and other bodies established by the treaty.

The Council of EEC is composed of 1 representative of each member state, delegated by the respective governments. Its main functions are to insure coordination of the general economic policies of the member states and to exercise powers of decision. It is the policymaking body with respect to problems of a political nature, such as the adherence of third states to EEC, decisions to suspend emergency measures taken by a member state, and the timing of the second stage of the Common Market.

The treaty also provides for a Court of Justice, composed of 7 judges, assisted by 2 advocates general. The judges and advocates general are appointed for 6-year terms by the governments of member states acting

countries; the French Union; the Benelux Customs Union; the United States and its dependent territories; the United States and the Republic of the Philippines; and the United States and Cuba.

[13] The discussion of the European Economic Community in this report is based on *Treaty Establishing the European Economic Community, and Connected Documents*, published by the Secretariat of the Interim Committee for the Common Market and Euratom, Brussels, 1957.

[14] Arts. 1 and 2 of the Convention Relating to Certain Institutions Common to the European Communities (among the documents included in the work cited in the preceding footnote) provide that the Assembly of EEC should be the same as that of the European Coal and Steel Community and of Euratom. Accordingly, art. 21 of the treaty establishing ECSC was modified so that the Assembly of EEC will from the beginning assume the duties of the Common Assembly of ECSC.

in common agreement. The Court is charged with the responsibility of interpreting the treaty and determining the legality of decisions of the Commission and the Council.

In addition to the four main institutions described above, the Common Market Treaty provides for a number of advisory institutions. The most important of these is the Economic and Social Committee, which acts in a consultative capacity to the Commission and the Council in the cases provided for in the treaty. The Common Market Treaty also provides for a transportation committee, a monetary committee, a committee to assist the Commission in administering the European Social Fund, and special committees—to be appointed by the Council—to assist the Commission in negotiating trade agreements with countries outside the Community.

Aside from the important provisions that relate to the timetable for eliminating import duties and other restrictions on trade between the member countries, and to the timetable for establishing a common external tariff, the Common Market Treaty contains a number of provisions that are concerned mainly with transforming a simple customs union into a much broader type of economic "union." However, the fact that the member countries will retain a considerable degree of independence in some fields means that the Common Market falls short of being a complete economic union.

The Common Market Treaty not only provides for the removal of restrictions on the exchange of products among the participating countries; it also provides for the abolition of all restrictions within the European Economic Community on the free supply of services normally supplied for remuneration, including activities of an industrial or commercial character and activities of artisans and members of the "liberal professions." The treaty also provides for the removal of restrictions on the movement of capital and labor within the Community, and for the establishment of a common policy for rail, highway, and inland waterway transportation.

Under the provisions of the Common Market Treaty, special rules will apply to trade in agricultural products. The effects of unification on agriculture are to be mitigated during the transition period because of the particular and diverse ways in which agriculture already is being regulated by the various member countries. The special arrangements for agriculture include the fixing of minimum prices for agricultural products, joint organizations for the production and sale of such products, and long-term contracts between member states and nonmember countries from which such products are imported. Under an escape-clause type of provision, each member state is to retain, during the transition period, the right to object provisionally to the importation of any agricultural products that might exert a downward pressure on the minimum prices it has established for comparable domestic products.

Even when the European Economic Community is fully established, the rules applicable to agricultural products will be considerably different from those applicable to other products. The member countries will have a common policy for agriculture, just as they will have a common policy for other sectors of production and trade, but there will be a common marketing organization for agricultural products, as distinct from a free market for other products. The form to be taken by the agricultural marketing organization will vary for different products, but the details are yet to be worked out.

The adjustment to new competitive conditions created by the Common Market will involve the member states in considerable expense. Part of the cost will be financed by a special European Social Fund to which they will subscribe. The Fund is designed to cover half of any public expenditure made by individual member states to assist workers in transferring to new occupations and to assist workers who are unemployed or only partially employed as a result of the operation of the Common Market. In brief, the European Social Fund is designed to facilitate the geographical and occupational mobility of workers within the Community.

The function of another of the Community's institutions, the European Investment Bank, will be quite different from that of the European Social Fund. Besides facilitating the financing of projects for modernizing or reconverting enterprises or for creating new ones, the Bank will assist in the development of economically undeveloped areas and in projects of common interest to some of the member states. The European Investment Bank, however, is intended only to supplement the activities of private banks.

Should a member of the Community find itself in balance-of-payments difficulties or face a serious threat of such difficulties, the Common Market Treaty provides that other member states of the Community may assist the country by providing it with credits. Should this form of mutual aid prove inadequate, the country in difficulty may be authorized to take independent action to protect its balance-of-payments position; in such an eventuality, the provisional reestablishment of import restrictions is not excluded as a possible remedy. Somewhat similar to the provision for correcting balance-of-payments difficulties is the provision for correcting difficulties during the transition period "which are likely to persist in any sector of economic activity or difficulties which may seriously impair the economic situation in any region."

As a fundamental condition of its participation in any form of a common market, France insisted that it be allowed to maintain its present system of special taxes on imports that it has freed of quantitative restrictions under the OEEC Code of Liberalization. This provision is made in

A Protocol Relating to Certain Provisions of Concern to France, wherein France is also authorized to maintain its system of aid granted to exports. This authorization, however, is subject to the provision that France abolish this system of aid when the current payments position of the franc area has been in equilibrium for a period of more than 1 year and when the franc area's monetary reserves have reached a level considered satisfactory to the Commission and the Council of the European Economic Community.

Another provision of the Common Market Treaty, also adopted at the insistence of France, provides for association with the Community of overseas countries and territories[15] that are politically tied to the participating countries. Although member states of the Community are to accord to imports from these territories the same treatment that they accord to imports from other member states, any overseas territory will be permitted to maintain duties on commodities imported from member states of the Community. These duties, however, must be the same duties that the territory applies to goods from the European country with which it has political ties. In an implementing convention, the Common Market Treaty also provides for the establishment of a Development Fund for the overseas countries and territories of the member states.

In an important section that deals with rules governing competition, the Common Market Treaty prohibits, as incompatible with the objectives of the Common Market, any agreements or concerted practices among enterprises that have as their object, or result in, the prevention, restriction, or distortion of competition within the Common Market area. Specifically mentioned are such practices as price fixing, the limitation or control of production and markets, and discrimination in providing access to sources of supplies. Government intervention in economic matters by member states must be limited to projects that serve the interests of the Common Market as a whole, except for such types of governmental aid as assistance in the event of natural calamities and assistance in the development of economically backward regions. The latter exception is intended to make it possible for individual member states themselves to assist small and medium-sized businesses to modernize, or to discourage the centralization of industries in certain regions (such as the Rhine Valley) by providing incentives for them to locate in less industrialized regions (such as are to be found in France and Italy). Thus, under the Common Market Treaty the localization of industry within the Community is not left entirely to the play of market forces, but is subject to a

[15] Most of these countries and territories, including French West Africa, French Equatorial Africa, and a number of other French dependencies, are politically tied to France. Morocco and Tunisia may also eventually be included in the Common Market. The other overseas countries and territories are the Belgian Congo and Ruanda-Urundi, the Italian Trusteeship Territory in Somaliland, and Netherlands New Guinea. France insisted that its dependent territories be included in the Common Market as a condition of its own participation.

certain amount of state interference. The facilities provided by the European Investment Bank and the European Social Fund are intended to place the solution of such problems on a cooperative basis.

Provisions such as those just cited were incorporated in the Common Market Treaty at the insistence of the less industrialized countries, in order to prevent a still heavier concentration of economic activity in the member states that already have an advantage in attracting industries. The development of atomic energy under Euratom, for example, was designed to free industry from the necessity of being near the coal deposits that are concentrated in the Rhine Valley. Euratom, of course, is a joint enterprise of the six countries participating in the Common Market. Euratom alone was not considered adequate, however, to solve the problem created by the uneven distribution of natural resources and the supply of labor within the Community; hence the Common Market Treaty provides for partial reliance on individual state action to overcome such disadvantages. The success of attempts to solve problems of the kind noted above will depend, of course, primarily on the effectiveness of the Council, the Commission, and the other governing bodies established by the Common Market Treaty.

Timetable for Reducing and Abolishing Import Duties and Quantitative Restrictions on Intermember Trade

The basic time element specified in the Common Market Treaty for the establishment of the Common Market is the minimum 12-year transition period. However, the treaty provides for extending the transition period to as many as 13, 14, or 15 years, but not more than 15 years. The possibility of an extended transition period arises from the fact that the "12-year" transition period, which begins when the treaty enters into force, is divided into 3 stages of 4 years each—with provision that, under certain conditions, the first stage may be extended to 5 or even 6 years, and the second and third stages may each be extended by 1 year, provided that the transition period is not extended beyond a total duration of 15 years. Expiration of the transition period—whether it takes place at the end of the 12th, 13th, 14th, or 15th year—is to mark the final date for the entry into force of the entire body of regulations provided for in the treaty, and for the completion of all the arrangements involved in establishing the Common Market.

Under the Common Market arrangements, each member state is obligated to abolish its customs duties (as well as all taxes with equivalent effect) on the exchange of all goods with every other member. Export duties (as well as taxes having an equivalent effect) are to be abolished as between member states not later than the end of the first stage.

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For import duties and taxes, the reductions are to be accomplished by stages. All reductions are to be made from the "basic duties," which are defined in the treaty as those maintained by member states on January 1, 1957.[16] These basic import duties are to be reduced by 30 percent during the first stage, by 30 percent during the second stage, and by 40 percent during the third stage. The formula for accomplishing these reductions calls for a 10-percent reduction in the basic duty on each product by the end of the first year. This initial period will be followed by 4 periods of 18 months each and by 1 period of 12 months. In each of these periods further reductions of 10 percent are to be made, not for each product, as in the first year, but in total customs receipts. Customs receipts are to be calculated by multiplying the value of imports from each member state by the basic duties.[17] This change of procedure after the initial period will give member states some leeway with respect to individual items in maintaining an average reduction of 10 percent in each period. They will be free to reduce some duties by more than 10 percent to compensate for duties that they may wish to reduce by less than 10 percent; the duty on each product, however, must be reduced by at least 5 percent. Each member state's right to reduce duties by less than the average of 10 percent in each period does not apply to products on which there would still remain a duty of more than 30 percent ad valorem at the end of the 6 reduction periods; for such duties the minimum reduction in each period may not be less than 10 percent.[18] Thus, at the end of the 8 years during which the basic duties are to be reduced (the first two stages), the average reduction will amount to at least 60 percent, and the reduction for each individual product will be at least 50 percent. The remaining 40-percent reduction in the average basic rates of duty, and the remaining 50-percent reduction for any individual product, is to be accomplished during the final 4-year stage on the basis of a timetable to be worked out later by the Council and the Commission of the European Economic Community. Unless the transition period is extended as provided in the treaty, customs duties will be completely abolished at the end of 12 years.

[16] Member states agree not to introduce on intermember trade any new customs duties or equivalent taxes on imports or exports, and not to increase the level of those already applied to intermember trade on January 1, 1957.

[17] Fiscal duties are not to be taken into consideration in calculating either total customs receipts or the reduction periods. However, fiscal duties are subject to reduction, as are nonfiscal duties, except that fiscal duties must be reduced by at least 10 percent of the basic duty at each period of reduction. Member states are free to reduce such duties more rapidly than they are required to by the specified time schedule. Member states retain the right to substitute internal taxes for fiscal duties, provided such taxes are no higher than those they levy on similar domestic products.

[18] For example, since a basic duty of 50 percent ad valorem would be reduced to only 32.5 percent after one 10-percent reduction and five consecutive 5-percent reductions, the formula calls for six 10-percent reductions, which would reduce the basic duty to 20 percent.

Should their general economic situation and the situation of the particular sector of economic activity permit, member states are obligated to reduce their customs duties on intermember trade at a more rapid rate than is provided in the duty-reduction timetable of the treaty. During the transition period any member state may, independently of this duty-reduction timetable, suspend in whole or in part the collection of duties that it levies on products imported from other member states.

The Common Market Treaty also establishes a time schedule for abolishing—between member states—quantitative restrictions on imports and exports and all measures having an effect equivalent to such restrictions; it also prohibits member states from establishing any new quantitative restrictions or measures that have an equivalent effect. However, the obligation of member states to abolish quantitative restrictions is to apply only to the level of trade liberalization they have attained in applying the liberalization decisions made by the Council of OEEC on January 14, 1955.[19] Under the Common Market Treaty, quantitative restrictions are to be progressively abolished on the same time schedule as that established for abolishing tariff duties—that is, in 3 stages of 4 years each.

The first step in the abolition of quantitative restrictions on imports requires member states to convert into global quotas any bilateral quotas they have granted to other member states. This conversion is to be accomplished 1 year after the treaty enters into force, and the global quotas are to be open to all other members of the Community without discrimination. The objective of this procedure is to increase the quotas until they become ineffective—that is, until they become so large as to cover, or more than cover, any likely imports of the commodities subject to this form of restriction. They are to be completely abolished by the end of the transition period. The whole of the global quotas established by the end of the first year are to be immediately enlarged by not less than 20 percent, compared with the year preceding their establishment. Moreover, each global quota for each product is to be increased each year by not less than 10 percent of the quota for the preceding year. Because of the possibility that the first stage of the transition period may be extended, the treaty provides that the fourth increase in the quotas shall take place at the end of the fourth year from the effective date of the treaty, and that the fifth increase shall take place 1 year after the beginning of the second stage of the transition period.

Special provisions of the Common Market Treaty call for the establishment and subsequent increase in quotas for products that at the

[19] On this date OEEC decided that the percentage of liberalization to be attained by members of OEEC should be 90 percent for private imports as a whole and at least 75 percent for each of the 3 categories—foods and feedstuffs, raw materials, and manufactured goods. In July 1956 these percentages of liberalization were extended until the end of 1957.

beginning of the transition period have not been freed of import restrictions, and therefore are not eligible for importation. Still other provisions of the treaty pertain to the calculation of the total value of global quotas and related matters to be considered in the gradual elimination of quantitative restrictions. The individual member states declare their readiness, should their general economic situation and the situation of the particular economic sector involved so permit, to abolish their quantitative restrictions on trade with the other member states at a more rapid rate than the time schedule of the treaty provides. According to the Common Market Treaty, quantitative restrictions on exports (and any measures having an equivalent effect) are to be abolished not later than the end of the first stage.

Timetable for Establishing a Common Tariff

The timetable for adjusting to a common level the individual customs tariffs of the 4 customs territories [20] included in the European Economic Community is correlated with the timetable for reducing and eventually eliminating the duties on the mutual trade of the 6 countries. The common external tariff is to be applied not later than the date on which the transition period ends, but the treaty contains numerous provisions to govern the progressive introduction of the common tariff during this period. For most products the level of the common tariff is to be determined before the beginning of the transition period (as explained later), and therefore can be used as a reference by the member states in alining their own tariffs with the common level. Alining the various tariffs with the common level will result in increases in duties by some of the member states, particularly the Benelux countries, and reductions of duties by others, especially France and Italy.

Member states of the Common Market are required to modify import duties that are applicable to third countries according to specified procedures, but they are free to modify them more rapidly than is required by the timetable, should they care to do so. With respect to tariff headings [21] on which the duties on January 1, 1957, are not more than 15 percent above or below the duties in the common tariff, the duties in the common tariff are to be applied at the end of the fourth year after the entry into force of the treaty. In the case of tariff headings on which the duties on January 1, 1957, are more than 15 percent above or below the duties in the common tariff, the member countries are to apply—at the end of the fourth year of the transitional period—a duty which reduces by

[20] The customs tariffs of France, the Federal Republic of Germany, Italy, and the Benelux countries. The Benelux countries already have a common customs territory.

[21] The tariff headings used in the Brussels Nomenclature—which is employed by all the Common Market countries—may cover only one or several commodities.

30 percent the difference between the actual duty on January 1, 1957, and that specified in the common tariff. At the end of the second stage the difference is again to be reduced by 30 percent. Since it is anticipated that the duties for certain tariff headings in the common tariff may not be known at the end of the first stage, special provision is made for determining the new rates for those commodities. This arrangement is necessary because of the fact that, although the duties for certain products in the common tariff are to be negotiated among the member states and presumably will be known by the end of the first 4-year stage, the negotiators may not be able to reach agreement by that time. In that eventuality, the Council of the European Economic Community is authorized to establish the common tariff duties on those products. Member states must apply these new rates within a period of 6 months after the Council makes its decision.

A postponement provision applicable to duties under certain headings of a member state's tariff permits the Commission of the European Economic Community to authorize a member state to delay the notification of its duties in adjusting them to the common tariff. The postponement may be granted only for a limited period, and only for tariff headings which together represent not more than 5 percent of the value of the country's total imports from third countries during the latest year for which statistical data are available. Under article XXIV of the General Agreement on Tariffs and Trade, member states of the European Economic Community, in establishing their common external tariff, must apply substantially the same duties and other commercial regulations to the trade of territories not included in the Common Market. The formula that the Common Market countries adopted to meet this requirement calls for establishing duties under the common tariff at the level of the arithmetic average of the duties applied in the four customs territories embraced by the Common Market.[22] The duties to be employed in calculating the arithmetic average are those that the member states applied on January 1, 1957. Use of the Brussels Nomenclature by all the member states facilitates the calculation of the arithmetic average.

In negotiating the Common Market Treaty, literal adherence to the principle of a simple arithmetic average in calculating the common external tariff proved to be impossible. Exceptions were made to permit some rates of duty to be higher or lower than the average. The Common Market Treaty establishes arbitrary maximum rates of duty, or ceilings, for specified lists of commodities that embrace most raw materials and semimanufactures. These ceilings are 3 percent ad valorem for raw materials, 10 percent ad valorem for semimanufactured products, 15 percent ad valorem for inorganic chemicals and organic and inorganic

[22] This average is the maximum level authorized for new customs unions by art. XXIV of the General Agreement on Tariffs and Trade.

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compounds of certain metals, and 25 percent ad valorem for organic chemicals. For a list of commodities consisting mainly of foodstuffs, unmanufactured tobacco, a few chemical products, crude petroleum, animal hides and skins, raw cotton and certain other fibers, and some nonferrous metals, the duties in the common tariff have been established by mutual agreement. For another relatively short list of commodities, consisting of certain foodstuffs, chemicals, metals, ores, wood, fibers, and certain machinery and tools, the duties in the common tariff are to be negotiated by the member states. The rates of duty decided upon for these few commodities probably will not greatly affect the general level of the common tariff.

In calculating the arithmetic average, France has been permitted—for a number of commodities—to substitute specified duties for the duties actually in effect on January 1, 1957. The list of such commodities includes a number of chemicals, a few medicinal products, artificial fertilizers, some films and plastics, paper, certain yarns, and several types of machines. For purposes of calculating the arithmetic average, Italy also will be permitted to make certain adjustments in using its tariff rates. With respect to the products that will have a fixed maximum rate of 25 percent ad valorem in the common tariff, the Benelux countries have been permitted—for the purpose of calculating the arithmetic average—to increase to 12 percent ad valorem any duties that do not exceed 3 percent ad valorem.

In formulating that part of the Common Market Treaty that deals with alining the tariffs of the member states with the common tariff, it was anticipated that a member state might find the supplies of a particular commodity within the Community insufficient to meet its own requirements. The Commission of the European Economic Community, therefore, is authorized to permit imports to enter such a country from third countries if it finds that supplies in the Community are not adequate to meet the requirements of the particular country and if it finds that such supplies traditionally have been imported to a considerable extent from third countries. This arrangement was provided for the importation of raw materials, semimanufactured products, and the group of commodities that includes inorganic chemicals. A particular member state may be permitted to import these commodities under quotas at reduced rates of duty or duty-free. For organic chemicals and the other products for which the common tariff rates have yet to be negotiated, provision is also made for the importation of the commodities under quotas at reduced rates of duty or duty-free. However, the arrangement for the importation of such commodities from third countries depends on whether a change in sources of supply or a shortage of supplies within the Community would harm the processing industries of the member state concerned. In both cases mentioned above, the quotas may not exceed the limits beyond which the shift to third-country supplies would be detrimental to other member states of the Community. Agricultural products listed in a special category may also be exempted from duty in whole or in part, or may be allowed to enter under quotas at reduced rates of duty or duty-free, provided such action will not seriously disturb the market for the particular products.

Initial Reaction to the Establishment of the Common Market

During 1956, after the general principles that were to govern the establishment of the proposed Common Market had become fairly clear, the Research and Planning Division of the Economic Commission for Europe prepared an analysis of the Common Market, with special reference to its long-run implications. This study, which was published by the United Nations Department of Economic and Social Affairs,[23] surveys (1) the possible advantages and disadvantages that participating and non-participating countries might expect to experience from the establishment of the Common Market, (2) the relationship of the Common Market to the proposed free-trade area, and (3) the possible long-run effects of the Common Market on the organization of world trade. During the period when the Common Market Treaty was being drafted the United States and other contracting parties to the General Agreement, including the Common Market countries, officially raised questions regarding, and undertook to supply answers bearing on, the possible effect of the new customs union on their own interests. Private organizations and the press in most countries likewise gave lengthy consideration to the implications of the Common Market. Before their negotiations on the drafting of the Common Market Treaty, the foreign ministers of the countries of the European Coal and Steel Community had at their meeting at Messina in June 1955 provided for the preparation of an expert report dealing with procedural and other matters.[24] OEEC established a special working party to report on possible forms of association between the Common Market and other members of OEEC, particularly through the establishment of a free-trade area.[25]

Publication of the Common Market Treaty after it was signed in March 1957 gave rise to still another round of appraisals by interested parties; essentially, these appraisals differed little from those made when the treaty was in its preparatory stages. These appraisals emphasized the broad and long-run aspects of the new proposals rather than such details

[23] United Nations, *Economic Survey of Europe in 1956*, Sales No.: 1957. II.E. 1, Geneva, 1957, ch. IV.

[24] Comité intergouvernemental créé par la Conférence de Messine, *Rapport des chefs de délégation aux Ministres des affaires étrangères*, Brussels, Apr. 21, 1956.

[25] See Organization for European Economic Cooperation, *Report on the Possibility of Creating a Free Trade Area in Europe*, C(57)5, Paris, January 1957.

as the level of the new common tariff, the incidence of new rates of duty, and the effect of revised duties on individual industries within the Common Market. This emphasis resulted from the fact that the broad, long-run aspects of the Common Market are of primary concern to countries outside the European Economic Community and also to the Contracting Parties to the General Agreement, whose duty it is to make certain that the aims of the General Agreement are not distorted or perverted. In other words, countries outside the Common Market are not particularly concerned with how the member states abolish import duties or other restrictions on their own mutual trade. On the other hand, the effect of the Common Market's external tariff on third countries is of deep concern to those countries, as well as to such international arrangements and organizations as the General Agreement on Tariffs and Trade and the Organization for European Economic Cooperation.

More specifically, the principal fears of countries outside the Common Market pertain to (1) the height of the common external tariff; (2) the single set of quota restrictions to be applied on imports into the Common Market countries; (3) the inclusion of overseas territories in the Common Market plan; and (4) the treatment of agriculture. As to the first of these matters, it appears that the overall level of the external duties will probably be slightly higher than the arithmetic average of the existing tariffs of the Common Market countries because of the inclusion of some duties that will be sharply increased on commodities of importance to some of the member states. Regarding the second, the proposal for a single set of quota restrictions on imports of the Common Market countries has led to fear among nonparticipating countries that if 1 of the 6 countries, for balance-of-payments reasons, should insist upon restricting imports by a quota, the others might have to join in the restrictive measure even though their external financial position would not warrant such action. With respect to the third, fear that inclusion of the overseas territories of the Common Market countries, particularly the French territories in Africa, will effectively exclude many tropical products from some of the British Commonwealth countries and territories, has from the first caused concern not only in British official circles, but elsewhere.[26] From the standpoint of the General Agreement on Tariffs and Trade, after years of opposition in principle to preferential tariff systems, the

[26] For example, Ghana is deeply concerned about the possible effect of the preferential treatment of cocoa in the Common Market. Although Ghana receives the benefit of an imperial preference rate on cocoa of 1 percent in the United Kingdom market, it is faced in the Common Market with the possibility of a much higher preferential rate, to the benefits of which it would not be entitled but which would benefit cocoa producers in French Equatorial Africa. Similar concern has been expressed by Malaya about the effect of the Common Market preferential system on exports of Malayan rubber, and by various Latin American countries about the effect of the system on their exports of coffee, cotton, and other commodities.

inclusion of these overseas territories in the Common Market plan again raises the question of imperial preferences.

As to the fourth cause for concern, the proposal for "managed markets" instead of free markets for agricultural products in the Common Market area has met with much criticism from agricultural interests outside the Common Market that want assurances from the European Economic Community that such marketing schemes as are envisaged will not be used to seriously dislocate established markets. The proposed European free-trade area has been regarded by some governments, notably the British, as a means of overcoming this and other difficulties raised by the establishment of the Common Market.

THE PROPOSED EUROPEAN FREE-TRADE AREA

The proposal to establish a free-trade area comprising the Common Market countries and other European countries of the OEEC is actively being considered. However, it has not yet reached the advanced stage of the Common Market, which already (June 30, 1957) is in treaty form and is awaiting final acceptance by the Parliaments of the six countries immediately concerned. The Common Market and the proposed free-trade area represent two different approaches to the problem of integrating the trade and commercial policies of the European countries. The two approaches are alike in that they both aim to abolish tariffs and other barriers to the mutual trade of the participating countries. The primary difference is that the countries participating in a common market will eventually have a common tariff vis-a-vis all outside countries, whereas the participants in a free-trade area would not have a common tariff. Each country or group of countries in the proposed free-trade area would retain its freedom with respect to the level of its own external tariff and with respect to its use of quantitative trade restrictions—subject only to its obligations in these matters under such arrangements as the General Agreement and the OEEC.

The United Kingdom has been the principal advocate of the idea of a European free-trade area. The United Kingdom is not officially on record as being opposed to the Common Market; its position is simply that it cannot enter into such an arrangement because membership would entail adjusting its own tariffs to conform with a common tariff. The United Kingdom is not willing even to abolish its protective duties on imports of agricultural products originating in other countries of a free-trade area, although it would cooperate fully with other members in removing duties on imports of industrial products originating in the area. The United Kingdom's position with regard to agricultural products is based on the preferential treatment that it extends to agricultural imports from British areas, as provided under the Ottawa Agreements of 1932.

For many commodities, mostly agricultural, the United Kingdom accords more favorable rates of duty to imports from countries of the British Commonwealth and from British overseas territories than it does to imports of similar commodities from non-British sources. Retention of such a preferential system is out of the question under the Common Market arrangement because the present member states of the European Economic Community refuse to admit members on that condition. The United Kingdom, therefore, has sought to persuade other potential participants in a European free-trade area to agree to permit the United Kingdom to retain its preferences on agricultural products. Since the advantages of such an arrangement would accrue to British Commonwealth countries as well as to the United Kingdom itself—the preferential arrangements being reciprocal within the Commonwealth—the United Kingdom has the support of the Commonwealth countries in advocating such an arrangement.

During the period covered by this report (July 1, 1956–June 30, 1957) there were no developments with respect to the establishment of a European free-trade area that paralleled the steps taken to create the Common Market. However, OEEC, as the organization most closely concerned with any plans for the economic integration of Western Europe, took steps to explore the possibility of creating a European free-trade area. At its session in July 1956, the Council of OEEC established a working party and instructed it to "study the possible forms and methods of association, on a multilateral basis, between the proposed Customs Union and Member countries not taking part therein."[27] The working party was asked to consider, as a possible method of association, the creation of a European free-trade area that would include the Common Market countries and member countries of OEEC that are not members of the Common Market.

In the report it submitted in January 1957 the working party pointed out that, for the six countries constituting the Common Market—

> the Customs Union [Common Market] is only one part of a broader aim, the creation of an economic union. They therefore consider it essential to harmonise and co-ordinate their economic, social and financial policies. For its part, the Working Party has considered whether the naturally closer economic relations between countries in a free trade area and their consequent interdependence should not lead to action of the same kind.

The working party agreed on the general principle that the economies of the countries of the proposed free-trade area would naturally become increasingly interdependent as trade barriers were removed, and that it would therefore be necessary to coordinate more closely their economic

[27] Ibid., p. 7. As far as the removal of tariffs and other trade barriers within the proposed free-trade area and the integration of the economies of the participating countries are concerned, the working party considered substantially the same problems that had already been considered in connection with the establishment of the Common Market.

and financial policies. As background for considering what might be done to harmonize the economic and financial policies of the countries of the proposed free-trade area, the working party observed that the creators of the Common Market envisage making arrangements for the liberalization of capital movements, for current invisible transactions, and for the free movement of labor within the Common Market. The working party agreed that it would have to be left to the Council of OEEC to decide to what extent similar arrangements should be instituted to meet the requirements of the proposed free-trade area; whether the rules and procedures of OEEC are adequate to meet the new situation that would result from the creation of a free-trade area; and how the services afforded by such institutions as the International Monetary Fund and the World Bank could be utilized. The working party also observed that, while the requirements of the proposed free-trade area are met to a certain extent by the European Payments Union and the arrangements provided within OEEC for international settlements, provision should be made to insure a continuation of multilateral payments arrangements during and after the formation of the free-trade area.

The principal obstacle to the creation of a free-trade area embracing all European members of OEEC has been the United Kingdom's insistence upon excluding agricultural products from the arrangements, in order that it might retain freedom of action with respect to protective tariffs on such commodities produced in the United Kingdom itself. Most members of the working party considered that the exclusion of agricultural products from the arrangements for the proposed free-trade area would be incompatible with the rules of the General Agreement on Tariffs and Trade concerning free-trade areas. Those rules call for the elimination of import duties from substantially all the trade originating in the countries comprising a free-trade area. However, the fact that the General Agreement provides for possible waivers of the obligations of contracting parties in this and similar instances suggested the possibility that the Contracting Parties might grant waivers with respect to products exchanged within the free-trade area. The attention of the working party was also called to the fact that the six countries engaged in forming the Common Market had come to regard agricultural products as somewhat of a special case, requiring in some instances a departure from the application of the agreed methods of removing tariffs and quantitative restrictions from industrial products, including the matter of timing. This action of the Common Market countries appeared to the United Kingdom to constitute a precedent that might be incorporated in the arrangements for the free-trade area.

The possibility of obtaining a waiver with respect to agricultural products within the free-trade area, and the precedent established by the Common Market countries providing for a "managed market" for such products, were circumstances that seemed likely to enable the United Kingdom to persuade other potential members of the proposed free-trade area to permit it to join the area more nearly on its own terms. It developed that the United Kingdom—in return for the waiver privilege—might, as a concession to the other potential members of the proposed free-trade area, who hoped to gain easier access to the United Kingdom market for their own agricultural products under a free-trade arrangement, consent to the inclusion of a provision for the progressive abolition of tariffs on the trade in agricultural products among the member countries.

Besides the general problem of coordinating the economies of the countries of the proposed free-trade area and the specific problem of agricultural products, OEEC is confronted with a number of other problems that will have to be resolved before the proposed free-trade area can be established. One of these is the problem of defining the origin of products—a question that did not arise in considering the Common Market with its common tariff. For countries of a free-trade area, however, such a definition would be of primary importance, since each participating country would retain its own national tariff on imports from countries outside the area. Another matter involves possible recourse to the use of escape clauses by countries of the proposed free-trade area that might be unable during the transition period to fulfill the obligations they had assumed to remove tariffs and quantitative restrictions. Still another problem is that of establishing well-defined "rules of competition" to prevent a distortion of competition within the proposed free-trade area, either by restrictive business practices in private trade (such as monopolies and dumping) or by governmental intervention (such as subsidies and other forms of export aid). These and other problems remain to be resolved before agreement can be reached on establishing a free-trade area in Europe.

Chapter 5

Developments in Trade Restrictions and Exchange Controls in Countries With Which the United States Has Trade Agreements[1]

INTRODUCTION

The United States is interested not only in the elimination of quantitative restrictions on imports of dollar goods by the various countries with which it has trade agreements, but also in the liberalization by those countries of their treatment of imports from other areas. Liberalization of imports from the dollar area by countries that employ quantitative restrictions is often closely related in timing and coverage to treatment by these countries of imports from nondollar sources.

This close relationship between the treatment of dollar and nondollar imports is particularly noticeable in the actions of the 17 Western European countries that are members of the Organization for European Economic Cooperation (OEEC).[2] By a decision of the Council of OEEC of January 14, 1955, acting under the OEEC Code of Liberalization, each of these countries is required to attain a liberalization of 90 percent for its private imports from the OEEC area, and a liberalization of at least 75 percent for the 3 categories of food and feedstuffs, raw materials, and manufactured products.[3] Some of the OEEC countries have reached or exceeded the specified level of liberalization for OEEC imports. Some of them also have extended the same degree of liberalization to dollar goods by removing—for OEEC and dollar goods alike—all quantitative restric-

[1] In this report the discussion of trade controls employed by countries with which the United States has trade agreements is limited to quantitative import restrictions and exchange controls; export controls and import tariffs are not discussed.

[2] The United States has trade agreements with 15 of these countries (all except Ireland and Portugal). Of the 15 countries, 13 are parties to the General Agreement on Tariffs and Trade; the other 2—Iceland and Switzerland—are parties to bilateral trade agreements with the United States.

[3] In July 1956 the period during which these levels of liberalization are to be attained was extended to the end of 1957.

tions on the commodities they have liberalized. Most of the OEEC countries, however, have followed the policy of removing more restrictions on OEEC imports than on dollar imports. As a result, discrimination against dollar imports continues as far as the formal import-control regulations are concerned.

It is a common practice for OEEC countries that still formally discriminate against dollar goods to license liberally those imports from the dollar area that are still formally subject to quantitative restrictions. Thus there actually is a greater degree of de facto liberalization than de jure liberalization for these goods; or, conversely, a greater degree of de jure discrimination than de facto discrimination against dollar goods. The United States has continued to press for complete removal of the discrimination against dollar goods that results from this practice, and has met with favorable response in some instances but unfavorable response in others. Most countries, however, defend the formal retention of their control regulations on the ground that such regulations might be needed in the future should their dollar position deteriorate. They therefore prefer to license a large part of their dollar imports as liberally as their current payments position permits, but to retain their freedom of action in applying the controls.

The countries of the sterling area are closely associated with the OEEC. The only sterling-area countries that are members of OEEC are the United Kingdom, Iceland, and Ireland. Because of their membership in OEEC, these countries have the same obligations as other members to liberalize their quantitative restrictions on imports from OEEC countries. They also are members of the European Payments Union, which was established by OEEC in 1950 as a clearing mechanism.[4]

Sterling-area countries that are not members of OEEC have no such obligations as the United Kingdom, Iceland, and Ireland with respect to trade liberalization. But, by virtue of the United Kingdom's participation in the clearing arrangements of the European Payments Union, all other sterling-area countries also participate in the work of that organization because they rely on sterling in the settlement of their international accounts.[5] Whatever common policy the sterling-area countries may have with respect to trade restrictions on imports from outside the area results from their cooperation in using and safeguarding the area's

[4] Although Ireland is a member of the EPU, it does not have a separate position in the EPU accounts, but is included in the United Kingdom account. Iceland, on the other hand, has a separate position in the EPU accounts, although it is in the same position as Ireland in being part of the sterling area.

[5] Besides the sterling area, EPU embraces the monetary areas of Belgium, France, Italy, the Netherlands, and Portugal, all of which extend beyond the national boundaries of these countries into their overseas territories. A United Kingdom surplus or deficit with the continental members of EPU, for example, may be balanced by a deficit or surplus of the overseas sterling area with continental Europe.

reserves of gold and foreign exchange. Even though these countries "bank" in sterling, they nevertheless (some more than others) have to control their expenditures of sterling.

Aside from the OEEC countries and the sterling-area countries, a number of other countries with which the United States has trade agreements also maintain restrictions on imports, almost entirely for balance-of-payments reasons. These countries are Argentina, Brazil, Chile, Finland, Indonesia, Iran, Japan, Paraguay, Peru, and Uruguay. Peru is in the special position of having a currency that for some years has been regarded as "substantially convertible." Although Peru maintains no import restrictions for balance-of-payments reasons, it does maintain restrictions on imports of automobiles and a few other commodities, and for this reason is required, as are the other countries named above, to report annually to the International Monetary Fund regarding the further retention of such controls. The United States has bilateral trade agreements with Argentina, Paraguay, and Iran, and obligations under the General Agreement with the other countries. The policies of these countries with respect to trade liberalization are independent of any regional agreements. However, all of these countries are members of the International Monetary Fund, and six of them are contracting parties to the General Agreement. They all, therefore, have obligations to relax and remove quantitative restrictions and exchange controls. These obligations are of great importance to the United States in its policy of seeking removal of restrictions on its trade whenever possible.

Finally, a number of countries with which the United States has trade agreements do not have balance-of-payments problems and therefore do not employ import restrictions for balance-of-payments reasons. These countries, which are not discussed further in this report, are Canada, Cuba, the Dominican Republic, El Salvador, Haiti, Honduras, Nicaragua, and Venezuela. El Salvador, Honduras, and Venezuela are parties to bilateral agreements with the United States, and the other five countries are contracting parties to the General Agreement; all are members of the International Monetary Fund. These countries rely almost entirely on their tariffs to restrict imports. Nicaragua requires licenses for all imports, but issues such licenses automatically. All the other countries require import licenses for only a few commodities.

THE OEEC COUNTRIES

For several years the principal objectives of the 17 countries that are members of the Organization for European Economic Cooperation have been the freeing of intra-European trade from quantitative trade restrictions, the establishment of currency convertibility among member countries, and the expansion of their production. Incidental to attainment of these objectives has been the liberalization of their trade with non-OEEC countries, particularly the United States, Canada, and other dollar countries. By 1956, as an OEEC working party pointed out, liberalization in its present form had practically reached its limit. However, the possibility that a European common market and an even larger European free-trade area might be established afforded hope that further liberalization of trade among European countries might be accomplished through those arrangements.

In its seventh report, issued in 1956, the OEEC thus characterized the difficulties of further liberalizing the trade of its member countries:[6]

> The difficulties in the way of further progress towards liberalisation are complex, since they often involve several of the following considerations. In certain countries, including some of the more important ones, the balance of payments is still unstable. The sectors still protected by quotas are often the least efficient ones, and hence are those where such protection is most uneconomic, but where opposition to foreign competition is strongest. The greater the sacrifices, the more the countries insist on strict reciprocity from their partners, and the use of means of protection other than quotas (customs tariffs, State trading, etc.) appears all the more contrary to the idea of equality of treatment. Countries which consider themselves harmed by such practices tend to retain quotas as a defensive weapon. Lastly, quantitative restrictions are sometimes retained as a check on competitive practices which the countries consider unfair. The greatest difficulties, however, are to be found in regard to the liberalisation of agricultural products, as in this sector production policy has for a long time been formulated without taking sufficient account of the advantages of the international division of labour. This development, resulting from a complex set of historical, political and social factors, can only be changed by national corrective measures, harmonised with the gradual reduction of obstacles to international trade.
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> . . . In part, the increased difficulties of further liberalisation of trade are the consequences of past success; the fewer the remaining quantitative restrictions, the stronger the forces supporting them, and the more significant the attainment of a given percentage of additional liberalisation. In part also, the uncertainties about the maintenance of financial stability and balance of payments equilibrium have prevented some countries from taking additional risks by extending liberalisation, thus limiting the overall rate of progress.

Liberalization of intra-OEEC trade

In a decision of January 1955 OEEC provided that by September 30, 1956, member countries should increase to 90 percent their liberalization of private intra-OEEC trade, and to at least 75 percent their trade in each of the 3 broad categories of food and feedstuffs, raw materials, and manufactured products.[7] In a decision of July 1956 the OEEC extended until the end of 1957 the obligation of members to liberalize 90 percent of all private imports and 75 percent of the trade in the 3 above-mentioned categories. It was also agreed that after September 30, 1956, any member

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[6] Organization for European Economic Cooperation, *7th Report of the OEEC: Economic Expansion and Its Problems*, C(56)12, Paris, February 1956, pp. 67–68, 79.

[7] Before this date the members of OEEC had been obliged to increase their overall liberalization to 75 percent, and their liberalization in each of the 3 categories to at least 60 percent.

country might withdraw the above-mentioned liberalization measures should it find that it could not continue to apply them.

Liberalization of total OEEC private trade increased from 83 percent on December 31, 1954, to 86 percent on December 31, 1955,[8] and 89 percent on January 1, 1957 (table 1). The countries that attained the greatest increases in trade liberalization in the 2 years from December 31, 1954, to January 1, 1957, were Austria, Denmark, France, Ireland, and the United Kingdom; before 1954 these countries had lagged behind most members of OEEC in liberalizing their trade.

At the beginning of 1957 only 10 of the 17 OEEC countries—Austria, Belgium, West Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Sweden, and the United Kingdom—had freed 90 percent or more of their private OEEC-area imports from quantitative restrictions, including 75 percent or more of their trade in each of the 3 specified categories. Switzerland is not included in this group because it failed to attain a liberalization of 75 percent in the category of food and feedstuffs. Denmark, France, and Norway failed to attain a 90-percent liberalization of their respective overall imports, although they either exceeded or came close to the goal of 75-percent liberalization in the 3 specified categories. Norway had the lowest overall liberalization—78 percent—of any of the Western European countries.

Special provisions of the OEEC Code of Liberalization exempt Greece, Iceland, and Turkey from the general requirement to attain 90-percent liberalization. Actually, Greece has attained a very high de facto liberalization of imports from the OEEC area. Since Greece's effort represents an experimental measure of which OEEC was not officially notified, its 95-percent overall liberalization is not included in the average liberalization for the entire OEEC area. Because of its balance-of-payments position, Iceland has been exempted from the requirements of the OEEC Code of Liberalization; its overall liberalization has remained at 29 percent for several years. In April 1953 OEEC permitted Turkey to withdraw all its liberalization measures; at the beginning of 1957 Turkish liberalization still remained in a zero position.

The liberalization lists that individual OEEC countries have established for the OEEC area generally are much broader than those that they have established for the dollar area (table 2). Only the Benelux countries, Greece, and Switzerland have eliminated virtually all discrimination against dollar goods; the liberalization lists of these countries are substantially the same for the OEEC and the dollar areas. Turkey practices "negative" nondiscrimination by having no liberalization list for either area. A comparison of the percentages of liberalization for the OEEC and the dollar areas indicates that France, Austria, and Italy[9] practice the

[8] See *Operation of the Trade Agreements Program* (ninth report), p. 139.

[9] As stated in the note to table 2, Italy narrowed its discriminatory gap by increasing its overall dollar liberalization from 39 percent to 71 percent.

TABLE 1.—*OEEC countries: Percentage of private imports from the OEEC area freed from quantitative restrictions under liberalization lists, as of Jan. 1, 1957*

[Based on import figures for 1948 [1]]

Country	Food and feedstuffs	Raw materials	Manufactured products	Total
Austria	79.4	98.6	87.2	90.3
Benelux countries [2]	69.0	98.6	91.8	91.1
Denmark	80.6	98.2	77.5	85.5
France [3]	66.9	96.1	66.0	78.9
Germany (Federal Republic)	81.3	98.0	96.2	91.5
Greece [4]	100.0	100.0	89.0	95.0
Iceland	56.5	40.9	15.0	29.0
Ireland	84.6	97.0	88.9	90.2
Italy	97.5	100.0	99.2	99.1
Norway	81.3	90.9	73.2	78.0
Portugal	88.2	98.9	91.7	93.7
Sweden	79.6	100.0	90.5	92.6
Switzerland	67.8	100.0	94.1	91.3
Turkey [5]	0	0	0	0
United Kingdom	90.9	99.0	90.7	94.0
Average [6]	83.1	97.6	84.2	88.8

[1] Except for Austria, for which the base year is 1952, and for the Federal Republic of Germany, for which the base year is 1949.

[2] In July 1956 the OEEC authorized the Benelux countries to use 1955 in the future as the base year for calculating liberalization percentages. On this basis (not used in calculating the averages in the last line of the table), the Benelux liberalization for all third countries was 89.3 percent for food and feedstuffs, 99.2 percent for raw materials, 94.4 percent for manufactured products, and 96.5 percent for the total.

[3] The liberalization percentages actually in force for France on Jan. 1, 1957 (of which the OEEC was not officially notified and which were not used in calculating the averages in the last line of the table), were 72.9 percent for food and feedstuffs, 96.3 percent for raw materials, 71.6 percent for manufactured products, and 82.3 percent for the total.

[4] Greece has de facto liberalized imports from the OEEC area, as shown by these percentages; but this liberalization represents an experimental measure of which the OEEC was not officially notified.

[5] As of Jan. 1, 1957, Turkey had no liberalization list for the OEEC area.

[6] Excluding Greece.

Source: Based on calculations in Organization for European Economic Cooperation, *8th Report of the OEEC: Europe To-Day and in 1960*, C(57)18, Paris, 1957, vol. I, p. 78.

greatest degree of discrimination against the dollar area. There is somewhat less discrimination by Denmark, Sweden, and the United Kingdom; West Germany and Iceland practice the least discrimination.

The percentages of liberalization shown in tables 1 and 2 indicate only the approximate degree of discrimination practiced by the various countries because the percentages for the dollar area (table 2) are based on imports from that area in 1953, whereas the percentages for the OEEC area (table 1) are—for most of the OEEC countries—based on imports in 1948. Moreover, the percentages shown for the dollar area (table 2) are those for May 1, 1957, whereas the percentages for the OEEC area

TABLE 2.—*OEEC countries: Percentage of private imports from the United States and Canada*[1] *freed from quantitative restrictions under liberalization lists,*[2] *as of May 1, 1957*

[Based on import figures for 1953]

Country	Food and feedstuffs	Raw materials	Manufactured products	Total
Austria	4	88	87	40
Benelux countries [3]	88	80	90	86
Denmark	77	46	41	55
France	0	9	14	11
Germany (Federal Republic)	81	95	83	90
Greece	100	100	96	99
Iceland [4]	86	67	15	33
Ireland [5]	7	43	4	15
Italy	29	46	33	39
Norway	98	95	61	84
Portugal [6]	92	21	26	53
Sweden	71	69	67	68
Switzerland	97	100	98	99
Turkey [7]	0	0	0	0
United Kingdom	73	76	8	59
Average [8]	73	67	42	61

[1] Some of the OEEC countries have liberalized imports from the United States and Canada, but not from the dollar area as a whole; the percentages shown in this table are for imports from the United States and Canada only.

[2] Includes only private imports from the United States and Canada of commodities that appear on the liberalization lists of the OEEC countries that have such lists. These lists cover commodities from which import controls have been removed, as distinct from imports that are still under restriction but may be admitted freely by administrative action. Inclusion of imports freely admitted but still subject to the application of restrictive measures would increase the coverage appreciably for some of the countries.

[3] The Benelux countries (Belgium, Luxembourg, and the Netherlands) introduced a common liberalization list for the dollar area on June 1, 1954; this list is substantially the same list that these countries apply to imports from OEEC countries.

[4] The percentages for Iceland do not reflect the new liberalization measures of February 1957.

[5] The United States has no trade agreement with Ireland, either under the Genera Agreement on Tariffs and Trade or on a bilateral basis.

[6] The United States has no trade agreement with Portugal, either under the General Agreement on Tariffs and Trade or on a bilateral basis.

[7] As of May 1, 1957, Turkey had no liberalization list for the dollar area; imports from the United States and Canada and other dollar countries are controlled on the basis of essentiality and the availability of dollar exchange.

[8] Average does not include Turkey.

Source: Organization for European Economic Cooperation, *Liberalisation of Europe's Dollar Trade, Second Report, June 1957*, C(57)81, Paris, 1957, p. 13.

Note.—Between May 1 and June 30, 1957, 3 of the OEEC countries took actions that altered the percentages of liberalization shown in this table: France suspended all its trade liberalization measures, except those on coal and steel (European Coal and Steel Community); West Germany increased its overall dollar trade liberalization by about 1 or 2 percentage points; and Italy increased its total dollar liberalization from 39 percent to 71 percent.

(table 1) are those for January 1, 1957. For example, although the degree of liberalization of the Benelux countries is shown in the tables to be 86 percent for the dollar area and 91 percent for the OEEC area, the Benelux liberalization lists for both areas actually comprise substantially the same commodities.

Liberalization of dollar trade

Between January 1, 1956, and May 1, 1957, the liberalization of total private OEEC imports from the United States and Canada, calculated on the basis of the import trade in 1953, increased from 54 percent to 61 percent. For individual categories, the increase was from 64 percent to 73 percent for food and feedstuffs, from 44 percent to 67 percent for raw materials, and from 27 percent to 42 percent for manufactured products.[10]

The percentages shown in table 2 reflect only liberalization measures in effect on May 1, 1957. Between that time and the end of the period covered by this report (June 30, 1957), the Federal Republic of Germany increased its liberalization of dollar imports to about 93 percent, and Italy increased its liberalization to 71 percent. On June 19, 1957, on the other hand, France suspended all its dollar liberalization measures.

Although the percentages of liberalization shown in table 2 are based on private imports into the respective countries from the United States and Canada in 1953, the liberalization lists of the OEEC countries also generally apply to imports from other countries in the dollar area. Not all OEEC dollar liberalization lists, however, apply to all "dollar" countries. The broadest lists of dollar countries—those of Greece, Iceland, Switzerland, and the United Kingdom—include the United States and its territories and possessions, Canada, all the Central American countries, and Bolivia, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela, the Philippines, and Liberia.[11] The dollar liberalization lists of Austria, France, and Portugal, on the other hand, apply only to the United States (and its territories and possessions) and Canada.[12] All the other OEEC countries exclude two or more countries from the benefits of their dollar liberalization lists for the United States and Canada.

Austria, West Germany, Italy, Norway, Sweden, and the United Kingdom were the only OEEC countries that increased their liberalization of dollar goods between January 1, 1956, and June 30, 1957.[13] In the

[10] These categories are as defined in annex A, sec. II of the OEEC Code of Liberalization.

[11] Goods liberalized for the United States and Canada by Greece, Iceland, Switzerland, and the United Kingdom are liberalized not only for those dollar countries but also for the rest of the world.

[12] Portugal extends its dollar liberalization to imports from the United States, but not to those from United States territories and possessions.

[13] As a hard-currency country, Switzerland has never had to discriminate against imports from the dollar area to protect its balance-of-payments position. Since 1932, various

following discussion of the action that these six countries took during that period, such terms as "dollar imports" and "percentages of dollar liberalization" refer to imports from the United States and Canada only.

Austria.—On October 15, 1956, Austria placed in effect a second liberalization list for dollar imports, thereby raising the percentage of liberalization from 8 percent to 40 percent.[14] This liberalization list embraces 275 items of the national statistical nomenclature. Some of the principal commodities affected are rice, raisins, oranges, oilcakes, mineral oils, raw cotton (liberalized on January 1, 1957), raw wool, reclaimed rubber, raw hides and skins, heavy tires, leather, cellulose acetate, pig iron, iron and steel sheets and plates, some ferroalloys, certain types of engines, certain agricultural and textile machinery, electrical equipment, locomotives and tractors, typewriters and calculating machines, and certain chemicals. The percentage of liberalization for food and feedstuffs remains very low (4 percent) because corn and wheat are not included in the dollar liberalization list. These two grains comprise the great bulk of private imports of food into Austria.[15] Austria's discrimination between the OEEC area and the dollar area is still very great, particularly in the category of foods and feedstuffs; some of the items which the United States would like to have liberalized for the dollar area are soybeans, flaxseed, seed corn and other seed grains, fruit juices, certain meats, and butter. Most of Austria's remaining import controls are maintained for protectionist reasons, a fact which clearly raises the problem posed by the restrictions in the General Agreement against the use of import controls for other than balance-of-payments reasons.

Germany (Federal Republic).—The Federal Republic of Germany only slightly increased its dollar liberalization between July 1, 1956, and June 30, 1957. Before September 1956 West Germany had introduced 4 dollar liberalization lists,[16] applicable to 4,770 of the 6,000 items in the West German statistical nomenclature, which resulted in a liberalization of 90 percent of its dollar imports. Although the fifth liberalization list, of May 24, 1957, contained 500 additional items, these additions increased West Germany's percentage of liberalization by only 1 or 2 points. About 700 items in the country's statistical nomenclature are still not liberalized. The fifth list of liberalized items consists almost entirely of manufactured products. Among the most important items are various organic and

imports into Switzerland have been subject to licensing controls, but the controls have been applied on a nondiscriminatory basis. Switzerland's total liberalization of imports from all sources is very high.

[14] Austria's first liberalization list of dollar imports, which was applied in July 1955, affected 85 items of the Austrian statistical classification.

[15] Although wheat, corn, and other grains are counted as private trade by Austria, actually these and other food items are controlled by monopoly trading organizations.

[16] On September 5, 1956, a few additional products not included in the fourth list were freed.

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inorganic chemicals, soap and cosmetics, rubber goods, pulp and paper, virtually all hitherto unliberalized iron and steel products except steel-nickel alloys, zinc, a variety of textile products, household refrigerators, television sets, electric bulbs, fluorescent tubes, and motor vehicles weighing more than 3 tons and general-purpose vehicles.

West Germany continues to maintain strict control of certain imports, mainly agricultural. On the other hand, it freely licenses a number of commodities for which it has not yet formally removed the licensing requirement. For these less sensitive items on the nonliberalized list, the West German Government continues to follow the same policy that it used for a considerable time for many of the items later freed of import control, namely, that of "testing" the reaction of domestic producers and importers to limited quantities of imports still subject to license to determine the desirability of formally removing the licensing requirement. The United States has continued its policy of pressing West Germany to remove controls on unliberalized imports, at least to the same extent that they are eliminated on imports from the OEEC area.

West Germany uses the import-quota system for admitting limited quantities of nonliberalized imports from dollar countries. Thus, in April 1957 it established dollar-country import quotas for wearing apparel, woven fabrics, shoes, rubber-elastic fabrics, and leather and leather goods of all kinds. The quotas for wearing apparel, woven fabrics, and shoes had no time limits. Those for elastic fabrics and leather are subject to specified time limits or are valid until such time as imports of a certain value have been entered. The announced purpose of the quotas is to assist in maintaining price stability.

Italy.—After publication by OEEC of the liberalization percentages shown for Italy in table 2, Italy very greatly increased its percentage of dollar liberalization, effective June 28, 1957. On that date, in a liberalization list supplementing two earlier ones, Italy added approximately 140 tariff classifications to the list of slightly more than 200 tariff classifications that it had previously placed on the dollar liberalization list, thus increasing its total dollar liberalization from 39 to 71 percent. The principal commodities in the new list include raw cotton; wool; coffee; certain chemicals; iron, steel, and some other metal items; certain types of engines and industrial machinery; and heavy earth-moving equipment. Before it issued the new list, Italy had been fairly liberal in issuing dollar import licenses for heavy industrial machinery, machine tools, electrical equipment, and certain other manufactured products. Some of the products that remain under import control are wheat, coarse grains, aluminum, and flaxseed.

Norway.—Norway's first dollar liberalization measure—applicable to imports from the United States and Canada only—became effective on July 1, 1956, the beginning of the period covered by this report. About

775 items of the tariff nomenclature were freed by Norway's action; the overall liberalization amounted to 84 percent. In its action, Norway removed quantitative restrictions from virtually all imports of foods, feedstuffs, and raw materials from the United States and Canada, but from only 61 percent of imports in the category of manufactured products. The latter included tractors and a large number of various other agricultural machines and implements, locomotives, parts and motors for automobiles, tires and tubes, a large number of machine tools, electric motors, radio tubes, petroleum products, and textiles (except clothing). The list, which was limited to goods already on the OEEC liberalization list, consisted mainly of goods that Norway had been licensing liberally from the dollar area before July 1956.

On November 1, 1956, and April 1, 1957, Norway added a total of 45 more items to its dollar liberalization list, including certain fruits, chemical products, and machinery and parts. These additions, however, had no appreciable effect on the liberalization percentages of July 1, 1956, because imports of these products had been negligible in the base year 1953. As of June 1957, Norway had liberalized 1,800 statistical items for the OEEC area and 1,500 for the dollar area; however, most of the 300 items not yet formally liberalized for the dollar area were being licensed liberally. According to Norway, there was virtually no de facto discrimination against dollar imports except for automobiles. At the same time that Norway adopted its first dollar liberalization measure (July 1, 1956), it also extended the application of most of its so-called global quotas (previously applied mainly to European countries) to the dollar area. Under this system of control, imports of various commodities that had not been liberalized were admitted on an annual-quota basis.

Sweden.—Sweden's first liberalization of dollar imports, which covered 58 percent of its total private imports from the United States and Canada, took place late in 1954. An additional 6 percent of such imports were liberalized at the beginning of 1956, and another 4 percent on July 1, 1956. Thus, on the basis of 1953 import trade, 68 percent of Sweden's private imports from the United States and Canada were free of restrictions on July 1, 1956. On the basis of preliminary Swedish import statistics for 1955, the liberalization of Sweden's private imports from the United States amounted to more than 80 percent of the total of such imports.

Commodities that Sweden added to its liberalization list on July 1, 1956, include linseed oil; cocoa beans, powder, and butter; a number of fish items; fur skins; natural rubber; paper pulp and newsprint; pig iron; aluminum; nickel; magnesium; antimony; cobalt; cadmium; copper alloys; metal scrap; tires and inner tubes; cameras; projectors; certain musical instruments; cosmetics; jewelry; toys; and plastic products. Most of the newly liberalized items were formerly on Sweden's transit-dollar list. Imports from the dollar area of items on this list are licensed freely if purchased via a nondollar country or against payment in dollars purchased with inconvertible currencies; authorized Swedish banks purchase such currencies from foreign banks at a premium over the parity rate and sell them at a higher premium to Swedish importers.[17] Sweden has liberally licensed various nonliberalized imports from the United States and Canada, particularly corn, barley, oats, citrus fruits, soybeans, and coal.

United Kingdom.—During the period covered by this report the United Kingdom did not add appreciably to its list of liberalized private imports from the United States and Canada. Because of its unfavorable position with respect to convertible currencies, the United Kingdom was unwilling to make more than a few concessions to the requests of the United States and Canada for removal of British import restrictions on a broad basis. At the beginning of 1956 the United Kingdom had freed from import controls 56 percent of its private imports from the United States and Canada, but by June 30, 1957, it had liberalized only another 3 percent. On July 22, 1956, woodpulp, paper (other than newsprint), and paperboard were added to the liberalized list; and on November 12, 1956, whisky was added to it. By these two actions the United Kingdom increased its liberalization of dollar imports to 59 percent, and its liberalization of imports from the OEEC area, to 94 percent.

The United Kingdom's system of import controls and import liberalization differs markedly from that employed by most other OEEC countries. Under its system of world open general license the United Kingdom lists products that may be imported without restriction from any country; whisky, woodpulp, and the other items reported above as having been added to the liberalization list were liberalized by being placed on open general license. Products importable under open individual license may be entered freely from any country by individual importers to whom such licenses are granted; grains, metals, oilseeds, and softwoods are among the products subject to that type of license. Products that are not importable under world open general license or open individual license are subject to individual license—that is, importers must obtain separate licenses for each transaction. Tobacco, chemicals, fresh fruits, canned fruits, canned salmon, leather, and many other products are subject to individual license. The United Kingdom's token-import plan operates under the individual-licensing system. Under this plan, specified consumer products are admitted on a quota basis from the United States and Canada.[18]

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[17] After promulgation of the liberalization measure of July 1, 1956, the transit-dollar import list was reduced to relatively few commodities; the reduced list included fresh citrus fruits and grapes, coffee, copra, certain vegetable oils and fatty acids, tobacco products, crude copper, lead, tin, zinc, and airplanes.

[18] See *Operation of the Trade Agreements Program* (ninth report), p. 168.

THE OVERSEAS STERLING AREA

Because the United Kingdom collaborates closely with the OEEC countries in removing restrictions on intra-OEEC trade, the liberalization of the United Kingdom's controls on imports from the dollar area was discussed in the immediately preceding section of this chapter. Although the other countries of the sterling area[19] participate with the United Kingdom in the clearing arrangements of the European Payments Union, they are under no obligation—as is the United Kingdom—to participate in the liberalization schedule set up by the OEEC. Each of these other countries follows its own policy in applying trade restrictions to imports from the dollar area, the sterling area, and the OEEC area, as well as to imports from any other country. However, there is a common outlook on the rest of the world since all these countries (except the Union of South Africa) cooperate with the United Kingdom in maintaining the sterling area's dollar pool, and all of them participate in ministerial conferences to correlate their trade policies and objectives.

The sterling area was an outgrowth of the United Kingdom's exchange-control system; its effectiveness results from the common action that its members take to safeguard the balance-of-payments position of the entire area. Moreover, the British countries within the sterling area have a common interest in maintaining the benefits that accrue to them from their participation, under the Ottawa Agreements, in the system of British imperial preference. The systems of import controls employed by most of the overseas British members of the sterling area are much like that employed by the United Kingdom; they are characterized by the use of open general licenses, open individual licenses, individual licenses, and import quotas.

During the period covered by this report there was no change in the basic import policies of any of the sterling-area countries,[20] and there was very little change in the application of those policies, except by Australia and India.

Australia

In 1956–57, as in previous years, Australia continued to rigidly control imports from all countries. On July 1, 1956, Australia intensified its restrictions on commodities imported from soft-currency countries by reducing its exchange budget and its quotas for such commodities. Among the hundreds of commodities subjected to the intensified restrictions on

[19] Besides the United Kingdom, the sterling area comprises all British Commonwealth countries except Canada; all British colonies, protectorates, protected states, and trust territories; and several non-Commonwealth members of the sterling area—Burma, Iceland, Iraq, Ireland, the Hashemite Kingdom of Jordan, and Libya.

[20] For a more extended reference to the policies of some of these countries during 1955–56, see *Operation of the Trade Agreements Program* (ninth report), pp. 170–179.

soft-currency goods were fully assembled automobiles, unassembled automobile chassis, whisky, cigarettes, floor coverings, and many other consumer goods. On January 1, 1957, following an improvement in its balance-of-payments position, Australia relaxed its restrictions on imports of soft-currency goods by increasing its exchange budget and its quotas for such goods. Capital goods, textile raw materials, and chemicals were the principal commodities affected by the relaxation. During the first half of 1957 Australia further relaxed its controls for soft-currency goods.

During 1956–57 there was virtually no change in Australia's treatment of imports from the dollar area. The dollar import budget remained unchanged, and imports from the dollar area continued to be restricted to essential commodities and to some other commodities that were not obtainable either locally or from nondollar sources. Most imports into Australia from the United States and other dollar countries are not subject to specific quota limitations; each application for a license to import from dollar sources is subject to individual licensing. Australia does, however, have a special foreign-exchange budget (established in 1955), under which some commodities are permitted to enter the country under global quota, subject to open general license. About 15 items, including the principal nonferrous metals, ferrous alloys, raw cotton, sulfur, hog casings, pulp for the manufacture of paper, leaf tobacco, and crude asbestos fiber, are subject to this type of treatment. Within the global quota, these commodities may be imported from any source.

India

India controls imports on the basis of 6-month licensing periods that begin on January 1 and July 1 of each year. Commodities are imported from the dollar area either under open general license, without quantitative restriction, or under individual import permits. Open general licenses are applicable to commodities from all sources without discrimination. India is much more liberal in licensing imports of commodities that it requires for industrial development, such as raw materials and machinery, than it is in licensing imports of less essential goods, especially those that can be produced domestically in adequate quantities.

India's restrictions on imports of dollar goods are generally more severe than its restrictions on imports from nondollar sources, but the degree of discrimination against dollar imports is sometimes considerably reduced for an entire licensing period. This often results from reducing imports of nondollar commodities rather than from specifically providing for an increase in imports of dollar commodities. For the July-December 1956 licensing period, India generally tightened its restrictions on imports of consumer goods and of those commodities considered to be relatively less essential, and increased the quota for commodities regarded as necessary for the country's economic development under its ambitious 5-year plan. General import quotas were reduced on 73 tariff items, including glass, certain chemicals, and wool and woolen fabrics. Thirty-one tariff items that previously had been licensed liberally, including haberdashery, watches, and fish, were placed under quota. On the other hand, general import quotas for spare parts for machinery and for industrial raw materials were increased. Dollar quotas (as distinct from general quotas) were increased for machine tools, and a dollar quota, not available in the preceding 6-month period, was established for electric ranges. Dollar quotas were reduced for hacksaw blades, air compressors, aureomycin, spark plugs, and some other commodities. Restrictions on imports from the dollar area were also relaxed for the July-December 1956 licensing period by making a stated percentage of the face value of soft-currency-area licenses valid for imports from the dollar area. Some of the commodities thus affected were fruits of all kinds, safety-razor blades, certain chemicals, and specific categories of household hardware.

For the January–June 1957 licensing period, India imposed new restrictions on imports of more than 500 commodities listed in the "less essential" category. Dollar imports were accorded more favorable treatment than in the preceding licensing period by increasing the percentage of the face value of soft-currency-area licenses that could be utilized for imports from the dollar area. Dollar quotas were increased for imports of machine-worked cutters, certain diesel engines, and a few other commodities; dollar quotas were reduced for imports of fruit, liquor, tobacco products, soap, woolens, certain fabrics, cinema films, cutlery, hardware, watches, and a few other commodities. Late in the spring of 1957 India took steps to further reduce its imports of capital goods. It also ceased to license imports of cotton from the sterling area; licensing of such imports from the United States had already ceased.

Ceylon, New Zealand, Pakistan, Rhodesia-Nyasaland, and the Union of South Africa

In July 1956 Ceylon placed imports of a few additional commodities under its special open general license for the dollar area; the commodities included prepared cereal foods, raw sugar, cotton, stearic acid, tinplate, cutlery, razor blades, certain metal manufactures, and certain kinds of animal and vegetable oils and fats.

New Zealand requires licenses for imports from the dollar area except for those relatively few commodities that are exempt from import licensing for all sources. Licenses for imports into New Zealand from the United States and other dollar countries are granted only if the commodities are officially considered essential to the country's economy and if they cannot be obtained either domestically or from sterling or other nondollar sources. During 1956–57, as in previous years, New Zealand continued to grant dollar licenses chiefly for raw materials, plant equipment, and other commodities required for industrial and building activities. There was likewise little change in the treatment of sterling and other nondollar imports. About 80 percent of New Zealand's imports from nondollar countries are already free from licensing.

Pakistan requires import licenses for all commercial imports, irrespective of source, and restricts imports to commodities specified in an "importable" list. The "importable" list changes slightly in content from one licensing period to another, depending on changes in the amount of foreign exchange available. Licenses are valid for imports from all countries. The "importable" list for January–June 1957 included 193 items, compared with 207 items in the preceding 6-month period.

The Federation of Rhodesia and Nyasaland requires licenses for all imports from the dollar area, but with few exceptions imposes no quantitative restrictions on imports from sterling-area countries. The Federation has an extensive "prohibited" list for dollar countries, which comprised about 150 tariff items in 1956. Many items that are not on the "prohibited" list, although technically subject to license, are automatically considered to be "unrestricted." For the first half of 1957 a number of tariff items were removed from the "prohibited" list. A few commodities from the dollar area—including wheat, piece goods, motor vehicles, stoves, and washing machines—are imported under dollar exchange quotas.

The Union of South Africa requires licenses for imports of virtually all commodities, but grants such licenses automatically and without discrimination as to currency. The only significant import restrictions that South Africa retains are those on motorcars and certain consumer goods designated as nonessential, imports of which are subject to exchange quotas. Throughout 1956–57 South Africa continued its policy of relaxing its import controls by making larger exchange allocations for automobiles and certain other consumer goods and by removing existing exchange-quota restrictions on imports of selected items.

NONDOLLAR COUNTRIES OTHER THAN THOSE IN OEEC OR THE STERLING AREA

The United States has trade agreements with a number of countries, usually described as nondollar countries, not in the OEEC group or the sterling area. The countries in this group are Argentina, Brazil, Chile, Finland, Indonesia, Iran, Japan, Paraguay, Peru, and Uruguay. The United States has bilateral agreements with Argentina, Paraguay, and Iran, and obligations with the other countries under the General Agreement on Tariffs and Trade. All these countries maintain restrictions on import trade, although not all of them maintain such restrictions for balance-of-payments reasons. All are required to consult with the International Monetary Fund each year regarding further retention of restrictions maintained on payments and transfers for current international transactions.

Most of the countries mentioned above require either import licenses or exchange permits; Chile requires neither, but employs a "prohibited" list, to which items are added or from which they are withdrawn, depending on the availability of exchange or on other considerations. Some countries that require import licenses do not also require exchange permits because in those countries the possession of an import license carries with it the right to purchase foreign exchange; Finland, Indonesia, Japan, Paraguay, and Uruguay employ this system. Brazil requires import licenses but does not require exchange permits because exchange for most imports is sold at auction. Argentina requires import licenses only for commodities subject to import quotas, and requires exchange permits only for goods imported at the official rate of exchange; exchange permits are not required for imported commodities payable in exchange purchased in the free market. Peru requires neither import licenses nor exchange permits; imports are permitted freely, except automobiles, which are entered on a quota basis. Peru does, however, maintain two fluctuating rates of exchange, and there are certain controls associated with this system.[21] The Peruvian currency, unlike that of the other countries in this group, is "substantially convertible." [22]

During the period covered by this report, Argentina, Brazil, and Uruguay made more fundamental changes either in their basic import policies or in the application of such policies than did any of the other six countries discussed below.

Argentina

During 1956–57 Argentina did not fundamentally change the new exchange system that it established in October 1955, after the overthrow of the old government.[23] At that time Argentina introduced various measures to simplify its multiple-exchange-rate system and to otherwise relax its restrictions on imports. For the large number of exchange rates previously applied to individual export and import commodities it substituted a single official rate of exchange, at 18 pesos per United States dollar,[24] and a free-market rate. The great bulk of Argentine imports are entered at the official rate. Argentina, however, was still experiencing a shortage of dollar exchange and did not wish its more liberal exchange policy to result in so great a demand for foreign exchange as to overload the free market. At the same time, it was endeavoring to shift an in-

[21] International Monetary Fund, *Eighth Annual Report on Exchange Restrictions, 1957*, Washington, pp. 253–255.

[22] *Operation of the Trade Agreements Program* (eighth report), p. 134, footnote 4.

[23] See *Operation of the Trade Agreements Program* (ninth report), pp. 180–184.

[24] Argentina became a member of the International Monetary Fund in September 1956. In January 1957 the Fund approved the previously established par value of the peso.

creasing number of commodities to the free-exchange market. It therefore continued to make many changes in the exchange rates for individual import and export commodities, in accordance with its shifting foreign-exchange position. In its initial action, it transferred a number of commodities from the official (18-peso-per-dollar par value) exchange market to the free-exchange market,[25] and admitted through the free market certain capital goods that previously could not be imported. Most essential imports are admitted through the official market. Exchange licenses are required for such imports, either under the quota system or under the automatic-licensing system.

In August 1956 Argentina further liberalized its import-control system by establishing a system of automatic licenses for certain commodities imported at the official rate of exchange. To strengthen the free-market rate, however, it established official valuations (aforos) for certain imports of metal that are subject to automatic exchange allocation. These official valuations were established in such a way as to force importers to purchase some of their exchange in the free market. By establishing official valuations at 10 percent below the world price of the commodities concerned, for example, exchange is allocated at the official rate for only 90 percent of the actual purchase price. The importer is, therefore, obliged to obtain the remaining 10 percent of the necessary exchange at the higher free-market rate.

Argentina's policy is to shift more and more imports from the list of commodities importable at the official rate to the list of commodities importable at the free-market rate. However, to prevent further deterioration of the country's balance-of-payments position, which would result from excessive demands on the free market, Argentina imposes surcharges on foreign exchange sold in the free market.[26] The surcharges apply to exchange purchased for the importation of such less essential products as motor bicycles, and spare parts and accessories for automobiles and industrial machinery.

In 1956 Argentina concluded agreements with Austria, Belgium-Luxembourg, Denmark, France, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom for a multilateral trade and payments arrangement known as the Paris Club. Under this arrangement, all commercial and financial payments and collections between Argentina and these countries are made in the currencies of any of these countries. The currencies are transferable among the participating countries, and Argentina undertakes not to discriminate against any of the countries in administering its trade controls.

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[25] The average free-market rate for dollars in Argentina ranged from 31.89 pesos in July 1956 to 35.22 pesos in December 1956 and 40.55 pesos in June 1957.

[26] For the United States dollar, the surcharges are 20 or 40 pesos.

In April 1957, to conserve scarce dollar exchange, Argentina further restricted imports of dollar goods by designating certain nondollar countries—including the Paris Club countries and those of the sterling area—as the only sources from which specified chemicals and other commodities might be imported. At about the same time—to conserve available exchange for more essential commodities—Argentina increased its customs surcharges on imports of automobiles from all sources. The surcharges were greater for smaller cars of the European type than for the heavier United States types.

Brazil

At the beginning of 1957, Brazil extended without modification its basic foreign-trade and exchange-control law. Brazil relies heavily on the auction system to supply importers with the exchange necessary to purchase foreign goods, which are classified into five categories on the basis of their degree of essentiality. During the second half of 1956, the premiums paid for exchange certificates declined, largely because of the increased availability of exchange at the auctions, to such an extent that the cost of dollar exchange (the official rate of 18.82 cruzeiros per United States dollar plus the premiums applicable to the more essential first-category imports) finally reached a figure approximately equal to the free-market rate for dollars.[27] In February 1957, in an attempt to arrest the decline in the premiums paid for foreign-exchange certificates, Brazil replaced the system of fixed minimum premiums for exchange certificates purchased at auction (amounting to 25, 30, 35, 40, and 100 cruzeiros for the five import categories, respectively) by a system of new fluctuating minimum premiums for dollar and other exchange. The flexible minimums, which are determined weekly, are based on actual bids in the previous week. During the first week that the new system was in operation, for example, the minimum premiums were considerably higher than the old fixed minimums mentioned above (or 29, 47, 73, 107, and 231 cruzeiros per United States dollar) or the equivalent in other currencies; by the following June they were even higher. The auction rates for imports from the United States were not directly affected by the new flexible minimums, since the effective auction rates for United States dollars exceeded the new minimum surcharges. On the other hand, the effective rates for currencies of various other countries had been close to the previous minimums; hence the new measure tended to make purchases of commodities from such countries more expensive, thus to some degree indirectly favoring imports from the United States.

As the Commission pointed out in its last report,[28] Brazil in 1955 entered into a multilateral trade and payments arrangement (known as

[27] The average free-market rate for dollars in Brazil ranged from 80.55 cruzeiros in July 1956 to 66.85 cruzeiros in December 1956 and 73.93 cruzeiros in June 1957.

[28] See *Operation of the Trade Agreements Program* (ninth report), pp. 184–186.

the Hague Club) with a number of European countries. This arrangement is designed to replace bilateral trade and payments agreements with a system of multilateral payments within the area of limited convertibility represented by the participating countries. The original European members of the Hague Club were the United Kingdom, the Federal Republic of Germany, the Netherlands, Belgium-Luxembourg, Italy, and Austria. Brazil subsequently negotiated with other European countries that wished to join the multilateral arrangement, and late in 1956 France became a participant. Certain European countries that do not participate in the arrangement—notably Denmark, Norway, Sweden, and Finland—have been among the countries most adversely affected by Brazil's action of February 1957, which made more costly the currencies of the countries with which Brazil has bilateral payments arrangements.

Chile

In April 1956 Chile replaced its discriminatory multiple-exchange-rate structure with a free fluctuating exchange rate applicable to all commodity transactions. Early in the period covered by this report Chile raised its customs surcharge by increasing from 65.5 to 98.6 the rate for converting the paper peso to the gold peso. This step was taken to compensate for the decline in the value of the paper peso after the free-exchange rate was established. Chile continued to operate under the handicap of inflation and an unfavorable balance-of-payments position, but operation of the new import regulations, a tighter credit policy, and financial assistance from abroad resulted in some improvement in its position during 1956–57.

Finland

Finland also has long been faced with problems resulting from inflation and an adverse external financial position. Late in 1956 Finland curtailed by 20 percent the import licenses for commodities payable in gold, dollars, and other Western currencies. On the other hand, Finland transferred from its nondollar automatic-licensing list to its dollar licensing list a number of commodities of importance to the United States, chiefly materials for Finland's manufacturing industry. The licensing of such dollar imports is automatic whether payment is to be made in dollars or in other currencies. In a move to reduce government expenditures, it also abolished virtually all subsidy payments on consumer goods.

Indonesia

In June 1957, after various attempts late in 1956 and early in 1957 to halt the drain on its official gold and foreign-exchange reserves by reducing imports and increasing exports, Indonesia sought to achieve this objective by drastically reforming its complicated exchange-rate system. It replaced

8 old effective export rates with 1 "free certificate" exchange rate,[29] and 17 old effective import rates with 6 new effective rates. A uniform surcharge of 20 percent ad valorem, based on the certificate rate, applies to all exports. The former group of prohibited imports was abolished, and imports were reclassified into 6 new categories on the basis of their liability to the payment of an import surcharge. Essential imports, including rice, are free of any surcharge, but the other 5 categories, ranging from highly essential to least essential imports, are subject to surcharges of 20, 50, 100, 140, and 175 percent, respectively.

Iran

In 1956 Iran's foreign-exchange reserves increased to such an extent that Iran was able to relax its import restrictions. The relaxation was achieved by reducing the number of items on the list of prohibited imports, by permitting imports to enter freely in excess of the original strict quota limits, and by establishing an overall import quota with provision for increasing it. Iran also began to study the possibility of terminating its bilateral trade agreements with a number of European countries in order to implement its policy of multilateralism in foreign trade.

Japan

During 1956–57 Japan made no basic changes in its system of trade controls. It continued to restrict imports simply by not allocating the necessary foreign exchange for a great many commodities. As its balance-of-payments position improved, however, it greatly increased its exchange budget; that for the 6-month period October 1956–March 1957 was the largest in the postwar period. Because of declining foreign-exchange reserves, however, Japan curtailed the importation of a number of commodities for the next budget period, mainly by increasing the amount of collateral required to obtain foreign exchange. It also reduced from 5 percent to 3 percent the proportion of export proceeds that exporters are allowed to use for specified foreign payments. Imports of some commodities, notably automobiles, continued to be restricted for protectionist reasons, and a 2-month embargo was placed on imports of lemons to support the price of the domestic crop. During the period covered by this report Japan continued to control its exports of certain commodities—such as cotton textile products and plywood—to the United States and certain other countries.

Paraguay

Early in 1956 Paraguay simplified its multiple-exchange-rate system

[29] The old effective exchange rates for both exports and imports resulted from the addition of premiums and taxes to the official buying and selling rates. The certificate exchange rate is determined by the free play of the market, the former official rate of 11.40 rupiah per United States dollar having been abolished.

and changed the par value of its currency.[30] There was some hope abroad that increased trade might result from Paraguay's establishment of a free-exchange market. However, the activity in this market was greatly reduced after Paraguay imposed such stringent regulations on imports as to restrict the use of free exchange to frontier traffic, small remittances abroad, and remittances for "special purpose" capital goods and profits.

Uruguay

Uruguay made important changes in its system of trade and exchange control in August 1956. Before that time Uruguay had required licenses for virtually all imports and had also required the surrender of all proceeds from exports at varying rates depending upon the commodities involved.

Under the new system, Uruguay classifies imported commodities into three categories on the basis of their importance to the national economy, and permits exporters to retain specified percentages of their exchange proceeds for subsequent sale in a newly established "certificate" market. Commodities in category 1, which consists of articles considered most essential, are no longer subject to licensing, but may be imported freely. Imports of commodities listed in categories 2 and 3 continue to be subject to licensing within global exchange quotas. For exchange purposes, various categories were also established for export products. Subsidy payments in the form of premiums above the regular buying and selling rates for foreign exchange were authorized for practically all export products, the payments to be financed by increased exchange rates for most imports.

Most proceeds from exports of Uruguayan products continue to be purchased by the Central Bank at the basic rate of 1.519 pesos per United States dollar. However, under the new system, exporters of some commodities are permitted to retain all or a certain portion of their foreign-exchange earnings for subsequent sale to importers in the free commercial or "certificate" market.[31] The proportion of such free exchange that an exporter is permitted to retain depends upon the commodities he has exported. All the proceeds from the export of pedigreed livestock, powdered milk, cheese, fresh fruit, and frozen mutton may be sold in the free commercial market. On the other hand, the entire export proceeds from salted cattle hides must be turned over to the Central Bank at the basic rate of exchange. Between these upper and lower limits are 9 groups of commodities, to each of which different combinations of free and basic exchange apply.

Payments for imports into Uruguay are effected either at the basic rate of 1.519 pesos per United States dollar, at a fixed controlled rate,

[30] *Operation of the Trade Agreements Program* (ninth report), p. 204.

[31] Throughout the period covered by this report the free certificate market rate for the United States dollar has remained pegged at 4.10 pesos, compared with a basic rate of 1.519 pesos per United States dollar.

or at the fluctuating free commercial or "certificate" rate. The basic exchange rate applies to imports of newsprint, inks, cardboard matrix, and seed potatoes. Certain commodities listed in category 1, including raw materials, fuels, lumber and building materials, essential foodstuffs, and specified drugs, chemicals, and hospital supplies, may be imported at the rate of 2.10 pesos per United States dollar. Payment for imports of all other commodities listed in category 1, and for essential commodities and all commodities listed in categories 2 and 3, are effected through the "certificate" market.

Payments for most imports are subject to a 6-percent exchange tax. Payments for imports listed in categories 2 and 3 are also subject to specified exchange surcharges, which are quoted in pesos per United States dollar. In category 2, the surcharge is 0.50 peso for truck chassis of less than 2 tons, and 1.50 pesos for all other commodities. The surcharge for commodities listed in category 3 is 2 pesos. The proceeds from these surcharges are used to maintain the exchange rate for imports of agricultural machinery, antibiotics, cortisone, insulin, and fertilizers at the rate of 3 pesos per United States dollar.

Under Uruguay's revised system of trade and exchange control, imports of commodities that were exempted from the requirement of prior import licenses and paid for at the rate of 2.10 pesos per United States dollar increased sharply; such imports are credited with having resulted in an unfavorable balance-of-payments position. By the end of May 1957 the Central Bank's gold and foreign exchange reserves had declined to 111 million dollars, compared with 147 million dollars at the end of 1956 and 165 million dollars a year earlier. With a view to reducing license-free imports, Uruguay issued an order in June 1957 establishing annual global quotas for each individual importer (based upon his purchases during the past 3 years), of which one-half may be imported every 6 months.

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