UNITED STATES TARIFF COMMISSION

Operation of the

TRADE AGREEMENTS PROGRAM

Seventh Report

July 1953–June 1954

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Seventh Report

July 1953–June 1954

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Report No. 195 Second Series

UNITED STATES TARIFF COMMISSION

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Foreword

This is the seventh report of the Tariff Commission on the operation of the trade agreements program.[1] Each of the successive Executive orders, No. 9832 of February 25, 1947, No. 10004 of October 5, 1948, and No. 10082 of October 5, 1949, has required the Commission to submit to the President and to the Congress at least once each year a factual report on this subject.

The Commission's first report on the operation of the trade agreements program covered the period from the inception of the program in June 1934 to April 1948. The second report covered the period April 1948–March 1949; the third, April 1949–June 1950; the fourth, July 1950–June 1951; the fifth, July 1951–June 1952; and the sixth, June 1952–June 1953. The present report covers the period July 1953–June 1954. Copies of the Commission's 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.

[1] When this report was approved by the U. S. Tariff Commission, the membership of the Commission was as follows: Edgar B. Brossard, Chairman; Joseph E. Talbot, Vice Chairman; Lynn R. Edminster; Walter R. Schreiber; and Glenn W. Sutton.

CONTENTS

Chapter 1. Introduction and Summary

Page

Introduction 1
United States trade agreements legislation 1
  Principal provisions of the Trade Agreements Extension Acts of 1951 and 1953. 2
  Extension act of 1954 4
Developments respecting the General Agreement on Tariffs and Trade 5
  General provisions 5
  Tariffs and tariff negotiations 6
  Administration of the agreement 7
  Other developments 7
Actions of the United States relating to its trade agreements program:
  Entry into force, withdrawal, or modification of trade-agreement concessions 8
  Activities under the escape clause 8
  Quantitative restrictions on imports into the United States 9
Changes in tariffs, exchange controls, and quantitative trade restrictions by countries with which the United States has trade agreements 10
  The Organization for European Economic Cooperation and the European Payments Union 11
  The sterling area 12
  Other nondollar countries 13
  Dollar countries 13
  Subsidies 14
  Miscellaneous matters regarding trade-agreement obligations 14

Chapter 2. United States Trade Agreements Legislation

Principal provisions of the Trade Agreements Extension Acts of 1951 and 1953 17
Legislative history and provisions of the extension act of 1954 21

Chapter 3. Developments Respecting the General Agreement on Tariffs and Trade

Status of the agreement 25
General provisions of the agreement:
  Most-favored-nation treatment (art. I) 26
    United Kingdom's request for waiver of certain obligations under article I. 27
    Italian preferential customs treatment for Libyan products 31
    Waiver for Australia to grant special treatment to products of Papua and New Guinea 32
  Schedules of concessions (art. II) 34
    Increase in Greek tariff coefficients 34
    Request by Greece for permission to adjust certain specific rates of duty 35
    Request by Czechoslovakia for permission to revise its schedule of concessions 36
  National treatment on internal taxation (art. III) 37
    Brazilian internal taxes 37
    Greek "contribution tax" on imports 39
    French tax on imports and exports 39

Chapter 3. Developments Respecting the General Agreement on Tariffs and Trade—Continued

General provisions of the agreement—Continued — Page
- Quantitative restrictions for balance-of-payments reasons (arts. XI–XIV) 40
  - Consultations under article XII : 4 (b), on intensification of restrictions; under article XIV : 1 (g), on discriminatory application of restrictions; and under article XV on questions within the jurisdiction of the International Monetary Fund 40
  - Fourth annual report on discriminatory application of import restrictions .. 43
  - Procedures for report and consultations in 1954 under article XIV : 1 (g) .. 44
- Special exchange agreements (art. XV) 45
  - Operation of exchange agreements with Indonesia and Haiti 45
  - Reports and consultations under article XI of special exchange agreements. 46
- Subsidies (art. XVI) 47
  - United States subsidy on exports of sultanas 47
  - United States subsidies on exports of oranges and almonds 48
- Emergency action (art. XIX): Modification by the United States of its concession on dried figs 50
- General exceptions (art. XX) 52
- Nullification or impairment of benefits (art. XXIII) 53
  - Belgian import restrictions on dollar goods 53
  - Belgian family-allowance tax 56
  - Brazilian compensatory concessions 57
  - Discrimination against Norwegian sardines by the Federal Republic of Germany 58
  - United States restrictions on imports of dairy products 59
  - United States restrictions on imports of filberts (hazel nuts) 61
- Customs unions and free-trade areas (art. XXIV) 63
  - Nicaragua-El Salvador free-trade area 63
  - South Africa-Southern Rhodesia Customs Union 64
  - Report of the European Coal and Steel Community 65

Tariffs and tariff negotiations:
- Report of the working party on the reduction of tariff levels 69
- Provisional accession of Japan to the General Agreement 75
- Withdrawal of concessions under article XXVII 79
- Modification of schedules (art. XXVIII) 80

Administration of the agreement:
- Continuation of ad hoc Committee for Agenda and Intersessional Business 83
- Arrangements for review of the General Agreement 85
- Arrangements for the Ninth Session 86
- Election of Chairman and Vice Chairmen 86
- Status of protocols and schedules:
  - Extension of time for signature of the Torquay Protocol 87
  - Rectification of schedules 88
- Financial statement and budget estimates 89

Other developments:
- Consideration by the Contracting Parties of resolutions of the International Chamber of Commerce 89
  - Valuation of imported goods for customs purposes 90
  - Nationality of imported goods 91
  - Standard practices for consular formalities 92
  - International Convention To Facilitate the Importation of Commercial Samples and Advertising Material 94
- Nomination of chairman of the Interim Coordinating Committee for International Commodity Arrangements 94
- Discrimination in transport insurance 95

Chapter 4. Actions of the United States Relating to Its Trade Agreements Program

Page

Entry into force of trade-agreement concessions 98
Withdrawal or modification of trade-agreement concessions 99
Activities under the escape clause in trade agreements 99
Reports by the President to the Congress on inclusion of escape clauses in trade agreements 100
Applications for investigations 101
Investigations completed:
Tobacco pipes and tobacco-pipe bowls of wood or root 105
Screen-printed silk scarves 107
Cotton-carding machinery and parts 108
Rosaries 109
Metal watch bracelets and parts 109
Handmade blown glassware 110
Mustard seeds (whole) 112
Manicure and pedicure nippers and scissors and shears 112
Alsike clover seed 114
Review of escape-clause actions under Executive Order 10401 115
Women's fur felt hats and hat bodies 115
Hatters' fur 116
Quantitative restrictions on imports into the United States 116
Restrictions under section 22 of the Agricultral Adjustment Act 117
Cotton 118
Wheat and wheat flour 118
Dairy products and oilseeds and their oils 118
Edible tree nuts 119
Wool, wool tops, and carbonized wool 119
Oats, hulled or unhulled, and unhulled ground oats 120
Rye, rye flour, and rye meal 121
Tung nuts and tung oil 121
Restrictions under the sugar act 121
Restrictions under the Philippine Trade Act 122

Chapter 5. Changes in Tariffs, Exchange Controls, and Quantitative Trade Restrictions by Countries With Which the United States Has Trade Agreements

Introduction 125
The Organization for European Economic Cooperation and the European Payments Union 127
Operation of the European Payments Union 128
The liberalization of intra-European trade 133
External payments position of OEEC countries 136
Balances for OEEC countries as a group 137
Balances of individual OEEC countries 141
Changes in reserves of OEEC countries 143
Changes in the discriminatory application of quantitative restrictions and other developments in individual OEEC countries 145
Austria 146
The Benelux countries 148
Denmark 150
France 155
Federal Republic of Germany 158
Greece 162

Chapter 5. Changes in Tariffs, etc.—Continued

	Page
The Organization for European Economic Cooperation and the European Payments Union—Continued	
Changes in the discriminatory application of quantitative restrictions and other developments in individual OEEC countries—Continued	
Italy	163
Norway	166
Sweden	166
Switzerland	168
Turkey	169
United Kingdom	171
Sterling area other than the United Kingdom	180
Balances and reserves of the sterling area as a whole	181
Changes in the discriminatory application of quantitative restrictions and other developments in individual sterling-area countries:	
Australia	184
New Zealand	185
Ceylon	185
India	186
Pakistan	187
Union of South Africa	188
Southern Rhodesia	190
Nondollar countries not in OEEC or the sterling area	191
Dollar countries:	
Dollar countries other than Cuba	197
Cuba	198
Subsidies	201
Miscellaneous matters regarding trade-agreement obligations	203

Tables

1. OEEC countries: Balance of payments with the United States and Canada, and with other non-OEEC countries, 1951–53	138
2. OEEC countries: Cumulative balances and financing, 1947–53	140
3. OEEC countries: Cumulative balances of individual countries, by areas, 1951–53	142
4. Continental OEEC countries, the United Kingdom, and other sterling-area countries: Holdings of gold and dollar assets by central banks, stabilization funds, and other governmental institutions, Dec. 31, 1951–53, and Mar. 31, 1954	143
5. Sterling area: Balance of payments, by areas, 1951–53	183

Chapter 1

Introduction and Summary

INTRODUCTION

This, the seventh report of the Tariff Commission on the operation of the trade agreements program, covers the period from July 1, 1953, through June 30, 1954.[1] During this period the United States concluded no new trade agreements. The report, however, covers other important developments respecting the trade agreements program during 1953–54. These include the passage of the trade agreements extension act of 1954; important developments respecting the General Agreement on Tariffs and Trade; actions of the United States relating to its trade agreements program; and changes in tariffs, exchange controls, and quantitative import restrictions by countries with which the United States has trade agreements.

UNITED STATES TRADE AGREEMENTS LEGISLATION

During the period covered by this report, the United States conducted its trade agreements program under the Trade Agreements Act of 1934, as amended, the Trade Agreements Extension Act of 1951, as amended, and the Trade Agreements Extension Act of 1953.

The Trade Agreements Extension Act of 1951 extended the President's authority to enter into trade agreements with foreign countries for a period of 2 years from June 12, 1951. The Trade Agreements Extension Act of 1953 further extended this authority for a period of 1 year from June 12, 1953. Among other things, it also made certain minor changes in the escape-clause procedures that had been provided for in the extension act of 1951, the statutory provisions of which remain in effect. Under the extension act of 1954, which was approved July 1, 1954, the President's authority to enter into trade agreements was extended for a period of 1 year from June 12, 1954.

[1] The first report was U. S. Tariff Commission, *Operation of the Trade Agreements Program, June 1934 to April 1948*, Rept. No. 160, 2d ser., 1949. It consisted of five volumes, as follows: Part I, Summary; Part II, History of the Trade Agreements Program; Part III, Trade-Agreement Concessions Granted by the United States; Part IV, Trade-Agreement Concessions Obtained by the United States; Part V, Effects of the Trade Agreements Program on United States Trade. Hereafter this 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.

Principal Provisions of the Trade Agreements Extension Acts of 1951 and 1953

Sections 3 and 4 of the Trade Agreements Extension Act of 1951 incorporate the "peril point" provision substantially in the form in which it appeared in the Trade Agreements Extension Act of 1948. Under this provision, the President is required, before entering into any trade-agreement negotiation, to transmit to the United States Tariff Commission a list of the commodities that may be considered for possible trade-agreement concessions. For each of these products the Commission is required to determine (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 the duty or additional import restriction that may be necessary for any of the products in order to avoid such injury.

The President may not conclude a trade agreement until the Commission has made its report to him, or until 120 days from the date that he transmitted the list of products to the Commission. In the event that a trade agreement is concluded that provides for greater reductions in duty than the Commission specifies in its report, or that fails to provide for the additional import restrictions specified, the President 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 Tariff Commission's recommendations. Promptly thereafter, the Tariff 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 dealing with the articles with respect to which the President did not follow the Tariff Commission's recommendations. The extension act of 1953 made no changes in the peril-point procedures as set forth in the extension act of 1951.

Sections 6 and 7 of the extension act of 1951 establish statutory provision for trade-agreement escape-clause procedures. Section 6 (a) of the 1951 act provides that no future trade-agreement concession "shall be permitted to continue in effect when the product on which the concession has been granted 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." Section 6 (b) directs the President, as soon as practicable, to bring into conformity with this policy all trade agreements entered into before the adoption of the extension act of 1951.

Procedures for administering the escape clause are set forth in section 7 of the extension act of 1951, as amended. This section directs the Tariff Commission to make an escape-clause investigation upon 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 application by any interested party, or upon its own motion. If the Commission finds the existence of serious injury or the threat thereof, it is required to recommend to the President that the concession be modified or withdrawn, that it be suspended, or that import quotas be established, for the time necessary to prevent or remedy such injury. The 1951 act specified that the Commission's report to the President must be made within 1 year of the date the application was received. The extension act of 1953, however, reduced the time limit to 9 months.

Other sections of the extension act of 1951 establish procedures to accelerate investigations and action on agricultural products requiring emergency treatment; direct the President to suspend the application of trade-agreement concessions to imports from the Soviet Union or from Communist-dominated or Communist-controlled areas; direct the President to prohibit imports of certain furs and skins from the Soviet Union or Communist China; and restore the right of producers, under the Tariff Act of 1930, to appeal to the United States Customs Court if they believe that they are being injured by the incorrect classification of any imported article subject to a trade-agreement concession.

By amending section 330 of the Tariff Act of 1930, the extension act of 1953 changed the effect of certain less-than-majority decisions of the Tariff Commission. The law authorizes the President, in exercising the authority conferred upon him to make changes in import restrictions, to regard the unanimous findings and recommendations of one-half of the number of Commissioners voting as the findings and recommendations of the Commission. If the Commissioners voting are divided into two equal groups, each of which is unanimous in its findings and recommendations, the findings and recommendations of either group may be regarded by the President as the findings and recommendations of the Commission. The act further specifies that if, in any case in which the Tariff Commission is authorized to make an investigation or hold hearings, one-half of the number of Commissioners voting agree that the investigation should be undertaken or the hearing held, such investigation shall be carried out (or the hearing held) in accordance with the statutory authority covering the matter in question.

The extension act of 1953 also provided for the appointment of a special bipartisan Commission on Foreign Economic Policy for the purpose of conducting a broad study "on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy." The Commission on Foreign Economic Policy was specifically directed to recommend appropriate policies, measures, and practices relating to the subject matter of its study.

Extension Act of 1954

The Commission on Foreign Economic Policy reported its findings to the President and to the Congress on January 23, 1954. On March 30, 1954, in a message to the Congress, the President recommended the enactment of certain of the proposals that had been included in the Commission's report. Among such proposals were recommendations to extend, for a further period of 3 years, the President's authority to conclude trade agreements, with authority to reduce, pursuant to trade-agreement negotiations, the rates of duty on selected groups of items over a 3-year period.

Subsequent to his message to the Congress, the President indicated that he believed any revision of the trade agreements legislation would best be accomplished by "careful and deliberate action taken on the basis of extensive, unhurried hearings," and he expressed the hope that the House Committee on Ways and Means could begin consideration of the proposed program in time to complete hearings before the Congress convened in January 1955. He noted that, meanwhile, a 1-year extension of his authority to negotiate trade agreements would be required.

House bill 9474, which was introduced in the House of Representatives on June 8, 1954, provided that the President's authority to conclude trade agreements with foreign countries be extended for a period of 1 year from June 12, 1954. The bill was reported favorably by the Committee on Ways and Means, which pointed out that, in view of the heavy legislative schedule, it would not be possible during the current session of the Congress to hold thorough public hearings on the many recommendations of the Commission on Foreign Economic Policy. The House of Representatives passed House bill 9474 on June 11, 1954, and, on June 24, 1954, the Senate passed the bill in amended form. The Senate and the House concurred in a modification to the Senate amendment on June 28, and the act was approved by the President on July 1, 1954.

As finally approved, the extension act of 1954 authorizes the President to enter into trade agreements with foreign countries for a period of 1 year from June 12, 1954. Section 2 of the act specifies that no action shall be taken to decrease the duty on any article if the President finds that such reduction would threaten domestic production needed for projected national defense requirements. Section 3 provides that enactment of the act shall not be construed to indicate the approval or disapproval by the Congress of the executive agreement known as the General Agreement on Tariffs and Trade. The statutory provisions of the extension act of 1951, as amended by the extension act of 1953, remain in effect.

During the second session of the 83d Congress, several other bills relating to the trade agreements program also were introduced. For the most part, these bills provided for extensive modification of the existing trade agreements legislation, but because the legislative schedule was not

such as to permit hearings on them they were not reported out of the committee to which they had been referred.

DEVELOPMENTS RESPECTING THE GENERAL AGREEMENT ON TARIFFS AND TRADE

On June 30, 1954, 34 countries were contracting parties to the multilateral agreement known as the General Agreement on Tariffs and Trade. The agreement now embraces the original agreement concluded by 23 countries at Geneva in 1947; the Annecy Protocol of 1949, under which 10 additional countries acceded to the agreement; and the Torquay Protocol of 1951, under which 4 other countries acceded. Since the Geneva Conference in 1947, a total of 38 countries have become contracting parties to the General Agreement, but 4 of these countries have since withdrawn.[2]

During the period covered by this report, the major developments respecting the General Agreement on Tariffs and Trade relate principally to the Eighth Session of the Contracting Parties,[3] which was held at Geneva, Switzerland, from September 17 to October 24, 1953. At this session the Contracting Parties were largely concerned with specific problems that had arisen from the operation of the general provisions of the agreement, but they also dealt with problems relating to tariffs and tariff negotiations, the administration of the agreement, and a number of miscellaneous matters. The discussions and consultations that the Contracting Parties held at their Eighth Session, as well as other developments relating to the agreement during the period covered by this report, are described in detail in chapter 3.

General Provisions

At their Eighth Session the Contracting Parties held consultations, under the provisions of article I, on the United Kingdom's request for permission to increase most-favored-nation rates on unbound items from foreign countries without increasing import duties on those items when imported from British Commonwealth countries; on the report by Italy and Libya on the waiver for the continued free entry of Libyan products

[2] The 34 countries that were contracting parties to the General Agreement on June 30, 1954, are 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, Luxembourg, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Peru, Southern Rhodesia, Sweden, Turkey, the Union of South Africa, the United Kingdom, the United States, and Uruguay. The countries that have withdrawn from the General Agreement are the Republic of China, Lebanon, Liberia, and Syria.

[3] The term "contracting parties," when rendered in initial capitals (Contracting Parties), refers to the member countries acting as a group. When rendered without initial capitals (contracting parties), it refers to member countries acting individually.

into Italy; and on Australia's request for a waiver to enable it to accord preferential customs treatment to primary products it imports from the territories of Papua and New Guinea.

Under article II of the agreement, the Contracting Parties considered Greece's request to increase its coefficients of conversion and to adjust certain specific rates of duty in its tariff schedule, and Czechoslovakia's request to reduce the specific duties in its schedule of concessions because of the appreciation of its currency in June 1953. Under article III, the Contracting Parties discussed the discriminatory internal taxes that Brazil applies to certain of its imports; the "contribution" tax that Greece formerly levied on imports; and the special tax that France formerly applied provisionally to imports and exports.

The Contracting Parties also discussed at length the quantitative restrictions that various contracting parties employ under articles XI–XIV for balance-of-payments reasons, and reviewed the operation of the special exchange agreements concluded under article XV with certain contracting parties that are not members of the International Monetary Fund. Under article XVI, the Contracting Parties considered the subsidies that the United States maintains on sultanas, oranges, and almonds, and, under article XIX, they discussed developments relating to the modification of the United States concession on dried figs.

Other matters that the Contracting Parties considered under the general provisions of the agreement at the Eighth Session included the general exceptions to the General Agreement (art. XX); Belgian import restrictions on dollar goods, the Belgian family-allowance tax, Brazilian compensatory concessions, discrimination by the Federal Republic of Germany against imports of Norwegian sardines, and United States restrictions on imports of dairy products and filberts (all under art. XXIII); and the Nicaragua-El Salvador free-trade area, the South Africa-Southern Rhodesia Customs Union, and the European Coal and Steel Community (all under art. XXIV).

Tariffs and Tariff Negotiations

At the Eighth Session, the Contracting Parties continued their consideration of various proposals that have been made for the reduction of tariff levels, including the French plan, the Blankenstein plan, and the Council of Europe's proposal for a "Low Tariff Club." With respect to these proposals, the Contracting Parties agreed to submit the report of the appropriate working party to the individual contracting parties for their consideration, and they requested the Intersessional Committee to continue its study of the various plans.

The Contracting Parties also considered new proposals for the accession of Japan to the General Agreement. They adopted, for consideration by the individual contracting parties, a decision inviting Japan to par-

ticipate in the General Agreement, and also prepared a declaration designed to regulate commercial relations between the participating contracting parties and Japan. In addition, they approved a decision providing for Japan's provisional participation in the General Agreement.

Under the provisions of article XXVIII, the Contracting Parties adopted a declaration (valid only for those countries that sign it) providing for the binding, until July 1, 1955, of the concessions that the various contracting parties have negotiated under the General Agreement. The declaration contains a "reciprocity" clause which permits a contracting party to modify or withdraw concessions initially negotiated with another contracting party that does not sign the declaration. The declaration does not alter the existing authority for the modification or withdrawal of individual concessions under other special provisions of the agreement, provided the member country that desires to make the change consults with the other contracting parties that have an interest in the concession.

Administration of the Agreement

At their Eighth Session the Contracting Parties agreed to continue the established procedures for handling intersessional business. To this end, they extended the authority of the ad hoc Committee for Agenda and Intersessional Business until the Ninth Session. They also agreed that the Ninth Session of the Contracting Parties would be convened in October 1954, and that the Contracting Parties would undertake a general review of the entire agreement, beginning in November 1954.

Other Developments

In order to incorporate modifications that certain of the contracting parties had made in their schedule of concessions, the Contracting Parties at their Eighth Session drew up a Third Protocol of Rectifications and Modifications, which was opened for signature on October 30, 1954. The Contracting Parties agreed to continue studies looking toward the establishment of uniform practices relating to the valuation of imports for customs purposes, and they recommended uniform practices for the determination of the nationality and origin of imported goods. They also heard reports by contracting parties to the agreement on their progress toward relaxation of consular formalities, and made plans for the preparation of a report on discrimination in transport insurance, which is to be considered at the Ninth Session.

ACTIONS OF THE UNITED STATES RELATING TO ITS TRADE AGREEMENTS PROGRAM

Entry Into Force, Withdrawal, or Modification of Trade-Agreement Concessions

On December 16, 1953, the United States placed in effect the concessions that it negotiated initially with Uruguay at Annecy and Torquay. Because of the serious plight of the domestic cattle and beef industry, however, the United States did not make effective the concessions that it had granted to Uruguay on canned beef, pickled and cured beef and veal, and meat extract.

Under article XIX (the escape clause) of the General Agreement on Tariffs and Trade, the United States on June 30, 1954, modified the concession that it had granted at Geneva on alsike clover seed.

Activities Under the Escape Clause

During the period July 1953 to June 1954, United States activities under the escape clause were governed principally by certain provisions of the Trade Agreements Extension Act of 1951, as amended, and by Executive Order 10401. As required by section 6 (b) of the extension act of 1951, the President, on July 9, 1953, and again on January 11, 1954, submitted to the Congress a report on the inclusion of escape clauses in trade agreements. In his reports, the President pointed out that all but four of the country's existing trade agreements—those with Ecuador, El Salvador, Guatemala, and Honduras—conform to the escape-clause policy established in section 6 (a) of the act.

The procedure for administering the escape clause, prescribed by section 7 of the extension act of 1951, as amended, designates the Tariff Commission as the agency to conduct investigations to determine the facts and to recommend escape action for the President's consideration in cases where facts justifying the invocation of the escape clause are found to exist. Executive Order 10401 requires the Commission to report periodically to the President on developments with regard to products on which escape-clause action has been taken, and to conduct review investigations to determine whether there is cause for continuing or modifying such actions in whole or in part.

At one time or another during the period covered by this report, 21 escape-clause investigations were pending before the Tariff Commission. As of June 30, 1954, the Commission had completed 8 of those investigations, had discontinued 1 investigation at the request of the applicant, and had terminated 2 investigations without formal findings. The 10 remaining investigations were still in process. The Commission's report on the completed investigations, as well as the nature and status of each of the 21 investigations, are discussed in chapter 4 of this report.

Under the provisions of Executive Order 10401, the Commission during the period covered by this report submitted to the President periodic reports on developments with respect to two products on which the United States had taken escape-clause action—certain women's fur felt hats and hat bodies, and hatters' fur.

Quantitative Restrictions on Imports Into the United States

During all or part of the last half of 1953 and the first half of 1954 the United States applied quantitative restrictions on the importation of cotton, wheat and wheat flour, shelled filberts, certain dairy products, peanuts, oats, and rye, under section 22 of the Agricultural Adjustment Act, as amended. During the period covered by this report, the Tariff Commission conducted 5 investigations under the provisions of section 22. After reports made by the Commission in 3 of those investigations, the President imposed quotas on imports of hulled or unhulled oats, and rye, rye flour, and rye meal, and imposed fees on imports of shelled and blanched almonds. In the report on its investigation of wool, wool tops, and carbonized wool, the Commission recommended to the President that he impose fees on the importation of these products; the President announced, however, that he was taking no action on the Commission's recommendation. On June 30, 1954, the fifth investigation under section 22—relating to tung nuts and tung oil—was still in process.

Since 1934 all sugar for the United States market, whether domestic or imported, has been limited by absolute quotas, except during periods of emergency. The quotas are currently imposed pursuant to the Sugar Act of 1948, as amended.

The Philippine Trade Act of 1946 provides for absolute quotas on imports of sugar, hard-fiber cordage, rice, cigars, filler and scrap tobacco, coconut oil, and buttons of pearl or shell from the Philippines. The act provides that the entire quotas on sugar, cordage, and rice should be subject to progressive import duties commencing on July 4, 1954, with 5 percent of the lowest United States duty applicable to like imports from any other country, and increasing each year thereafter by like steps until 1974, when the full United States duties would apply.[4] The act provides that the other aforementioned products on which there are quota limitations should be subject to progressively decreasing duty-free portions of such absolute quotas, imports in excess of the duty-free entries to be subject to the lowest United States duty applicable to like imports from any other foreign country. The act also authorizes the President to establish quotas on imports of other Philippine articles which he finds, after investigation by the Tariff Commission, are coming, or are likely

[4] Public Law 474, 83d Cong., which was approved by the President on July 5, 1954, provides for continuance of the duty-free entry of Philippine goods into the United States through December 31, 1955.

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to come, into substantial competition with like articles which are the product of the United States. Thus far, no action has been taken under this last provision.

CHANGES IN TARIFFS, EXCHANGE CONTROLS, AND QUANTITATIVE TRADE RESTRICTIONS BY COUNTRIES WITH WHICH THE UNITED STATES HAS TRADE AGREEMENTS

In 1953–54 there was a general and substantial improvement in the external financial position of the countries with which the United States has trade agreements. Most of these countries improved their balance-of-payments position in dollars, and increased their gold and dollar reserves. They were, therefore, in a better position than they had been for many years to relax their restrictions on the use of dollar exchange and their quantitative restrictions on imports from the dollar area. As their external financial positions improved there was a general tendency during 1953–54 for countries to relax these restrictions, in conformity with their trade-agreement obligations.

One of the difficulties connected with the relaxation or removal of quantitative restrictions on imports results from the fact that often they are protective, and the industries protected by them strongly oppose their relaxation or removal. Some countries with which the United States has trade agreements frankly admit that they retain some quantitative controls for protective purposes rather than for purely financial reasons and that they do not wish to be deprived of the right to do so.

Another deterrent to the prompt relaxation or removal of quantitative restrictions under improved conditions of external payments results from the contention of some countries that their improved position in balances and reserves may prove to be temporary. Some of these countries point to fairly recent experiences that have made it necessary for them to reimpose quantitative restrictions—which had been relaxed as their balance-of-payments positions improved—after a reversal of their external financial positions. In some instances the United States Government has regarded this cautious approach as unjustified. Fear of a general economic recession in the United States was particularly strong in some countries in 1953, and this feeling was widely given as a reason for not relaxing or eliminating quantitative controls.

Nevertheless, the general trend during the last year or so has been toward the relaxation of restrictions on dollar goods, and interest in expanding trade in this way has been strong in most countries. Moreover, improved prospects for general currency convertibility gave rise to strong sentiment in some countries to prepare for this eventuality by freeing trade of restrictions, since it is generally agreed that removal of the present restrictions on convertibility and elimination of the restrictions

on trade must proceed together. Steps in these directions by a few strong countries tend to stimulate similar activity in other countries.

The Organization For European Economic Cooperation and the European Payments Union

The greater part of chapter 5 of this report is devoted to a review of developments during 1953–54 with respect to the commercial policies and external financial positions of the countries of the Organization for European Economic Cooperation (OEEC), since it is in this area that measures for the solution of the so-called dollar problem are most heavily concentrated. The analysis involves a review of the principal developments both within the European Payments Union (EPU), and between the OEEC countries—as a group and on an individual country basis—and the rest of the world, particularly the dollar area.

The European Payments Union (EPU) has been renewed on a year-to-year basis since its first year of operation, which began on July 1, 1950. EPU was established by OEEC as an instrument for balancing the trade debits and credits of its members on a multilateral basis, thus creating a large territory within which currencies of the members are freely convertible. It also provides elaborate mechanisms and incentives for maintaining manageable trade balances and for relaxing barriers on the mutual trade of the group.

The total annual net balance of the members of EPU with the Payments Union was substantially reduced in 1954. Some debtor countries (notably France), however, and some creditor countries (notably the Federal Republic of Germany) were in a more extreme position with the Payments Union on June 30, 1954, than they had been a year earlier; that is, they exceeded the limits, as set by their quotas, beyond which they could not increase their deficits or surpluses without incurring increasingly heavy penalties. No member of EPU increased its quantitative restrictions on imports from other members after July 1, 1953, and some members substantially relaxed such restrictions.

Between 1951 and 1954 the balance of payments of the countries of OEEC as a group with non-OEEC countries changed from a large deficit to a substantial surplus. The OEEC deficit with the United States and Canada declined in 1951 and in 1952; in 1953 there was a large surplus with these two countries. Likewise, during the same period, the total gold and dollar reserves of the OEEC countries as a group increased substantially; only Turkey failed to share in this increase.

Under conditions of improved balances and reserves, most of the OEEC countries further relaxed their quantitative restrictions on imports of dollar goods during 1953–54. Nevertheless, all the contracting parties to the General Agreement in the OEEC group, except Belgium and Luxembourg, continued to apply some restrictions—mainly against dollar

goods—for balance-of-payments reasons. Belgium and Luxembourg abolished all discrimination against the licensing of dollar goods in May 1954, although Belgian treatment of imports of coal from the United States still remained a matter at issue. The Netherlands went almost as far as Belgium-Luxembourg in removing restrictions on dollar imports. The measures taken or announced by other OEEC countries to relax restrictions on dollar imports as well as those taken by the countries just mentioned, are discussed in detail in chapter 5. Relaxation of restrictions by some countries fell short of what the United States considered possible in the light of their improved financial positions, and there were some practices which the United States considered to be in violation of the General Agreement. On the whole, however, much progress was made during 1953–54 toward the goal of multilateral trade and the general convertibility of currencies.

The Sterling Area

The principal developments in the sterling area during 1953–54 were those that directly involved the United Kingdom, which not only is the focal point of the sterling area, but also—by virtue of its quota covering the entire sterling area—is by far the largest "shareholder" in the European Payments Union. During the year the United Kingdom greatly extended the area within which sterling is freely transferable, thus further preparing the groundwork for general currency convertibility; it also opened the London gold market to private trading. The United Kingdom reduced its deficit with the dollar area, and greatly increased its resources of gold and dollars. Besides freeing additional imports from other OEEC countries from quantitative restrictions, the United Kingdom made some progress—although to a much lesser extent than in the relaxations on OEEC goods—in relaxing restrictions on dollar imports. This was done principally by "decontrolling" the trade in additional commodities formerly subject to government contract and, therefore, not open to private traders. The United Kingdom also slightly broadened the scope of its "token import" plan.

As a group, the countries of the sterling area other than the United Kingdom had a surplus in their balance of payments with the dollar area and with all other areas in 1953, in contrast with deficits in previous years. Each country of the sterling area improved its dollar position. The Union of South Africa abolished discrimination against dollar goods in 1953. None of the other overseas sterling countries went so far, but some of them—notably New Zealand, India, and Southern Rhodesia—relaxed their quantitative restrictions on imports from the dollar area. Ceylon and Pakistan relaxed restrictions on some dollar goods but tightened them on others. Australia continued its policy of severely restricting dollar imports, but relaxed its restrictions on imports from

nondollar sources; these latter relaxations were particularly favorable to imports from the United Kingdom and Japan.

Other Nondollar Countries

Nondollar countries with which the United States has trade agreements—other than those in the OEEC group and the sterling area—are Argentina, Brazil, Chile, Indonesia, Iran, Finland, Paraguay, Peru, and Uruguay. All these countries restrict dollar imports and imports payable in other scarce currencies, although Peru employs a minimum of such restrictions. All of them, except Peru and Finland, operate multiple-exchange-rate systems as an important element in the control of their trade. In 1953–54 some of these countries—notably Argentina, Brazil, Paraguay, and Uruguay—made their exchange-rate systems more complex than before. Most of the others made no substantial changes in this feature of their commercial policies.

For Argentina, Brazil, Finland, Iran, and Indonesia the balance-of-payments position—both overall and with the dollar area—improved substantially in 1953. On the basis of partial data, it appears to have improved for Paraguay and Uruguay also, but to have deteriorated for Chile and Peru.

Dollar Countries

In 1953–54 there was no change in the status of the trade agreements that were in effect between the United States and the 10 "dollar" countries, and no outstanding developments in the trade policies and practices of these countries. The agreements continued on a bilateral basis with Ecuador, El Salvador, Guatemala, Honduras, and Venezuela, and on a multilateral basis (under the General Agreement on Tariffs and Trade) with Canada, Cuba, the Dominican Republic, Haiti, and Nicaragua. Although some of these countries have no exchange problems in the sense of having to apply exchange restrictions or quantitative restrictions for balance-of-payments reasons, they do employ licensing, quotas, and other forms of restriction for protective purposes. Only Ecuador, Nicaragua, and Venezuela employ multiple-exchange-rate systems; Nicaragua, in particular, applies its system to different classes of imports so as to favor essential imports over those considered less essential. Canada, Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, and Honduras have no exchange problems and do not employ exchange controls. Guatemala, however, resorts extensively to quantitative restrictions and prohibitions; these practices, combined with certain problems of tariff treatment, have been a source of considerable difficulty in the trade-agreement relationship between that country and the United States.

Subsidies

The nature and extent of the subsidies affecting international trade—as they are defined in article XVI of the General Agreement—that are employed by various contracting parties have not changed appreciably since they were first reported to the Contracting Parties in 1951. The countries that employed such subsidies in 1954 were Australia, Belgium, Canada, Cuba, Denmark, Finland, France, Italy, the Netherlands, Sweden, Turkey, the Union of South Africa, and the United Kingdom; the United States also uses subsidies as defined in article XVI.

Reports on the use of subsidies are often inconclusive as to whether, or to what extent, such measures actually operate directly or indirectly to increase exports or to reduce imports. Most countries that employ subsidies emphasize the negligible effects of them on international trade. Foreign countries that subsidize a relatively large number of commodities are Australia, Belgium, Canada, and the United Kingdom. Countries that have reported at one time or another that they do not employ subsidies are Austria, Brazil, Burma, Ceylon, Chile, the Dominican Republic, the Federal Republic of Germany, Greece, Haiti, India, Indonesia, Luxembourg, New Zealand, Norway, Pakistan, and Southern Rhodesia.

Miscellaneous Matters Regarding Trade-Agreement Obligations

Various kinds of problems regarding trade-agreement obligations—particularly those that arise from charges of trade-agreement violations—sometimes continue for years without solution; others are resolved satisfactorily almost as soon as they arise. Most of the countries with which the United States has trade agreements scrupulously abide by their obligations, and have made changes in their concessions only through the channels and by the methods provided in the agreements. Matters at issue between contracting parties to the General Agreement are often dealt with satisfactorily by the countries directly involved; in some instances, however, the problems are presented to the Contracting Parties for examination. Issues that arise between the United States and the countries with which it has bilateral trade agreements are, of course, settled by the two countries involved.

No attempt is made in chapter 5 of this report to review all the matters at issue between the United States and countries with which it has trade-agreement obligations; many of those issues have been reported in previous reports on the operation of the trade agreements program, or are discussed in other sections of this report. Attention is given, however, to some problems that have arisen between the United States and Uruguay and Chile.

The bilateral trade agreement between Uruguay and the United States was terminated in December 1953, when Uruguay became a contracting party to the General Agreement. Promises by Uruguay to correct cer-

tain practices of long standing had not been fulfilled under the bilateral agreement, and representations by the United States regarding more recent actions that involved discriminatory treatment of United States goods have not met with corrective action.

Chile has acted promptly in meeting some of the protests by the United States against the propriety of certain actions involving Chile's obligations under the General Agreement. On other matters with respect to which the United States has protested, Chile has advanced what it considers as justifications for the measures taken. Prohibitions against the importation of a long list of United States articles have been defended by Chile on the ground that the restrictions were necessary because of a serious decline in its dollar reserves. The United States has protested with respect to discrimination against United States goods as a result of the operation of Chile's multiple-exchange-rate system, but Chile has continued the discrimination on the ground that its exchange-rate system has been an indispensable step in attaining the goal of a single-rate structure, and that, in fact, a single rate now applies to almost all types of imports and to most exports.

Chapter 2

United States Trade Agreements Legislation

During the period covered by this report, the United States conducted its trade agreements program under the Trade Agreements Act of 1934, as amended, the Trade Agreements Extension Act of 1951, as amended, and the Trade Agreements Extension Act of 1953.

The Trade Agreements Extension Act of 1951 continued the President's authority to enter into trade agreements with foreign countries, for a period of 2 years from June 12, 1951. The Trade Agreements Extension Act of 1953 further extended this authority for a period of 1 year from June 12, 1953. Among other things, it also made certain minor changes in the escape-clause procedures that had been provided for in the extension act of 1951, the statutory provisions of which remain in effect. The extension act of 1954, which was approved July 1, 1954, continued the President's authority to enter into trade agreements, for a period of 1 year from June 12, 1954. The legislative histories and the provisions of the extension acts of 1951 and 1953 were discussed in detail in the Commission's sixth report on the operation of the trade agreements program. In this chapter the discussion of the extension act of 1954 is preceded by a brief review of the principal provisions of the extension acts of 1951 and 1953.[1]

Principal Provisions of the Trade Agreements Extension Acts of 1951 and 1953

Sections 3 and 4 of the Trade Agreements Extension Act of 1951 provide the statutory authority for the use of the "peril point" in the negotiation of trade agreements. The peril-point provision of the 1951 act, which is substantially the same as that which was incorporated in the Trade Agreements Extension Act of 1948, requires the President, before entering into any trade-agreement negotiation, to transmit to the Tariff Commission a list of the commodities that may be considered for possible concessions. The Commission is then required to make an investigation (including a public hearing) and to report its findings to the President on

[1] For a complete discussion of the legislative history of the trade agreements program, see *Operation of the Trade Agreements Program* reports as follows: First report, pt. 2, ch. 2; second report, pp. 9–14; third report, pp. 23–30; fourth report, pp. 27–33; fifth report, pp. 1–4; and sixth report, pp. 17–23.

(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 the duty or additional import restriction that may be necessary on any of the listed products in order to avoid causing or threatening serious injury to the aforementioned domestic industry.

The President may not conclude a trade agreement until the Commission has made its report to him, or until 120 days from the date he transmitted the list of products to the Commission. If the President concludes a trade agreement that provides for greater reductions in duty than the Commission specifies 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 Tariff Commission's recommendations. Promptly thereafter, the Tariff 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 dealing with the articles with respect to which the President did not follow the Tariff Commission's recommendations.

The extension act of 1953 made no changes in the peril-point procedures as set forth in the extension act of 1951.

Sections 6 and 7 of the extension act of 1951 establish statutory provision for trade-agreement escape-clause procedures. Section 6 (a) of the 1951 act provides that no future trade-agreement concession "shall be permitted to continue in effect when the product on which the concession has been granted 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." Section 6 (b) directs the President, as soon as practicable, to bring into conformity with this policy all trade agreements entered into before the adoption of the extension act of 1951.[2]

Procedures for administering the escape clause are set forth in section 7 of the extension act of 1951, as amended. This section directs the Tariff Commission to make an escape-clause investigation upon 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 application by any interested party, or upon its own motion. If as a result of the investigation the Commission finds the existence of serious injury or threat thereof, it is required to recommend to the President that the concession be modified or withdrawn,

[2] For a report on developments with respect to this and other provisions of the extension act of 1951, as amended in 1953, see ch. 4.

that it be suspended in whole or in part, or that import quotas be established, for the time necessary to prevent or remedy such injury. The 1951 act specified that the Commission's report to the President must be made within 1 year of the date the application was received. The extension act of 1953, however, reduced this time limit to 9 months. In the event that the President does not take the action recommended by the Tariff Commission within 60 days after receiving the Commission's report, he is required to submit a report immediately to the Senate Committee on Finance and the House Committee on Ways and Means, stating the reasons why he did not follow the Commission's recommendation.

Section 8 of the extension act of 1951 establishes procedures to accelerate investigations and action on agricultural commodities under the escape-clause provision of the extension act of 1951 or under section 22 of the Agricultural Adjustment Act, as amended. Section 22 of the Agricultural Adjustment Act sets forth procedures for tariff adjustment whenever agricultural products are being imported, or are practically certain to be imported, under such conditions and in such quantities as to materially interfere with or tend to render ineffective domestic programs of the Department of Agriculture. Under section 8 of the extension act of 1951, the President is authorized to take immediate action with respect to such imports, in cases in which, because of the perishability of the agricultural commodity concerned, a condition exists requiring emergency treatment. In any event, the Commission must complete its investigation and report to the President (under the escape clause or section 22), and the President must make his decision, not more than 25 calendar days after the submission of the case to the Commission. Section 104 of the extension act of 1953 amends section 22 of the Agricultural Adjustment Act by authorizing the President to take immediate action, without waiting for the Tariff Commission's report, on any agricultural product (whether or not perishable) whenever the Secretary of Agriculture determines and reports to the President that a condition requiring emergency treatment exists with respect to such product. Under the extension act of 1951, the President's authority to take such emergency action had been limited to perishable agricultural products.

Section 5 of the extension act of 1951 directs the President, as soon as practicable, to suspend, withdraw, or prevent the application of any tariff concession contained in any trade agreement to imports from the Soviet Union and from Communist-dominated or Communist-controlled areas. Section 9 of the act of 1951 restores the right of an interested domestic producer to request a ruling from the Secretary of the Treasury as to the classification of and rate of duty on any imported article, and, if dissatisfied with such ruling, to appeal (under sec. 516 (b) of the Tariff Act of 1930) to the United States Customs Court. With respect to trade-agreement items, this right of appeal had been eliminated by the Trade

Agreements Act of 1934. Section 10 of the extension act of 1951 specifies that the enactment of that act shall not be construed to indicate either approval or disapproval by the Congress of the General Agreement on Tariffs and Trade. A like provision was included in the extension act of 1953 (sec. 103). Section 11 of the 1951 act directs the President to prohibit imports of certain furs and skins from the Soviet Union and Communist China.

Section 201 of the extension act of 1953 amends section 330 of the Tariff Act of 1930 to provide that, in any case calling for findings by the Tariff Commission in connection with any authority conferred upon the President by law to make changes in import restrictions, the unanimous findings and recommendations of one-half of the number of Commissioners voting may be treated by the President as the findings and recommendations of the Commission. If the Commissioners voting are divided into two equal groups, each of which is unanimously agreed on a different set of findings and recommendations, the findings and recommendations of either group may be regarded by the President as the findings and recommendations of the Commission. In any such case, the Tariff Commission must transmit to the President the findings and recommendations of each group. The extension act of 1953 also provides that if, in any case in which the Tariff Commission is authorized to make an investigation or hold hearings (either upon its own motion, or upon complaint, or upon application of any interested party), one-half of the number of Commissioners voting agree that the investigation shall be undertaken (or the hearing held), such investigation or hearing shall be carried out in accordance with the statutory authority that is applicable to the matter in question.

The extension act of 1953 also provided for the establishment of a bipartisan Commission on Foreign Economic Policy to study the foreign economic policy of the United States. Sections 302 through 310 of the act established operating procedures for the Commission, which consisted of 17 members appointed as follows: 7, by the President; 5 from the United States Senate, by the Vice President; and 5 from the House of Representatives, by the Speaker of the House. The act provided that no more than 4 of the 7 members appointed by the President and no more than 3 members of each group appointed from the Senate and from the House of Representatives shall be of the same political party.[3]

[3] The membership of the Commission on Foreign Economic Policy was as follows:

Presidential appointees—Clarence B. Randall, of Chicago, Ill., Chairman; Lamar Fleming, Jr., of Houston, Tex., Vice Chairman; David J. McDonald, of Pittsburgh, Pa.; Cola G. Parker, of Neenah, Wis.; Jesse W. Tapp, of San Francisco, Calif.; John Hay Whitney, of New York, N. Y.; and John H. Williams, of Cambridge, Mass.

Senators—Eugene D. Millikin (R), Colorado; Bourke B. Hickenlooper (R), Iowa; Prescott Bush (R), Connecticut; Walter F. George (D), Georgia; and Harry F. Byrd (D), Virginia.

Representatives—Daniel A. Reed (R), New York; Richard M. Simpson (R), Pennsylvania; John M. Vorys (R), Ohio; Jere Cooper (D), Tennessee; and Laurie C. Battle (D), Alabama.

The Commission on Foreign Economic Policy was established to conduct a broad study of United States foreign economic policy. It was specifically directed to "examine, study, and report on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy; and to recommend appropriate policies, measures, and practices." Without limiting the scope of its operations, the act directed this policy Commission to consider and report on such matters as the laws, regulations, and practices of the United States and other nations relating to international trade, including tariffs, customs and customs administration, trade agreements, peril-point and escape-clause procedures, import and export quotas, monetary licenses, countervailing duties, and procurement preferences. The policy Commission was further directed to study other factors pertinent to international commerce, such as the effect of foreign aid and military defense programs on international trade and international balance of payments, the balance-of-payments problems of individual nations, and the effect on international trade of such factors as costs of production, pricing policies, labor practices, general living standards, and commercial and financial policies. It was required to report to the President and to the Congress within 60 days after the convening of the 2d regular session of the 83d Congress. The act specified that "ninety days after the submission to Congress of the report . . ., the Commission shall cease to exist." The policy Commission submitted its report to the President and to the Congress on January 23, 1954.[4]

Legislative History and Provisions of the Extension Act of 1954

Inasmuch as the President's authority to negotiate trade agreements under the Trade Agreements Extension Act of 1953 was due to expire on June 12, 1954, the administration took action, shortly after the convening of the 2d session of the 83d Congress, to obtain an extension of that authority.

After receiving the report of the Commission on Foreign Economic Policy, the President on March 30, 1954, transmitted a message to the Congress in which he recommended the enactment of certain of the proposals that had been included in the Commission's report.[5] Among such pro-

[4] Several members of the Commission made separate statements on, or dissents from, certain of the discussions in the report. These statements or dissents were included in the Commission's report. Two members of the Commission—the Honorable Daniel A. Reed and the Honorable Richard M. Simpson, Members of Congress—submitted a separate minority report. The working papers of the Commission, entitled *Staff Papers Presented to the Commission on Foreign Economic Policy*, were published in February 1954.

[5] See U. S. Congress, *Message From the President of the United States Transmitting Recommendations Concerning the Foreign Economic Policy of the United States*, H. Doc. 360 (83d Cong., 2d sess.), 1954.

posals were recommendations to extend, for a further period of 3 years, the President's authority to conclude trade agreements, with authority to reduce, pursuant to trade-agreement negotiations, the rates of duty on selected groups of items over a 3-year period. These recommendations included proposals to permit the President (1) to reduce, pursuant to trade-agreement negotiations, existing tariff rates on commodities selected for such negotiations by not more than 5 percent of present rates in each of the 3 years covered by the new act; (2) to reduce, by not more than one-half over a 3-year period, tariffs in effect on January 1, 1945, on products that are not being imported or that are being imported only in negligible volume; and (3) to reduce, over a 3-year period, pursuant to trade-agreement negotiation, to 50 percent ad valorem, or its equivalent, any rate in excess of 50 percent ad valorem, or its equivalent. In his message to the Congress, the President also indicated that, in view of the urgent economic problems confronting Japan, special provisions might be recommended for negotiations with that country. In his message, the President also discussed, in broad outline, special problems and possible programs relating to domestic customs procedures, taxation on the foreign operations of domestic enterprises, United States investment abroad, "Buy American" legislation, procurement of raw materials from foreign sources, the relationship between domestic agricultural and foreign economic policies, the General Agreement on Tariffs and Trade, international travel, economic and technical assistance, East-West trade, and currency convertibility.

Subsequent to his message to the Congress, the President indicated that he believed any revision of the trade agreements legislation would best be accomplished by "careful and deliberate action taken on the basis of extensive, unhurried hearings," and he expressed the hope that the House Committee on Ways and Means could begin consideration of the proposed program in time to complete hearings before the Congress convened in January 1955.[6] He noted that, meanwhile, a 1-year extension of his authority to negotiate trade agreements would be required.

On June 8, 1954, House bill 9474 was introduced in the House of Representatives. This bill provided that the President's authority to negotiate trade agreements with foreign countries be extended for a period of 1 year from June 12, 1954. The bill was referred to the House Committee on Ways and Means, and on June 10, 1954, was committed to the Committee of the Whole House and ordered to be printed. In favorably reporting on the bill, the Committee on Ways and Means pointed out that, in view of the heavy legislative schedule, it would not be possible to hold thorough public hearings on the many recommendations of the Commission on Foreign Economic Policy. The committee therefore recom-

[6] See exchange of letters between the President and Mr. Charles H. Percy, president of the Bell and Howell Co., Chicago, Ill., released by the White House on May 20, 1954.

mended, as an interim measure, the extension of the President's authority to conclude trade agreements for a period of 1 year.[7]

The House debated the bill on June 11, 1954, after which it was passed, without amendment, by a vote of 281 to 53. On June 14, 1954, the bill was referred to the Senate Committee on Finance; on June 16, 1954, the committee reported favorably on it, without amendment.[8] On June 24, 1954, the Senate passed the bill in amended form by a vote of 71 to 3. The Senate and the House concurred in a modification to the Senate amendment on June 28, and the act was approved by the President on July 1, 1954.[9]

As finally approved, the extension act of 1954 (sec. 1) authorizes the President to enter into trade agreements with foreign countries for a period of 1 year from June 12, 1954. Section 2 of the act specifies that no action shall be taken to decrease the duty on any article if the President finds that such reduction would threaten domestic production needed for projected national defense requirements. Section 3 provides that enactment of this act shall not be construed to indicate the approval or disapproval by the Congress of the executive agreement known as the General Agreement on Tariffs and Trade. The statutory provisions of the extension act of 1951, as amended by the extension act of 1953, remain in effect.[10]

[7] See Rept. No. 1777, 2d sess., 83d Cong., *Trade Agreements Extension: Report to Accompany H. R. 9474*, June 10, 1954.

[8] Senate Calendar No. 1613, Rept. No. 1605, 2d sess., 83d Cong., *Trade Agreements Extension: Report to Accompany H. R. 9474*, June 16, 1954.

[9] Public Law 464, 83d Cong., 2d sess.

[10] During the 2d session of the 83d Congress, several other bills relating to the trade agreements program were also introduced. For the most part, these bills provided for extensive modification of the existing trade agreements legislation, but because the legislative schedule was not such as to permit hearings on them, they were not reported out of the committee to which they were referred.

Chapter 3

Developments Respecting the General Agreement on Tariffs and Trade

STATUS OF THE AGREEMENT

On June 30, 1954, 34 countries were contracting parties to the multilateral agreement known as the General Agreement on Tariffs and Trade.[1] These countries were 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, Luxembourg, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Peru, Southern Rhodesia,[2] Sweden, Turkey, the Union of South Africa, the United Kingdom, the United States, and Uruguay.

The General Agreement now embraces 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; and the Torquay Protocol of 1951, under which 4 other countries acceded. Indonesia, on behalf of which the Netherlands negotiated concessions at Geneva in 1947, became an independent contracting party in 1950. Since the Geneva Conference in 1947, a total of 38 countries have become contracting parties to the General Agreement. However, 4 countries that acceded to the agreement as a result of negotiations at Geneva or Annecy (Republic of China, Lebanon, Liberia, and Syria) have since withdrawn from it.[3]

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

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[1] For a discussion of the history and nature of the General Agreement, see *Operation of the Trade Agreements Program* reports as follows: First report, pt. 2; second report, pp. 19–21; third report, pp. 31 and 32; fourth report, pp. 35 and 36; fifth report, pp. 23–26; and sixth report, pp. 25–27.

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

[3] The Republic of China, Lebanon, and Syria, all of which negotiated for accession at Geneva, withdrew from the agreement on May 5, 1950, February 25, 1951, and August 6, 1951, respectively. Liberia, which negotiated for accession to the agreement at Annecy, withdrew from the agreement on June 13, 1953.

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the Geneva Conference in 1947 and June 30, 1954, the Contracting Parties held eight regular sessions. From the time the ad hoc Committee for Agenda and Intersessional Business was established (1951), to June 30, 1954, it held six meetings.

At the Eighth Session of the Contracting Parties, which was held at Geneva, Switzerland, from September 17 to October 24, 1953, all 33 countries then party to the General Agreement were in attendance. Uruguay, which did not accede to the agreement until after the Eighth Session,[4] was represented by an observer, as were Colombia, Costa Rica, Japan, Libya, Mexico, the Philippines, Portugal, Switzerland, and Yugoslavia. The international organizations that were represented at the Eighth Session were the United Nations, the International Monetary Fund, the International Labour Organization, the Food and Agriculture Organization, the Organization for European Economic Cooperation, the Council of Europe, the Customs Cooperation Council, and the High Authority of the European Coal and Steel Community. Also represented was the International Chamber of Commerce, which consulted with the Contracting Parties on problems relating to valuation for customs purposes, nationality of manufactured goods, and consular formalities.

At their Eighth Session the Contracting Parties considered a total of 44 agenda items. Although they disposed of several minor matters in plenary session, they established nine working parties to consider the more complex problems and to submit recommendations on them.

The subsequent discussion of the principal developments relating to the General Agreement on Tariffs and Trade during the period covered by this report is divided into the following sections: (1) The general provisions of the agreement; (2) tariffs and tariff negotiations; (3) administration of the agreement; and (4) other developments. These headings cover not only developments at the Eighth Session of the Contracting Parties, but also other developments relating to the General Agreement during the period covered by this report.

GENERAL PROVISIONS OF THE AGREEMENT

Most-Favored-Nation Treatment (Art. I)

Article I of the General Agreement incorporates the most-favored-nation clause in its unconditional form. One of the principal purposes of this article is to pledge each contracting party to apply to its imports from any other contracting party no higher customs duties or internal

[4] Uruguay negotiated for accession to the General Agreement at Annecy, and also at Torquay in 1950–51, but did not sign the Annecy and Torquay Protocols until November 16, 1953. Although Uruguay was not a contracting party during the Torquay negotiations, the Contracting Parties made special provision to permit Uruguay to negotiate there, and to permit it to sign the Torquay Protocol, on condition that it first complete accession to the General Agreement by signing the Annecy Protocol.

taxes than it applies to imports of the same products from any other country. Article I, however, also provides for certain exceptions to this general principle. These exceptions relate to preferential trade between a number of areas, such as that between the areas comprising the British Commonwealth, between France and its overseas areas, and between the United States and both Cuba and the Philippines. Article I states that the margins of preference in such trade may not be increased above those that were in effect on various specified dates.[5]

United Kingdom's request for waiver of certain obligations under article I

At their Eighth Session the Contracting Parties considered the United Kingdom's request for a waiver of certain of its obligations under the provisions of article I of the General Agreement. These obligations relate to the binding of margins of tariff preference. Under paragraph 4 (b) of article I of the agreement, the margin of preference that the United Kingdom accords to Commonwealth countries on items not bound in its schedule of concessions may not exceed the level existing on April 10, 1947. If the United Kingdom increases the import duty on a product from a nonpreference country, it is obliged to increase the duty on the same product from a preference country by an equal amount, in order to avoid any change in the margin of preference.

Under the preferential trade arrangements that have been in effect between the United Kingdom and Commonwealth countries since 1931, a wide range of commodities from Commonwealth countries have been accorded duty-free entry, although some are commodities subject to duty when imported from other countries. The same duty-free treatment has been granted to Commonwealth countries on many other commodities, even though there is little likelihood that they will ever be imported from Commonwealth sources. However, because of its commitment to maintain existing margins of preference under the General Agreement, the United Kingdom may not increase the rates of duty on unbound items without also increasing the rates of duty on Commonwealth products that have traditionally been accorded duty-free treatment.

In effect, article I of the General Agreement freezes the rates of duty on unbound items. Rates of duty on bound items, which may not be increased except by invoking certain articles of the General Agreement, are included in the United Kingdom's schedule that is appended to article II of the General Agreement. Thus any change in the rate of duty on unbound items that applies only to non-Commonwealth countries would alter the margin of preference, and consequently be a violation of article

[5] See *Operation of the Trade Agreements Program* (first report), pt. 2, pp. 44 and 45. For a list of the territories included in the various preferential trading systems, see U. S. Department of State, *The General Agreement on Tariffs and Trade (Amended Text) and Texts of Related Documents*, Pub. 3758 (Commercial Pol. Ser. 124), 1950, Annexes A through F, and Annex G, which lists the dates establishing the maximum margins of preference referred to in par. 4 of art. I.

I. Legislation would be required to impose duties on Commonwealth products, but such legislation would be in conflict with traditional tariff policy of the Commonwealth. According to the United Kingdom Government, it could not introduce such a bill merely to secure technical compliance with the rules of the General Agreement. Therefore, the United Kingdom requested the Contracting Parties to grant it a waiver permitting it to increase most-favored-nation rates on unbound items from foreign countries without increasing import duties on those items when imported from Commonwealth countries.

According to the United Kingdom delegate, his Government did not intend to use the requested waiver to increase the margin of preference enjoyed by Commonwealth goods over similar foreign products in the United Kingdom market. The proposal, he stated, was designed to permit the United Kingdom to raise unbound rates of duty, as other contracting parties have the right to do, in instances where the need for increased tariff protection had been demonstrated. He pointed out that if the waiver was granted there would be no diversion of trade in favor of the Commonwealth, since contemplated increases in unbound rates would be applied to certain classes of agricultural products that were not imported from Commonwealth countries. The increase in margins of preference in favor of Commonwealth countries, he stated, would not confer any special advantages on them as far as trade in these commodities was concerned.

The United Kingdom stressed its readiness to provide suitable safeguards for the limited number of instances in which an increase in the margin of preference might lead to a substantial diversion of trade to the Commonwealth. Under the suggested procedure, the waiver would apply only after consultation with interested contracting parties or, in case no agreement could be reached among them, after arbitration by the Contracting Parties. According to the United Kingdom, the problem, therefore, was essentially a technical one of devising procedures to place the United Kingdom on substantially the same footing as other countries and, at the same time, to safeguard the interests of non-Commonwealth countries where there was a likelihood of substantial diversion of trade to Commonwealth countries.

During the debate that followed, several delegations expressed concern over the United Kingdom's request for a waiver. The Danish delegate stated that the waiver would constitute a significant withdrawal of concessions, for which the United Kingdom should grant compensatory concessions on other items. He held that the United Kingdom's intention to increase import duties on certain agricultural products was contrary to the aims and objectives of the General Agreement. He also stated that growing agricultural protection in Western Europe was a major obstacle to the creation of a common European market and that the

proposal ran counter to current plans for tariff reduction, such as the French plan. The Turkish delegate stated that although the United Kingdom's proposal was of a technical nature it would tend to conflict with the aim of eliminating preferential tariff rates. He contended that margins of preference could not be increased, according to article I, whether the most-favored-nation rate had been bound or not. It would, therefore, be inappropriate to introduce into the General Agreement the principle that the binding of margins of preference on unbound items was in any way less firm than the margin relating to bound items in the most-favored-nation schedule.

The Netherlands delegate claimed that the proposed waiver would increase margins of preference and would affect the "no new preference" rule of the General Agreement. He considered the proposal inappropriate at a time when the Contracting Parties had agreed to maintain existing tariff rates, pending a review of the General Agreement in 1954. Italy felt that a general waiver was undesirable, and that any waiver should be limited to a specific period of time and to specific items. Sweden agreed with the statement of the Danish and Netherlands delegates. France also felt that the United Kingdom's proposal was contrary to article I. Germany indicated that it objected to the principle of a general waiver. India and Ceylon supported the United Kingdom's position. The United States delegate stated that the United States had traditionally supported the most-favored-nation principle, and that he shared the concern that had been expressed by other delegations as to any possible breach of that principle. He felt, however, that the United Kingdom's request was for a technical adjustment, and did not run counter to the spirit of the General Agreement.

In reply to several points made during the discussion, the United Kingdom delegate stated that his Government had sought a means of dealing with the problem without damaging the trade of other contracting parties, and that the United Kingdom's proposal was not contrary to the basic aims of the General Agreement. He asserted that no nation could bind virtually all its tariff rates and that there was a need for some flexibility in applying article I. Finally, he assured the other contracting parties that the waiver would not affect any tariff commitment entered into by the United Kingdom with other countries.

After a detailed consideration of the question, the Contracting Parties, pursuant to paragraph 5 (a) of article XXV of the General Agreement,[6] granted the United Kingdom a waiver of its obligations under paragraph

[6] This section provides that, in exceptional circumstances not elsewhere provided for in the General Agreement, the Contracting Parties may waive an obligation imposed upon a contracting party if the decision is approved by a two-thirds majority of the votes cast and such a majority comprises more than half the contracting parties to the General Agreement. The Contracting Parties may also prescribe such criteria as they regard as necessary for the application of the terms of the waiver.

4 (b) of article I. The Contracting Parties declared, however, that in granting the waiver they did not intend to impede the attainment of the objective of article I of the General Agreement, and that their decision in this case should not be construed as impairing the principles of that article.

The waiver permits the United Kingdom to impose or increase duties on unbound items from foreign countries, without imposing similar duties on duty-free goods from Commonwealth sources. The authority that the Contracting Parties granted to the United Kingdom is, however, subject to two conditions: (1) The waiver shall not apply if the effect of not placing an import duty on Commonwealth goods would tend to result in a substantial diversion of trade to Commonwealth countries; and (2) the waiver shall not apply to those Commonwealth goods on which the United Kingdom has imposed import duties at any time since January 1, 1939. If Commonwealth goods are subject to import duties, these duties must be increased in consonance with any increase in the rate of duty on foreign goods.

The waiver also specifies certain procedures that the United Kingdom must follow before taking any action under it. The United Kingdom is required to notify the contracting party or parties that are likely to have a substantial interest in the trade of the item in question, as well as the Secretariat of the General Agreement on Tariffs and Trade, of its desire to act under the waiver. The United Kingdom must then enter into consultation, within 30 days after notification, with any contracting party or parties that request such consultations on the ground that the increase in the margin of preference resulting from the raising of the most-favored-nation rate would result in a diversion of trade to Commonwealth suppliers. In the absence of any request for consultation, the waiver shall apply 30 days after the date of notification. If consultation is requested, and if after consultation has been completed it is agreed that there is no likelihood that trade will be diverted, the waiver shall apply. If no agreement is reached after consultation with interested contracting parties as to the likelihood of diversion of trade, the United Kingdom shall seek arbitration by the Contracting Parties, or, if they are not in session, by the Intersessional Committee.

Should the Contracting Parties (or the Intersessional Committee) decide that there is no likelihood of diversion of trade, the waiver will apply. If there is likelihood of substantial diversion of trade, the waiver shall not apply; and, if the evidence is not clear as to whether there will be substantial diversion, the waiver will apply conditionally. In the latter instance the waiver will come into effect, but if, upon the request of an affected contracting party, the Contracting Parties determine after a reasonable period of time (not less than 1 year) that the increase in the margin of preference has led to a substantial diversion of trade, the waiver shall cease to apply.

Italian preferential customs treatment for Libyan products

At their Sixth Session, in October 1951, the Contracting Parties granted Italy a 1-year waiver under which Italy was permitted to give preferential customs treatment to a specified list of products that it imports from Libya. This waiver, which exempted Italy from the application of its most-favored-nation obligations under article I of the General Agreement, was designed to facilitate Libya's transition to independent status. The Contracting Parties recognized that Libya would have difficulties in establishing its export trade and that preferential treatment of its exports to Italy—which had been its principal export market in the past—would aid it in meeting transitional problems.

In October 1952, at their Seventh Session, the Contracting Parties agreed to Italy's request that it be permitted to continue to accord preferential customs treatment to certain commodities imported into Italy from Libya. The 1-year waiver that the Contracting Parties had granted Italy at the Sixth Session was extended for 3 years—to December 31, 1955—at which time the entire situation is to be reviewed. The Contracting Parties also approved certain modifications in the list of products on which preferential customs treatment had been permitted. Subsequent extensions of the waiver at yearly intervals beyond December 31, 1955, will be permitted only if the Contracting Parties consider such extensions necessary. The Contracting Parties requested Italy to submit annual reports on the development of Italian-Libyan trade under the preferential plan; they also requested Libya to submit annual reports on its economic progress.[7]

At the Eighth Session, Italy and Libya submitted the reports that had been requested by the Contracting Parties. The Italian report pointed out that the plans of preferential treatment for imports from Libya had not been in operation long enough to make possible an accurate assessment of the results. The report observed that adverse climatic conditions in Libya had seriously affected the production of cereals, citrus fruits, and olives, which are among Libya's principal exports to Italy. The trade statistics, therefore, did not reflect the normal trade situation. Moreover, the Italian representative pointed out that the report covered the period between July 1, 1952, and May 31, 1953, whereas preferential customs treatment on some commodities had not been introduced until January 1, 1953. The figure submitted, however, showed that during this 11-month period total imports into Italy from Libya were valued at 3,819.2 million lire, of which 20 percent were admitted under preferential rates of duty, 79 percent were admitted duty-free, and 1 percent were subject to duty.

In its report, Libya described the various economic programs that have been, or are being, put into operation in that country. The report pointed

[7] See *Operation of the Trade Agreements Program* (fifth report), p. 26; and *Operation of the Trade Agreements Program* (sixth report), pp. 27 and 28.

out that Libya is receiving assistance from the United Nations Technical Assistance Administration, from facilities provided through the Libyan-American Technical Assistance Service, and from the Libyan Public Development and Stabilization Agency—which is supported chiefly by the United Kingdom. Activities of these three agencies are coordinated by the Economic Planning Committee that has been established for this purpose by the Libyan Government. The report stated that the various programs fall into three categories: Long-term programs (10 to 20 years before substantial results may be obtained); medium-term programs (5 to 10 years); and short-term programs (possibility of achieving immediate results). The long-term programs include education in agricultural techniques, health improvements, development of natural resources, soil- and water-conservation programs, and forestry development. Medium-term programs include harbor and port improvement, sheep breeding and range management, development of artesian wells, improvement of fruit trees, and general agricultural improvements. Short-term programs involve improvements in the processing and packing of dates and in the preparation of hides and skins, as well as programs for marketing agricultural products. Apart from these programs, the Government is encouraging the establishment of local industries by providing customs relief to facilitate the importation of machinery.

Because of the short period during which the waiver had been in effect, the Contracting Parties felt that no useful purpose would be served by an intensive study of the two reports. They therefore took note of the reports, and expressed the hope that the effects of the waiver could be studied at the Ninth Session of the Contracting Parties.

Waiver for Australia to grant special treatment to products of Papua and New Guinea

At the Eighth Session of the Contracting Parties, Australia requested a waiver of certain of its obligations under article I of the General Agreement, to enable it to accord preferential treatment to primary products imported into Australia from the territories of Papua and New Guinea. The waiver was requested with a view to promoting the economic development of the two territories.

The Australian representative pointed out that the territories of Papua and New Guinea constitute a separate customs area with its own tariff. Papua is an Australian possession and New Guinea is a trust territory administered by Australia under a trusteeship agreement with the United Nations. Both territories are undeveloped, and the absence of a domestic market has limited the investment of capital in the production of those primary products that might profitably be grown in the territories. To encourage investment, the Australian representative observed, it was necessary to assure to potential investors a market in Australia for those commodities that they might produce in Papua and New Guinea.

Before the General Agreement entered into force, the Australian delegate noted, his Government had encouraged production in the territories and had assisted producers in marketing their goods in Australia by providing exclusive preferences or import subsidies. Under the General Agreement, Australia is obliged to apply to the products of the two territories the same treatment with respect to existing margins of preference that it applies to like products from other countries. Since Papua and New Guinea together constitute a separate customs area, Australia has experienced increasing difficulties in promoting the economic development of the territories. The Australian Government had investigated the possibility of incorporating Papua and New Guinea into the Australian customs area, but had decided that such a course was not feasible at the present time. Since it is government policy to foster the development of industries in the mainland territories that are part of the Australian customs area, Australia therefore requested a waiver to extend to Papua and New Guinea the same types of economic assistance. The waiver would enable Australia to grant Papua and New Guinea the benefits of a free-trade area (that is, duty-free treatment) without requiring reciprocal benefits for Australian products that are imported into the two territories.

After considering the Australian proposal, the Contracting Parties agreed to waive Australia's obligations under paragraphs 1 and 4 (b) of article I of the General Agreement. These provisions relate to most-favored-nation treatment and to the binding of margins of preference. Under the terms of the waiver, Australia may grant or increase tariff preferences on primary products that are imported into Australia from Papua and New Guinea so long as such products are not subject to Australian tariff concessions under the General Agreement.

The waiver also contains certain safeguards to insure that the authority it provides will be used to promote the economic development of Papua and New Guinea, that it will not be employed to provide additional protection for Australian products, and that it will not result in injury to the trade of other contracting parties to the General Agreement. The waiver directs Australia to notify the Contracting Parties before any action is taken. If Australia decides to increase import duties, it must consult with any contracting party that considers that such action would injure its trade with Australia or would provide additional protection to Australia's domestic production. If no agreement is reached, the matter will be considered by the Contracting Parties. Import duties may be increased if within 30 days after such notification no contracting party has requested consultation or if the Contracting Parties agree that no injury will result from such action. The waiver requires Australia to report annually to the Contracting Parties on the measures it has taken, on the effects of those measures on the trade of Papua and New Guinea, and on imports of the products affected into Australia from all sources.

Finally, the waiver provides that, if the underlying economic factors affecting the production and trade of the two territories should change so that the special treatment authorized by the waiver would result or threaten to result in substantial injury to the trade of any contracting party, the Contracting Parties shall review their decision in the light of all the relevant facts.

Schedules of Concessions (Art. II)

Article II of the General Agreement, which relates to the schedules of tariff concessions annexed to the agreement, provides (in par. 3) that a country shall not alter its method of converting currencies in such a way as to impair the value of a concession it has made with respect to ad valorem duties. The article also provides (par. 6) that specific duties included in a schedule of concessions may be increased if the par value of a country's currency is reduced by more than 20 percent, and provided that a majority of the contracting parties to the General Agreement concur in the view that the increased specific duties will not impair the value of the concessions.[8] At the Eighth Session the governments of Czechoslovakia and Greece requested permission to make extensive adjustments in the specific duties in their schedules of concessions.

Increase in Greek tariff coefficients

In the Greek tariff schedule, import duties, which are mainly specific rates, are expressed in metallic drachmas; the duties are paid, however, in paper drachmas, the circulating medium. For the purpose of converting rates of duty to the paper drachma, two types of coefficients are applied to the basic rates of duty. These are (1) the prewar coefficients, which vary for different groups of items, and (2) the so-called additional, or postwar, coefficient, which is based on the value of the Greek gold sovereign. By a note attached to the Greek schedule of concessions (schedule XXV) in the General Agreement on Tariffs and Trade, the prewar conversion coefficients are bound against increase. The additional, or postwar, coefficient of conversion is not bound, and may be increased proportionately to any permanent depreciation in the value of the Greek currency. A note appended to the Greek schedule in the General Agreement specifies, therefore, that Greece must decrease the additional coefficient proportionately to any permanent appreciation of the value of its currency.

At the Seventh Session of the Contracting Parties in 1952, the United Kingdom complained that the Greek Government had impaired the value of concessions it had granted on a number of items by increasing (effective

[8] Three other important provisions of the General Agreement that are directly relevant to the tariff concessions contained in the schedules are the exceptions regarding economic development (art. XVIII), the general escape clause (art. XIX), and the provision for modification of the schedules (art. XXVIII).

July 10, 1952) the prewar coefficients of conversion. The United Kingdom, as well as other contracting parties, maintained that this action constituted an infringement of paragraph 3 of article II of the General Agreement, which provides that no contracting party shall alter its method of converting currencies in such a way as to impair the value of a concession. The Greek Government agreed that its action, which had been an emergency fiscal measure, had not been consistent with its obligations under the General Agreement. Subsequently, it notified the Contracting Parties that as of July 20, 1953, it had restored the prewar coefficients for converting duties to the level prescribed in the General Agreement. At the Eighth Session, the Contracting Parties formally noted that the issue had been satisfactorily resolved.

Request by Greece for permission to adjust certain specific rates of duty

Paragraph 6 of article II of the General Agreement provides that if the par value of a contracting party's currency is reduced by more than 20 percent, in concurrence with the Articles of Agreement of the International Monetary Fund, the specific duties listed in that country's schedule of concessions may be adjusted upward to offset the effect of the currency depreciation on the incidence of its tariff schedule. Paragraph 6 also provides that the Contracting Parties must agree that the proposed adjustments will not impair the value of any concessions under the General Agreement.

On June 13, 1953, the Greek Government notified the Contracting Parties that, because of the devaluation of its currency on April 9, 1953, it had increased certain of its postwar tariff conversion coefficients. It also indicated that it desired to adjust upward certain of the specific duties in its schedule of concessions, and to establish minimum ad valorem rates of duty for some others.

In discussing this action, the Greek Delegation pointed out that on April 9, 1953, with the approval of the International Monetary Fund, Greece had devalued its currency by 50 percent. Thus, it noted, an increase of 100 percent in the country's specific duties would be required if their predevaluation incidence were to be maintained. Greece had, in fact, made some adjustments in its tariff before the opening of the Eighth Session. After the currency devaluation of April 1953, it had increased its postwar tariff coefficients from 225 to 300 (an increase of 33 percent), the maximum increase permitted under Greek law. In addition, for some items in its schedule it had increased the specific rate of duty, and for others it had established minimum ad valorem rates. For many of the items, however, the total increase was less than the maximum permissible under article II, and Greece indicated that additional adjustments would be necessary to completely compensate for the devaluation of its currency.

Inasmuch as many concessions were affected by the Greek proposal, the Contracting Parties established a working party to consider the re-

quest further, and to recommend an acceptable formula for adjusting the duties in conformity with the provisions of paragraph 6 of article II. In its draft decision the working party concluded that the tariff adjustments that had been made, and the proposed additional changes, did not appear to impair the value of any of the concessions that Greece had negotiated under the General Agreement. In so deciding, the working party agreed that Greece might make the proposed increases effective, provided they would not result in a duty more than 100 percent higher than that payable immediately before the devaluation. The working party specified, however, that Greece must give the Contracting Parties advance notice of its intention to effect the increases, so that if any of the interested countries considered that the proposed increases would impair the value of a scheduled concession, the matter could be referred to the Contracting Parties for consideration. Pursuant to this decision, Greece notified the Contracting Parties that it would proceed to adjust certain basic specific duties by increasing them by 50 percent. This increase, when added to the increase in the postwar conversion coefficients, resulted in a 100-percent increase in the specific duties on the import items concerned, and reestablished their predevaluation incidence. The Contracting Parties agreed that if any contracting party maintains that the proposed increase would impair the value of a concession, the matter shall be decided by the Contracting Parties acting pursuant to article II: 6 (a).

The working party also agreed that the addition of an ad valorem minimum rate to a specific duty was not authorized by or provided for under article II: 6 (a). Consequently, it held that any such addition of an ad valorem minimum rate of duty would constitute cause for renegotiation of the concession involved. The Greek Delegation subsequently requested, and was granted, the right to renegotiate these items with countries having a particular interest in them.

Inasmuch as the note appended to the Greek schedule of concessions in the General Agreement had resulted in confusion and problems of interpretation after the devaluation in April 1953, the working party proposed an amendment to it. As modified, the note specifies that if, in the future, Greece devalues its currency by 20 percent or more, it may increase either its postwar coefficients or the specific duties proportionately to the devaluation. Such increases, however, are to be subject to the same limitations and procedures that article II provides for other contracting parties.

Request by Czechoslovakia for permission to revise its schedule of concessions

On July 20, 1953, Czechoslovakia informed the Contracting Parties that, effective June 1, 1953, it had increased the gold equivalent of the Czechoslovak koruna from 0.017773 grams of fine gold per koruna (equivalent to 50 korunas per United States dollar) to 0.123426 grams of fine gold per koruna (or 7.20 Czechoslovak korunas per United States dollar).

Czechoslovakia made the change without consulting or seeking the concurrence of the International Monetary Fund, on the ground that it had been made in accordance with the provisions of article IV, section 5 (e), of the Fund's Articles of Agreement. This article permits a member of the Fund to alter the par value of its currency if the change does not affect international transactions of other members of the Fund.[9]

To prevent its action from impairing the value of any of the concessions it had negotiated under the General Agreement, Czechoslovakia proposed to reduce the specific rates of duty in its schedule of concessions by a multiple approximately equal to the upward revaluation of the par value of its currency. At the Eighth Session of the Contracting Parties Czechoslovakia submitted a list of its proposed duty revisions.

In considering this question, the working party noted that no contracting party had objected to the proposals made by Czechoslovakia. However, it was pointed out that the proposed changes had not modified the legal position of Czechoslovakia with respect to article II: 6 (a), which provides that the specific duties included in the schedules of concessions are expressed "in the appropriate currency at the par value accepted or provisionally recognized by the Fund at the date of this Agreement" (October 30, 1947). The working party was of the opinion, therefore, and the Contracting Parties concurred, that it would be sufficient to note that Czechoslovakia had revalued its currency, and that the Government of Czechoslovakia had adjusted the specific rates of duty in its schedule of concessions to compensate for the change.

National Treatment on Internal Taxation (Art. III)

Article III of the General Agreement, as amended, requires contracting parties to grant national treatment on products imported from other contracting parties. Accordingly, a member country may not impose on imports from another contracting party internal taxes or other charges in excess of similar taxes or charges levied directly or indirectly on like domestic products. The article, however, permits the retention of discriminatory internal taxes that existed on October 30, 1947, the date on which the General Agreement became effective. The article also permits the conversion of existing internal taxes applicable to imports into regular tariff duties, in order to compensate for the elimination of the protective element of such domestic internal taxes.

Brazilian internal taxes

During the Third Session of the Contracting Parties in 1949, a question was raised as to certain internal taxes that Brazil applies to specified

[9] The International Monetary Fund, however, did not concur in this interpretation and concluded that the change in the par value of the Czechoslovak currency did not come under this provision of the Articles of Agreement. See International Monetary Fund, *Fifth Annual Report on Exchange Restrictions*, Washington, 1954.

products, including watches, clocks, beer, spirits, aperitifs, and cigarettes. For many years Brazil has employed an extensive system of "consumption" taxes, which are levied principally for revenue purposes. Under this program, many imported products are subject to taxes substantially higher than those levied on like domestic products.

The countries that export the aforementioned products to Brazil contended that, when the Brazilian Government revised these consumption taxes in 1948, it widened the existing margin of discrimination against similar imported articles. For example, the tax on both domestic and foreign liqueurs was increased sixfold under the revised law. Inasmuch as the former law required that the foreign product be taxed at twice the rate applicable to the domestic product, the absolute increase in tax was much greater for foreign than for domestic liqueurs. Brazil maintained that since the same ratio between the two types of taxes existed on October 30, 1947, the tax increase did not constitute a violation of the provisions of the General Agreement. It agreed, however, to request the Brazilian Congress to amend the laws in question, with a view to removing the basis for the complaint.

Examination of the draft law that Brazil presented to the Contracting Parties at their Fifth Session in 1950 revealed that the proposed legislation would eliminate most of the discriminatory features of the 1948 law, and thus would bring Brazil's consumption-tax legislation into conformity with the provisions of the General Agreement. The proposed statute would not eliminate most of the discriminatory features that were in effect on October 30, 1947, but would correct the violation resulting from the tax revision.

At their Seventh Session in 1952 the Contracting Parties again considered this matter. At that time the Brazilian representative stated that, inasmuch as the Brazilian administration had changed, the draft law would have to be considered by an entirely new national legislature. He therefore requested that the item be retained on the agenda, and expressed the hope that the matter could be resolved before the next session of the Contracting Parties. Accordingly, the matter was reviewed by the Contracting Parties at their Eighth Session, at which time the Brazilian delegate reported that the Brazilian legislature had not yet acted on the draft law. He indicated that because this matter had been pending for a considerable time his Government, as an alternative, would be willing to negotiate appropriate compensatory concessions with the interested contracting parties.

Under article XXIII, the Contracting Parties may authorize retaliatory action if, in their opinion, any contracting party is unable to secure a satisfactory adjustment of measures undertaken by another contracting party which result, directly or indirectly, in the impairment or nullification of contractual benefits. In reply to the Brazilian proposal for the negotiation of compensatory measures, the French Delegation stated that

it hoped a satisfactory adjustment would be possible without recourse to action under article XXIII, in which view the other contracting parties concurred. A resolution was therefore adopted urging Brazil to take steps to rectify the situation as soon as possible, and, in any case, not later than the opening date of the Ninth Session.[10]

Greek "contribution tax" on imports

To counteract the depreciation of its currency, Greece on December 31, 1951, established a special "contribution tax" on exchange allocated for the importation of designated articles. The tax, which was collected when bank credit was extended for the purchase of the products in question, was graduated according to the utility and essentiality of the imported commodities, the rates varying from 25 percent to 150 percent of their c. i. f.[11] value.

At the request of the French Delegation, the Contracting Parties considered this measure in 1952 at their Seventh Session. France maintained that, because the new tax was not levied on similar goods produced in Greece, it violated the national-treatment provision of article III of the General Agreement. A panel appointed at the Seventh Session to consider this question recommended that the Contracting Parties defer final action on it pending receipt of further information. Accordingly, the item was continued on the agenda.

On April 9, 1953, when it devalued its currency by 50 percent, Greece unified its foreign-exchange practices, and at the same time abolished the contribution tax on imports. At their Eighth Session in 1953 the Contracting Parties formally noted that the issue had been resolved.

French tax on imports and exports

Before the opening of the Eighth Session, the United States Government called the attention of the Contracting Parties to a special tax ("statistics and control tax") that France had imposed on French imports and exports, and questioned its consistency with the provisions of the General Agreement. The tax, which amounted to 0.40 percent ad valorem (increased to 0.70 percent in March 1954), was applicable to all French imports and exports (including shipments to and from the French overseas territories); it had been provided for in the 1952 and 1953 national budgets for the purpose of establishing a fund for social security benefits to agricultural workers. The matter was discussed in plenary session at the Eighth Session, at which time the French delegate informed the Contracting Parties that the measure had been adopted solely as a fiscal measure, and was provisional. He agreed that the tax appeared to contravene the provisions of the General Agreement, and announced that the measure would not be included in the French national budget for 1954.[12]

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[10] See ch. 5.

[11] Cost, insurance, and freight.

[12] See ch. 5.

Quantitative Restrictions for Balance-of-Payments Reasons (Arts. XI–XIV)

With specified exceptions, article XI of the General Agreement prohibits contracting parties from applying, to their trade with other contracting parties, various nontariff restrictions, such as import prohibitions, quotas, licensing systems, and other quantitative control measures. Article XII, however, recognizes that problems of postwar economic adjustment make it impracticable to attain this objective immediately. It therefore provides for temporary departure from the general rule when such departure is necessary to safeguard a country's balance of payments or to effect a necessary increase in its monetary reserves. Article XIII provides that in the administration of such quantitative restrictions as are permitted in accordance with this principle, discrimination shall not be practiced against any contracting party to the agreement. It was recognized, however, that strict compliance with this provision would not be possible during the period immediately after the war. Accordingly, article XIV permits certain deviations from the rule of nondiscrimination for balance-of-payments reasons.[13]

Consultations under article XII: 4 (b), on intensification of restrictions; under article XIV: 1 (g), on discriminatory application of restrictions; and under article XV on questions within the jurisdiction of the International Monetary Fund

At their Eighth Session the Contracting Parties consulted with various contracting parties as to the introduction of new measures that intensified existing quantitative restrictions, and as to the discriminatory application of import restrictions. These consultations were held pursuant to article XII: 4 (b) and article XIV: 1 (g) of the General Agreement. As of March 1953, seven contracting parties had agreed to hold consultations at the Eighth Session in accordance with the provisions of article XIV: 1 (g); these contracting parties were Australia, Ceylon, Italy, New Zealand, Southern Rhodesia, the Union of South Africa, and the United Kingdom. In addition, consultations under article XIV: 1 (g), which had been initiated in 1952 with New Zealand, Southern Rhodesia, and the Union of South Africa, and which had not been completed at the Seventh Session, were to be concluded at the Eighth Session. Consultations under article XII: 4 (b) had been initiated with seven contracting parties in 1952 and had been deferred at the Seventh Session of the Contracting Parties; these contracting parties were Brazil, Chile, Finland, New Zealand, Southern Rhodesia, Sweden, and the Union of South Africa. Finally, consultations with the Netherlands and Pakistan under article XII: 4 (b), which were initiated in August 1953, were to be considered at the Eighth Session.

[13] See *Operation of the Trade Agreements Program* (second report), pp. 22 and 23.

Because consultations with several contracting parties had not been completed at the Seventh Session, and because of the possibility that a similar situation might arise at the Eighth Session, the Contracting Parties decided that, in the event it should prove impossible to conclude certain consultations at the Eighth Session, the obligation of the contracting party concerned with respect to such consultations would be regarded as having been fulfilled.

Article XV of the General Agreement provides that the Contracting Parties shall seek the cooperation of the International Monetary Fund to the end that the Contracting Parties and the Fund may pursue a coordinated policy with regard to questions relating to foreign exchange arrangements, balance of payments, and monetary reserves. Accordingly, the Contracting Parties invited the International Monetary Fund to consult with them at the Eighth Session regarding these consultations. The representative of the Fund notified the Contracting Parties that the Fund had not completed its own 1953 consultations with certain contracting parties with whom consultations were scheduled as provided by article XIV of its own Articles of Agreement; these contracting parties were Brazil, Italy, the Netherlands, New Zealand, and the Union of South Africa. The Fund indicated, therefore, that it would be unable to furnish to the Contracting Parties reports on the results of consultations with these countries.

At their Eighth Session the Contracting Parties consulted only with those contracting parties with which the International Monetary Fund was ready to consult pursuant to article XV of the General Agreement; these contracting parties were as follows:

Under article XII: 4 (b)—Chile, Finland, Pakistan, and Sweden
Under article XIV: 1 (g)—Australia, Ceylon, and the United Kingdom
Under articles XII: 4 (b) and XIV: 1 (g)—Southern Rhodesia

The representative of the International Monetary Fund participated in all the consultations that were held by the Contracting Parties at their Eighth Session. In carrying out these consultations, as provided by article XII: 4 (b) and article XIV: 1 (g) of the General Agreement, the Contracting Parties thus had the benefit of the data provided by the International Monetary Fund as a result of its own consultations. In addition, the Contracting Parties made use of data supplied by the consulting contracting parties themselves.

As in the consultations that the Contracting Parties held during their Seventh Session, the delegates of the various consulting governments discussed all aspects of their import restrictions, irrespective of the article of the General Agreement to which they pertained. The representatives of the consulting contracting parties took note of the views expressed by other contracting parties, and indicated that these views would be conveyed to their respective governments for consideration.

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As a result of the consultations that they held during the Eighth Session, the Contracting Parties arrived at certain general conclusions. They noted that in general the world dollar situation had improved considerably during 1953. This improvement, however, was attributable partly to certain temporary factors such as discriminatory import restrictions maintained by certain contracting parties on goods from the dollar area, a heavy volume of United States offshore purchases, and the placing of military orders abroad by the United States. Nevertheless, a large part of the improvement was attributable to more fundamental factors. Principal among these was the abatement of internal inflation in many countries, and the consequent decrease in the demand for imports. Moreover, because of increased productivity and more stable costs, the domestic supply situation had eased in many countries. The latter factors tended to make nondollar exports more competitive with those from the dollar area, thereby lessening the risks in removing some discriminatory quantitative restrictions against the importation of dollar goods. These economic improvements in the nondollar area, together with the sustained high level of economic activity in the dollar area, made it possible for the nondollar area to maintain a high level of imports from the rest of the world. Should these more fundamental improvements persist, the Contracting Parties noted, there would be possible an eventual movement toward a system of multilateral trade free of quantitative controls. To achieve such a goal, the Contracting Parties indicated, both creditor and debtor countries would have to pursue appropriate economic policies. The Contracting Parties noted with satisfaction that certain important trading countries were formulating policies designed to create conditions that would make possible multilateral trade and convertibility of currencies.

The Contracting Parties pointed out, however, that, because of a decline in prices of raw materials, certain primary producing countries had not shared in the improvement in the world payments situation. The price declines had caused a deterioration in the balance-of-payments positions of those countries, since they had been unable to make rapid enough downward adjustments in imports in the face of declining export earnings. These difficulties were especially acute for countries that were engaged in large-scale programs of economic development, the maintenance of which depended on a high level of imports.

The Contracting Parties noted that in their third report on the discriminatory application of import restrictions, published in 1952,[14] they had stated that discriminatory import restrictions could not in themselves provide a permanent solution for balance-of-payments difficulties. A

[14] See Contracting Parties to the General Agreement on Tariffs and Trade, *Third Report on the Discriminatory Application of Import Restrictions, Incorporating a Report on the Consultations in 1952 on the Continuance of Discrimination*, Sales No.: GATT/1952–5, Geneva, 1952. See also *Operation of the Trade Agreements Program* (sixth report), pp. 35 and 36.

complete solution, they contended, would involve the adoption of fundamental corrective action. In fact, discriminatory import restrictions that were maintained over a long period of time might accentuate balance-of-payments difficulties because of unfavorable shifts in production and in the structure of industry and trade. The Contracting Parties also drew attention to the relationship between a country's domestic monetary and fiscal policies and its balance-of-payments position. They noted that, in several instances, the introduction and maintenance of anti-inflationary domestic monetary and fiscal policies had led to improvements in the balance-of-payments positions of the countries concerned. Finally, the Contracting Parties noted that those countries that had relaxed import restrictions during 1953, especially on imports of raw materials and basic foodstuffs, had derived significant benefits from lower expenditures for imports and from an improvement in their competitive positions, with a resulting favorable effect on their overall balance-of-payments positions.

Fourth annual report on discriminatory application of import restrictions

At their Eighth Session the Contracting Parties adopted the draft of the fourth annual report on the discriminatory application of import restrictions,[15] which had been prepared pursuant to the provisions of article XIV: 1 (g), of the General Agreement. The draft report included a statement on the consultations as to the continuance of discriminatory import restrictions, as well as descriptive notes on discriminative practices currently in effect in each of 22 countries. The draft report was based on material supplied by the International Monetary Fund, on replies to a questionnaire circulated to individual contracting parties, and on discussions with the various delegations that attended the Eighth Session.

During 1953, according to the fourth annual report, 22 of the 34 contracting parties to the General Agreement maintained restrictions on imports to safeguard their balance-of-payments positions and were exercising some degree of discrimination between sources of supply as permitted under paragraphs 1 (b) and/or 1 (c) of article XIV or annex J of the General Agreement. The 22 countries were Australia, Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, France, the Federal Republic of Germany, Greece, India, Italy, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Sweden, Turkey, the Union of South Africa, and the United Kingdom. Czechoslovakia and Indonesia reported that they were not applying discriminatory import restrictions as permitted by the provisions of article XIV of the General Agreement. Nine contracting parties—Belgium, Canada, Cuba, the Dominican Republic, Haiti, Luxembourg, Nicaragua, Peru, and the United States—

[15] See Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, Second Supplement, Sales No.: GATT/1954–2, Geneva, 1954, pp. 33–52.

reported that they were not restricting imports for balance-of-payments reasons. Uruguay, which became a contracting party in December 1953, was not included in the report.[16]

Procedures for report and consultations in 1954 under article XIV: 1 (g)

Paragraph 1 (g) of article XIV of the General Agreement requires the Contracting Parties to report annually on any discriminatory action that is being taken under its provisions by individual contracting parties. It also requires that, beginning in 1952, countries that continue to discriminate under certain provisions of article XIV must consult with the Contracting Parties.

At their Eighth Session the Contracting Parties adopted procedures for preparing the fifth annual report on discriminatory measures employed under article XIV,[17] and for conducting consultations during 1954. The Contracting Parties noted that, since the arrangements for preparation of the fourth annual report in 1953 had proved satisfactory, the same procedures should be adopted for the 1954 report. Under the 1953 procedures, contracting parties that continued to apply discriminatory import restrictions were asked to provide a comprehensive reply to the questionnaire that had been drawn up in 1952 at the Seventh Session.[18] The Contracting Parties recommended that these countries submit statements, 3 months before the opening of the Ninth Session (scheduled for October 1954), noting any changes they had made in the application of import restrictions since their replies to the questionnaire of 1953.

Under these procedures, those countries that continued (beyond March 1954) to apply discriminatory import restrictions under paragraphs 1 (b) and 1 (c) of article XIV or under annex J of the General Agreement would be required to consult with the Contracting Parties pursuant to article XIV: 1 (g). In the consultations, scheduled to begin in March 1954, the Contracting Parties stated that the same procedures would be used as had been employed in the consultations held in 1952 and 1953. After the beginning of the consultations in March 1954, the Executive Secretary was to inform the contracting parties and the International Monetary Fund (by the end of March 1954) which countries had initiated

[16] See ch. 5 for a discussion of the discriminatory quantitative restrictions that are applied for balance-of-payments reasons by the countries named above, as well as by countries that are not parties to the General Agreement but with which the United States has bilateral trade agreements.

[17] For earlier reports, see Contracting Parties to the General Agreement on Tariffs and Trade, *The Use of Quantitative Restrictions for Protective and other Commercial Purposes*, Sales No.: GATT/1950–3, Geneva, 1950; *First Report on the Discriminatory Application of Import Restrictions, March 1950*, Sales No.: GATT/1950–1, Geneva, 1950; *The Use of Quantitative Import Restrictions to Safeguard Balances of Payments, Incorporating the Second Report on the Discriminatory Application of Import Restrictions, October 1951*, Sales No.: GATT/1951–2, Geneva, 1951; and *Third Report on the Discriminatory Application of Import Restrictions . . .*, Sales No.: GATT/1952–5, Geneva, 1952.

[18] See *Operation of the Trade Agreements Program* (sixth report), pp. 36 and 37.

such consultations. The International Monetary Fund was to be invited to consult with the Contracting Parties pursuant to article XV of the General Agreement. It was felt that the consultations could be more effectively carried out if, before the opening of the Ninth Session, the Fund made available to the Contracting Parties the results of its own 1954 consultations with the countries concerned.

Special Exchange Agreements (Art. XV)

Article XV of the General Agreement provides that any contracting party that is not a member of the International Monetary Fund shall enter into a special exchange agreement with the Contracting Parties. This article is designed to insure that exchange manipulations by contracting parties will not nullify or impair tariff concessions and the effectiveness of the rules relating to quantitative restrictions.[19]

Operation of exchange agreements with Indonesia and Haiti

The procedural arrangements for implementing the special exchange agreements provide that when a question arises under an agreement requiring action by the Contracting Parties at a time when they are not in session, the matter will be referred to the Chairman, who will consult with, and seek determinations by, the International Monetary Fund.[20] In accordance with this procedure, the Chairman took action between the Seventh and Eighth Sessions to implement the provisions of the special exchange agreements with Indonesia and Haiti.

Consultations between Indonesia and the International Monetary Fund were contemplated in March 1952, but as Indonesia was unable to make suitable arrangements for conducting the consultations, the Fund advised the Contracting Parties at the Seventh Session to defer this consultation.

On November 25, 1952, the Contracting Parties invited Indonesia to begin consultations with the International Monetary Fund not later than March 1, 1953, if it intended to retain beyond that date restrictions on trade and payments that were inconsistent with articles VII or X of its special exchange agreement. Article VII relates to the avoidance of restrictions on current-account payments, and article X, to the control of capital transfers. In view of its imminent accession to the International Monetary Fund, Indonesia on March 6, 1953, requested that the Fund extend to May 1953 the time limit for beginning its consultation. On August 17, 1953, Indonesia notified the Contracting Parties that in May 1953 a bill providing for acceptance of its membership in the International Monetary Fund had been introduced in the Indonesian Parliament, but that discussion of it had been postponed because of the domestic

[19] See *Operation of the Trade Agreements Program* reports as follows: First report, pt. 2, p. 50; fourth report, p. 42; fifth report, p. 29; and sixth report, pp. 37–39.

[20] Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, First Supplement, Sales No.: GATT/1953–1, Geneva, 1953, p. 10.

political situation. Indonesia, therefore, requested that the time limit for its consultation under article XI be deferred until the end of 1953. The Contracting Parties, after consultation with the Fund, agreed to the postponement. In view of the delay, the Contracting Parties waived until March 1954 Indonesia's obligation to consult.

On September 10, 1952, the Board of Governors of the International Monetary Fund had approved membership in the Fund for Indonesia, under specified terms and conditions which that country might accept at any time up to March 16, 1953. The Fund's Board of Governors extended the date until March 16, 1954, with the proviso that a further extension might be granted if extraordinary circumstances arose. Indonesia became a member of the International Monetary Fund on April 15, 1954, and the special exchange agreement between Indonesia and the Contracting Parties was terminated on that date.

Haiti became a member of the Fund on September 8, 1953, and the special exchange agreement between Haiti and the Contracting Parties was terminated on that date.

Reports and consultations under article XI of special exchange agreements

At their Seventh Session the Contracting Parties arranged to prepare their 1953 report on the payments restrictions still in force under paragraph 1 of article XI of the special exchange agreements, as required by paragraph 3 of that article.[21] The Contracting Parties requested the International Monetary Fund to submit statements to them outlining the restrictions on payments and transfers that were maintained by Haiti and Indonesia. On September 25, 1953, the Fund notified the Contracting Parties that Indonesia continued to maintain restrictions on payments and transfers for current international transactions. The statement outlined the changes that had taken place in Indonesia's system of trade restrictions since the Fund's last report on September 18, 1952. The Fund also advised the Contracting Parties that it did not plan to submit a report on the restrictions maintained by Haiti, since that country had become a member of the Fund in September 1953.

In making preparations for their 1954 report, the Contracting Parties adopted the same procedures that they had followed in 1953. Under these arrangements the Fund undertook to provide the Contracting Parties in March 1954 with statements on the restrictions on payments and transfers maintained by countries that were still signatories to special exchange agreements and that were resorting to article XI of those agreements. The only special exchange agreement in force at that time was that with Indonesia.

[21] See Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 2, Decisions, Declarations, Resolutions, Rulings and Reports, Sales No.: GATT/1952-4, Geneva, 1952, pp. 121 and 122.

Subsidies (Art. XVI)

Article XVI of the General Agreement provides that if any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports or to reduce imports, it must notify the Contracting Parties in writing of the extent and nature of the subsidization. In any case in which it is determined that a subsidy seriously prejudices the interests of any other contracting party, the contracting party which grants the subsidy must discuss—with the other contracting party or parties that are adversely affected or with the Contracting Parties—the possibility of limiting the subsidization.

United States subsidy on exports of sultanas

In 1952, at the Seventh Session of the Contracting Parties, Greece declared that it had been injured by the United States subsidy on exports of a type of raisin known as sultanas.[22] The Greek representative contended that as a result of United States subsidization of its production of sultanas since 1949, Greece—a country with few exportable products—was losing its traditional markets for that product. Turkey alleged that the United States subsidy had a detrimental effect on other producing countries also. The United States agreed to discuss the matter, as provided for in articles XVI and XXII of the General Agreement. Preliminary bilateral discussions were begun by the United States with these two countries at the Seventh Session, but because of the limited data available it was not possible to conclude them. The Contracting Parties therefore retained the item on the agenda for consideration at their Eighth Session.

During the discussion of the Greek complaint at the Eighth Session, the representative of Greece stated that no definite results had been achieved by the consultations with the United States, apart from a reduction in United States export-subsidy payments on sultanas for the 1953–54 season. The Greek delegate claimed, however, that the reduction in the subsidy was due to domestic political considerations, and did not result from the consultations. The Greek Government had hoped that the United States would completely abolish its subsidy on sultanas.

The Greek Delegation contended that the export subsidy on sultanas was causing serious injury to the Greek economy, since Turkey, as a result of United States continuation of the subsidy, had introduced an export subsidy of $28.50 to $35.60 a ton on sultanas. According to Greece, the effect of the United States and Turkish subsidies had been to stimulate competition and to accentuate the decline in the price of sultanas in foreign markets. The Greek representative pointed out that, besides exporting sultanas, Greece also exports considerable quantities of currants, the price of which is directly influenced by the price paid for

[22] See *Operation of the Trade Agreements Program* (sixth report), pp. 39 and 40.

sultanas. Thus the decline in the world price of sultanas had led to a decline in the price of currants also. The Greek representative asserted that the estimated loss to Greece in the year 1953–54 resulting from the decline in the prices of currants and sultanas might reach 3 or 4 million dollars. The damage, he noted, was particularly serious because one-sixth of total Greek exchange resources from exports must be supplied by exports of raisins (currants and sultanas).

According to the delegate of Turkey, his country had placed in effect a provisional subsidy on exports of sultanas as an emergency measure to preserve the country's position in its traditional markets. He indicated that the subsidy did not exceed that paid by the United States on its exports of sultanas, and pointed out that exports of sultanas from Turkey had declined from 62,600 tons in 1950–51 to 34,200 tons in 1952–53. The subsidy was, he said, necessary to protect the livelihood of his country's producers.

According to the United States Delegation, the purpose of the United States export-subsidy program for sultanas and other raisins was to assist United States producers to sell a portion of their crop in certain traditional markets abroad—where dollar shortages were making such marketing difficult—and to enable United States producers to obtain a reasonable return on their product. The United States contended that the subsidy merely helped to maintain traditional export markets for United States producers and had not increased the proportion of United States trade in sultanas, or expanded its domestic production. The United States delegate stated that since 1947 the average annual rate of United States exports of sultanas had been 8 percent higher than the average annual rate in the 5 prewar years. The 8-percent increase, he stated, was not excessive, and was in line with the general expansion of demand in recent years. Moreover, the United States representative noted that subsidy payments on sultanas and other raisins had been reduced from $2.95 per 100 pounds in 1951–52 to $2.00 per 100 pounds in 1953–54, a reduction of one-third.

After additional discussion, the Contracting Parties agreed to remove this item from the agenda. The United States is required—under article XVI of the General Agreement—to keep the Contracting Parties informed as to the nature and extent of any subsidies that it imposes.

United States subsidies on exports of oranges and almonds

At the Eighth Session, Italy presented a memorandum to the Contracting Parties stating that its export trade in oranges and almonds was being injured as a result of United States subsidies on exports of oranges and the United States marketing program for almonds.

With respect to oranges, the memorandum pointed out that when the United States introduced the export subsidy in 1948 the United States Department of Agriculture granted domestic producers a subsidy that

amounted to 25 percent of the price in the domestic market, on exports of oranges to certain countries (in particular to European countries). The subsidy was continued for the succeeding seasons, although the amount of the subsidy was reduced. The most recent subsidy—that for the period December 5, 1952–September 30, 1953—was fixed at $1.25 for each crate of 1⅖ bushels of California-Arizona oranges, and at $1.25 for each crate of 1⅗ bushels of Florida-Texas oranges. Because Italy normally exports 31 percent of its domestic production of oranges, the memorandum stated, the damage to the Italian economy was substantial. The difficulties arising therefrom were aggravated further by the fact that the Italian citrus-producing areas have dense populations, depend almost exclusively on agriculture, and are deficient in raw materials.

With regard to almonds, the Italian memorandum pointed out that in March 1952 the United States Department of Agriculture established for the 1952–53 season a program that was designed to promote the use of almonds for purposes other than the normal ones. In implementing the program, 15 percent of the domestic crop was diverted from the domestic market—either for processing into oil or for export abroad. Although no subsidy was involved, the almonds that were exported were sold at a price equal to one-half the current price in the United States. The Italian memorandum claimed that the United States exports of almonds were directed to hard-currency countries. As a result, it stated, Italian exports of almonds to Switzerland in 1952–53 declined, whereas United States exports to Switzerland during the same period increased substantially. The memorandum pointed out that since Italy exports 20,000 tons of almonds, out of a total production of 60,000 tons, almonds are a significant Italian export product.

The Italian Government requested the United States to review its policy with regard to exports of oranges and almonds in the light of article XVI of the General Agreement. Italy further requested that the United States administer its policy in such a way as to avoid injury to Italian exporters. The United States and Italy had consulted on the matter and certain suggestions had been made for a provisional solution, the Italian representative stated, but these suggestions were awaiting the response of the United States.

During the ensuing discussion the Italian delegate stated that on September 3, 1953, Turkey had established subsidies on exports of almonds, chestnuts, citrus fruits, wines, and olives. The funds for these subsidies were provided by levying additional import charges on other goods—charges that amounted to 25–75 percent of the value of the imported products. He cited this case as an instance of the reactions that could be expected to result from measures that disrupted normal patterns of trade. The representative of the Union of South Africa pointed out that United States subsidies on exports of oranges had also impeded the marketing of South African oranges in Western Europe, and that his

Government wished to be informed of any further discussions on this matter between the United States and Italy. The United Kingdom delegate stated that the Italian complaint raised issues of principle to which his Government attached considerable importance. He indicated that during the discussions on the revision of the General Agreement the United Kingdom would press for more precise provisions on export subsidies than are now contained in article XVI. The United Kingdom also stated that it has an interest in the exportation of oranges since they are produced in Cyprus, a territory over which the United Kingdom exercises jurisdiction. The United Kingdom stated further that it wished to take part in any consultations that the United States might undertake under article XVI. The representative of Canada pointed out that the absence of an agreed international approach to the problem of subsidies was a serious weakness in the General Agreement. He felt that the problem ought to be considered when the General Agreement is reviewed in 1954.

According to the United States representative, the subsidy on oranges was introduced to enable United States producers to maintain their traditional markets abroad. He pointed out that the subsidy had been reduced in the last 3 years, and that in this period exports of oranges to Western European countries from Italy, Spain, and North Africa had increased more than exports of oranges to those countries from the United States. However, the United States representative stated that the United States took seriously its obligation to consult under article XVI of the General Agreement, and indicated that further discussions would be held with Italy and the Union of South Africa.

With respect to almonds, the United States delegate stated that no subsidy was involved. Under the United States marketing program for almonds, domestic consumption was regulated by a quota; beyond that point producers were free to dispose of their surplus as they saw fit. The partial replacement of Italian almonds by United States almonds in Switzerland was, according to the United States representative, due to Switzerland's ability to pay in dollars.

At the conclusion of the discussion, the Chairman of the Contracting Parties noted that the United States was prepared to continue consultations with interested governments in accordance with article XVI, and that it would report to the Contracting Parties after their completion.

Emergency Action (Art. XIX): Modification by the United States of Its Concession on Dried Figs

Article XIX of the General Agreement provides that if, as a result of unforeseen developments and obligations undertaken by a contracting party, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or directly com-

petitive products, that country shall be free to suspend the obligation in whole or in part or to modify the concession to the extent and for such time as may be necessary to prevent or remedy such injury. Pursuant to this "escape clause" provision of the General Agreement, contracting parties may modify their schedules of concessions to remedy or avoid injury resulting from contractual obligations under the agreement. In turn, countries having a substantial interest in the concession that has been modified or withdrawn may request substantially equivalent compensatory concessions, or may suspend or modify substantially equivalent concessions in their own schedule.

At the Seventh Session of the Contracting Parties, in 1952, Greece and Turkey indicated that, as a result of the United States modification of its concession on dried figs, benefits assured to them under the General Agreement had been impaired.

As a result of negotiations it concluded with Greece at Annecy in 1949, the United States reduced the rate of duty on all dried figs to 3 cents per pound. As a result of negotiations it concluded with Turkey at Torquay in 1950–51, it reduced this rate to 2½ cents per pound. In the escape-clause action that the United States took under article XIX of the General Agreement in 1952, it increased the duty on dried figs from 2½ cents per pound to 4½ cents per pound.[23]

At the Seventh Session, the United States Delegation discussed this matter with the two interested contracting parties. Agreement was reached whereby Turkey provisionally withdrew concessions on certain specified products that Turkey ordinarily imports from the United States. Among the items on which the rates of duty were increased were iron furniture, desks, cabinets, office machinery, and milling machinery. The Turkish Delegation informed the Contracting Parties that these modifications in duty, which became effective on February 23, 1953, would remain in force only as long as the United States continued to apply the increased rate of duty to imports of dried figs.

Because Greece considered that withdrawal of concessions it had granted to the United States under the General Agreement would not adequately compensate Greece for the injury it had sustained, it requested the United States to consider the possibility of granting compensatory concessions. The United States agreed to this proposal.

In accordance with assurances that the United States gave to the Contracting Parties at the Seventh Session, the President on March 5, 1953, requested the United States Tariff Commission to institute an investigation, under paragraph 2 of Executive Order 10401, to determine whether the modification in the tariff concession on dried figs remained

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[23] The increase in the rate of duty became effective August 30, 1952, pursuant to a Presidential proclamation dated August 16, 1952. See U. S. Tariff Commission, *Figs, Dried: Report to the President (1952) on the Escape-Clause Investigation; Report to the President (1953) on the Investigation Under Executive Order 10401,* Rept. No. 188, 2d ser., 1953.

necessary in order to prevent or remedy serious injury or threat thereof to the domestic industry. On June 3, 1953, the Tariff Commission reported to the President that the modification of the concession on dried figs remained necessary in order to prevent serious injury to the domestic industry. On June 25, 1953, the President approved the conclusion of the Commission.

During the Eighth Session, the Contracting Parties reviewed the action that the United States had taken on dried figs. In the discussions, the Delegations of Greece, Turkey, and Italy (the country last named likewise having a substantial interest in the concession) indicated their disappointment at the finding of the Tariff Commission, and the Greek Delegation noted that no satisfactory solution as to possible compensatory concessions by the United States had been reached. The Contracting Parties adopted a resolution reaffirming their conviction that the most satisfactory solution of the problem would be for the United States to restore the concession negotiated at Torquay, and requested the United States and the consulting governments to report at the Ninth Session on any further developments.

General Exceptions (Art. XX)

Part II of article XX of the General Agreement provides for certain special exceptions to the general provisions of the agreement when such exceptions are essential to (1) the acquisition or distribution of products in general or local short supply, (2) the control of prices by a contracting party undergoing postwar shortages, or (3) the orderly liquidation of temporary government-owned or government-controlled surplus stocks which developed owing to the exigencies of war and which it would be uneconomical to maintain under normal conditions. Because these exceptions were intended primarily as a basis for dealing with emergency conditions resulting from World War II, article XX originally provided that they be terminated as soon as the special conditions giving rise to them had ceased, but in any event not later than January 1, 1951. The article further specified that these emergency measures should not be applied in a manner that would arbitrarily or unjustifiably discriminate between countries where the same conditions prevail, or that would constitute a disguised restriction on international trade.

Two extensions were subsequently made, however, in the time limit originally specified in article XX for the waiver to the general provisions of the agreement. At their Fifth Session, in 1950, the Contracting Parties extended the time limit to January 1, 1952, and, at their Sixth Session, in 1951, they extended it further to January 1, 1954. In both instances the reason given for the extension was that the exceptional conditions resulting either directly or indirectly from the war had not improved as rapidly or to the extent anticipated when part II of article XX was drafted and approved.

At the Eighth Session, the Norwegian Delegation moved for the further extension of the waiver until July 1, 1955. During the discussion on this motion, it was pointed out that, although the emergency conditions specified in the article no longer are of paramount importance, the waiver continues to serve a useful purpose for certain countries that still face difficult problems of postwar economic readjustment. Moreover, it was noted that there had been no apparent abuse of the waiver privilege, and that if the time limit was extended to the date proposed (July 1, 1955), the article would be subject to a complete examination when the operation of the General Agreement was reviewed in 1954. Some consideration was given to the possibility of treating the three exceptions in part II of article XX separately, and to that of authorizing the extension for a shorter period. The consensus, however, was that the arguments in favor of the previous extensions still retained a measure of validity, and that it would be preferable to extend the limit to the date requested. Accordingly, the Contracting Parties voted to continue the waiver until July 1, 1955.[24]

Nullification or Impairment of Benefits (Art. XXIII)

Under article XXIII the Contracting Parties take cognizance of, and make provision for, the possibility that benefits under the General Agreement may be nullified or impaired by the failure of a contracting party to carry out fully its obligations under the agreement, or by an action that, although not technically a violation of a specific article, may contravene the spirit of the agreement and nullify benefits accruing under it. For dealing with such contingencies, article XXIII provides that any contracting party which considers that any benefits it derives from the agreement are being impaired or nullified may make representations to the contracting party or parties in question. If the matter at issue is not satisfactorily resolved by the countries immediately concerned, the contracting party filing the complaint may make representations to the Contracting Parties acting as a group. The Contracting Parties may authorize the complaining party to suspend the application of such obligations or concessions as may be considered appropriate.

Belgian import restrictions on dollar goods

At the Sixth Session, in 1951, certain countries—notably the United States, Canada, and Cuba—complained that certain import restrictions imposed by the Belgo-Luxembourg Economic Union represented a departure from its obligations under the General Agreement and that those restrictions should, therefore, be considered by the Contracting Parties.

[24] The effective date for the termination of the general waiver thus is the same as the terminal date (July 1, 1955) for the provision of article XXVIII that binds the schedules of concessions. The general rule under article XXVIII, binding the schedules through June 30, 1955, does not apply, of course, to modifications made under other specific provisions of the agreement.

Although the matter was discussed at length, the Contracting Parties did not conclude their deliberations on it at the Sixth Session. Subsequently, at a meeting of the Intersessional Committee in February 1952, the United States again raised the question, and a working party was appointed to study the problem. The Intersessional Committee agreed to postpone its study until the International Monetary Fund could make available information on the consultation it was to hold with Belgium under article XIV of the Fund's Articles of Agreement, on import restrictions that that country imposes for balance-of-payments reasons.

When the Contracting Parties resumed study of the subject at the Seventh Session, in 1952, they had before them the materials that had been prepared by the Monetary Fund. In addition, the Belgian delegate reviewed intersessional developments respecting the restrictions in question, and outlined the action that Belgium intended to take regarding them. The Belgian delegate stated that his Government was fully committed to return to a regime of free trade, and would shortly institute measures to relax its controls over imports from the dollar area. As a first step, Belgium proposed to increase the number of items on its free list; in addition, it proposed to unify the two lists that specified, respectively, products the importation of which was prohibited, and products for which administrative approval was required before importation. The Belgian delegate stated that, by consolidating these two lists, his Government hoped to examine import licenses for all products not on the free list on the basis of the merit of the individual license, while at the same time maintaining the necessary administrative review over imports of products in this category. Belgium also informed the Contracting Parties that it would pursue a more liberal policy in the issuance of import licenses.

The representatives of the United States and Canada expressed satisfaction with the Belgian proposals, and agreed that no useful purpose would be served by exploring the problem further at the Seventh Session. The French representative, however, pointed out that the liberalization measures that Belgium had taken for imports from the dollar area might involve the risk of a subsequent deterioration in the balance-of-payments position of other European countries, particularly with the dollar area. This view was also taken by the representatives of Italy and the Netherlands. In their comments on the French statement, the United States and Canadian delegates expressed concern lest joint arrangements by Western European countries should discourage Belgium from relaxing its import restrictions consistently with its obligations under the General Agreement. The matter was not discussed further, but the Contracting Parties took note of the actions that Belgium had taken, and agreed to await a detailed report on them.

On February 4, 1953, Belgium notified the Contracting Parties that, effective February 1, it had introduced measures to relax its import

restrictions. At that time, it had established two commodity classifications for imports: (1) List A, consisting of products (whether payable in dollars or other currencies) that might be imported without restriction, and (2) list B, consisting of products (some of which had been previously prohibited, or had been subject to decreasing quotas) that might be imported only after prior approval by an appropriate administrative department. Belgium indicated that, although it would maintain the quota system, the quotas on individual items had been considerably increased over those previously in effect, and it announced that import licenses for commodities on list B would be issued in as liberal a spirit as possible. As an indication of the degree of trade freedom that had been accomplished by these adjustments, Belgium stated that the products enumerated in list A accounted for 68 to 70 percent of the total value of dollar imports of the Belgo-Luxembourg Economic Union during the first 6 months of 1951. During the 6 months before the liberalization measures were instituted, list A items had accounted for only about 25 percent of the Union's total imports from the dollar area. After February 1, 1953, Belgium further liberalized its trade program by transferring specified products from list B to list A.

At the Eighth Session of the Contracting Parties, Belgium again reported on the status of its restrictions on imports from the dollar area. The Belgian delegate indicated that the measures taken thus far had conformed fully with the liberalization measures that his Government had announced it would initiate. He added, however, that, although Belgium was committed to a liberal trade program, the country's current economic condition called for a policy of prudence and caution. Under the new regulations, he said, Belgium gave virtually complete freedom to imports of goods from the dollar area, and the few exceptions that were in force were not being applied rigidly. He informed the Contracting Parties that although Belgium's balance-of-payments position with the dollar area had improved considerably during the first 6 months of 1953, his Government did not feel that this represented a permanent relaxation of pressure on its dollar reserves. The Belgian delegate stated that to a large extent the improvement was attributable to a temporary diminution in the demand for consumers' goods from the dollar area. For this reason his Government did not consider its balance-of-payments position with the dollar area sufficiently stabilized to permit the complete abandonment of its import-control system, particularly because of uncertainty as to the future course of United States commercial policy. The Belgian delegate also stated that because the Netherlands Government had recently adopted a series of import-liberalization measures, Belgium would need additional time to coordinate its commercial policy with that of the Netherlands before further relaxing its import controls. Finally, the delegate called attention to the fact that although Belgium's balance-of-

payments position had improved, controls were still needed. In this connection he noted that although the General Agreement authorizes deficit countries to maintain restrictions to protect their foreign-exchange resources, no equivalent procedures are authorized for creditor countries that—in certain exceptional temporary circumstances—may have a special need to retain such controls to safeguard their existing financial position. Belgium felt that in some cases such measures would be justified, and indicated that it would submit proposals along these lines for the consideration of the Contracting Parties at a later date.

The delegates of both the United States and Canada expressed disappointment that Belgium apparently had no immediate plans for the further liberalization of its import controls, and indicated concern at Belgium's failure to publish detailed information regarding the administrative procedures it followed in issuing import licenses. Both countries stated that the lack of information on such procedures made it difficult for their exporters to determine in advance what problems they would face when attempting to sell in the Belgian market. The Contracting Parties agreed that further informal consultations should be held by the interested countries for the purpose of arriving at a solution to these problems. The item was, therefore, retained on the agenda for consideration at the Ninth Session.

Belgian family-allowance tax

Under a law of August 4, 1930, Belgium operates a system of family allowances (allocations familiales), which is financed by contributions imposed upon Belgian employers. In order to countervail these contributions, a special tax of 7.5 percent ad valorem is levied on products imported by the Belgian Government or by provincial or municipal authorities. Provision is made to exempt from this tax imports from countries that require similar contributions by employers, either by law or by collective agreements.

At the Sixth Session, in 1951, Denmark and Norway informed the Contracting Parties that they had requested Belgium to exempt their exports to Belgium from this family-allowance tax. As a basis for their request they cited their own social legislation, which, they stated, was neither less costly nor less advanced than the corresponding Belgian legislation. The Contracting Parties considered that Belgium's action was not in conformity with article I of the General Agreement (which relates to most-favored-nation treatment). At the request of the Belgian representative, however, they deferred action to permit the Belgian authorities to make the necessary administrative changes to correct the situation.

The problem was reconsidered in 1952 at the Seventh Session, at which time the Belgian representative reported that his Government had taken no action on the matter. Pursuant to a committee report, the Contract-

ing Parties recommended that Belgium take steps to remove the discrimination without delay, and report as to its progress before the opening of the Eighth Session. When the discussions were resumed at the Eighth Session, the Belgian delegate reported that because his Government considered the provisions of the law relating to family allowances to be mandatory, it could not eliminate the discrimination by administrative action. The Belgian Government had, therefore, drafted corrective legislation, which had already been approved by the Cabinet. At the time of the Eighth Session this bill was awaiting consideration by the Council of State, after which it would be submitted to the Parliament. The Belgian delegate observed that legislative action possibly would be slow. However, he expressed his Government's willingness to negotiate with the interested parties with a view to establishing a provisional remedy for the existing discrimination, pending adoption of the corrective legislation. The Contracting Parties expressed their satisfaction with Belgium's intention to amend its legislation, and voted to retain the item on the agenda for consideration at the Ninth Session. Subsequently Belgium informed the Contracting Parties that a law eliminating the tax had become effective on March 6, 1954, thereby disposing of the complaint.

Brazilian compensatory concessions

Although the General Agreement makes no provision for general modification of negotiated schedules of concessions before July 1, 1955,[25] the Contracting Parties may authorize specific changes in individual schedules of concessions, provided unanimous consent of the Contracting Parties is obtained. The Contracting Parties have generally been disposed to grant such authorization if continued observance of the concessions would cause serious difficulty for the country concerned.

When Brazil applied the Protocol of Provisional Application on July 30, 1948, it withdrew the concessions it had granted at Geneva on powdered milk, penicillin, and calendars and almanacs. It also reduced several of the rates of duty it had negotiated at Geneva, and increased the rates of duty on a number of nonconcession items. The Contracting Parties authorized Brazil to apply certain maximum rates of duty on powdered milk, penicillin, and calendars and almanacs. Later it was agreed that Brazil's concessions on these items should be the subject of renegotiation between Brazil, the United Kingdom, and the United States, in order to provide for concessions which would compensate the United Kingdom and the United States for the adjustments that Brazil had made. Pending the conclusion of these negotiations, Brazil agreed not to increase the existing rates of duty on a number of other items for which the

[25] Originally, art. XXVIII of the agreement assured the validity of the schedules of concessions until January 1, 1951. By subsequent amendments the time limit has been extended until July 1, 1955. See the section of this chapter on tariffs and tariff negotiations.

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rates were lower than the maximum permitted by its schedule of concessions.

In 1949, at their Third Session, the Contracting Parties authorized Brazil, in pursuance of an agreement signed on May 31 with the United Kingdom and the United States, to apply to powdered milk, penicillin, and calendars and almanacs rates of duty not in excess of stipulated levels—levels higher than those provided for in Brazil's schedule of concessions. As compensation for the increases permitted in these rates of duty, Brazil agreed to grant new concessions on oat flour, seven earthenware articles, specified motor-vehicle parts, certain steam generators, certain grading machines, and tetraethyl lead.

Although these new concessions were incorporated in the First Protocol of Modifications of the General Agreement, signed on August 13, 1949, the Brazilian Congress failed to ratify them. Accordingly, they were not made effective by the Brazilian Government. At the Eighth Session of the Contracting Parties, the United States and the United Kingdom joined in requesting the Contracting Parties to consider the problem and to make recommendations concerning it. The Brazilian delegate reported that his Government had not yet undertaken the action necessary to place the compensatory concessions in effect, and that he could not assure the Contracting Parties that such action would be taken in the immediate future. He requested that further time be granted to reach a solution, and indicated that if the compensatory concessions had not been made effective before the opening of the Ninth Session, Brazil would be willing to consider an alternative solution. The United Kingdom and the United States delegates expressed concern at the long delay since Brazil had agreed upon the compensatory concessions. They stated that they would be willing to consult with Brazil in order to arrive at some adjustment, but indicated that the implementation of the compensatory concessions would be the preferable solution. The Contracting Parties then adopted a resolution urging Brazil to give effect to the compensatory concessions without delay. Brazil was asked to report as early as possible on the action taken, and the item was retained on the agenda for later consideration.

Discrimination against Norwegian sardines by the Federal Republic of Germany

In 1952, at the Seventh Session, the Norwegian Government complained that the Federal Republic of Germany had discriminated in three different ways against imports of Norwegian sardines (*Clupea sprattus* and *Clupea harengus*) by failing to accord to them the customs treatment it accords imports of Portuguese sardines (*Clupea pilchardus*). The discriminatory measures related to (1) ordinary customs treatment, (2) the special German import tax, and (3) the manner in which Germany administered the quantitative import restrictions applicable to this item.

According to Norway, the discriminatory application of import taxes was inconsistent with articles I and III of the General Agreement, and the administration of the import quotas was inconsistent with article XIII.

The Norwegian Government contended that, within the meaning of the General Agreement, Norwegian sardines and Portuguese sardines were "like products" and, as such, Norwegian sardines were entitled to the customs treatment being accorded Portuguese sardines under Germany's bilateral agreement with Portugal. At the Seventh Session the Contracting Parties established a panel to investigate this and other complaints. After this panel reported, the Contracting Parties found that, although the measures that the Federal Republic of Germany had taken were not inconsistent with the provisions of the General Agreement, they had in effect impaired the value of the German concession to Norway, since the two products were competitive.[26] The Contracting Parties recommended that the Federal Republic of Germany consider ways of removing any inequality of treatment with respect to Norwegian sardines, and that it consult with Norway on the matter. Both countries concurred in this recommendation. At the Eighth Session they reported that the matter had been satisfactorily resolved, thus removing the item from the agenda.

United States restrictions on imports of dairy products

In 1951, at the Sixth Session of the Contracting Parties, the representatives of Denmark and the Netherlands, supported by the delegates of Australia, Canada, France, Italy, New Zealand, and Norway, complained that the restrictions on imports of certain dairy products introduced by the United States on August 9, 1951, under section 104 of the Defense Production Act of 1950, had, within the meaning of article XXIII, directly or indirectly nullified or impaired the scheduled commitments that the United States had negotiated under the General Agreement.[27] They also maintained that these restrictions on imports of dairy products constituted an infringement of article XI, which provides for the general elimination of quantitative restrictions on imports. In view of the efforts of the executive branch of the United States Government to have section 104 repealed, however, the Contracting Parties agreed to leave the matter on the agenda for consideration at a later date.

When the Defense Production Act was renewed on June 30, 1952, section 104 was retained with certain amendments. The revised section authorized the Secretary of Agriculture, whenever he deemed it necessary,

[26] The panel investigating the complaint noted that the General Agreement made a distinction between "like products" and "directly competitive or substitutable products," and that the most-favored-nation-treatment clause in the General Agreement was limited to "like products." The panel made no attempt to define "like products."

[27] See the section on quantitative restrictions on imports into the United States in ch. 4 of this report. See also *Operation of the Trade Agreements Program* (fifth report), pp. 32 and 33, and *Operation of the Trade Agreements Program* (sixth report), pp. 43–45.

to increase up to 15 percent the quotas that had been established under the act of 1950 for each type or variety of agricultural commodity or product, taking into consideration the broad effects of such increase upon international trade. The following three standards for determining the need for imposition of controls were retained: (1) Impairment or reduction of domestic output below current production levels, (2) interference with the orderly domestic storing and marketing of such products, and (3) imposition of any unnecessary burden or expenditure under any Government price-support program. Under the amended section 104, the United States on July 3, 1952, made several changes in the import restrictions imposed on dairy products, which changes had the effect of moderating their severity.

At the Seventh Session of the Contracting Parties, in 1952, Canada, Denmark, the Netherlands, and New Zealand stated that their export trade in dairy products continued to be adversely affected by United States import quotas, and again protested that maintenance of these restrictions by the United States constituted an abrogation of its obligations under the General Agreement. In a resolution adopted November 8, 1952, the Contracting Parties took the position that failure to repeal section 104 of the Defense Production Act constituted continued infringement by the United States of its obligations under the General Agreement. The Contracting Parties noted further that several delegations had reserved the right under paragraph 2 of article XXIII to take compensatory action if the United States restrictions were not lifted, and they recommended that the United States Government continue its efforts to secure the repeal of section 104 as the only satisfactory solution of the problem. The item was retained on the agenda, and the Contracting Parties requested the United States to report not later than the opening of the Eighth Session on what action it had taken. The Contracting Parties agreed that if, in the meantime, one or more countries desired to take retaliatory action under article XXIII, a special session of the Contracting Parties would be required to consider whether the action proposed would be consistent with the general provisions of the General Agreement.

The Netherlands Government requested permission to take immediate action under article XXIII, and asked for authorization to restrict imports of wheat flour from the United States during 1953, in order to compensate for the injury it had sustained. The Netherlands representative declared that the proposed retaliatory measure would be applied only as long as the United States restrictions continued in force. The Contracting Parties authorized the Netherlands to reduce its quota on imports of wheat flour from the United States in 1953 from 72,000 to 60,000 metric tons.

Section 104 of the United States Defense Production Act of 1950, as amended, expired on June 30, 1953. In anticipation of its expiration,

the President on April 8, 1953, requested the United States Tariff Commission to institute an investigation under the provisions of section 22 of the Agricultural Adjustment Act, as amended, to determine whether import controls should be established on the products then subject to restriction under section 104, in order to prevent imports from interfering with domestic programs of the United States Department of Agriculture. The Tariff Commission instituted its investigation on April 10. In its report to the President on June 1, 1953, the Commission recommended the imposition of quotas and fees on certain of the aforementioned products. By a proclamation of June 8, 1953, which became effective on July 1, the President imposed the quotas and fees that had been recommended by the Commission.[28]

At the Eighth Session, the United States reported in detail on these developments and informed the Contracting Parties of the basic problems and conditions that made it necessary to retain the restrictions. In discussing the United States report, several contracting parties indicated that although section 104 had been repealed the restrictions imposed under section 22 of the Agricultural Adjustment Act were substantially as severe and were equally adverse to their trade interests. Accordingly, the Contracting Parties adopted a resolution reaffirming the right of the interested parties to take appropriate retaliatory action under the provisions of article XXIII. The resolution also authorized the Netherlands to again reduce its quota on imports of wheat flour from the United States, from 72,000 metric tons, as provided for in the General Agreement, to 60,000 metric tons for the calendar year 1954. The resolution further recommended that the United States consider the harmful effects on international trade relations of the application of the section 22 restrictions, and requested that it report to the Contracting Parties on any new developments before the opening of the Ninth Session.

United States restrictions on imports of filberts (hazel nuts)

Section 22 of the United States Agricultural Adjustment Act, as amended, provides for adjustment of the customs treatment applicable to agricultural products whenever such products are being imported or are practically certain to be imported in such quantities as to materially interfere with domestic programs of the United States Department of Agriculture.

On April 13, 1950, the President directed the Tariff Commission to institute an investigation of edible tree nuts (almonds, filberts, walnuts, brazil nuts, or cashews) to determine whether such nuts were being imported under such conditions and in such quantities as to materially interfere with any Department of Agriculture programs relating to these products. In its first, or interim, report to the President, dated Novem-

[28] See the section on quantitative restrictions on imports into the United States in ch. 4 of this report.

ber 24, 1950, the Commission found no justification for action under section 22 on any of the above-mentioned products. On November 28, 1951, however, the Commission recommended the imposition of an import fee of 10 cents per pound on imports of shelled and prepared almonds entered in excess of 4,500,000 pounds during the period October 1, 1951, to September 30, 1952, inclusive.[29] This fee was made effective on December 10, 1951, by Presidential proclamation. On September 25, 1952, the Commission also recommended the imposition of an import fee of 5 cents per pound on entries of shelled and prepared almonds up to 7,100,000 pounds, and a fee of 10 cents per pound on entries in excess of that amount during the period October 1, 1952, to September 30, 1953. The Commission also recommended the imposition of an absolute import quota of 4,500,000 pounds for shelled filberts entered during the same period.

President Truman accepted the Commission's recommendation with respect to almonds and, on September 27, 1952, issued a proclamation establishing the additional import fees on them. However, on October 20, 1952, he announced that he was not acting on the Commission's quota recommendation for filberts, stating that the threat did not seem sufficiently severe to warrant the imposition of the quota that had been recommended. The President also pointed out that the burden of any such action would fall almost entirely upon Turkey, the trade interests of which had been adversely affected as a result of the increase in the import duty on dried figs.

The relevant programs for filberts were the marketing-agreement-and-order programs undertaken by the Department of Agriculture pursuant to the Agricultural Marketing Agreement Act of 1937, as amended, under which the quantities of shelled filberts that may be marketed in each year are restricted in order to maximize returns to growers. The Tariff Commission recommendation was predicated on the assumption that because of the large quantity of filberts available from foreign and domestic sources during the 1952–53 crop year, imports, unless restricted, would materially interfere with the Department of Agriculture program for the 1952–53 marketing season.

During the 1952–53 crop year, United States production of shelled filberts reached a record level of about 3 million pounds. On June 10, 1953, President Eisenhower issued a proclamation establishing the import quota that the Commission had recommended in September 1952. Thus, for the period October 1, 1952, through September 30, 1953, entries of shelled filberts into the United States were limited to 4,500,000 pounds, compared with average annual imports of 6,900,000 pounds during the period 1946–51 (crop-year basis).

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[29] The recommendation specified that not more than 500,000 pounds of the within-quota entries should consist of prepared almonds.

Before the opening of the Eighth Session, Turkey—the principal foreign supplier of filberts—notified the Contracting Parties that it considered the import quota imposed by the United States on shelled filberts to be a nullification of the benefits of concessions that the United States had negotiated under the General Agreement. When this matter was discussed at the Eighth Session, however, the United States delegate informed the Contracting Parties that in June 1953 the Tariff Commission had instituted a review of the filbert-marketing situation and—in its report of September 1953—had not recommended an import quota for shelled filberts for the crop year beginning October 1, 1953. Thus the basis for the Turkish complaint was removed.

Customs Unions and Free-Trade Areas (Art. XXIV)

Article XXIV of the General Agreement exempts from the most-favored-nation principle the trade between countries forming a customs union or having a free-trade area or entering into an interim agreement preparatory to forming such union or area. The agreements entered into must fulfill certain conditions, and must be expected to achieve the desired results within a reasonable time.

Nicaragua-El Salvador free-trade area

At their Sixth Session, in October 1951, the Contracting Parties considered the treaty concluded by Nicaragua and El Salvador for the establishment of a free-trade area. In this treaty, Nicaragua and El Salvador agreed to grant reciprocal duty-free treatment to imports of specified products.[30] The Contracting Parties agreed that the treaty, which became effective August 21, 1951, was consistent with Nicaragua's obligations under the General Agreement. With respect to such products, this concurrence by the Contracting Parties constituted a waiver to Nicaragua of its most-favored-nation obligations under the General Agreement. The Contracting Parties required Nicaragua to submit an annual report on the action it takes under certain articles of the treaty, which authorized the imposition of quantitative restrictions on specified imports.

In October 1952, at the Seventh Session, Nicaragua submitted its first annual report to the Contracting Parties.[31] The report noted that Nicaragua had not imposed quantitative restrictions on the importation of any Salvadoran product, but that, because of a persistent decline in the domestic price of maize, El Salvador had been obliged to place a temporary prohibition on the importation of that product from Nicaragua. Both governments agreed that this measure conformed to the provisions of the treaty, which contained special reservations on the importation of maize.

[30] Nicaragua is a contracting party to the General Agreement; El Salvador is not.

[31] See *Operation of the Trade Agreements Program* (sixth report), p. 50.

At their Eighth Session the Contracting Parties considered Nicaragua's second annual report, which covered the period August 1951–February 1953. During the discussion the representative of El Salvador attended as an observer. The report pointed out that, for the 19-month period it covered, the value of imports listed in the free-trade treaty into Nicaragua from El Salvador was 0.5 percent of total Nicaraguan imports; during the same period Nicaragua's exports to El Salvador that were covered by the treaty amounted to 3.0 percent of total Nicaraguan exports. The report also stated that the quantitative restrictions that El Salvador had imposed on imports of maize from Nicaragua in September 1952 had been removed in January 1953. The Contracting Parties noted that Nicaragua had not imposed any quantitative restrictions under the treaty, and had not, since it became effective, established restrictions on exports to Nicaragua from any General Agreement countries.

The report indicated that the two governments concerned were satisfied with the operation of the treaty and were considering the possibility of extending its coverage to additional commodities. The report also noted that Costa Rica and El Salvador were considering negotiations to modify an existing free-trade treaty between the two countries in order to harmonize that treaty with the objectives of the treaty between Nicaragua and El Salvador.

At the conclusion of the discussion of Nicaragua's report the Contracting Parties took note of the report and of the statements that had been made by the various contracting parties.

South Africa-Southern Rhodesia Customs Union

On April 1, 1949, the Customs Union (Interim) Agreement between the Governments of Southern Rhodesia and the Union of South Africa became effective. The agreement, which had been drafted in accordance with the provisions of article XXIV of the General Agreement, looked toward the formation of a customs union between the two countries. Southern Rhodesia and the Union of South Africa agreed to submit to the Contracting Parties annual reports on the progress they had made toward the formation of the union. Besides the annual reports, the two governments also agreed to submit, by July 1, 1954, a definite plan and schedule for completion of the customs union, and to complete such a union by April 1, 1959.

At the Eighth Session, the Southern Africa Customs Union Council submitted its fourth annual report to the Contracting Parties for their consideration.[32] During 1953, there had been, however, special developments in Africa that affected the outlook for the customs union. The United Kingdom Parliament had enacted a law providing for the establishment of the Federation of Rhodesia and Nyasaland—composed of South-

[32] For a summary of the discussion at the Seventh Session in 1952, see *Operation of the Trade Agreements Program* (sixth report), p. 49.

ern Rhodesia, Northern Rhodesia, and Nyasaland. The constitution of the federation, which formally came into existence on September 3, 1953, provides for the transfer to it of jurisdiction over matters relating to the General Agreement. Formerly, Southern Rhodesia was a contracting party in its own right, and the United Kingdom acted on behalf of Northern Rhodesia and Nyasaland.

In a joint statement to the Contracting Parties, the Governments of Southern Rhodesia and the Union of South Africa reported that, as a result of the new developments, they had agreed to amend the Customs Union (Interim) Agreement. Effective September 30, 1953, article 28 of that agreement was amended to provide that either party would be free to terminate the agreement 6 months after notice of termination. Formerly, the Customs Union (Interim) Agreement had an assured life of 5 years from April 1, 1949, after which it was to be renewed automatically for another 5 years. The renewal was subject to the proviso that either party could terminate the agreement by giving 6 months' notice before the end of the first 5-year period, or 6 months' notice before the end of the second 5-year period. In the light of the new developments, the two governments agreed to continue the agreement as a temporary arrangement, in order to permit the new Federation of Rhodesia and Nyasaland to determine the nature of its future trade relations with the Union of South Africa.

During the discussion, the United States representative noted that an examination of the fourth annual report indicated that little progress had been made by the two countries toward a full customs union. He stated, however, that, in view of the new situation, a discussion of the fourth annual report would not be worthwhile. The Contracting Parties took note of the report, and agreed to await developments.

On October 29, 1953, in a communication to the Executive Secretary of the Contracting Parties, the United Kingdom and Southern Rhodesia notified the Contracting Parties that, beginning October 30, 1953, the Federation of Rhodesia and Nyasaland would be responsible for the international obligations of Southern Rhodesia, Northern Rhodesia, and Nyasaland, including their obligations under the General Agreement.

In accordance with the procedure approved at their Eighth Session, the Contracting Parties directed the Intersessional Committee to consider the changes with respect to the General Agreement that may be required by the transfer of authority to the Federation of Rhodesia and Nyasaland, and to report to the Contracting Parties at their Ninth Session.

Report of the European Coal and Steel Community

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. The treaty became effective

July 23, 1952.[33] To enable them to fulfill their obligations under the treaty, the six participating countries then requested the Contracting Parties to the General Agreement to release them from certain of their obligations under the agreement. Specifically, they requested a release from their commitments under articles I and XIII. Article I provides for most-favored-nation treatment, and article XIII, for the nondiscriminatory application of quantitative restrictions.

On November 10, 1952, during their Seventh Session, the Contracting Parties granted the six members of the Community a waiver of their obligations under articles I and XIII.[34] Granting of the waiver was analogous to permitting a limited customs union, under article XXIV, for trade in coal and steel products. Belgium, Italy, and France were also granted specific waivers to cover their special situations with respect to certain coal and steel products during the transition period. The waiver also specified that, from the date the common market for coal was created until the end of the transition period, the six countries that made up the Community would submit an annual report to the Contracting Parties on the progress they had made toward implementing the treaty. According to the convention, which provides for the transitional arrangements, the transition period is to begin on the date on which the common market for coal is established, and is to continue for 5 years. The common market for coal, iron ore, and scrap iron was established on February 10, 1953, and the common market for steel, on May 1, 1953.[35] The transition period, therefore, will extend to February 10, 1958. For purposes of the General Agreement, the Contracting Parties permitted the Community to act as a single contracting party insofar as coal and steel products are concerned.

At the Eighth Session the Contracting Parties established a working party to consider the first annual report of the European Coal and Steel Community. A representative of the High Authority of the Community attended the meetings of the working party and of the Contracting

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[33] 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.

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

[35] Provision was also made for establishing a common market, effective May 1, 1954, for special steels (construction, fine carbon, and other special steels described in annex III of the *Treaty Constituting the European Coal and Steel Community . . .*, (European Coal and Steel Community, 1951). The date for implementing this phase of the agreement was subsequently extended until July 1, 1954; the common market for such steels was finally established on August 1, 1954. In accordance with secs. 27 and 30 of the treaty and the waiver granted by the Contracting Parties on November 10, 1952, the High Authority of the Community authorizes Italy to maintain certain customs duties on these special steels until May 1, 1955.

Parties as an observer. Besides the information contained in the first annual report, the working party had at its disposal supplementary data prepared by the Executive Secretary of the Contracting Parties, and detailed replies to specific questions that the Contracting Parties had presented to the High Authority.

The working party discussed the various measures that the six participating countries had taken pursuant to the waiver that the Contracting Parties had granted on November 10, 1952. The working party noted that, with the establishment of the common market for coal, iron ore, and scrap on February 10, 1953, and that for steel, on May 1, 1953, all customs duties and other charges relating to trade in these commodities within the Community—as well as import and export prohibitions and quantitative restrictions—had been eliminated. However, in accordance with the waiver, Italy had been permitted to retain import duties on coke and steel products.[36] Italy is obliged, however, to reduce its import duties on coke and steel by stages. As of October 1953, the import duties on coke had not been modified, and the import duties on steel, which had been reduced by 10 percent, were to remain at that level until May 1, 1955.

In its annual report the Community stated that on May 1, 1953, the Benelux countries had placed in effect tariff quotas, as permitted by the decision of November 10, 1952.[37] The decision permits the Benelux countries to modify concessions that are contained in the Benelux schedule of the General Agreement, by establishing tariff quotas on imports of certain steel products. The decision also permits the Benelux countries to raise the duties on such imports by a specified percentage when imports exceed the quotas, and provides that the quotas that are established shall be sufficient to satisfy domestic demand for these products. These special arrangements are to expire not later than 5 years after the creation of the common market for coal—that is, by February 10, 1958. The working party noted that the duties on imports in excess of the quotas that were fixed in 1953 had been determined on the basis of the higher of the imports in the years 1951 and 1952. Arrangements had been made to increase these quotas to take account of the requirements of the domestic market, and such increases had been introduced for imports of several steel products.

As a result of these measures, the working party noted, free trade existed in the Community in those coal and steel products that originate

[36] Italy is required to eliminate such import duties by the end of the transition period in accordance with secs. 27 and 30 of the convention. See European Coal and Steel Community, *Treaty Constituting the European Coal and Steel Community . . .*, 1951, pp. 36 and 39.

[37] The establishment of tariff quotas is permitted by sec. 15 of the convention covering transitional arrangements. See European Coal and Steel Community, *Treaty Constituting the European Coal and Steel Community . . .*, 1951, pp. 23 and 24; and Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, First Supplement, Sales No.: GATT/1953–1, Geneva, 1953, par. 4, pp. 20 and 21.

in member countries, except for the import duties that Italy still maintained.[38] Coal and steel products that are imported into one member country of the Community from a third country enjoy, after importation, the same treatment in the Community as the coal and steel products originating in that country. However, those products that are imported within the limits of the tariff quotas established by the Benelux countries (and within the limits of the 12-month tariff quota established by the Federal Republic of Germany) are excluded from these free-trade arrangements. The movement of products in the latter category is covered by a special certificate created for the purpose (certificat de libre pratique). This document is required only for those products that are actually dutiable if imported from third countries. The certificate is dispensed with when those goods are imported duty-free from third countries.

Taking note of the various measures that had been adopted by members of the Community under the decision of November 10, 1952, the working party concluded that the actions that had been taken between November 1952 and October 1953 were consistent with that decision.

During its discussion the working party examined other aspects of the commercial policy of the European Coal and Steel Community—especially the measures relating to the exportation of scrap to third countries, the plans of the Community for negotiations with outside countries looking toward the harmonization of tariffs on coal and steel, and the extent to which the Community had taken steps to insure that equitable prices were charged by producers in third markets. The working party heard statements from the Austrian and Swedish representatives on the importance that their governments attached to negotiations with member states of the Community aimed at harmonizing their tariffs. The working party noted that such negotiations were contemplated by section 14 of the Convention Containing the Transitional Provisions and that the Community would begin such negotiations as soon as possible. The observer for the High Authority expected that, as a result of such negotiations, substantial results would be achieved by May 1, 1954.

The working party also devoted some time to discussing the question of export prices and cartel arrangements. It noted that producers of the Community were applying different prices in different export markets, and that they had concluded cartel arrangements regarding export prices. Adoption of export price differentials, the working party stated, had resulted in some price increases in certain markets—at a time when there was a general downward trend in the Community's export prices for coal and steel products. The observer for the High Authority, while recog-

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[38] The Community also maintained in 1953 temporary restrictions on exports of scrap to third countries. These export restrictions were imposed because of the shortage of the supply of scrap relative to demand. Restrictions on exports to third countries are to be adjusted as market conditions improve. The Community pointed out, however, that there is no discrimination in exports of scrap as between different countries.

nizing the existence of a producers' arrangement, stated that the existence of differential prices could be fully consistent with the requirements of free competition, and that the available data indicated that the export prices charged by exporters of the Community were equitable. The working party recognized that even if such arrangements were not responsible for the price differentials, the strengthening of these arrangements would justify prompt action by the Community. The observer for the High Authority assured the Contracting Parties that the Community was actively considering the question of differential prices and producers' arrangements and that it would not hesitate to take remedial steps should it appear that those arrangements were counter to the objectives of the treaty and to the terms of the waiver that the Contracting Parties had granted.

The Contracting Parties adopted the report of the working party.[39] They took note of the first annual report of the Community and of the assurances by the observer representing the High Authority that members of the Community intend to initiate negotiations with other contracting parties regarding their trade in coal and steel products. The Contracting Parties expressed the hope that such negotiations would be completed by May 1, 1954. They also noted the assurance given by the High Authority that it will take measures to insure that equitable prices are charged in markets outside the Community and that no arrangement or combination between producers shall impair the value of that undertaking. The Contracting Parties expressed the hope that the High Authority would notify them of the results of its examination of producers' arrangements, as well as of the remedial measures that it institutes. Finally, the Contracting Parties instructed their Executive Secretary to prepare a statement, before the opening of the Ninth Session on October 14, 1954, giving any appropriate data on the activities of the Community. They also instructed the Executive Secretary to develop practical arrangements for circulating to contracting parties translations of extracts of the principal legislative and administrative measures that had been adopted by members of the Community in their application of the decision of November 10, 1952.

TARIFFS AND TARIFF NEGOTIATIONS

Report of the Working Party on the Reduction of Tariff Levels

At their Eighth Session the Contracting Parties considered a report submitted by the subgroup of the working party that had been studying the technical aspects of the French plan for the reduction of tariff levels. The subgroup had met to consider the revised version of the plan submitted by France on July 22, 1953, with the support of Belgium, Den-

[39] See Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, Second Supplement, Sales No.: GATT/1954–2, Geneva, 1954, pp. 101–116.

mark, the Federal Republic of Germany, and the Netherlands. The subgroup consisted of representatives of Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Luxembourg, the Netherlands, Norway, Sweden, the United Kingdom, and the United States.

The problem that the French plan attempted to resolve arose during the Torquay Conference in 1950–51. The tariff negotiations at Torquay, as well as those at Geneva in 1947 and those at Annecy in 1949, had been conducted on the basis of strict reciprocity, and on a product-by-product basis.[40] Under this procedure each contracting party prepared an offer list and negotiated with its principal supplier on selected products on which it was prepared to offer concessions. The results of these negotiations were then incorporated into the schedules annexed to the General Agreement. In this negotiating technique each country expected to obtain concessions from other countries roughly equivalent to the concessions that it granted.

A new approach to the problem of tariff reduction was made necessary by the weak negotiating positions of the low-tariff countries. At Geneva and Annecy those countries had bound a large number of import duties against increase, in accordance with the negotiating rule that the binding of a low rate of duty or the binding of duty-free treatment was to be regarded as a concession equivalent in value to a substantial reduction in a high rate of duty.[41] At Torquay, the low-tariff countries felt that the rebinding of their import duties should be regarded as concessions equivalent to further reductions in higher rates of duty by other countries. The high-tariff countries, however, were reluctant to make further reductions in return for such rebinding. On the other hand, the low-tariff countries had already bound so many of their rates that they had few concessions left to offer. The low-tariff countries felt that if further progress was to be made toward a reduction in tariff levels the negotiating procedures would have to be reconsidered. They also believed that existing rules were not suitable for resolving the problem of the disparity in tariff rates, especially among Western European countries. The low-tariff countries maintained that the disparity in rates of duty should be narrowed through the lowering of high rates without further reductions in low rates.

The first proposal (the Blankenstein plan), which was put forward by the Benelux countries at Torquay, was designed to reduce the disparity

[40] For a description of the negotiating procedures that were followed at the three tariff conferences, see *Operation of the Trade Agreements Program* reports as follows: First report, pt. 2, pp. 19 and 20, 35 and 36, and 39–41; third report, pp. 41–47 and 109–115; and fourth report, pp. 49–58.

[41] For the tariff-negotiating procedures adopted by the Contracting Parties, see Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 1, Text of the Agreement and Other Instruments and Procedures, Sales No.: GATT/1952-3, Geneva, 1952, pp. 104–119.

of tariff levels in Europe. This plan, however, involved unilateral reductions of import duties by high-tariff countries, which, under the most-favored-nation provisions of article I of the General Agreement, would have to be extended to other countries. In April 1951 the Contracting Parties set up a working party to consider this proposal. At the Sixth Session of the Contracting Parties, in September 1951, France suggested an alternative plan of broader scope (the Pflimlin, or French, plan), which was intended to deal with the difficulties of the Benelux countries. The French plan required each participating country to reduce its tariff by an average of 30 percent over a period of 3 years.

Because of the many technical problems involved in the French proposal, the Contracting Parties at their Sixth Session established a working party to consider it; the working party, in turn, set up a subgroup. The contracting parties whose representatives served on the working party or its subgroup indicated that their participation involved no commitment to accept the French plan, should it prove to be technically feasible. After several meetings of the subgroup in 1952, during which the plan was elaborated and refined, the French Government in July 1953 presented a revised plan. The revised plan incorporated additional modifications designed to make it more acceptable to the low-tariff countries.[42] During the Eighth Session of the Contracting Parties, in October 1953, the plan was presented to the Contracting Parties as being technically feasible to implement. The plan consists of eight rules and an annex which sets forth the commitments of those countries that accept the plan.[43]

Under the French plan as last modified, each participating country would reduce average rates of duty in a base year (to be decided on after negotiation) by 30 percent, in stages of 10 percent in each of 3 successive years. To achieve this objective, the import trade of each participating country would be divided into 10 sectors, and the average rate of duty (or the average ad valorem equivalent)[44] in each sector would be reduced by 30 percent. For those countries with comparatively low rates of duty, the required reductions would be less than 30 percent. These reductions would be accomplished by establishing a demarcation line (or maximum rate of duty) and a floor (or minimum rate of duty) for each of the 10 sectors. A country whose average rate of duty in any one sector was below the demarcation line would be required to reduce its rates by less

[42] A major revision was the inclusion of the Council of Europe's proposal relating to the reduction of high rates of duty. This proposal is discussed later in this section.

[43] See Contracting Parties to the General Agreement on Tariffs and Trade, *A New Proposal for the Reduction of Customs Tariffs*, Sales No.: GATT/1954–1, Geneva, 1954.

[44] The average ad valorem equivalent of the rate of duty in a given sector is the ratio of the duties collected to the total value of imports in that sector. See Contracting Parties to the General Agreement on Tariffs and Trade, *A New Proposal . . .* (section 1 of the annex), Sales No.: GATT/1954–1, Geneva, 1954.

than 30 percent; if the average rate was below the floor, no reduction would be required. If the average rate of duty in a given sector was between the demarcation line and the lower limits, the percentage reduction would be determined according to a special formula.[45]

The 10 sectors proposed by the working party, and the suggested demarcation line for each sector, were as follows: (1) Primary products for food (excluding fish), 7 percent; (2) manufactured products for food (excluding fish), 11 percent; (3) fish and fish products, 8 percent; (4) raw materials (including petroleum products), 2 percent; (5) products of chemical and allied industries, 8 percent; (6) leather and products of leather, fur skins, rubber, wood, cork, paper, and printed matter, 6 percent; (7) textile products and clothing, 14 percent; (8) base metals and manufactures thereof, 7 percent; (9) machinery, electric and transport equipment, 11 percent; and (10) miscellaneous manufactures, 12 percent.

Besides the commitment to reduce the average rates of duty in each sector, participating countries would also be required to reduce—within 3 years—all individual rates of duty that exceed certain levels. This principle was introduced to reduce the disparity between low and high tariffs by guaranteeing that high rates of duty would be reduced. Rates of duty reduced under this rule could be counted as part of the 30 percent reduction that would be required in each of the 10 sectors. However, these reductions would have to be undertaken even if no further reduction would be required under the 30-percent rule. The working party proposed that ceiling rates should be fixed for each of four categories of imports. These four categories and the proposed ceiling rates were as follows: (1) Industrial commodities: raw materials, 5 percent; (2) industrial commodities: semimanufactures (commodities simply transformed or due for considerable transformation), 15 percent; (3) industrial commodities: finished manufactures (commodities more elaborately transformed or not due for further transformation), 30 percent; and (4) agricultural products, 27 percent.

Under the plan, the method by which the reduction is accomplished would be left to the discretion of the participating countries. Reductions in rates of duty might be made unilaterally, as a result of bilateral negotiations on the basis of reciprocity, or under regional plans for economic cooperation. However, no government would be obliged to reduce the rate of duty on the same items in each of the 3 years.

The plan makes special provision for countries that may not be in a position to effect the proposed tariff reductions because of economic or industrial developmental programs. Such countries would not be re-

[45] For example, if the maximum rate in a sector is 10 percent and the minimum rate is 5 percent, a country whose average rate of duty for that sector is 7 percent would be required to reduce its average rate of duty by 12 percent over 3 years, or by 4 percent in each successive year. This percentage is computed as follows: 30 percent $\times \frac{7-5}{10-5} = 12$ percent.

quired to reduce duties on specified commodities that are related to their developmental programs. The right to exclude such products from the plan would be granted for fixed periods of time. Moreover, for such countries the average rates of duty would be computed on their tariff as a whole, rather than by sectors, so that they would be free to choose the items on which they wished to reduce the duties. The same rules would apply to the overseas customs territories of industrialized countries for which economic development programs have been undertaken.

Under the plan, participating countries reserve their freedom of action with respect to duties on goods imported from countries that do not participate in the program; they are permitted to exclude from the reduction any duty levied on an import of which 50 percent or more of the total is from nonparticipating countries—provided, however, that a participating country is the largest single supplier. In addition, participating countries would be permitted to exclude from the reduction those duties that are levied for revenue purposes only. The plan recognizes, however, that such duties may also provide protection for domestic industries, and, for this reason, determination as to which fiscal duties would be acceptable for exclusion would be made by a board established to administer the plan.

The plan provides that all reductions in duty would be bound for a period of 5 years. The application of this rule would bind all average rates of duty against increase in each of the 10 sectors, and all reductions that might be made in individual duties. However, an escape clause would permit participating countries to request modification of an import duty that had been reduced, on the ground that continuance of the bound rate would lead to serious injury. Authority to make such modifications would be granted by the other participating governments, provided the country concerned made compensatory reductions in duty on other items.

The plan also provides that if it is accepted it will be administered by a permanent board consisting of representatives of all participating countries; this board would be considered a subsidiary body of the Contracting Parties to the General Agreement. Unless all contracting parties participate, the plan would be embodied in a separate instrument containing its own provisions. In order to safeguard the benefits that would result from the reductions in duties, certain provisions of the General Agreement [46] would be incorporated in the instrument. The plan would not affect the obligations of the contracting parties under the General Agreement, but would merely impose additional commitments on them.

In February 1952 the Council of Europe submitted to the Contracting Parties a recommendation, adopted on December 6, 1951, for the lowering

[46] These provisions of the General Agreement would include, for example, those relating to the maintenance of existing margins of preference and preferential duties (art. I, pars. 2 and 4); to the imposition of duties or charges other than those provided for in the schedules to the agreement (art. II, par. 1 (b)); and to the imposition of antidumping and countervailing duties (art. VI).

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of tariff barriers in Europe. At the Seventh Session of the Contracting Parties, in October 1952, a panel of tariff experts examined the plan to determine its technical feasibility, and made a report on it to the Council of Europe.

Whereas the French plan was designed for acceptance by both European and non-European countries, the Council's plan (called the "Low Tariff Club," or Ohlin plan)[47] was intended as a first step toward the formation of a European customs union. Under this plan a maximum (or "ceiling") of 35 percent for all customs duties would be established immediately, and three duty ceilings—5 percent for raw materials, 15 percent for semifinished goods, and 25 percent for finished goods and food products—would be established for these three categories of goods.[48] The plan also suggested that high import duties of a fiscal nature be converted into internal taxes that would be imposed equally on both imported and domestically produced commodities. During the first year of its operation the plan would apply to 70 percent of the total import trade of each country; during the second year it would apply to 80 percent, and during the third year, to 90 percent. Membership in the Low Tariff Club would ultimately be open to all countries and customs unions that were willing to accept the specified obligations.

At the Eighth Session the Contracting Parties placed the Council of Europe's proposal for the creation of a Low Tariff Club on its agenda and turned the plan over to the working party that was considering the French plan. On September 24, 1953, after the opening of the Eighth Session, the Council of Europe adopted a resolution expressing the hope "that the work of the Contracting Parties . . . on the various plans for tariff reductions submitted to them will lead at an early date to constructive proposals, so that a further step may be taken towards lowering customs barriers."

During the ensuing discussion of the French plan, all contracting parties indicated that they would need considerable time to study its principles and technical implications and the effect that implementing the plan would have on their tariff structures. Denmark felt that there was no fair balance in the plan between the benefits to be derived by industrial and agricultural exporting countries. Sweden noted that although the plan made some concessions to the special position of low-tariff countries, those concessions were not adequate. Italy asserted the plan was too

[47] See Council of Europe, *Low Tariff Club: A Council of Europe contribution to the study of the problem of lowering tariff barriers as between member-countries*, Strasbourg, 1952.

[48] The revised French plan incorporates this principle of the Council's proposal relating to high individual duties. The revised French plan provides for the establishment of four categories of goods, with suggested ceilings for the duties applicable to goods in each category. In addition, the participating countries would, as previously mentioned, undertake to reduce their tariffs in each of 10 sections of their import trade by an average of 30 percent over a period of 3 years (at the rate of 10 percent each year).

rigid and did not take account of the varying conditions in different countries. India considered that the plan contained too many escape clauses, and indicated that, in its own case, to separate fiscal duties from protective duties was not possible. Australia pointed out that there was strong sentiment in that country for the retention of tariffs to protect domestic industries. The United Kingdom claimed that, because of the complexity of the plan, there was some doubt that it would be workable in its present form. Canada doubted whether an automatic plan for tariff reduction could effectively supersede the old system of product-by-product bargaining, and felt that future trade policy would have to be clarified before a final decision was made. The United States favored continued study of the plan by the working party, and stated that it had sent the plan to the President's Commission on Foreign Economic Policy (the Randall Commission) to illustrate a line of thinking on the subject.

Pakistan felt that the French plan should not be considered until after the proposed revision of the General Agreement had been completed at the Ninth Session of the Contracting Parties in October 1954; it questioned whether the plan could work among countries in different stages of economic development, and further noted that, although the underdeveloped countries would obtain certain indirect benefits from expanding world trade, they would not receive adequate concessions for reducing or binding their tariffs. Brazil indicated that it could not accept the plan, since it had no concessions to offer and could in no event reduce its import duties further. France noted that the plan would be effective only if it were adopted by all the Western European countries, the United States, and Canada. Germany, Belgium, and the Netherlands accepted the plan in principle, but indicated that their final positions would be conditioned on its acceptance by other contracting parties. Finally, most of the contracting parties noted that part of the Council of Europe's proposal for the creation of a Low Tariff Club had been incorporated in the French plan, and suggested that that plan be considered further by the working party.

As a result of these discussions, the Contracting Parties decided to submit the report of the working party on the reduction of tariff levels to the respective contracting parties for consideration. They instructed the Intersessional Committee to complete its technical examination of the French plan, the Council of Europe's Low Tariff Club proposal, and any other proposals that might be submitted. Finally, they directed the Intersessional Committee to examine the questions of principle raised by the various proposals, against the background of a broader question—the adequacy of the present negotiating procedures.

Provisional Accession of Japan to the General Agreement

In July 1952 Japan notified the Contracting Parties that, in accordance with the special procedures established for negotiating with nonmember

countries, it desired to negotiate for accession to the General Agreement.[49] At their Seventh Session the Contracting Parties discussed some of the problems raised by the Japanese application, and adopted a resolution stating that Japan should be permitted to take its rightful place in the community of trading nations and that it should be admitted to appropriate international organizations. The Contracting Parties also directed the ad hoc Committee for Agenda and Intersessional Business to make a detailed examination of the questions raised by Japan's application for accession to the General Agreement.

In February 1953 the Intersessional Committee met to consider the conditions under which Japan might accede to the General Agreement. The Committee discussed the safeguards that the General Agreement provided against any country that pursued policies that disrupted trading conditions, and considered the question of the timing of tariff negotiations with Japan. Several contracting parties suggested that negotiations with Japan should take place in connection with another general round of tariff negotiations. Since no general tariff negotiations were contemplated in the immediate future, however, the Committee made no recommendation on this point. In its report, the Committee suggested that the timing of tariff negotiations with Japan be considered at a special session of the Contracting Parties.[50]

The inability of the Contracting Parties to schedule tariff negotiations with Japan within a reasonably short period created an impasse, since entry into tariff negotiations with the various contracting parties is a requirement for accession to the General Agreement. In a note to the Contracting Parties, dated August 4, 1953, Japan suggested that it be permitted to accede on a provisional basis. Under the proposed arrangement, Japan would participate in all the activities of the Contracting Parties, with all the rights and obligations of a member country. Furthermore, Japan proposed that during the period before tariff negotiations could be arranged, her commercial relations with other contracting parties be governed by the rules of the General Agreement. In exchange for this provisional arrangement, Japan was prepared to bind a substantial number of tariff items. Specifically, under this proposal, Japan was prepared to bind 854 items out of a total of 930 items, or 91.5 percent of the items in the Japanese tariff. On the basis of imports in 1952, the items that would be bound accounted for 85 percent of the value of all

[49] These procedures for negotiations with nonmember countries that desire to accede to the General Agreement were adopted at the Sixth Session of the Contracting Parties in October 1951. See *Operation of the Trade Agreements Program* (fifth report), ch. 2; and Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 1, Text of the Agreement . . ., Sales No.: GATT/1952-3, Geneva, 1952, pp. 110 and 111.

[50] For a more detailed discussion of the events that preceded the Eighth Session of the Contracting Parties, see *Operation of the Trade Agreements Program* (sixth report), pp. 51-54.

Japanese imports. Japan pointed out that, because of the moderate level of the postwar Japanese tariff, this proposal constituted a substantial concession. The Japanese note stated that if the Contracting Parties adopted these provisional arrangements, Japan was prepared to negotiate reciprocal tariff concessions with any contracting party, with a view to their eventual incorporation into the schedules of the General Agreement. Finally, the Japanese note observed that, under the terms of the peace treaty signed in September 1951, Japan was committed to accord most-favored-nation treatment to each of the signatory powers. Japan pointed to the inequity of its being obliged to accord most-favored-nation treatment to countries that discriminate against Japanese trade.

At their Eighth Session the Contracting Parties considered the new proposals that Japan had made. The Japanese representative, who attended the session as an observer, stated that Japan regarded accession to the General Agreement as an admission to the community of trading nations, and that his Government would be in a difficult position if Japan's accession were postponed indefinitely. He also assured the Contracting Parties that the danger of competition from Japanese exports in the immediate future was slight, since Japanese costs and prices had risen sharply since prewar years, and since his Government had adopted regulations designed to eliminate unfair methods of competition. Furthermore, if additional safeguards were required, articles XIX and XXIII of the General Agreement could be invoked against any possible disruption of trade. The Japanese representative also stated that his country was willing to accept the suggestion of the Intersessional Committee, which provided for emergency action under article XXIII in the event of a disruption of trade.

In the debate that followed, the United States supported Japan's proposal for provisional accession to the General Agreement. The United States delegate declared that it was no longer practical or fair to exclude Japan from participation in the agreement. He pointed out that since the end of the war Japan had sought to frame its commercial policies in accordance with the spirit and objectives of the General Agreement and had avoided reversion to prewar commercial practices. The United States noted that, since Japan lives by foreign trade, another postponement of its application would cause political and economic difficulties in Japan. The United States delegate also observed that, since the physical volume of Japan's foreign trade is still less than half that in the period 1934–36, any further delay in bringing Japan into the community of trading nations would be most damaging to that country. The United States felt that the Japanese proposal was equitable, and deserved recognition by the Contracting Parties.

On the other hand, the United Kingdom opposed Japan's temporary accession. The United Kingdom delegate pointed out that, rightly or

wrongly, memories of Japanese competition before World War II remained and would be bound to affect the tariff and quota policies of certain countries. Nations would be anxious to protect their domestic industries, and if Japan were a contracting party to the General Agreement, there would be a general increase in tariff barriers, since concessions that are made to one contracting party must be made to all. Such protective measures would do serious damage to the United Kingdom and other exporting countries, including Japan, so that Japan's participation in the General Agreement would be more damaging to international trade than its continued nonparticipation. The United Kingdom delegate also observed that Japan's traditional export trade with China was being diverted to western countries, thereby intensifying the competition in third countries. This intensification was especially true, he said, of Japanese competition in the United Kingdom's traditional markets in the Commonwealth countries. The United Kingdom delegate observed that, since the General Agreement itself is provisional, he saw little difference between provisional association, as proposed by Japan, and permanent accession. He indicated that the Contracting Parties ought to defer consideration of the Japanese application until after the general review of the General Agreement in 1954 and until other countries had had time to formulate their commercial policies. The United Kingdom representative stated, however, that, if the Contracting Parties accepted Japan's application for provisional accession, his country would not vote against that application, but would abstain from voting and from participation in any new obligations that might be undertaken.

France, Australia, and New Zealand indicated that they, too, would abstain from voting. On the other hand, the United States and the following 13 contracting parties stated that they would support the Japanese application: Austria, Brazil, Ceylon, Chile, Denmark, the Federal Republic of Germany, Greece, India, Indonesia, Italy, Pakistan, Sweden, and Turkey.

After intensive discussion of the Japanese application, the Contracting Parties on October 23 and 24, 1953, prepared two separate instruments for consideration by the individual contracting parties: A decision inviting Japan to participate in the General Agreement, and a declaration regulating commercial relations between participating contracting parties and Japan. Two separate instruments were prepared because a number of contracting parties, although willing to agree to the decision, were unwilling to participate in the declaration.

According to the terms of the decision, Japan will participate in the sessions of the Contracting Parties, and in subsidiary bodies established by the Contracting Parties, but will have no voting rights. This arrangement will remain in effect until Japan's accession to the General Agreement after tariff negotiations, or until June 30, 1955, or a later date if the Contracting Parties should so decide.

The declaration provides that, pending the conclusion of tariff negotiations between Japan and other contracting parties, commercial relations between Japan and those countries that sign the declaration will be governed by the rules of the General Agreement.[51] The declaration will not apply after Japan's accession to the General Agreement (after the completion of tariff negotiations with the contracting parties) or after June 30, 1955, unless the Contracting Parties extend the declaration beyond that date. The declaration was to enter into effect 30 days after it was signed by Japan and the accepting contracting parties.

At their Eighth Session, the Contracting Parties approved the decision for Japan's provisional participation in the General Agreement. By January 31, 1954, the following 23 contracting parties had signed the declaration regulating commercial relations between the participating contracting parties and Japan: Austria,[52] Belgium, Brazil, Burma, Ceylon, Chile,[52] Denmark, the Dominican Republic, Finland, the Federal Republic of Germany,[52] Greece, Haiti, India, Italy, Luxembourg, the Netherlands, Nicaragua, Norway, Pakistan, Sweden, Turkey, the United States, and Uruguay.

Withdrawal of Concessions Under Article XXVII

Article XXVII of the General Agreement provides that a contracting party shall at any time be free to withhold or to withdraw, in whole or in part, any concession it has granted under the agreement if the government with which the concession was initially negotiated fails to become, or has ceased to be, a contracting party. Any contracting party wishing to withdraw or withhold such a concession or concessions is required, however, to give advance notice of the proposed action, and to consult, for the purpose of arriving at satisfactory compensation, with the other contracting parties having a substantial interest in the concession concerned.

On December 11, 1953, the Government of India notified the Contracting Parties that, pursuant to article XXVII, it desired to withdraw two of the concessions it had negotiated under the agreement. These concessions were on cassia lignea (tariff item 9 (7)) and unset and uncut emeralds (tariff item ex-61), which had been negotiated, respectively, with China and Colombia. There being no claim of substantial interest in these concessions by any of the other contracting parties, India ceased to apply these concessions as of February 28, 1954.

[51] For the provisions of the typical protocol that is entered into between acceding governments and the Contracting Parties, see Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 1, Text of the Agreement . . ., Sales No.: GATT/1952–3, Geneva, 1952, pp. 111–115.

[52] These countries signed the declaration subject to parliamentary ratification.

Modification of Schedules (Art. XXVIII)

Article XXVIII of the General Agreement originally provided that contracting parties might modify their schedules of concessions after January 1, 1951, without joint action by the Contracting Parties. Commencing with that date, any contracting party was permitted to withdraw or modify a concession it had originally granted. The contracting party desiring to do so, however, was first required to negotiate with the contracting party with which the concession was originally negotiated.[53] It was also required to consult with other contracting parties having a substantial interest in the concession. In such negotiations, provisions might be made for compensatory adjustments with respect to other products.

Another provision of article XXVIII stipulates that if agreement cannot be reached, the concession in question may nevertheless be withdrawn or modified. However, the country to which the concession was originally granted and the other contracting parties having a substantial interest in it may thereupon themselves withdraw concessions substantially equivalent to those withdrawn from them.

The Torquay Protocol [54] amended article XXVIII by changing from January 1, 1951, to January 1, 1954, the date after which adjustments might be made without joint action by the Contracting Parties. Thus the Geneva and Annecy concessions were bound at Torquay for an additional 3-year period.

Between August 17 and 20, 1953, the ad hoc Committee for Agenda and Intersessional Business met to discuss a memorandum submitted by the Chairman of the Contracting Parties for a further rebinding of the tariff concessions contained in the schedules annexed to the General Agreement. The Chairman noted that, unless the assured life of the tariff concessions were rebound, such concessions would expire on December 31, 1953. After that date it would be possible for a contracting party to negotiate with other contracting parties for a modification or withdrawal of such concessions. There was, therefore, a possibility that such modifications or concessions would tend to impair the stability of tariff rates, which had been one of the main achievements of the General Agreement. This impairment of tariff stability, he noted, was especially undesirable at a time when a number of contracting parties were studying ways of making further progress in reducing barriers to trade. Therefore, the Intersessional Committee instructed the Executive Secretary to draft an instrument for consideration by the Contracting Parties at their Eighth

[53] For negotiations conducted under article XXVIII of the General Agreement, see *Operation of the Trade Agreements Program* (fourth report), pp. 55–57 and 73 and 74, and *Operation of the Trade Agreements Program* (fifth report), ch. 3.

[54] See Contracting Parties to the General Agreement on Tariffs and Trade, *The Torquay Protocol to the General Agreement on Tariffs and Trade and the Torquay Schedules of Tariff Concessions*, Sales No.: GATT/1951–1, Geneva, 1951, p. 18.

Session. Accordingly, he prepared a draft declaration providing that the contracting parties would not invoke the provisions of article XXVIII of the General Agreement for an additional 18 months—that is, not before July 1, 1955.

At the Eighth Session, the Contracting Parties established a working party to study the proposal for extending the assured life of the schedules of concessions. During the discussion a majority of the 21 contracting parties that took part in the debate favored rebinding the concessions for either 12 or 18 months in order to avoid the "unraveling" of the tariff structure that had been set up at the Geneva, Annecy, and Torquay Conferences. Several contracting parties, however, had reservations on the feasibility of rebinding the concessions without modification. These contracting parties stated that the Contracting Parties ought also to determine whether existing safeguards in the General Agreement were sufficient to cover their special cases.

For example, although Belgium favored rebinding the concessions for 12 or 18 months, it felt that a few tariff items might need adjustment in order to assist the Belgian Congo. The Netherlands stated that an exception would have to be made for the Netherlands West Indies, which was revising its tariff of 1908, and that the status quo could be maintained only through June 30, 1954. After that date adjustments in import duties would be made for revenue purposes, since customs receipts play an important part in the fiscal system of the Netherlands West Indies Government. Brazil supported the extension; at first it took the position that the period should be used to review the tariff position of the less developed countries, but later withdrew its request. Turkey pointed out that it was revising its tariff and would require some flexibility in establishing new rates of duty. India noted that since the last rebinding of tariff concessions in 1951 its economy had expanded considerably, with the result that several industries now had requested the imposition of, or an increase in, protective duties for a number of products. India also pointed out that a large part of its revenue is derived from customs duties and that, since it had reduced many export duties in order to encourage trade, it will be necessary in the future to augment the national revenue by increasing import duties. New Zealand indicated that it had been at an initial disadvantage when it became a contracting party to the General Agreement, since it had made no major tariff changes since 1934, and had very few products on which to offer concessions. Moreover, its hopes for increasing its foreign trade had not been realized, and, in fact, its exports had been subjected to increased restraints. Australia indicated that to implement the decisions of the Australian Tariff Board would require some modification in bound rates. Greece stated that because of its recent measures abolishing its import restrictions and liberalizing its trade, tariff protection had become more necessary, especially to safe-

guard new industries that had been established since the war. The United Kingdom, Canada, France, and the United States favored an extension of 12 or 18 months.

After further discussion, the Contracting Parties adopted the text of a declaration on the Continued Application of Schedules to the General Agreement on Tariffs and Trade, which had been submitted by the working party. Under the terms of the declaration, the contracting parties declare that they will not invoke prior to July 1, 1955, "the provisions of Article XXVIII, paragraph 1, of the General Agreement to modify or cease to apply the treatment which they have agreed to accord under Article II of the General Agreement to any product described in the appropriate Schedule annexed to the General Agreement." The declaration contains a "reciprocity" clause which permits a contracting party, under the provisions of article XXVIII, paragraph 1, to modify or withdraw concessions initially negotiated with another contracting party that did not sign the declaration. This clause provides that individual contracting parties agree to the rebinding of their schedules of concessions only with respect to those contracting parties that sign the declaration. The rebinding of the schedules does not apply in the case of contracting parties that sign the declaration subject to certain reservations.

The working party then examined the General Agreement to determine whether it contains sufficient safeguards to deal with some of the special difficulties mentioned by the contracting parties. It pointed out that a contracting party that wishes to renegotiate an item in its schedule in order to provide protection for purposes of economic development may have recourse to article XVIII of the General Agreement, or, if some domestic industry is being affected by imports, may invoke the escape clause provided in article XIX. Apart from these cases, and in exceptional circumstances, a contracting party may request a waiver from the Contracting Parties to enter into negotiations with another contracting party to modify certain bound rates of duty. In the past, such requests have usually received sympathetic understanding from the Contracting Parties.[55] The working party felt, therefore, that there is sufficient flexibility—both in the General Agreement and in the practices of the Contracting Parties—to cope with all special problems.

To avoid delays that might occur when the Contracting Parties are not in session and thus are not able to consider requests for authority to renegotiate concessions, the working party recommended that the Contracting Parties modify the intersessional procedures by authorizing the Intersessional Committee to examine such requests and to make appro-

[55] For example, in 1948–49 Pakistan and Brazil requested authority to modify the concessions they had granted on certain items in their schedules. The Contracting Parties granted such authority and the negotiations were carried out with mutually satisfactory results. Also, at the Eighth Session, the Contracting Parties granted the United Kingdom authority to renegotiate a bound item with France.

priate decisions. The working party recommended further that the Intersessional Committee render its decision within 30 days after it receives a request. The results of such renegotiation could then be reported to the contracting parties and, if no objection were received, could be made effective after 30 days.

During the debate on the report of the working party and the accompanying declaration, Canada and the United States recommended that the declaration be accepted, and emphasized the importance of maintaining tariff stability through June 1955. Several contracting parties, however, objected to the declaration. The report of the working party was adopted by the Contracting Parties and the declaration was open for signature at the headquarters of the United Nations until December 31, 1953. As of December 31, 1953, all contracting parties had signed it except Australia, Brazil, and Peru. Australia subsequently signed the declaration on February 23, 1954.

On December 26, 1953, Brazil notified the Executive Secretary that it would not sign the declaration. The Brazilian Government stated that it had made certain fundamental changes in its commercial policy—changes aimed at liberalizing that policy and bringing it more closely into conformity with the principles of the General Agreement. Brazil had also revalued the cruzeiro, and had adopted new exchange regulations—approved by the International Monetary Fund—which aimed at a more balanced foreign trade free of restrictions except those imposed for balance-of-payments reasons. As a result of these changes, the Brazilian Government had been reviewing its customs tariff, which consists largely of low specific duties dating from 1934 and which, according to Brazil, no longer affords reasonable protection to domestic industries. Brazil stated that it planned to submit the proposed revisions to the Contracting Parties within a few months. At that time Brazil would be prepared to enter into negotiations with interested contracting parties in accordance with the provisions of article XXVIII of the General Agreement. Because of these changes in its policy, Brazil was unable to sign the declaration extending the assured life of the tariff schedules.

ADMINISTRATION OF THE AGREEMENT

Continuation of Ad Hoc Committee for Agenda and Intersessional Business

At their Sixth Session, in 1951, the Contracting Parties established—on an experimental basis—an ad hoc Committee for Agenda and Intersessional Business. This Committee was designed to handle matters that might require prompt action during the period between the Sixth and Seventh Sessions. At their Seventh Session the Contracting Parties agreed that the Intersessional Committee would continue to function

between the Seventh and Eighth Sessions,[56] and at their Eighth Session they agreed to continue the Committee until the Ninth Session.

The Intersessional Committee, which is presided over by the Chairman of the Contracting Parties, consists of representatives of the following countries: Australia, Belgium, Brazil, Canada, Chile, Cuba, France, the Federal Republic of Germany, India, Italy, Pakistan, Sweden,[57] the Union of South Africa, the United Kingdom, and the United States. It meets, when necessary, to consider intersessional matters that require urgent action, and for which no special arrangements have been made, and also to consider matters expressly referred to it by the Contracting Parties. As of January 1, 1954, the duties of the Committee included preparation of the provisional agenda for the Ninth Session of the Contracting Parties, and the submission of recommendations as to the order of business at that session; consideration of questions that might arise as a result of the authority the Contracting Parties had granted to Australia to increase tariff preferences on primary products it imports from Papua and New Guinea; consideration of questions that might develop as a result of the waiver they had granted to the United Kingdom to impose or increase duties on British tariff items not bound under the General Agreement; consideration of intersessional requests from interested contracting parties for authority to renegotiate bound rates of duty; preparations for completion of the technical examination of the French proposal for the reduction of tariff duties, the proposal submitted by the Council of Europe for a Low Tariff Club, and similar proposals that might be submitted; and preparations for the review of the General Agreement scheduled for 1954.

Other matters that had been referred to the Committee, as of January 1, 1954, included intersessional questions that might arise (under articles XII and XIV) in connection with the use by contracting parties of quantitative restrictions on imports; questions that might arise as to the use by contracting parties of measures affecting imports for the purpose of assisting domestic economic development and reconstruction; consideration of appropriate methods for proceeding with an examination of customs valuation practices; and possible intersessional questions (under article XV) relating to the special exchange agreements that have been concluded with certain contracting parties.

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[56] See *Operation of the Trade Agreements Program* (sixth report), ch. 3, pp. 56 and 57. For the functions and responsibilities of the Intersessional Committee, see Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments* . . ., vol. 1, Text of the Agreement . . ., Sales No.: GATT/1952–3, Geneva, 1952, pp. 102 and 103, pars. (a) and (b), and vol. 2, Decisions, Declarations, . . . and Reports, Sales No.: GATT/1952–4, Geneva, 1952, pp. 206–208.

[57] At the Eighth Session, Denmark, which had been a member of the Intersessional Committee, asked to be relieved of this assignment, and Sweden was designated to take its place.

Arrangements for Review of the General Agreement

At the Eighth Session, the Chairman of the Contracting Parties submitted to the Contracting Parties a note suggesting an arrangement for a review of the General Agreement. The note proposed that the Contracting Parties hold a session for that purpose, beginning October 15, 1954.

In the discussion that followed, the consensus of the Contracting Parties was that such a review of the General Agreement was necessary in the light of the experience that had been gained from 6 years of operation. A number of delegates, however, warned against sweeping attempts to revise or expand the scope of the agreement. Many delegates felt that the purpose of the review ought to be confined to the attainment of the present objectives of the agreement.

The Swedish representative supported the Chairman's proposal for a review of the General Agreement, but cautioned the Contracting Parties not to replace the present agreement with one that might be less effective in safeguarding an orderly and expanding world trade. He stressed the point that the General Agreement had provided stability and a code of behavior in tariff and trade policy that had been valuable to trading countries.

In the opinion of the French delegate, new provisions relating to the stabilization of prices of primary products and to restrictive trade practices should be added to the General Agreement. He did not favor redrafting the General Agreement, but suggested that contracting parties be invited to present precise proposals in the form of amendments to the texts of the articles that they believe should be modified.

The delegate of Norway favored transformation of the General Agreement into an international trade organization along the lines envisaged in the Havana Charter. He felt that, although the charter had not been ratified, there was urgent need for such an international trade organization. Specifically, the Norwegian representative favored the inclusion in the General Agreement of provisions that would promote full and productive employment, control international trusts and cartels, foster economic development of underdeveloped countries, and contribute to the stabilization of production and trade in basic raw materials and foodstuffs.

Pointing out that a review of the General Agreement ought to be conducted in a realistic atmosphere, unencumbered by ambitious proposals for its revision, the Canadian representative stressed the importance of timing such a review so as to take into account important studies of trade policy that several major trading countries were conducting. He proposed that the Executive Secretary make special studies of the problems that face underdeveloped countries, and suggested that, in this connection, the Executive Secretary consult with the United Nations Economic

Commission for Asia and the Far East and the United Nations Economic Commission for Latin America.

The delegate of the Federal Republic of Germany stated that any revision of the General Agreement ought to include new methods for tariff reduction, such as the procedures outlined in the French plan. He proposed that the provisions of part II of the General Agreement, which are now provisional, be made permanent. The German delegate also favored the prohibition of export subsidies, except in special circumstances. In this connection he favored the strengthening of article XVI of the General Agreement, which at present obligates contracting parties only to inform the Contracting Parties of export subsidies that they maintain and to agree to consult on them.

Although the United States delegate favored a review of the General Agreement, he felt that such a review should not be too ambitious. The United Kingdom representative observed that the timetable for the review ought to be kept flexible, since the deliberations of the Contracting Parties were closely dependent on the outcome of the United States review of its commercial policy and on the effect that such a review might have on future progress toward freer trade and payments. The other contracting parties that participated in the discussion also favored a review of the General Agreement, but a number of them stressed the need to proceed cautiously in revising or expanding the agreement.

After the discussion, the Contracting Parties decided to convene a session on October 15, 1954 (or at a later date should the Intersessional Committee so recommend), to review the General Agreement and to determine to what extent it should be revised or supplemented in order to more effectively attain its objectives. Individual contracting parties were invited to submit written proposals to the Executive Secretary not later than July 1, 1954.

Arrangements for the Ninth Session

In their instructions to the ad hoc Committee for Agenda and Intersessional Business, the Contracting Parties directed the Committee to prepare a provisional agenda for the Ninth Session, and also to begin preparatory work in connection with the review of the General Agreement that had been proposed for 1954. At its intersessional meeting held at Geneva from July 26 to August 3, 1954, the ad hoc Committee agreed that the Ninth Session should be held at Geneva, beginning October 28, 1954, and that the review of the General Agreement should begin on November 8, 1954.

Election of Chairman and Vice Chairmen

At the close of the Eighth Session, the Contracting Parties elected Mr. L. Dana Wilgress, of Canada, as Chairman of the Contracting

Parties; Mr. Fernando Garcia Oldini, of Chile, as First Vice Chairman; and Mr. Gunnar Seidenfaden, of Denmark, as Second Vice Chairman—all for a period of 1 year. Because of the heavy volume of work that was anticipated for 1954, the rules of procedure [58] for the sessions of the Contracting Parties were amended to increase the number of presiding officers by adding the office of second vice chairman. The former Chairman of the Contracting Parties was Mr. Johan Melander, of Norway, who had served for 2½ years; the former Vice Chairman was Mr. Akhtar Husain, of Pakistan, who was elected at the Eighth Session to replace Mr. J. A. Tonkin, of Australia, who died in December 1952.

Status of Protocols and Schedules

Extension of time for signature of the Torquay Protocol

By the terms of the Torquay Protocol, the last day for signature of that instrument was to be October 21, 1951. At their Sixth and Seventh Sessions, which were held, respectively, in 1951 and 1952, the Contracting Parties extended the time limit for signature of certain contracting parties and acceding governments.[59]

By the beginning of the Eighth Session, in 1953, all the Contracting Parties had signed the Torquay Protocol, but three of the countries that had negotiated at Torquay for accession to the General Agreement (Korea, the Republic of the Philippines, and Uruguay)[60] had not become signatories.

Uruguay, which at the Sixth Session in 1951 had been given an extension of time until April 30, 1952, to sign the Torquay Protocol, failed to sign the instrument by that date, and at the Seventh Session in 1952 the Contracting Parties extended the time limit for signature until April 30, 1953. During the intersessional period, this date was again extended until October 30, 1953. At the Eighth Session, the delegate of Uruguay informed the Contracting Parties that his Government had under consideration a bill authorizing his country to accede to the General Agreement. He therefore requested the Contracting Parties to extend the time limit for Uruguay's signature until December 31, 1953. The Contracting Parties granted this request, and Uruguay subsequently ratified the Annecy and Torquay Protocols (thereby becoming a contracting party)

[58] See General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 1, Text of the Agreement . . ., Sales No.: GATT/1952–3, Geneva, 1952, pp. 96 and 97.

[59] See *Operation of the Trade Agreements Program* (fifth report), p. 38, and *Operation of the Trade Agreements Program* (sixth report), p. 57.

[60] Uruguay had also negotiated for accession to the General Agreement at Annecy in 1949. At the time of the Torquay Conference in 1950–51, Uruguay had not signed the Annecy Protocol, but the Contracting Parties made special provision to permit Uruguay to negotiate there, and to permit it to sign the Torquay Protocol on condition that it first complete the accession to the General Agreement by signing the Annecy Protocol.

on November 16, 1953. Uruguay placed its schedules of concessions in effect on December 16, 1953.

In September 1953, the Republic of the Philippines, for which the time limit for signature had been extended successively to May 22, 1952, October 15, 1952, and May 21, 1953, announced the indefinite postponement of its decision to accede to the General Agreement, pending revision of its Tariff Act of 1909 and the revision of its bilateral trade agreement with the United States.

Korea, which had been granted successive extensions for signature of the Torquay Protocol to March 31, 1952, October 15, 1952, and May 21, 1953, had not signed the Torquay Protocol by June 30, 1954.

Rectification of schedules

At the Seventh Session, the working party on the schedules of concessions considered the requests of several contracting parties for authorization to modify their schedules of concessions. Accordingly, the Contracting Parties drew up a Third Protocol of Rectifications and Modifications. This protocol, which was opened for signature on October 24, 1953, incorporated changes in the schedules of the following countries: Benelux (schedule II), Cuba (schedule IX), Greece (schedule XXV), India (schedule XII), Southern Rhodesia (schedule XVI), Denmark (schedule XXII), Sweden (schedule XXX), and the Federal Republic of Germany (schedule XXXIII).

In accordance with a waiver that the Contracting Parties granted to the members of the European Coal and Steel Community on November 10, 1952,[61] the rectifications to the Benelux schedule of concessions included the imposition of temporary tariff quotas (from May 1, 1953, to April 30, 1958) on certain iron and steel products imported from countries that do not participate in the Coal and Steel Community. The rectification in the Cuban schedule incorporated a modification in the note to Cuba's concession on rice, which had been agreed upon by the United States and Cuba as a result of their article XXVIII negotiations.[62] The modification in the Greek schedule covered adjustments in the specific rates of duty that Greece had made after the devaluation of its currency. The Contracting Parties also authorized specified further increases in the specific rates of duty in Greece's schedule of concessions and modified the note to the Greek schedule relating to the conversion of the specific duties

[61] See General Agreement on Tariffs and Trade, *Basic Instruments . . .*, First Supplement, Sales No.: GATT/1953-1, Geneva, 1953, p. 17. The waiver provides, in accordance with the provisions of art. XXV: 5 of the General Agreement, for specified exceptions to the provisions of the General Agreement for certain of the countries participating in the European Coal and Steel Community (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands).

[62] See the section of this chapter on art. XXVIII negotiations between the United States and Cuba.

in the Greek tariff.[63] The working party held that the Greek proposal to employ minimum ad valorem rates of duty for certain specific rates in its schedule of concessions should be the subject of negotiation between the parties interested in the relevant concession, and could not therefore be embodied in the protocol of rectifications and modifications. The changes approved in the schedules of the other contracting parties were minor.

With respect to Czechoslovakia's request that it be permitted to reduce the specific rates of duty in its schedule of concessions in order to offset the effect of the upward valuation in its currency, the working party was of the opinion that it would be sufficient for the Contracting Parties to take note of Czechoslovakia's action, and that these changes should not be incorporated in the protocol of rectifications and modifications.[64]

Financial Statement and Budget Estimates

Despite the somewhat heavier workload they envisaged for 1954, the budget estimate ($344,500) that the Contracting Parties proposed for that year was somewhat smaller than that for 1953 ($353,650) and that for 1952 ($397,493). The 1954 budget was to be financed from miscellaneous income (such as net proceeds from sales of publications, interest, etc.), estimated at $2,500, and from contributions from individual contracting parties to the total amount of $342,000. In accordance with the administrative procedures which have been adopted, the contributions by the individual contracting parties are computed on the basis of the share of total foreign trade that is accounted for by each of the member countries. Under this arrangement the largest contributions are made by the United States and the United Kingdom ($60,000 each), France ($21,000), and Canada ($15,000).

OTHER DEVELOPMENTS

Consideration by the Contracting Parties of Resolutions of the International Chamber of Commerce

In June 1951 the International Chamber of Commerce adopted certain resolutions on the reduction of trade barriers. These 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, nationality of imported goods, and formalities connected with quantitative restrictions.[65]

[63] See the section of this chapter on the Greek request to adjust certain specific rates of duty.

[64] See the section of this chapter on the request of Czechoslovakia to revise its schedule of concessions.

[65] 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.

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These resolutions were considered by a working party at the Sixth Session of the Contracting Parties in October 1951, and at the Seventh Session in October 1952. As a result of the working party's report, the Contracting Parties adopted the text of 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 in the case of existing contracts. The working party continued its studies on the valuation and nationality of imported goods, with a view to their further consideration at the Eighth Session.

At the Eighth Session 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, which they had adopted at the Seventh Session. During the Eighth Session the Contracting Parties did not consider further the recommendations relating to documentary requirements and to formalities connected with quantitative restrictions.

Valuation of imported goods for customs purposes

The International Chamber of Commerce had suggested that the valuation of imported goods for customs purposes be based on the following four principles: (1) Systems of valuation should not be employed as a means of increasing protection; (2) in determining dutiable value, primary consideration should be given to invoice prices; (3) regulations should state clearly and fully the basis of dutiable value; and (4) internal duties or taxes from which exported goods are exempt should not be included in the dutiable value. The International Chamber of Commerce had further proposed that the Contracting Parties investigate the possibility of drafting a standard definition of valuation of goods for customs purposes, a definition that would be applicable to all countries.

During their consideration of these proposals at the Seventh Session in October 1952, the Contracting Parties had noted that 3 of the 4 principles already mentioned above were embodied in article VII of the General Agreement. They proposed that individual contracting parties submit reports by June 1953, indicating the steps they had taken to implement the principles of valuation in article VII and describing the methods they apply in determining the value of imported goods for customs purposes. The following 25 contracting parties submitted reports: Australia, Austria, the Benelux countries (including the Belgian Congo and Ruanda-Urundi), Canada, Ceylon, Czechoslovakia, Denmark, Finland, France, the Federal Republic of Germany, Greece, Haiti, India, Indonesia, Italy, New Zealand, Norway, Pakistan, Southern Rhodesia, Sweden, the Union of South Africa, the United Kingdom, and the United States.

At the Eighth Session the working party examined the reports of the individual contracting parties. In its deliberations, the working party took into account the fact that under the terms of the Protocol of Provisional Application, part II of the General Agreement (which includes article VII) is being applied provisionally by the contracting parties.[66] Contracting parties, therefore, need apply part II of the agreement only to the extent that its principles do not conflict with existing national legislation. After an exhaustive study of the replies submitted, the working party felt that a report based on the available data would be of only limited use. The working party concluded that it could not determine the extent to which the valuation systems of individual contracting parties conform to the principles of article VII of the General Agreement. The Contracting Parties therefore decided to pursue the study of the valuation of imported goods for customs purposes, and directed the Intersessional Committee to consider what aspects of valuation should be examined and to evolve appropriate methods by which such an examination might be pursued.

Nationality of imported goods

At their Seventh Session, in October 1952, the Contracting Parties had continued their discussion of a resolution that the International Chamber of Commerce had first submitted to them in 1951. This resolution had urged the adoption of uniform rules for determining the nationality of imported goods. The International Chamber of Commerce felt that, with the use of import quotas and exchange controls, the problem of determining the nationality of imported goods had become acute. Accordingly, the Contracting Parties recommended that individual contracting parties submit, by April 30, 1953, statements of the methods they employed to determine the origin of imported goods. In addition, the contracting parties were invited to submit with their replies any proposals they might wish to make regarding possible international action on this problem. Twenty-seven contracting parties complied. Brazil, Burma, Chile, Cuba, Nicaragua, and Peru did not submit statements. A survey of the replies indicated that various contracting parties required certificates of origin to enable them to determine the rate of duty applicable (especially in instances where they applied preferential or conventional rates of duty); to permit them to allocate quotas according to sources of supply; to facilitate collection of trade statistics; to safeguard trade-marks and thus prevent the use of false indications of origin; and to facilitate the administration of health, sanitary, and veterinary regulations.

At their Eighth Session the Contracting Parties again considered the proposal for adopting a common definition of the nationality of imported

[66] See Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, vol. 1, Text of the Agreement . . ., Sales No.: GATT/1952–3, Geneva, 1952, pp. 77 and 78.

goods. France, the Federal Republic of Germany, and Italy proposed that definite steps be taken to formulate such a definition (as well as to compile a list of goods for which proof of origin should not be required); to prepare a standard form for certificates of origin; to agree as to which authorities are competent to issue such certificates; and to make provision for the verification of such certificates. The United Kingdom and New Zealand, on the other hand, contended that it would be fruitless to attempt to secure agreement on a standard definition of origin. These two contracting parties felt that the question of the origin of imported goods was inescapably bound up with national economic policies, which necessarily vary from country to country. Several other contracting parties, however, declared that it would be feasible to draw up a definition of origin that would be applicable to a majority of the cases that might arise.

A working party examined the text of a definition of nationality that had been proposed by the French Delegation. The definition finally agreed upon by the majority of the working party contained the following provisions: (1) The nationality of goods resulting exclusively from materials and labor of a single country would be that of the country where the goods were harvested, extracted from the soil, manufactured, or otherwise produced; (2) the nationality of goods resulting from materials and labor of two or more countries would be that of the country in which such goods had last undergone a substantial transformation; (3) a substantial transformation would be considered as having taken place when the processing resulted in a new individuality being conferred on the goods. On the basis of the definition, each contracting party could establish a list of processes that it regarded as having conferred a new individuality on the goods.

The Contracting Parties also made certain recommendations relating to proof of origin of imported goods. They suggested (1) that certificates of origin be required only when they are strictly indispensable; (2) that as large a number of competent bodies as possible be authorized to issue certificates of origin in order to minimize the time required by traders to obtain them; and (3) that, when an importer is unable to produce a certificate of origin at the time goods are imported, the customs authorities grant him a period of grace in which to obtain the necessary document. The Contracting Parties also recommended that the draft definition of nationality of goods proposed by the majority of the working party be transmitted to individual contracting parties for study. Comments by individual contracting parties were to be submitted to the Contracting Parties not later than September 1, 1954.

Standard practices for consular formalities

At their Seventh Session the Contracting Parties recommended that the requirement of consular invoices and consular visas be abolished by

December 31, 1956. They also requested that individual contracting parties report, not later than September 1 of each year, to the Contracting Parties on the steps they have taken to abolish consular formalities.

At their Eighth Session the Contracting Parties considered the reports they had received from the individual contracting parties. The following contracting parties or territories stated that they did not require consular invoices or consular visas: Australia, Austria, the Belgian Congo, Canada, Czechoslovakia, Denmark, Finland, the Federal Republic of Germany, Greece, India, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, and the Union of South Africa. Five contracting parties—Belgium, Ceylon, Indonesia, Sweden, and the United Kingdom—reported that they required consular invoices or consular visas only in very special circumstances. The United Kingdom, however, notified the Contracting Parties that it had instituted a review of its requirements, with a view to their eventual abolition.

The following four contracting parties reported that they maintain an extensive system of consular formalities: France, Haiti, Turkey, and the United States. France pointed out that it had simplified its customs formalities since the General Agreement entered into force and that after the Seventh Session of the Contracting Parties it had further modified its regulations, thus permitting many transactions without the use of consular visas. The French Government felt, however, that its regulations conform to the standard practices recommended by the Contracting Parties for the interim period. Haiti indicated that, with the development of alternative sources of revenue, it would eventually be able to relax its requirements. The United States stated that it had made progress toward eliminating its requirement for consular invoices and that its present regulations also conform to the standard practices recommended by the Contracting Parties for the interim period. The United States also stated that, under its Customs Simplification Act, the Secretary of the Treasury has the authority either to require certified invoices or to eliminate them if he deems it feasible to do so. Seven contracting parties—Brazil, Burma, Chile, Cuba, the Dominican Republic, Nicaragua, and Peru—did not submit reports. Brazil, however, stated that it was considering new regulations that would require either a consular invoice or a consular visa on the commercial invoice instead of both documents as at present. The Dominican Republic stated that it was not able to dispense with its consular formalities.

Although the Contracting Parties noted with satisfaction that progress toward the relaxation of consular formalities had been made, or was being made, by a number of countries, they called attention to the recommendation they had made at the Seventh Session in October 1952 for a gradual relaxation of such formalities and for their complete elimination by December 31, 1956.

International Convention To Facilitate the Importation of Commercial Samples and Advertising Material

At their Seventh Session the Contracting Parties adopted the text of the Convention To Facilitate the Importation of Commercial Samples and Advertising Material; it was opened for signature on February 1, 1953.[67] By October 31, 1953, seven contracting parties—Belgium, the Federal Republic of Germany, Greece, Pakistan, Sweden, the United Kingdom, and the United States—had signed the convention. Fifteen signatures are required before the convention enters into force.

Under the terms of the convention, it was to be open for signature by contracting parties to the General Agreement, by members of the United Nations, and by any other government to which the Secretary-General of the United Nations should have sent a copy for this purpose. However, some uncertainty arose as to whether the convention ought to be circulated to certain countries with a view to possible acceptance. The Chairman of the Contracting Parties felt that the convention did not make clear that it would be open for accession by those countries that became members of the United Nations or that became members of a specialized agency of the United Nations after June 30, 1953. Spain was a member of a specialized agency of the United Nations that deals with economic questions, but the Secretary-General of the United Nations did not feel that a copy of the convention ought to be sent to the Government of Spain without specific instruction from the Contracting Parties.

The Contracting Parties agreed to request the Secretary-General of the United Nations to send a copy of the convention to Spain with a view to that country's possible accession. They also agreed to request the Secretary-General to send a copy to any other government which is or in the future may become a member of the United Nations or a member of any specialized agency that deals with economic questions. Finally, the Contracting Parties declared that the convention should be construed as being open to accession by any country to which the Secretary-General sends a copy of the convention for the purpose of accession.

Nomination of Chairman 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 adopted on March 28, 1947, by the United Nations Economic and Social Council. The Committee now consists of a chairman nominated by the Contracting Parties to the General Agreement on Tariffs and Trade; a representative of the Food and Agriculture Organization of the United Nations, who is concerned with agricultural primary commodities; a third

[67] For the provisions of the convention, see *Operation of the Trade Agreements Program* (sixth report), pp. 61 and 62.

person, who is concerned with nonagricultural primary commodities; and a fourth member, added in 1953 by the United Nations Economic and Social Council. The new member, who is appointed by the Secretary-General of the United Nations, is concerned with problems faced by underdeveloped countries, whose economies are mainly dependent on the production and international marketing of primary commodities. On September 24, 1953, the Secretary-General of the United Nations appointed Mr. Walter Muller, of Chile, as the fourth member of the ICCICA.

Since 1947, the activities of the ICCICA have consisted principally of preparing yearly statements regarding intergovernmental collaboration in the field of commodity problems. On occasion, the Committee has advised the Secretary-General of the United Nations on specific problems in the field of intergovernmental commodity collaboration.

At their Seventh Session, in October 1952, the Contracting Parties agreed that the term of office of the chairman of the ICCICA should be for a fixed period, the duration of which would be determined at the Eighth Session. At the Eighth Session two persons were considered for the chairmanship of the ICCICA—Mr. Roberto de Oliviera Campos, of Brazil, and Mr. Edgar A. Cohen, of the United Kingdom. The Contracting Parties selected Mr. Cohen as chairman of the ICCICA for a 2-year term. Mr. Cohen is Second Secretary of the United Kingdom Board of Trade and in that organization is responsible for all matters relating to the General Agreement and commodity policy.

In the discussion that followed the selection of the chairman of the ICCICA, the delegate of Brazil noted that it was anomalous that the chairman of the Committee was limited to a 2-year term, whereas the terms of the other members were indefinite. The United States representative suggested that the Contracting Parties inform the Secretary-General of the United Nations of the discussion that had taken place on this point. Accordingly, the Contracting Parties agreed that, in advising the Secretary-General of the appointment of the new chairman for a 2-year term, the Executive Secretary of the Contracting Parties should also inform the Secretary-General of the opinions expressed by some contracting parties. The Contracting Parties also directed the Executive Secretary to request the ICCICA to provide copies of its annual reports for distribution to the contracting parties.

Discrimination in Transport Insurance

In 1951, at the suggestion of the International Chamber of Commerce, the United Nations Transport and Communications Commission considered the problem of discriminatory national laws that restrict the freedom of importers and exporters to purchase cargo insurance in the countries of their choice. These discriminatory restrictions are similar in effect to quantitative restrictions on imports that are imposed for protective or balance-of-payments reasons. The Transport and Com-

munications Commission requested the Secretary-General of the United Nations to make a study of existing restrictions and of the possible steps that the Commission might take. The United Nations Economic and Social Council, acting on the recommendation of the Commission, also urged member governments in 1951 to adopt a policy of nondiscrimination in the purchase of transport insurance.

In the meantime, the Secretary-General's study recommended that the problem be studied by the Contracting Parties to the General Agreement. Subsequently, a resolution adopted by the Economic and Social Council on April 16, 1953, suggested that the Secretary-General submit to the Contracting Parties—for possible action at their Eighth Session—the relevant resolutions of the Council, the resolutions of the Transport and Communications Commission, and the Secretary-General's study on discrimination in transport insurance. In its meetings held from August 17 to 20, 1953, the Intersessional Committee recommended that the Contracting Parties ask the Executive Secretary to prepare, in consultation with governmental and nongovernmental organizations, a report on the issues involved.

On the basis of the report transmitted to them by the Secretary-General of the United Nations, the Contracting Parties discussed the matter of discriminatory transport-insurance laws at their Eighth Session. The United Kingdom representative deplored governmental measures requiring that cargo insurance be placed in particular markets. He suggested that when the Contracting Parties reviewed the General Agreement in October 1954 they include in the agreement provisions for prohibiting protective and discriminatory measures affecting general insurance. He noted that the International Monetary Fund was dealing with exchange restrictions on insurance in the same way that it was dealing with exchange restrictions on commodity trade. The United Kingdom delegate suggested that the item be kept on the agenda, and recommended that the Executive Secretary be asked to prepare a report for consideration at the Ninth Session. The United States representative stated that freedom of traders to place cargo insurance on the most economic basis in the countries of their choice would be a valuable contribution to furthering the aims of nondiscriminatory multilateral trade. The delegate of Brazil stated that since insurance payments are a significant part of the receipts from invisibles in the balance-of-payments positions of certain countries the rules governing transport insurance should be carefully studied.

Accordingly, the Contracting Parties instructed the Executive Secretary to prepare a report for discussion at the Ninth Session in October 1954. The report, which was to be made in consultation with governmental and nongovernmental organizations, was to cover the existing situation with respect to discrimination in transport insurance, its relation to the provisions of the General Agreement, and recommendations as to possible action by the Contracting Parties.

Chapter 4

Actions of the United States Relating to Its Trade Agreements Program

On June 30, 1954, the United States was a party to trade agreements with 42 countries, negotiated under the authority of the Trade Agreements Act, as amended and extended. These countries fall into two groups.

1. The first group consists of 32 countries that already were contracting parties to the General Agreement on Tariffs and Trade on the aforementioned date.[1] 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:

(a) Countries (19) that acceded as a result of the negotiations at Geneva:

Country	*Date*	*Country*	*Date*
Australia	Jan. 1, 1948	Indonesia [2]	Mar. 11, 1948
Belgium [1]	Do.	Luxembourg	Jan. 1, 1948
Brazil [1]	July 31, 1948	Netherlands [1]	Do.
Burma	July 30, 1948	New Zealand	July 31, 1948
Canada [1]	Jan. 1, 1948	Norway	July 11, 1948
Ceylon	July 30, 1948	Pakistan	July 31, 1948
Chile	Mar. 16, 1949	Southern Rhodesia [3]	July 12, 1948
Cuba [1]	Jan. 1, 1948	Union of South Africa	June 14, 1948
France [1]	Do.	United Kingdom [1]	Jan. 1, 1948
India	July 9, 1948		

[1] The bilateral trade agreement previously concluded with the United States had been either suspended or terminated by June 30, 1954.

[2] The Netherlands negotiated concessions on behalf of the Netherlands Indies (Indonesia) at Geneva in 1947. On February 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 September 3, 1953. On October 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 had previously applied as areas for which the United Kingdom had international responsibility.

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[1] Not including the four countries that had withdrawn from the General Agreement before June 30, 1954—the Republic of China, Lebanon, Liberia, and Syria. Czechoslovakia acceded to the General Agreement at Geneva and is still a contracting party thereto. On September 29, 1951, however, the United States, with the permission of the Contracting Parties, suspended all of 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.

(b) Countries (9) that acceded as a result of the negotiations at Annecy:

Country	*Date*	*Country*	*Date*
Denmark	May 28, 1950	Italy	May 30, 1950
Dominican Republic	May 19, 1950	Nicaragua	May 28, 1950
Finland [1]	May 25, 1950	Sweden [1]	Apr. 30, 1950
Greece	Mar. 9, 1950	Uruguay [1]	Dec. 16, 1953
Haiti [1]	Jan. 1, 1950		

(c) Countries (4) that acceded as a result of the negotiations at Torquay:

Country	*Date*	*Country*	*Date*
Austria	Oct. 19, 1951	Peru	Oct. 7, 1951
Germany (Federal Republic)	Oct. 1, 1951	Turkey [1]	Oct. 17, 1951

[1] The bilateral trade agreement previously concluded with the United States had been either suspended or terminated by June 30, 1954.

2. The second group consists of those 10 countries that had trade agreements with the United States but were not contracting parties to the General Agreement on Tariffs and Trade. These countries, together with the effective dates of the respective bilateral trade agreements, are as follows:

Country	*Date*	*Country*	*Date*
Argentina	Nov. 15, 1941	Iceland	Nov. 19, 1943
Ecuador	Oct. 23, 1938	Iran	June 28, 1944
El Salvador	May 31, 1937	Paraguay	Apr. 9, 1947
Guatemala	June 15, 1936	Switzerland	Feb. 15, 1936
Honduras	Mar. 2, 1936	Venezuela [1]	Dec. 16, 1939

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

During the 12-month period covered by this report, the United States continued to suspend, as required by section 5 of the Trade Agreements Extension Act of 1951, 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 to prohibit, pursuant to section 11 of the extension act of 1951, the entry, or withdrawal from warehouse, for consumption of specified furs that are the product of the Soviet Union or of Communist China.[2]

ENTRY INTO FORCE OF TRADE-AGREEMENT CONCESSIONS

On July 1, 1953, the beginning of the period covered by this report, two countries with which the United States had concluded negotiations for tariff concessions at either Annecy or Torquay—Korea and Uruguay—had not yet signed the pertinent protocols. On November 16, 1953,

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

Uruguay signed the Annecy and Torquay Protocols to the General Agreement. The concessions that the United States negotiated initially with Uruguay at Annecy and Torquay became effective on December 16, 1953. Because of the serious plight of the domestic cattle and beef industry, however, the United States did not make effective the tariff concessions that it had granted to Uruguay on canned beef, pickled and cured beef and veal, and meat extract. Korea did not sign the Torquay Protocol by June 30, 1954; the concessions that the United States negotiated initially with that country, therefore, did not become effective during the period covered by this report.

WITHDRAWAL OR MODIFICATION OF TRADE-AGREEMENT CONCESSIONS

On June 30, 1954, the President signed a proclamation modifying the concession that the United States had granted on alsike clover seed, in the General Agreement on Tariffs and Trade. The concession was modified under article XIX (the escape clause) of the General Agreement, after an escape-clause investigation by the Tariff Commission under the provisions of section 7 of the Trade Agreements Extension Act of 1951.[3] As a result of the modification, a tariff quota was established for alsike clover seed, imports of not more than 1,500,000 pounds of such seed being subject to a duty of 2 cents per pound, and imports in excess of that amount being dutiable at 6 cents per pound. The modification was for the 12-month period beginning July 1, 1954. The rate of duty that had been in effect pursuant to the concession that the United States had granted in the General Agreement was 2 cents per pound (without a tariff quota).

ACTIVITIES UNDER THE ESCAPE CLAUSE IN 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. This clause provides, in essence, that either party to the agreement may withdraw or modify any concession made therein if, as a result of the concession, imports of the particular commodity enter in such increased quantities 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-

[3] See the section of this chapter on activities under the escape clause in trade agreements.

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. Section 6 (b) of the act directs the President to report to the Congress at specified intervals on the action he has taken to include escape clauses in existing trade agreements.

During the period covered by this report, the procedure for administering the escape clause was prescribed by sections 7 and 8 of the Trade Agreements Extension Act of 1951, as amended, and by Executive Order 10401.[4] Section 7 of the extension act of 1951 designates the Tariff Commission as the agency to make investigations to determine whether there is cause for invoking the escape clause. The Commission must complete its investigation and report to the President within 9 months after the application for investigation has been filed.[5] Section 8 of the extension act of 1951 provides that when the Secretary of Agriculture reports that a condition exists requiring emergency treatment because of the perishability of an agricultural commodity, the Commission's report to the President and the decision of the President must be made not more than 25 calendar days after the case is submitted to the Tariff Commission.[6] Under those circumstances, the President may take immediate action if he deems it necessary, without awaiting the report and recommendations of the Commission. Executive Order 10401, which is discussed fully in a later section of this chapter,[7] directs the Tariff Commission to 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.

Reports by the President to the Congress on Inclusion of Escape Clauses in Trade Agreements

As required by section 6 (b) of the Trade Agreements Extension Act of 1951, the President, on July 9, 1953, and again on January 11, 1954, sub-

[4] Before June 1951 the procedure for administering the escape clause was prescribed by Executive Orders 9832, 10004, and 10082.

[5] The Trade Agreements Extension Act of 1951 originally provided that the Commission must complete its investigation and report to the President within 1 year of the date the application was received, but an amendment in 1953 reduced this time limit to 9 months.

[6] Sec. 8 provides for investigation by the Commission (and decision by the President) under either the escape clause or sec. 22 of the Agricultural Adjustment Act, whichever is applicable.

[7] See the section on periodic reports and review investigations on escape-clause actions.

mitted to the Congress a report on the inclusion of escape clauses in trade agreements.

In his reports, the President stated that escape clauses conforming to the policy set forth in section 6 (a) of the extension act of 1951 were included in all trade agreements in force under the act, except those with Ecuador, El Salvador, Guatemala, and Honduras. The President reported that the United States had informed Ecuador that it would be necessary to amend the trade agreement with that country to include an escape clause, and added that discussions between the United States and Ecuador regarding the trade agreement were in progress. The President reported further that, for reasons given in his earlier reports, no action had been taken to insert escape clauses in the trade agreements with El Salvador, Guatemala, and Honduras.

Applications for Investigations

On July 1, 1953, 7 escape-clause investigations were pending before the Tariff Commission. During the ensuing 12 months, the Commission instituted 12 escape-clause investigations.[8] In addition, the Commission on July 1, 1953, had pending before it 2 investigations that it had completed earlier, but on which the President had requested further study by the Commission. Of the total of 21 escape-clause investigations that were pending before the Commission at one time or another during the period covered by this report, the Commission, as of June 30, 1954, had completed 8 investigations,[9] had discontinued 1 investigation at the request of the applicant, and had terminated 2 investigations without formal findings. The remaining investigations were still in process. 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, 1953, to June 30, 1954, are shown in the accompanying list.[10]

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[8] Between April 20, 1948, when the first application for an escape-clause investigation was made, and June 30, 1954, the Tariff Commission received a total of 56 applications. Lists of applications received before the period covered by this report, together with their status on various dates, are given in earlier reports on the operation of the trade agreements program.

[9] See the section of this chapter on investigations completed.

[10] The accompanying list 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. For a resume of the status of all escape-clause applications filed with the Commission since April 20, 1948, 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 . . .* [processed] (issued periodically).

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1953–June 30, 1954

Commodity	Applicant	Status
1. Tobacco pipes and tobacco-pipe bowls of wood or root.	American Smoking Pipe Manufacturers Association, New York, N. Y.	Application received Dec. 29, 1951. Investigation instituted Jan. 10, 1952. Hearing held Mar. 24 and 25, 1952. Investigation completed Dec. 22, 1952. Modification in concession recommended to the President. President requested further study by Commission Feb. 18, 1953. Supplemental report submitted to the President Aug. 19, 1953. Recommendation rejected by the President Nov. 10, 1953.
2. Screen-printed silk scarves.	Association of Textile Screen Makers, Printers and Processors, Inc., New York, N. Y.	Application received Apr. 14, 1952. Investigation instituted Aug. 25, 1952. Hearing held Feb. 24–27, 1953. Investigation completed Apr. 13, 1953. Modification in concession recommended to the President. President requested further study by Commission June 10, 1953.
3. Cotton-carding machinery and parts.	American Textile Machinery Association, Whitinsville, Mass.	Application received Aug. 12, 1952. Investigation instituted Aug. 21, 1952. Hearing held Mar. 9 and 10, 1953. Investigation completed July 29, 1953. No modification in concession recommended.
4. Rosaries, chaplets, and similar articles of religious devotion, made in whole or in part of gold, silver, platinum, gold plate, silver plate, or precious or imitation precious stones.	G. Klein & Son, New York, N. Y. H. M. H. Co., Inc., Pawtucket, R. I.	Application received Sept. 15, 1952. Investigation instituted Sept. 19, 1952. Hearing held June 8, 1953. Investigation completed Aug. 21, 1953. No modification in concession recommended.
5. Watch bracelets and parts thereof, of metal other than gold or platinum.	Watch Attachment Manufacturers Association, New York, N. Y.	Application received Sept. 24, 1952. Investigation instituted Sept. 26, 1952. Application withdrawn June 9, 1953, but investigation continued by the Commission. Hearing held June 15, 1953. Investigation completed Aug. 20, 1953. No modification in concession recommended.

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1953–June 30, 1954—Continued

Commodity	Applicant	Status
6. Handmade blown glassware.	Hand Division, American Glassware Association, New York, N. Y.	Application received Sept. 25, 1952. Investigation instituted Sept. 26, 1952. Application withdrawn Feb. 25, 1953, but investigation continued by the Commission. Hearing held Mar. 2, 1953. Investigation completed Sept. 22, 1953. Vote of Commissioners equally divided. President requested further study by Commission Nov. 19, 1953. Supplemental report submitted to the President May 18, 1954.
7. Mustard seeds (whole)	Montana State Farm Bureau, Bozeman, Mont.	Application received Feb. 9, 1953. Investigation instituted Feb. 12, 1953. Hearing held June 22, 1953. Investigation completed Dec. 10, 1953. No modification in concession recommended.
8. Manicure and pedicure nippers and parts thereof. Scissors and shears and blades therefor.	Shears, Scissors, and Manicure Instruments Manufacturers Association, Newark, N. J.	Application received Mar. 19, 1953. Investigation instituted Mar. 26, 1953. Hearing held June 29, 1953. Investigation completed Mar. 12, 1954. Modification in concession recommended to the President. Recommendation rejected by the President May 11, 1954.
9. Fresh or frozen groundfish fillets (second investigation).	Massachusetts Fisheries Association, Inc., Boston, Mass., and others.	Application received May 27, 1953. Investigation instituted June 16, 1953. Hearing held Oct. 20–26, 1953. Investigation completed May 7, 1954. Modification in concession recommended to the President.
10. Watches, movements, and parts (second investigation).	Elgin National Watch Co., Elgin, Ill. Hamilton Watch Co., Lancaster, Pa. Waltham Watch Co., Waltham, Mass.	Application received Sept. 1, 1953. Investigation instituted Sept. 9, 1953. Hearing held Feb. 9–12, 1954. Investigation completed May 28, 1954. Modification in concession recommended to the President.

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1953–June 30, 1954—Continued

Commodity	Applicant	Status
11. Lead and zinc	National Lead and Zinc Committee, Salt Lake City, Utah.	Application received Sept. 14, 1953. Investigation instituted Sept. 16, 1953. Hearing held Nov. 3–6, 1953. Investigation completed May 21, 1954. Modification in concession recommended to the President.
12. Straight (dressmakers' or common) pins.	Vail Manufacturing Co., Chicago, Ill., and others.	Application received Sept. 23, 1953. Investigation instituted Sept. 24, 1953. Hearing held Mar. 23–26, 1954. Investigation terminated by the Commission without formal finding June 22, 1954.
13. Safety pins	DeLong Hook and Eye Co., Philadelphia, Pa., and others.	Application received Sept. 28, 1953. Investigation instituted Oct. 29, 1953. Hearing held Mar. 23–26, 1954. Investigation terminated by the Commission without formal finding June 22, 1954.
14. Fluorspar, acid grade	Ozark-Mahoning Co., Tulsa, Okla., and others.	Application received Oct. 20, 1953. Investigation instituted Oct. 29, 1953. Investigation discontinued and dismissed by the Commission, at applicant's request, Nov. 23, 1953.
15. Alsike clover seed	W. W. Thompson, Klamath Falls, Oreg., and others.	Application received Nov. 23, 1953. Investigation instituted Dec. 2, 1953. Hearing held Feb. 16, 1954. Investigation completed May 21, 1954. Modification in concession recommended to the President. Recommendation of the Commission accepted in part by the President. Concession modified by Presidential proclamation of June 30, 1954.
16. Spring clothespins (third investigation).	Clothespin Manufacturers of America, Washington, D. C.	Application received Jan. 7, 1954. Investigation instituted Jan. 25, 1954. Hearing held Apr. 20 and 21, 1954.
17. Ground chicory	E. B. Muller & Co., Port Huron, Mich., and others.	Application received Jan. 19, 1954. Investigation instituted Jan. 25, 1954. Hearing held Apr. 27, 1954.

Escape-clause investigations pending before the Tariff Commission at one time or another during the period July 1, 1953–June 30, 1954—Continued

Commodity	Applicant	Status
18. Screws, commonly called wood screws, of iron or steel (third investigation).	United States Wood Screw Service Bureau, New York, N. Y.	Application received Jan. 29, 1954. Investigation instituted Feb. 25, 1954. Hearing held May 27 and 28, 1954.
19. Wool gloves and mittens and wool glove linings.	American Knit Handwear Association, Inc., Gloversville, N. Y.	Application received Mar. 29, 1954. Investigation instituted Apr. 12, 1954.
20. Glue of animal origin, n. s. p. f., and gelatin, n. s. p. f., valued under 40 cents per pound.	National Association of Glue Manufacturers, Inc., New York, N. Y.	Application received Apr. 9, 1954. Investigation instituted May 5, 1954.
21. Bicycles (second investigation).	Bicycle Manufacturers Association of America, New York, N. Y.	Application received June 14, 1954. Investigation instituted June 22, 1954.

Investigations Completed

Tobacco pipes and tobacco-pipe bowls of wood or root

On December 29, 1951, the American Smoking Pipe Manufacturers Association, of New York, N. Y., filed an application with the Tariff Commission for an escape-clause investigation of certain tobacco pipes having bowls wholly or in chief value of brierwood. On January 10, 1952, the Commission instituted the investigation, but on its own motion expanded the scope of the investigation to include all finished and partly finished tobacco pipes and pipe bowls of wood or root. A public hearing was held on March 24 and 25, 1952.

In its report, which was submitted to the President on December 22, 1952,[11] the Commission found that, as a result in part of the customs treatment reflecting the concession granted in the General Agreement on Tariffs and Trade, tobacco-pipe bowls wholly or in chief value of brier wood or root and tobacco pipes having such bowls, valued at not more than $5 per dozen, were being imported into the United States in such increased quantities, both actual and relative, as to cause serious injury to the domestic industry producing like or directly competitive products, and as to threaten continuance of such injury. The Commission also found that the application to imports of such pipes and bowls, for an indefinite period, of a rate of duty of 15 cents each, but not less than 2½ cents each and 40 percent ad valorem or more than 3¾ cents each

[11] U. S. Tariff Commission, *Tobacco Pipes of Wood: Report to the President on the Escape-Clause Investigation*, 1952 [processed].

and 60 percent ad valorem, was necessary to prevent the continuance of serious injury to the domestic industry.

In view of its findings, and in accordance with section 7 of the Trade Agreements Extension Act of 1951, the Commission recommended to the President that the concession on tobacco-pipe bowls of brier wood or root and tobacco pipes having such bowls be modified to permit, for an indefinite period, the application of the rate of duty specified in its findings.

On February 18, 1953, in identical letters to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means, the President reported that he was not, at that time, giving effect to the recommendation of the Tariff Commission. The President stated that he was requesting further information from the Commission to assist him in arriving at his decision. Thereupon, as required by law, the Commission forwarded copies of its original report of December 22, 1952, to the chairmen of the two committees mentioned above.

On August 19, 1953, the Commission submitted to the President its supplemental report. On November 10, 1953, in identical letters to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means, the President stated that he was not giving effect to the recommendation made by the Commission in its report of December 22, 1952, and gave his reasons therefor. Thereupon, as required by law, the Commission transmitted copies of its supplemental report to the chairmen of the two committees.

The tobacco pipes and bowls of wood or root covered by the Commission's investigation are provided for in paragraph 1552 of the Tariff Act of 1930. The rate of duty originally imposed by that act was 5 cents each and 60 percent ad valorem. Pursuant to a tariff concession that the United States granted in the bilateral trade agreement with France, the duty on wholly finished brier pipes valued at less than $1.20 per dozen was reduced to 2½ cents each plus 40 percent ad valorem, effective June 15, 1936. In the bilateral trade agreement with the United Kingdom, which became effective January 1, 1939, the United States granted tariff concessions on all other articles provided for in the classification covered by the investigation. These concessions, together with the concession granted in the bilateral trade agreement with France, resulted in a rate of 2½ cents each plus 40 percent ad valorem on all pipes and bowls of wood or root, except those valued per dozen at $1.20 or more but not more than $5, on which a concession in the trade agreement with the United Kingdom resulted in a rate of 5 cents each plus 50 percent ad valorem.

In the General Agreement on Tariffs and Trade, at Geneva, the United States granted tariff concessions on all tobacco pipes and bowls of wood. These concessions became effective January 1, 1948, when the bilateral trade agreements with France and the United Kingdom became inopera-

tive. In the General Agreement on Tariffs and Trade, at Torquay, the United States granted a further concession, which became effective October 19, 1951, on pipes and bowls of wood or root other than brier, valued at less than $1.20 per dozen.

Pursuant to the Geneva and Torquay concessions, the rates of duty on the articles covered by the investigation are as follows: Brier pipes and pipe bowls valued at not more than $5 per dozen are dutiable at 2½ cents each and 40 percent ad valorem, and those valued at more than $5 per dozen, at 2½ cents each and 20 percent ad valorem. Pipes and pipe bowls of wood or root other than brier are dutiable at the same rates, except those valued at less than $1.20 per dozen, which are dutiable at 1¼ cents each and 20 percent ad valorem.

Screen-printed silk scarves

On August 25, 1952, in response to an application filed by the Association of Textile Screen Makers, Printers and Processors, Inc., of New York, N. Y., the Tariff Commission instituted an escape-clause investigation of screen-printed silk scarves. A public hearing was held from February 24 to 27, 1953.

In its report, which was submitted to the President on April 13, 1953,[12] the Commission found that, as a result in part of the customs treatment reflecting the concession granted in the General Agreement on Tariffs and Trade, screen-printed silk scarves were being imported into the United States in such increased quantities, both actual and relative, as to cause serious injury to the domestic industry producing like or directly competitive products, and as to threaten continuance of such injury. The Commission also found that the application, for an indefinite period, of a rate of duty of 65 percent ad valorem on screen-printed silk scarves was necessary to prevent the continuance of serious injury to the domestic industry.

In view of its findings, and in accordance with section 7 of the Trade Agreements Extension Act of 1951, the Commission recommended to the President that the concession granted on screen-printed silk scarves in the General Agreement be modified to permit, for an indefinite period, the application of a rate of duty of 65 percent ad valorem.

On June 10, 1953, in identical letters to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means, the President reported that he was not, at that time, giving effect to the recommendation of the Commission. The President stated that he had questions concerning certain matters relating to the manufacture and distribution of silk scarves, and that he was requesting the Tariff Commission to make a further examination of the case and report its findings to him. Thereupon, as required by law, the Commission forwarded copies of its

[12] U. S. Tariff Commission, *Screen-Printed Silk Scarves: Report to the President on Escape-Clause Investigation No. 19*, 1953 [processed].

report on screen-printed silk scarves to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means.

Under the Tariff Act of 1930, imports of screen-printed silk scarves were originally dutiable at 65 percent ad valorem. As the result of a concession granted at Geneva in the General Agreement on Tariffs and Trade, the duty on such scarves was reduced to 35 percent ad valorem, effective January 1, 1948. Pursuant to a concession granted at Torquay in the General Agreement, the duty was further reduced to 32½ percent ad valorem, effective June 6, 1951.

Cotton-carding machinery and parts

On August 21, 1952, in response to an application filed by the American Textile Machinery Association, of Whitinsville, Mass., the Tariff Commission instituted an escape-clause investigation of cotton-carding machinery and parts. A public hearing was held on March 9 and 10, 1953.

In its report, which was released on July 29, 1953,[13] the Commission found that cotton-carding machinery and parts were not 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. Accordingly, in the judgment of the Commission, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951.

Cotton-carding machinery is not provided for by name in the tariff schedules of the Tariff Act of 1930, as amended and modified. This type of textile machinery is included in the statutory "basket" provision in paragraph 372 for "all other textile machinery, finished or unfinished, not specially provided for," and was originally dutiable thereunder at the rate of 40 percent ad valorem. Pursuant to a concession in the trade agreement with the United Kingdom, the rate of duty on certain of the textile machinery (including cotton-carding machinery) in this "basket" provision was reduced to 20 percent ad valorem, effective January 1, 1939. Since January 1, 1948, cotton-carding machinery has been subject to a rate of duty of 10 percent ad valorem, as a result of a concession in the General Agreement on Tariffs and Trade with respect to textile machinery for manufacturing or processing vegetable fibers prior to the making of fabrics or woven, knit, crocheted, or felt articles not made from fabrics (except winding, beaming, warping, and slashing machinery, and combinations thereof).

Under paragraph 372 and the pertinent trade-agreement concessions, cotton-carding-machinery parts, not specially provided for, wholly or in chief value of metal or porcelain, have been and are subject to the same rate of duty that is applicable to such machinery.

[13] U. S. Tariff Commission, *Cotton-Carding Machinery and Parts Thereof: Report on Escape-Clause Investigation No. 18*, 1953 [processed].

Rosaries

On September 19, 1952, in response to an application filed by G. Klein & Son, of New York, N. Y., and the H. M. H. Co., Inc., of Pawtucket, R. I., the Tariff Commission instituted an escape-clause investigation of rosaries, chaplets, and similar articles of religious devotion, made in whole or in part of gold, silver, platinum, gold plate, silver plate, or precious or imitation precious stones. A public hearing was held on June 8, 1953.

In its report, which was released on August 21, 1953,[14] the Commission found that the products covered by the investigation were not 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. Accordingly, in the judgment of the Commission, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951.

The rate of duty originally established in the Tariff Act of 1930 on the products covered by this investigation was 50 percent ad valorem. This rate was reduced to 30 percent ad valorem, effective June 15, 1936, pursuant to a concession granted in the bilateral trade agreement with France. That agreement was suspended on January 1, 1948, when concessions negotiated with France in the General Agreement on Tariffs and Trade at Geneva became effective. Although the products covered by this investigation were not among the articles on which the United States granted concessions in the General Agreement in 1948, the rate of duty applicable to those products did not at once revert to the 1930 rate of 50 percent ad valorem; rather, it became 42 percent ad valorem as the result of limitations on the statutory authority to make tariff increases with respect to products of Cuba, and international commitments not to increase the margin of tariff preference accorded to products of Cuba. A change in the law resulted in the restoration of the statutory general rate of 50 percent ad valorem, effective December 30, 1949. That rate remained in effect until the present rate of 15 percent ad valorem was established, effective June 6, 1951, pursuant to a concession negotiated with France at Torquay under the General Agreement.

Metal watch bracelets and parts

On September 26, 1952, in response to an application filed by the Watch Attachment Manufacturers Association, of New York, N. Y., the Tariff Commission instituted an escape-clause investigation of watch bracelets and parts thereof, wholly or in chief value of metal other than platinum or gold. A public hearing was held on June 15, 1953.

In its report, which was released on August 20, 1953,[15] the Commission

[14] U. S. Tariff Commission, *Rosaries: Report on Escape-Clause Investigation No. 20*, 1953 [processed].

[15] U. S. Tariff Commission, *Metal Watch Bracelets and Parts Thereof: Report on Escape-Clause Investigation No. 21*, 1953 [processed].

found that the watch bracelets covered by the investigation were not being imported 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. Accordingly, in the judgment of the Commission, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951.

The rate of duty originally imposed under the Tariff Act of 1930 on the watch bracelets and parts thereof covered by this investigation was a compound rate equivalent to 110 percent ad valorem. The duty on such articles valued at not over $5 per dozen pieces or parts was reduced to 65 percent ad valorem, effective April 21, 1948, pursuant to a concession granted in negotiations with Czechoslovakia under the General Agreement on Tariffs and Trade at Geneva. The duty on such articles valued at over $5 per dozen pieces or parts was first reduced to 65 percent ad valorem, effective June 15, 1936, pursuant to a concession granted in the bilateral trade agreement with France. The rate was further reduced to 45 percent ad valorem, effective January 1, 1948, pursuant to a concession granted to Czechoslovakia in the General Agreement at Geneva, and then to 35 percent ad valorem, effective June 6, 1951, pursuant to a concession granted to France in the General Agreement at Torquay.

Handmade blown glassware

On September 26, 1952, in response to an application filed by the Import Committee for the Hand Division of the American Glassware Association, of New York, N. Y., the Tariff Commission instituted an escape-clause investigation of handmade blown glassware. A public hearing was held on March 2, 1953.

In its report, which was submitted to the President on September 22, 1953,[16] the Commission divided into two equal groups, each of which unanimously agreed upon opposite findings, on whether handmade blown glassware covered by the investigation was being imported 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. In split decisions of this kind, the law provides that the findings (and recommendations, if any) of each group of Commissioners shall be transmitted to the President, and that the findings (and recommendations, if any) of either such group of Commissioners may be considered by the President as the findings (and recommendations, if any) of the Commission.

Commissioners Brossard, Talbot, and Schreiber found that table articles and utensils, vases, and articles primarily designed for ornamental purposes, which are blown or partly blown from molten glass gathered by

[16] U. S. Tariff Commission, *Hand-Blown Glassware: Report to the President on Escape-Clause Investigation No. 22*, 1953 [processed].

hand, and valued at less than $3 each (except Christmas tree ornaments and articles and utensils commercially known as bubble glass), were being imported into the United States in such increased quantities, both actual and relative, as to cause serious injury to the domestic industry concerned and to threaten continuance of such injury; that products covered by the investigation, other than those described immediately above, were not being imported in such increased quantities as to cause or threaten serious injury to the domestic industry concerned; and that the application, for an indefinite period, of a rate of duty of 67½ percent ad valorem on specified cut or engraved articles and utensils valued at less than $3 but not less than $1 each, and a rate of 90 percent ad valorem on specified articles and utensils valued at less than $3 each, was necessary to prevent the continuance of serious injury to the domestic industry concerned. In view of their findings, the three Commissioners recommended to the President that the appropriate concession granted in the General Agreement on Tariffs and Trade be modified to permit, for an indefinite period, the application of the rates of duty set forth in their findings.

Commissioners Ryder, Edminster, and McGill found that none of the products covered by the investigation were 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. Accordingly, in their judgment, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951.

On November 19, 1953, in a letter to the Chairman of the Tariff Commission, the President requested further information from the Commission to assist him in arriving at his decision. At the same time, the President advised the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means of his action. On May 18, 1954, the Commission submitted a supplemental report to the President.

The handmade blown glassware covered by this investigation was originally dutiable at 60 percent ad valorem under the Tariff Act of 1930. Before 1948, reductions in this rate of duty were made on various classifications of glassware, including handmade blown glassware, pursuant to bilateral trade agreements with Sweden (effective August 5, 1935), Czechoslovakia (effective April 16, 1938), the United Kingdom (effective January 1, 1939), and Mexico (effective January 30, 1943). The tariff concessions granted in the bilateral agreement with Czechoslovakia were terminated on April 22, 1939, and those granted in the bilateral agreement with Mexico, on December 31, 1950. The bilateral trade agreement with the United Kingdom was superseded, effective January 1, 1948, by the General Agreement on Tariffs and Trade, and the bilateral trade agreement with Sweden was terminated June 30, 1950, after that country became a contracting party to the General Agreement (April 30, 1950). In

1948, and subsequently, the United States granted various concessions under the General Agreement on all types of glassware dutiable under paragraph 218 (f). The rates of duty reflecting the concessions granted on the glassware covered by this investigation, all of which rates are currently in effect, are 15 percent ad valorem on certain engraved ornamental articles valued at $8 or more each; 22½ percent ad valorem on cut or engraved articles valued at $3 or more each; 30 percent ad valorem on certain articles and utensils commercially known as bubble glass; and a specific rate of 50 cents each (with a maximum rate of 50 percent ad valorem and a minimum of 30 percent ad valorem) on all other glassware.

Mustard seeds (whole)

On February 12, 1953, in response to an application filed by the Montana State Farm Bureau, of Bozeman, Mont., the Tariff Commission instituted an escape-clause investigation of mustard seeds (whole). A public hearing was held on June 22, 1953.

In its report, which was released on December 10, 1953,[17] the Commission found that mustard seeds (whole) were not 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. Accordingly, in the judgment of the Commission, no sufficient reason existed for a recommendation to the President under the provisions of section 7 of the Trade Agreements Extension Act of 1951.

Mustard seeds (whole) were originally dutiable at 2 cents per pound under the Tariff Act of 1930. Pursuant to a concession granted in the trade agreement with the United Kingdom, a reduced rate of 1¾ cents per pound became effective on January 1, 1939. As a result of concessions granted in the General Agreement on Tariffs and Trade at Geneva and Torquay, the rate was further reduced to 1¼ cents per pound effective January 1, 1948, and to ⅞ cent per pound, effective June 6, 1951.

Manicure and pedicure nippers and scissors and shears

On March 26, 1953, in response to an application filed by the Shears, Scissors and Manicure Instruments Manufacturers Association, of Newark, N. J., the Tariff Commission instituted an escape-clause investigation of manicure and pedicure nippers and parts thereof, and scissors and shears (not including pruning shears and sheep shears), and blades therefor. A public hearing was held on June 29, 1953.

In its report, which was submitted to the President on March 12, 1954,[18] the Commission found (Commissioners Ryder and Edminster dissenting except as to finding 2, below) that—

[17] U. S. Tariff Commission, *Mustard Seeds (Whole): Report on Escape-Clause Investigation No. 23*, 1953 [processed].

[18] U. S. Tariff Commission, *Scissors and Shears, and Manicure and Pedicure Nippers, and Parts Thereof: Report to the President on Escape-Clause Investigation No. 24*, 1954 [processed].

1. As a result in part of the customs treatment reflecting the concession granted in the General Agreement on Tariffs and Trade, scissors and shears (except pruning, sheep, grass, and hedge shears and except tinners' snips) and blades therefor, valued at more than $1.75 per dozen, were being imported into the United States in such increased quantities, both actual and relative, as to threaten serious injury to the domestic industry producing like or directly competitive products.

2. Manicure and pedicure nippers and parts thereof, and scissors and shears and blades therefor other than those included in finding 1 were not being imported 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.

3. The application, for an indefinite period, of a rate of duty of 20 cents each and 45 percent ad valorem to imports of scissors and shears covered by finding 1 was necessary to prevent serious injury to the domestic industry producing like or directly competitive products.

In view of its findings, and in accordance with section 7 of the Trade Agreements Extension Act of 1951, the Commission recommended to the President that the concession granted in the General Agreement be modified to permit the application, for an indefinite period, of a rate of duty of 20 cents each and 45 percent ad valorem to imports of scissors and shears included in finding 1 above.

On May 11, 1954, in identical letters to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means, the President stated that he was not accepting the Commission's findings and recommendations and gave the reasons for his action. Thereupon, as required by law, the Commission forwarded copies of its report to the chairmen of the above-mentioned committees.

Manicure or pedicure nippers and parts thereof were originally dutiable at 60 percent ad valorem under the Tariff Act of 1930. Pursuant to a concession granted in the General Agreement on Tariffs and Trade at Geneva, the duty was reduced to 40 percent ad valorem, effective January 1, 1948.

Scissors and shears (other than pruning and sheep shears) and blades therefor [19] were originally dutiable under the Tariff Act of 1930 as follows: On those valued at not more than 50 cents per dozen the duty was 3½ cents each plus 45 percent ad valorem; on those valued at more than 50 cents but not more than $1.75 per dozen, the duty was 15 cents each plus 45 percent ad valorem; and on those valued at more than $1.75 per dozen the duty was 20 cents each plus 45 percent ad valorem.

The duties on the foregoing value classifications for scissors and shears were reduced, pursuant to concessions granted in the General Agreement at Annecy, to 1¾ cents each plus 22½ percent ad valorem, effective April

[19] Surgical and dental scissors were not covered by the investigation.

30, 1950; 7½ cents each plus 22½ percent ad valorem, effective April 30, 1950; and 15 cents each plus 35 percent ad valorem, effective May 30, 1950, respectively. A further concession on the value classification of more than $1.75 per dozen, granted in the General Agreement at Torquay, became effective October 1, 1951, reducing the rate on this classification to 10 cents each plus 22½ percent ad valorem.

Alsike clover seed

On December 2, 1953, in response to an application filed by W. W. Thompson, of Klamath Falls, Oreg., and others, the Tariff Commission instituted an escape-clause investigation of alsike clover seed. A public hearing was held on February 16, 1954.

In its report, submitted to the President on May 21, 1954,[20] the Commission found that, as a result in part of the customs treatment reflecting the concession granted in the General Agreement on Tariffs and Trade, alsike clover seed was being imported into the United States in such increased quantities, both actual and relative, as to cause serious injury to the domestic industry producing like or directly competitive products. The Commission also found that, in order to remedy the serious injury to the domestic industry concerned, it was necessary that a duty of 4 cents per pound be imposed on imports of alsike clover seed entered, or withdrawn from warehouse, for consumption in any 12-month period beginning July 1 in 1954 and in subsequent years until 1,500,000 pounds have been so entered or withdrawn during any such period, and that a duty of 6 cents per pound be imposed on imports of such seed entered, or withdrawn from warehouse, for consumption during any such period after 1,500,000 pounds have been so entered or withdrawn during such period.

In view of its findings, and in accordance with section 7 of the Trade Agreements Extension Act of 1951, the Commission recommended that the concession granted in the General Agreement on Tariffs and Trade with respect to alsike clover seed be modified to permit the application of the rates of duty specified in its findings.

The President carried out only part of the Commission's recommendations. On June 30, 1954, he issued a proclamation imposing a duty of 2 cents per pound on entries of alsike clover seed during the 12-month period beginning July 1, 1954, until 1,500,000 pounds have been so entered, and a duty of 6 cents per pound on entries of alsike clover seed during that period in excess of 1,500,000 pounds. The President's proclamation did not provide for the imposition of a duty of 4 cents per pound on entries of alsike clover seed within the quota, as recommended by the Commission; and it limited the modification of the concession to 1 year, whereas the Commission did not recommend any time limit.

[20] U. S. Tariff Commission, *Alsike Clover Seed: Report to the President on Escape-Clause Investigation No. 31*, 1954 [processed].

Alsike clover seed was originally dutiable under the Tariff Act of 1930 at a rate of 8 cents per pound. That rate was reduced to 4 cents per pound, effective January 1, 1936, pursuant to a concession granted in the first bilateral trade agreement with Canada; the same rate was continued, pursuant to a concession granted in the second bilateral trade agreement with Canada, effective January 1, 1939. The rate was reduced to 2 cents per pound pursuant to a concession granted in the General Agreement on Tariffs and Trade at Geneva, effective January 1, 1948.

Review of Escape-Clause Actions Under Executive Order 10401

The standard escape clause and section 7 of the Trade Agreements Extension Act of 1951, as amended, contemplate that any escape-clause action taken by the President with respect to a particular commodity is to remain in effect only "for the time necessary to prevent or remedy" the injury. In order to carry out this provision, the President issued Executive Order 10401, establishing a formal procedure for review of 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 first such report is to be made 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 completion of such investigation, including a public hearing, the Commission is to report its findings to the President.

Women's fur felt hats and hat bodies

Effective December 1, 1950, after an escape-clause investigation and report by the Tariff Commission, the President withdrew the concession granted by the United States in the General Agreement on Tariffs and Trade on women's fur felt hats and hat bodies valued at more than $9 and not more than $24 per dozen, and restored the compound rates of duty specified in the Tariff Act of 1930 for those products. As required by paragraph 1 of Executive Order 10401, the Commission on November 24, 1953, submitted to the President its second periodic report on developments with respect to the fur felt hats and hat bodies involved in the escape action.[21] As in its first periodic report relating to these products,

[21] U. S. Tariff Commission, *Women's Fur Felt Hats and Hat Bodies: Report to the President (1953) Under Executive Order 10401*, 1953 [processed].

the Commission concluded that the conditions of competition with respect to the trade in imported and domestic fur felt hats and hat bodies for women's wear had not so changed as to warrant the institution of a formal investigation under the provisions of paragraph 2 of Executive Order 10401. On December 22, 1953, in a letter to the Chairman of the Tariff Commission, the President approved the Commission's conclusions.

Hatters' fur

Effective February 9, 1952, after an escape-clause investigation and report by the Tariff Commission, the President modified the concession granted by the United States in the General Agreement on Tariffs and Trade on hatters' fur, and imposed 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 5, 1954, submitted to the President its first periodic report on developments with respect to the product involved in the escape action. In its report,[22] the Commission 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 22, 1954, in a letter to the Chairman of the Tariff Commission, the President approved the Commission's conclusion.

QUANTITATIVE RESTRICTIONS ON IMPORTS INTO THE UNITED STATES

During all or part of the last half of 1953 and the first half of 1954 the United States applied quantitative restrictions to imports of the following commodities: (1) Cotton, wheat and wheat flour, shelled filberts, certain dairy products, peanuts, oats, and rye, under section 22 of the Agricultural Adjustment Act, 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, rice, cigars, scrap tobacco, coconut oil, and buttons of pearl or shell imported from the Republic of the Philippines, under the Philippine Trade Act of 1946, as part of a program to gradually eliminate United States tariff preferences for Philippine products. These restrictions are discussed in detail in the following sections of this chapter.

The United States also prohibits or restricts imports of a wide range of other articles, under various legislative acts, 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,

[22] U. S. Tariff Commission, *Hatters' Fur: Report to the President (1954) Under Executive Order 10401*, 1954 [processed].

trade-marks, 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.[23]

Restrictions Under Section 22 of the Agricultural Adjustment Act

During all or part of the period July 1, 1953, to June 30, 1954, the United States applied quantitative restrictions (quotas [24]) or fees on the importation of cotton, wheat and wheat flour, certain dairy products, flaxseed, linseed oil, peanuts, peanut oil, shelled and blanched almonds, shelled filberts, oats, and rye, under the provisions of section 22 of the Agricultural Adjustment Act, as amended.

Section 22 authorizes the President to restrict imports of any commodity, by imposing either import fees or quotas, 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. Before the President takes any action under section 22 he is required in ordinary circumstances to await an investigation (including a public hearing) and recommendations by the Tariff Commission. The Trade Agreements Extension Act of 1951 (sec. 8) provides that, upon report by the Secretary of Agriculture that emergency treatment is required because of the perishability of an agricultural commodity, 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 Tariff Commission.[25] In such circumstances, however, the President is authorized to take immediate action if he deems it necessary, without awaiting the Commission's recommendations.[26]

[23] Ch. 7.

[24] This discussion, as well as the following discussions on restrictions under the sugar act and under the Philippine Trade Act of 1946, 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 reduced rates of duty; imports in excess of the quota are subject to higher rates of duty, but they may be entered in unlimited quantities.

[25] Sec. 8 provides for investigation by the Commission (and decision by the President) under the provisions of either sec. 7 of the Trade Agreements Extension Act of 1951 (the escape clause) or sec. 22 of the Agricultural Adjustment Act, whichever is applicable.

[26] The Trade Agreements Extension Act of 1953 provides further that the President may take immediate action under sec. 22, without awaiting the Commission's recommendations, in any case where the Secretary of Agriculture reports to the President that a condition exists requiring emergency treatment. The President's action under this latter provision of law is to continue in effect pending the report and recommendations of the Tariff Commission.

Cotton

To prevent interference with programs of the Department of Agriculture affecting the production or marketing of domestic cotton, the United States in 1939 established import quotas for cotton having a staple of less than $1\frac{1}{8}$ inches (except harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch); for long-staple cotton $1\frac{1}{8}$ inches and longer; and for certain wastes, consisting of card strips and of comber, lap, sliver, and roving wastes. In 1940 the restrictions on imports of cotton having a staple of $1\frac{11}{16}$ inches or more were suspended; in 1942, those on imports of card strips made from cotton having a staple of $1\frac{3}{16}$ inches or more were also suspended. In 1946, quotas were imposed on imports of harsh or rough cotton having a staple of less than $\frac{3}{4}$ inch. Supplemental quotas have also been granted from time to time for certain long-staple cottons. Both the basic and supplemental quotas on cotton have been established by Presidential proclamation after investigations and reports by the Tariff Commission. During the period covered by this report, however, the Commission made no investigations relating to cotton under section 22.

Wheat and wheat flour

Since May 1941, under the provisions of section 22 of the Agricultural Adjustment Act, 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. Almost all of both quotas has been allocated to Canada. Since their adoption in 1941, the quotas have not been changed, but exceptions have at times been made for distress shipments, for seed wheat, for wheat to be used for experimental purposes, and for wheat imported during World War II by the War Food Administrator (virtually all of which was for animal feed).

Dairy products and oilseeds and their oils

Effective July 1, 1953, after an investigation by the Tariff Commission under the provisions of section 22, the President imposed various quotas on imports of butter, dried milk and cream, malted milk, cheddar cheese, Edam and Gouda cheese, blue-mold (except Stilton) cheese, Italian-type cheeses—made from cow's milk—in original loaves, and peanuts. He also imposed fees on imports of peanut oil, flaxseed, and linseed oil. Besides the articles listed above, the Commission's investigation covered butter oil, and tung nuts and tung oil. In its report to the President, however, the Commission found that there was at that time no basis under section 22 for imposing restrictions on imports of those products.[27]

[27] On May 19, 1954, the Commission instituted another investigation of tung nuts and tung oil under the provisions of sec. 22.

Edible tree nuts

At the request of the President, the Tariff Commission on April 13, 1950, instituted an investigation of almonds, filberts, walnuts, brazil nuts, and cashews under section 22 of the Agricultural Adjustment Act, as amended. The Commission submitted reports to the President in this investigation in November 1950, in November 1951, and in September 1952.[28] The recommendations that the Commission made in these reports, and the President's actions on those recommendations, are discussed in the Commission's fifth and sixth reports on the operation of the trade agreements program.

In its report of September 1952, as in its previous reports, the Commission advised the President that it was continuing the investigation and that it would report again if further action was found to be necessary to carry out the purposes of section 22.

On July 1, 1953, the Commission issued notice of its fourth public hearing in the investigation, which was held on August 24 and 25, 1953. In its report submitted to the President on September 21, 1953,[29] the Commission recommended that there be imposed a fee of 5 cents per pound but not more than 50 percent ad valorem on imports of shelled almonds and blanched, roasted, or otherwise prepared or preserved almonds (not including almond paste) entered, or withdrawn from warehouse, for consumption during any 12-month period beginning October 1 in 1953 and subsequent years until an aggregate quantity of 7 million pounds of such almonds has been so entered or withdrawn during any such period, and that a fee of 10 cents per pound but not more than 50 percent ad valorem be imposed on such almonds entered, or withdrawn from warehouse, for consumption during any such period in excess of an aggregate quantity of 7 million pounds—these fees to be collected in addition to the regular duties imposed by the tariff act. On September 29, 1953, the President issued a proclamation imposing the fees recommended by the Commission for the 12-month period beginning October 1, 1953. In its report, the Commission made no recommendations for action with respect to unshelled almonds, walnuts, brazil nuts, cashews, and filberts.

On June 24, 1954, the Commission ordered a fifth public hearing in the investigation, to be held beginning August 24, 1954.

Wool, wool tops, and carbonized wool

On July 10, 1953, by direction of the President, the Tariff Commission instituted an investigation of sheep's wool, carbonized wool of the sheep, and tops of sheep's wool, under the provisions of section 22. A public hearing was held from August 31 to September 2, 1953.

[28] For the Commission's three reports and the Presidential proclamation with respect to edible tree nuts, see U. S. Tariff Commission, *Edible Tree Nuts: Reports to the President, November 1950, November 1951, and September 1952*, Rept. No. 183, 2d ser., 1953.

[29] U. S. Tariff Commission, *Edible Tree Nuts: Report to the President . . .*, 1953 [processed].

On February 19, 1954, the Commission submitted to the President a report on its findings and recommendations.[30] On the basis of its investigation, the Commission found (Commissioners Ryder and Edminster dissenting) the need for, and recommended to the President the imposition of, a fee of 10 cents per pound of clean content but not more than 50 percent ad valorem on sheep's wool, and a fee of 11¼ cents per pound but not more than 50 percent ad valorem on carbonized sheep's wool and tops of sheep's wool—these fees to be collected in addition to the regular import duties imposed by the tariff act.

On March 4, 1954, the President announced that he was not giving effect to the recommendation of the Commission, inasmuch as he had determined, on the basis of a study prepared by the Secretary of Agriculture, that domestic wool growers required continued price or income assistance in a more effective form than was then provided. The President accepted and submitted to the Congress all of the principal recommendations of the Secretary of Agriculture. The President stated that, in view of the fact that enactment of the proposed program by the Congress would eliminate the necessity for an increase in the import fees or other limitations on imports of wool, he was taking no action on the Commission's recommendation.

Oats, hulled or unhulled, and unhulled ground oats

On June 10, 1953, by direction of the President, the Tariff Commission instituted an investigation of oats, hulled or unhulled, and unhulled ground oats under the provisions of section 22. A public hearing was held on July 7 and 8, 1953.

The Commission reported its findings and recommendations to the President on October 9, 1953.[31] On the basis of its investigation, the Commission recommended that imports for consumption of hulled and unhulled oats and unhulled ground oats (except certified or registered seed oats) be limited to 23 million bushels in any 12-month period beginning October 1 in 1953 and in subsequent years.

On December 14, 1953, the President released a letter from the Acting Secretary of State to the Canadian Secretary of State for External Affairs, with respect to the shipment of Canadian oats to the United States, and the Canadian reply. The Canadian reply stated that, as a temporary measure, the Canadian Government would undertake to limit shipments of Canadian oats to the United States to 23 million bushels during the period December 11, 1953, to September 30, 1954, inclusive. In the light of these letters, the President found that no action by the United States limiting imports of oats from Canada needed to be taken at that time to

[30] U. S. Tariff Commission, *Report to the President: Wool, Wool Tops, and Carbonized Wool . . .*, 1954 [processed].

[31] U. S. Tariff Commission, *Oats, Hulled or Unhulled, and Unhulled Ground Oats: Report to the President . . .*, 1953 [processed].

protect the domestic agricultural program for oats against the threat of imports. In order, however, to provide the necessary restriction on imports of oats other than oats the product of Canada, the President, on December 26, 1953, issued a proclamation providing for a quota of 2,500,000 bushels of 32 pounds each on imported hulled and unhulled ground oats, other than oats the product of Canada, entered, or withdrawn from warehouse, for consumption during the period December 23, 1953, to September 30, 1954, inclusive.

Rye, rye flour, and rye meal

On December 11, 1953, 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. A public hearing was held on January 12, 1954.

The Commission reported the results of its investigation to the President on March 8, 1954.[32] In its report, the Commission recommended that imports for consumption of rye, rye flour, and rye meal in any 12-month period beginning July 1 in 1954, and in subsequent years, be limited to 186 million pounds (of which not more than 15,000 pounds might be rye flour or rye meal) and that during the remainder of the marketing year ending June 30, 1954, imports of those products be limited to 31 million pounds (of which not more than 2,500 pounds might be rye flour or rye meal). On March 31, 1954, the President issued a proclamation, effective on that date, providing for the import quotas recommended by the Tariff Commission. In one respect—the quota period—the President did not follow the recommendation of the Commission. Instead of a continuing restriction on imports of rye, which the Commission recommended, the President provided for the termination of the quota on June 30, 1955.

Tung nuts and tung oil

On May 19, 1954, by direction of the President, the Tariff Commission instituted an investigation of tung nuts and tung oil under the provisions of section 22. A public hearing was scheduled for August 10, 1954.

Restrictions Under the Sugar Act

Beginning with the Sugar Act of 1934 and continuing with the Sugar Acts of 1937 and 1948, 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 restrictions. On September 1, 1951, the President approved legislation (Public Law 140, 82d Cong.), which became effective January 1, 1953, to extend the Sugar Act of 1948, in amended form, for 4 years.

[32] U. S. Tariff Commission, *Rye and Rye Flour and Rye Meal: Report to the President . . .*, 1954 [processed].

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 the 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 the continental United States and its outlying territories and possessions, and in the Republic of the Philippines, Cuba, and other foreign countries.

In general, 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 quotas for domestic areas (continental United States, Hawaii, Puerto Rico, and the Virgin Islands) and the Philippines are absolute quantities, and the remainder of the total amount determined each year by the Secretary of Agriculture is allocated proportionately to Cuba (96 percent) and to other foreign countries exclusive of the Philippines (4 percent).[33] Hence, any increment in the total estimated requirement as a result of expanded consumption would be conferred almost entirely on Cuba unless, of course, Cuba would not be able to fill it. 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. Separate quotas on imports of liquid sugar from foreign countries are also established by law.

Restrictions Under the Philippine Trade Act

As part of extensive provisions for the transition of Philippine products, upon entry into the United States, from their present duty-free status to full-duty status, the Philippine Trade Act of 1946[34] established absolute quotas on imports of certain commodities from the Philippines: Rice, cigars, filler and scrap tobacco, coconut oil, and buttons of pearl or shell. The act continued with some modification the absolute quota on imports of sugar from the Philippines provided for in the Sugar Act of 1937. It also continued without change the absolute quota on imports of hard-fiber cordage provided for in the Philippine Independence Act of 1939. Under the Philippine Trade Act all Philippine articles except cigars, filler and scrap tobacco, coconut oil, and pearl buttons were to become dutiable by

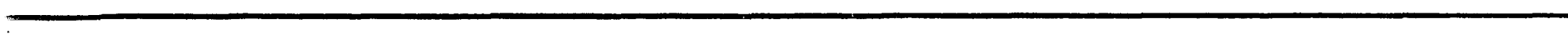
[33] Before January 1, 1953, Cuba's share of the amount allocated to foreign countries other than the Philippines (under the Sugar Act of 1948) was 98.64 percent, and that of foreign countries other than Cuba and the Philippines was 1.36 percent.

[34] The provisions of the Philippine Trade Act were accepted by the Philippine Government on July 3, 1946; in the following year they were incorporated in an executive agreement between the United States and the Republic of the Philippines.

gradual steps, beginning July 4, 1954.[35] The four excepted articles were to become subject to declining duty-free quotas in lieu of progressive import duties. After July 3, 1974, when the full duties will apply, the quotas will no longer be imposed under the terms of the act.

Besides the quotas specifically provided for, the Philippine Trade Act of 1946 authorizes the President to establish quotas on imports of other Philippine articles which he finds, after investigation by the Tariff Commission, are coming, or are likely to come, into substantial competition with like articles which are the product of the United States. Thus far, no action has been taken under this latter provision.

[35] Public Law 474, 83d Cong., which was approved by the President on July 5, 1954, provides for continuance of the duty-free entry of Philippine goods into the United States through December 31, 1955.



Chapter 5

Changes in Tariffs, Exchange Controls, and Quantitative Trade Restrictions by Countries With Which the United States Has Trade Agreements

INTRODUCTION

All but a few of the 42 countries with which the United States has trade agreements have conducted their trade for many years under the handicap of insufficient dollar exchange. For that reason, these countries have been obliged to restrict the use of scarce foreign exchange to the purchase of goods and services that they officially determine to be in the higher categories of essentiality.

The application of quantitative restrictions on imports for balance-of-payments reasons unavoidably results in discrimination against imports of goods for which payment must be made in scarce currencies. Such discrimination is permitted by the General Agreement on Tariffs and Trade and by the bilateral trade agreements still in effect between the United States and certain foreign countries, but only as long as external financial difficulties make it necessary for countries party to the agreements to continue to restrict imports from hard-currency sources. As a country's balance-of-payments position in scarce currencies improves, the country is called upon, as in article XII of the General Agreement, to relax its restrictions on imports payable in such currencies, and to remove them entirely when the balance-of-payments difficulties which prompted the use of restrictions no longer exist. However, there is no means other than consultations under article XII whereby a party to the General Agreement applying quantitative restrictions on imports ostensibly for balance-of-payments reasons, but which is considered by another member country to be applying them when they are not justified for such reasons, can be induced to relax or remove its restrictions. Although a violation of the agreement may be apparent to some countries if a member refuses to withdraw or modify its restrictions when called upon to do so in accordance with article XII, the country refusing to act may consider itself within its rights in so doing. Therefore the question of "violation" is much less clear-cut in connection with balance-of-payments problems than in connection with most other questions that arise regarding failure to abide by provisions of the agreement. The same sort of difficulty sometimes arises between the United States and countries with which it has bilateral trade agreements.

The use of quantitative restrictions on imports for protective purposes is expressly forbidden by the General Agreement, and the Contracting

Parties are constantly engaged in investigating and correcting cases of use of quantitative restrictions for other than balance-of-payments reasons. The provisions of the General Agreement, however, go beyond merely forbidding the use of quantitative restrictions for protective purposes. Contracting parties must not employ such restrictions in such a way as to interfere with normal trade, inflict hardship on the exporters of other countries, or otherwise impair the objective of the General Agreement for the attainment of multilateral trade on a nondiscriminatory basis. For example, when a contracting party with a substantial dollar surplus requires merchants to import a given commodity from a nondollar source even though a comparable commodity may be obtained at an appreciably lower price from a dollar source, it is open to the charge of discrimination against the dollar commodity. In instances of this kind it is sometimes difficult to convince the country practicing such discrimination that it is violating the agreement. The country may insist that its balance-of-payments surplus is temporary and therefore still in need of safeguarding, or that there are other extenuating circumstances.

As a contracting party to the General Agreement, the United States—together with Canada and the other dollar countries—has a special interest in the relaxation of quantitative restrictions imposed on dollar imports, and in their removal when they are no longer required for balance-of-payments reasons. One of the primary aims of the large amounts of financial aid that the United States Government has extended to other countries has been the improvement of economic conditions in those countries so that the disequilibrium in their external financial position—especially as it adversely affects dollar payments—might be more speedily corrected. To this end the United States Government has also fostered the policy of international cooperation on a group basis, as in the Organization for European Economic Cooperation (OEEC) and its present payments system, the European Payments Union (EPU). Likewise, through its membership in the International Monetary Fund, the United States has supported the efforts of Fund members to overcome temporary foreign-exchange difficulties and to eliminate exchange restrictions. The United States also is a large contributor to the capital of the International Bank for Reconstruction and Development (the "World Bank"), which is concerned with problems arising from the lack of capital.

Under the General Agreement, tariff duties are recognized (with certain exceptions) as the only proper measure for the protection of domestic industries. Unlike quantitative restrictions that are employed for balance-of-payments reasons, import duties may not be applied in a discriminatory manner under the General Agreement or under bilateral trade agreements, because of the application of the most-favored-nation principle.

As countries move into a balance-of-payments position that permits the relaxation or removal of quantitative restrictions on imports, they

are likely to turn increasingly to their import tariff as a means of protecting domestic products from foreign competition—competition that had been less severe, and often almost completely lacking under a regime of quantitative restrictions. In the early postwar years, when the use of quantitative restrictions was widespread, most agreement countries did little to increase their import duties. "General revisions" of tariff structures have been comparatively rare in recent years. Most countries have made minor adjustments from time to time; only a few, however, have made extensive important changes. The practice of making temporary increases or decreases in duties has been rather widely employed. There have been some shifts in the method of applying duties—chiefly from specific to ad valorem rates. The shifts to ad valorem rates usually are designed to keep the level of the original duties in line with rising prices. Trade-agreement countries that make shifts of this kind affecting items on which concessions have been made are under obligation not to establish ad valorem rates that are higher than the ad valorem equivalents of the old rates.

Important changes that took place during 1953–54 with respect to import duties and other charges on imports—and especially general tariff revisions that were undertaken or announced as forthcoming—are discussed later in this report, together with the actions that various countries took during 1953–54 with respect to nontariff trade restrictions. The latter—in the form of quotas, licenses, exchange control, and other forms of quantitative restriction—still remain the focal point of the efforts of the United States and the countries with which it has trade agreements to restore international trade to a multilateral basis and to achieve general convertibility of currencies.

The 42 foreign countries with which the United States had trade agreements on June 30, 1954, are classified in this report into four major groups. Developments with respect to balances, gold and dollar reserves, quantitative restrictions, and exchange controls follow the same general pattern in the countries that comprise each of these groups. The groups are as follows: (1) The Western European countries, represented collectively by the Organization for European Economic Cooperation, and operating under the European Payments Union; (2) the sterling area; (3) various nondollar countries (other than those in groups 1 and 2), most of which rely heavily upon multiple-exchange-rate systems to control their trade; and (4) certain dollar countries, including Canada and several countries of Latin America, which now exercise relatively little control of a quantitative nature over their trade with other countries.

THE ORGANIZATION FOR EUROPEAN ECONOMIC COOPERATION AND THE EUROPEAN PAYMENTS UNION

All the countries of Western Europe with which the United States has trade agreements, with the exception of Finland, are members of the

Organization for European Economic Cooperation (OEEC), and participate in the operations of the European Payments Union (EPU).[1] OEEC was created shortly after the end of World War II as a cooperative agency designed to meet problems arising from the shortage of dollar exchange and to enable the Western European countries to work in closer harmony with the United States and Canada in the use of dollar aid that has been extended to them. The United States wanted its financial aid to Europe to be placed on a more systematic basis, and asked the European countries to integrate their economies, with a view to becoming more nearly self-supporting and less dependent on outside aid.

After the creation of OEEC, it became evident that some mechanism was necessary to make effective the cooperation of the OEEC countries in attaining the goal of integration through multilateral trade and currency convertibility. The European Payments Union was created to carry out these objectives. From the beginning the Organization for European Economic Cooperation has intended to dissolve EPU as soon as it has achieved the objectives for which it was created.

Although the purpose and structure of the Payments Union have been discussed in considerable detail in previous Tariff Commission reports on the operation of the trade agreements program, the main features of the Union are reviewed in this report to serve as a background for the developments that occurred between July 1, 1953, and June 30, 1954.

Operation of the European Payments Union

During 1953–54, there were no important modifications in the operational procedures of the Payments Union. There were, however, some notable developments, particularly with respect to improvement in the balance-of-payments position of the member countries and in their reserve position. Because of these developments, the question of general currency convertibility received more attention than it did in previous years.

[1] The member countries of OEEC are Austria, Belgium, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom; Trieste was a member until the absorption of its territory by Italy and Yugoslavia in July 1954. The United States has trade agreements with all these countries except Ireland, Portugal, and Trieste. All these agreements are under the General Agreement on Tariffs and Trade, except those with Iceland and Switzerland, with which the United States has bilateral trade agreements. Although not members of OEEC, the United States and Canada participate in its work. Participation of the OEEC countries in EPU is on the basis of "quotas." Some countries have combined quotas: Belgium and Luxembourg have a combined quota; Trieste is covered by the Italian quota; and Ireland, by the United Kingdom quota. A number of countries that are not members of OEEC participate in the operations of EPU by virtue of their close trade and monetary connections with OEEC members. Thus the entire sterling area participates with the United Kingdom in EPU (except Iceland, which has a separate quota), as do the monetary areas of Belgium, France, the Netherlands, and Portugal.

The European Payments Union began its operations on July 1, 1950. Its structure was designed in such a way that, with financial assistance from the United States, it could serve as an accounting system for coping with the trade-and-payments problems faced by members of OEEC, especially the balance-of-payments problem created by the shortage of dollar exchange. The Payments Union provided a mechanism with which these countries could utilize most efficiently the dollar aid they received, by acting in cooperation to build up their reserves instead of competing with each other for the limited supply of dollars. Establishment of a more satisfactory balance-of-payments position between the EPU countries and the dollar area was regarded as essential to the establishment of multilateral trade and general convertibility of currencies.

Initially, the problem was that of combining countries with weak currencies and those with strong currencies in a single organization. The hope was that those countries whose currencies were most nearly convertible would assist the other countries, thus speeding the economic recovery of Western Europe and making it independent of dollar aid. It was anticipated that EPU members with relatively strong currencies—generally the countries nearest to equilibrium in their external trade and financial positions—would move ahead faster than was previously possible in freeing their trade with the outside world, particularly with the dollar area, from quantitative restrictions. Within the Payments Union, debtors and creditors alike were provided with incentives, formerly lacking, for the relaxation and ultimate removal of quantitative restrictions on the mutual trade of the members themselves. It was anticipated that, in a relatively short time, the OEEC countries—by cooperating under the EPU mechanism—would be able to solve their balance-of-payments problem without United States financial assistance. Once this problem was solved any need for maintaining quantitative restrictions against dollar trade for balance-of-payments reasons would no longer exist.

EPU is concerned only with the balances of member countries with each other; it is not concerned—at least not directly—with their balances with nonmember countries. The Payments Union was not intended as a source of gold that its members could use to finance payments to the United States and other countries outside the system. The mechanism and incentives whereby a member in surplus with EPU (and therefore entitled to receive gold payments) takes action to reduce its surplus position and reverse the flow of gold were precautions taken by EPU to prevent the gold from being used outside the system. Thus each member is responsible for balancing the accounts bilaterally with non-EPU countries. Likewise, EPU has no control over the use of quantitative restrictions by its members with respect to their trade with nonmembers. If, for example, an EPU country in surplus with the United States nevertheless discriminates against United States goods, the issue is then between the United States and the country concerned. The responsibility of an

EPU member that is also a party to the General Agreement on Tariffs and Trade to relax its quantitative restrictions relates to the countries with which it has a surplus.

In structure, the Payments Union closely resembles the sterling area, an organization of countries with more or less common policies of trade control operating under conditions which do not permit general currency convertibility. The gold and dollar reserves of the sterling area are pooled, and the sterling countries undertake to follow a coordinated, although not necessarily a common, policy with respect to exchange controls and the use of quantitative restrictions. Both EPU and the sterling area are organized systems within which an attempt is constantly being made to maintain a system-wide trade-and-payments policy as nearly resembling the old system of multilateral trade and currency convertibility as conditions will permit. Membership of the United Kingdom (and with it the other countries of the sterling area, as "associate" members) in the European Payments Union serves as a link between the OEEC countries and the sterling area, thus further extending the principle of cooperation between these two large groups of countries. Other nondollar countries are not organized for the promotion of their common interests in the way that EPU is organized.[2] The so-called dollar or hard-currency countries (mainly the United States, and Canada, and several countries of Latin America) are not confronted with external payments difficulties, and thus have no need for such an organization. Although Switzerland is a hard-currency country, it nevertheless finds participation in the operations of EPU advantageous.

Different degrees of "hardness" among the currencies of the countries of Western Europe continue to exist under EPU as they did before EPU was established. The harder its currency becomes, the more restive a country is likely to be under the restrictions that are imposed on it as a member of the Payments Union. This may be reflected in the development of strong sentiment for dropping out of the Payments Union. A country's desire to leave the Payments Union is based chiefly on the belief that it could finance its trade with dollar and nondollar countries without special financial assistance. In contrast with the situation a year or two before, when it appeared that EPU might have to be abandoned as a failure, the year 1953–54 was marked by a general feeling that EPU might be dissolved in the near future because its main objectives had been realized.

The European Payments Union provided members with resources of dollars—received through United States aid and from the members themselves—which would serve "to play in part the role of gold and foreign currency reserves, and also with the possibility and incentive, should their position improve, to strengthen their reserves in gold and

[2] Except those within the orbit of the Soviet Union, which collaborate under a system of their own.

foreign currencies." The creation of a common market among the participating countries—free of quantitative restrictions on trade and without discrimination—was the immediate objective of the system. In making a direct attack on quantitative trade restrictions, EPU supplemented the work of the General Agreement on Tariffs and Trade, which had largely confined its efforts to obtaining reductions in import duties. Since the Payments Union provided for a system of "automatic" compensations, whereby the currencies of the cooperating countries are accepted without discrimination and thus become transferable (or convertible) among the members, creation of the Union itself was a considerable step in the direction of attaining general convertibility of currencies.

Under the network of bilateral trade and payments agreements whereby the OEEC countries transacted their business with each other before the establishment of the Payments Union, two major functions were performed: (1) The trading partners arranged to settle their balances only partially, if at all, by the transfer of gold; the important feature of these agreements, on the payments level, was the provision whereby each party to an agreement agreed to grant the other credit up to a certain amount. This reciprocal grant, of credit, known as swing credit, provided the liquidity, or working balances, necessary for conducting the trade, and especially for financing short-run deficits. It enabled exporters in the creditor country to receive payments in their own currency—or in third-country currency if so provided—without waiting for importers in the debtor country to make payment into the account. Payments agreements of this type did, of course, require settlement—in goods, gold, or third currencies—beyond the limits of the trade that could be transacted by the swing arrangement. (2) The trade agreements that accompanied the payments agreements were intended to keep in balance the reciprocal flow of goods between the two parties to the agreement by specifying, through quotas and bulk-buying arrangements, the amount of goods each was to take from the other. Any lack of balance was taken care of, within fixed limits, by the swing-credit arrangement.

When EPU was established, the principle of the swing credit, formerly operated on a bilateral basis, was retained in the form of monthly multilateral clearances of balances through the EPU acting as a clearing center. Thus bilateralism on the payments level ceased to exist among the OEEC countries; the European Payments Union is, after all, primarily a device for making payments.[3]

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[3] Creation of EPU did not, however, do away with trade agreements between any pairs of its members; each of the 13 continental members has a bilateral trade agreement with every other member, or 78 such agreements in all. In addition, the continental OEEC countries have a total among them of 178 bilateral agreements with non-OEEC countries. These agreements generally contain quota provisions ("targets") specifying the amount of trade to be transacted, and provide either for swing credit for settling balances, or undertake not to accumulate balances by arrangements more or less of a barter nature. Although the number of bilateral trade and payments agreements between nondollar countries has in-

The periodic settlement by members with the Payments Union is automatic in that their balances—either credit or debit—are settled in accordance with a prearranged scale of payments and receipts.[4] The settlements are not made entirely in gold (or in dollars);[5] they are made partly in credit. The principle of using credit to supplement gold was EPU's main contribution to easing the payments problem and to enabling the limited number of countries involved to move out of the narrow confines of bilateral trade and payments and in the direction of multilateral trade. The system enables members to purchase goods from each other without having to be concerned, as formerly, about their balance of payments with individual countries in the group; their only concern is with respect to their balances with the Payments Union. The provision of credit margins ("overdrafts") to deal with temporary surpluses or deficits, with special provisions for members persistently in a surplus or deficit position, provides the elasticity necessary to permit successful operation of the system.

Some system of incentives and penalties was necessary to induce members of the Payments Union to keep as nearly in balance with the Union as was possible—that is, a system designed to discourage countries with a strong creditor tendency from allowing their exports to other members of EPU to greatly outrun their imports, and to discourage members with a persistent debtor tendency from permitting their imports from other members to greatly exceed their exports. The device used for this purpose is based on quotas and a scale of gold and credit settlements related to the quotas. Each member is assigned a share, or quota, of the resources of the Payments Union.

Debtor members are subject to a rising scale of gold payments (up to 40 percent of their quotas, the remaining 60 percent being settled by a grant of credit to the debtor) as they approach the limit of their quotas. After they exceed their quotas, debtor members are required to pay their deficits entirely in gold. This "beyond-quota" requirement exerts a very strong pressure on debtors to correct their adverse balances with the Payments Union. On the other hand, the availability of United States financial aid and the resort to other expedients have served to counteract somewhat the incentive to take corrective measures. A debtor country that is unable to meet its obligations from its own resources may request—but not necessarily receive—aid from the special assistance fund established by the United States Economic Cooperation Administration.

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creased in recent years, the trade thus carried on is actually less "bilateral" than formerly because the bulk-buying features have declined and the transfer of balances to third countries is more widely permitted than formerly, thus reducing the tendency for large inconvertible balances to accumulate. (See Merlyn Nelson Trued and Raymond F. Mikesell, *Postwar Bilateral Payments Agreements*, Princeton Studies in International Finance No. 4, Princeton University, Department of Economics and Sociology, International Finance Section, 1955.)

[4] For further details concerning the organization and operation of the European Payments Union, see *Operation of the Trade Agreements Program* (fifth and sixth reports).

[5] An obligation of a member of the Payments Union to pay gold may be discharged by payment in United States dollars.

Creditor members of EPU are given incentive to keep within their quotas by a settlement procedure that requires them to grant credit to the Payments Union up to 60 percent of their quotas while receiving only 40 percent in gold; surpluses beyond their quotas are settled half in gold and half in credit. Full settlement in gold for creditors in excess of their quotas would, of course, reduce the incentive for them to liberalize EPU imports.[6] The necessity of accepting settlement for export surpluses largely in credit instead of in gold, on the other hand, provides an incentive to reduce the surpluses, which a country may do in several ways—by relaxing quantitative restrictions on EPU imports, by easing its internal credit policy, by reducing taxes, or by liberalizing the export of capital. No member country would ordinarily restrict exports of goods to other members; however, the restriction of imports by debtor members works toward that end, and has been a highly effective means of restricting the exports of creditor members. Internally, the obligation to finance a large part of its export surplus to other members by credit may force a creditor to postpone internal investments or, as an alternative, to make the investments under the risk of inflation. Failure to receive full payment in gold for its EPU exports may also adversely affect a creditor member's balance of payments with the dollar area and other areas outside EPU, thus causing it to restrict imports from these areas in order to prevent a reduction in its gold reserves.

The Liberalization of Intra-European Trade

The methods of settlement outlined above relate directly to the trade-liberalization program of the Payments Union. Soon after EPU began its operations in 1950, the directors established a goal of 75 percent as the amount of private import trade from all other members that each member would try to free from quantitative restrictions within a specified time.[7] It was clear that unless debtor members could keep their adverse balances to a safe minimum by other means, they would be obliged to retain or even intensify their quantitative restrictions. The principal means at their disposal, other than quantitative restrictions, included internal measures to curb inflation, which would make their export commodities more competitive in EPU and other markets, and special export incentives. Such export incentives as dollar retention plans, tax rebates, and other forms of treatment favorable to exports, though widely used, have been denounced as unfair practices. Some debtor countries have failed to employ acceptable methods to expand exports or have been slow to do so, and therefore have felt justified in imposing quantitative restrictions on imports.

[6] Originally it was intended that creditors would receive settlement in excess of their quotas entirely in gold, but it was soon realized that the accumulation of a number of extremely large surpluses would force the Payments Union into insolvency. It was, therefore, decided to make such settlements half in gold and half in credit.

[7] At the end of 1949 an earlier goal of 50-percent liberalization had already been reached, or more than reached, by most OEEC countries.

The managing board of EPU exerts continuous pressure on debtor members to avoid the use of such restrictions by taking measures—especially the control of internal credit—to stimulate exports. Dollar-retention plans for promoting exports have been discouraged, both by the EPU authorities and by the International Monetary Fund. Countries that permit their debtor position to further deteriorate, or that fail to correct an already heavily adverse trade-and-payments position, place a severe strain on the operation of the Payments Union and help to defeat its purpose.

The extent to which EPU is accomplishing the objectives of OEEC, as far as internal operations are concerned, depends mainly on the extent to which members are able to prevent their balances—either credit or debit—from reaching extreme positions with respect to their quotas. After the completion of EPU operations for the year ending June 30, 1953, 8 EPU members—Denmark, France, Greece, Iceland, Italy, Norway, Turkey, and the United Kingdom—were in a debtor position in their accounts [8] with the Payments Union; 3 of them—France, Greece, and Turkey—were beyond their quotas and were therefore obliged to pay their beyond-quota deficits entirely in gold. A year later, after the completion of EPU operations on June 30, 1954, the same countries were still in a debtor position; France, Greece, and Turkey were still beyond-quota debtors, and Italy also had exceeded its quota. For all the debtor countries except the United Kingdom, the deficit was greater in 1954 than it was in 1953. Total EPU beyond-quota deficits more than doubled; they rose from 284 million dollars [9] in June 1953 to 578 million dollars in June 1954. France accounted for most of the increase.

The same EPU members that were creditors of the Payments Union after the completion of operations for the period ending June 30, 1953, were still creditors on June 30, 1954. These members were Austria, Belgium-Luxembourg, the Federal Republic of Germany, the Netherlands, Portugal,[10] Sweden, and Switzerland. Portugal and Sweden were

[8] Under the EPU system of accounting, each member has a "cumulative net position" (surplus or deficit) with the Payments Union which, at the settlement periods, is adjusted to determine the "cumulative accounting position." It is the accounting position which determines how much each member is entitled to receive or required to pay (in gold and credit) within and beyond its quota. The prequota operations consist of various settlements and adjustments which transform the net position into the accounting position, and cover "interest," "existing resources," "initial balances," "special resources," and "special adjustments." The net position actually represents the performance of a member operating without the services of the Payments Union, while the accounting position represents the extent to which the Payments Union comes to the assistance of members through the adjustments.

[9] Accounts of EPU are kept in units equivalent to the gold content of the United States dollar, and are called "units of account" or "dollars."

[10] The United States has no trade agreement with Portugal. However, in the interest of a more complete analysis of EPU operations, reference is occasionally made to Portugal's position in EPU.

within their quotas during both periods; Austria was within its quota in 1953, but exceeded it in 1954, whereas the Netherlands was beyond its quota in 1953, but within it in 1954. Western Germany and Switzerland had larger beyond-quota surpluses in 1954 than they did in 1953, whereas the surplus of Belgium-Luxembourg was smaller in the 1954 period. Total EPU beyond-quota surpluses increased from 179 million dollars in June 1953 to 786 million dollars in June 1954, or by almost 3½ times. Western Germany, with an increase from 77 million dollars in its beyond-quota surplus in June 1953 to 608 million dollars in June 1954, accounted for most of this large increase. Despite the considerable increase in the debtor or creditor position of some countries, the total annual net balance (as distinguished from the cumulative net balance or accounting balance) of the members with the Payments Union was reduced from 897 million dollars in 1952–53 to 804 million dollars in 1953–54. This represented a decline of 10 percent, compared with a decline of 61 percent (from 2,301 million dollars to 897 million dollars) between 1951–52 and 1952–53.

No member of EPU intensified its quantitative restrictions on imports from other members after July 1, 1953, and some substantially relaxed their restrictions. The shares of private imports freed from restrictions as of July 1, 1953, and March 15, 1954 (or later, where information is available), are shown in the following tabulation:

EPU member	Share of EPU private imports free of quantitative restrictions as of—	
	July 1, 1953	Mar. 15, 1954
Creditors:	*Percent*	*Percent*
Austria	35.8	[1] 50.6
Belgium-Luxembourg	87.2	87.2
Germany, Federal Republic	90.1	90.1
Netherlands	92.3	92.6
Portugal	92.4	92.8
Sweden	91.4	91.2
Switzerland	91.4	91.6
Debtors:		
Denmark	76.0	76.0
France	----------	[2] 17.9
Greece	[3] 90.0	[3] 90.0
Iceland	----------	29.0
Ireland [4]	75.1	76.7
Italy	99.7	99.7
Norway	75.1	75.5
Turkey	----------	----------
United Kingdom	58.5	[5] 79.8

[1] Increased to 75 percent in May 1954

[2] Increased to 53 percent in April 1954.

[3] In April 1953, Greece had freed approximately 90 percent of its EPU imports, but this was an experimental measure, not officially notified to OEEC.

[4] Ireland is included as a debtor, since it is covered by the United Kingdom quota; it has no separate membership in EPU.

[5] Increased to 82 percent in July 1954.

For EPU members as a group, the percentage of intra-EPU private imports freed from quantitative restrictions (including private trade tentatively freed by Greece) increased from 71.3 on July 1, 1953, to 77.7 on March 15, 1954; by the latter date, 12 members had freed more than 75 percent of their trade, and 7 of these had freed 90 percent or more. Greece and Turkey have been temporarily exempted from the general obligation to free imports of restrictions. Actually, Greece—on an unofficial and experimental basis—freed 90 percent of its trade from restrictions in April 1953. Only Turkey, therefore, has not in force any liberalization of its imports from the EPU area, having withdrawn its liberalization measures in April 1953, at which time coverage was 63 percent. After withdrawal of its liberalization measures, however, Turkey established a system of global quotas intended to correspond in size to actual imports under the liberalization measures. This apparently was done more with a view to preventing any further increase in imports than to reducing their level.

By March 1954, 7 percent of intra-EPU trade was still on government account, compared with 8.5 percent in July 1953. The figures for individual countries in March 1954 were about 22 percent for France, Greece, and Iceland, 11 percent for the United Kingdom, between 5 and 7 percent for Belgium-Luxembourg, Western Germany, Norway, and Switzerland, less than 5 percent for Austria, the Netherlands, Denmark, Italy, Ireland, Sweden, and Turkey, and none for Portugal. Imports on government account are not necessarily subject to quantitative restrictions; they often consist largely of raw materials or essential food and agricultural products that would not be restricted under private trading. During 1953–54 there was also a considerable relaxation in the restrictions on invisible trade, including allowances for tourist expenditures abroad and on capital movements.

Although the system of settlements and incentives established under the European Payments Union for attaining a more nearly balanced payments position had as one of its primary objectives the elimination of the necessity for bilateral trade-and-payments arrangements, such arrangements have continued on a large scale. Despite the greatly extended facilities for multilateral trading made possible by EPU, and the increase of reserves, some countries still rely heavily on bilateral agreements to expand their exports and to protect their balance-of-payments position. Countries whose production costs are too high—either in general or for specific industries—to permit effective competition in foreign markets, are particularly inclined to resort to bilateral arrangements.

External Payments Position of OEEC Countries

The OEEC countries not only have been able to relax quantitative import restrictions on trade with each other, but also have increased their

dollar reserves and have thereby placed themselves in a position to relax restrictions on imports from the dollar area. Some countries, however, have been slow to relax import restrictions on dollar goods as their dollar reserves have increased. As a result of representations from the United States, Canada, other dollar countries, and the International Monetary Fund, and of an awareness of their obligations under the General Agreement on Tariffs and Trade, most OEEC countries have made some progress in removing the network of quantitative restrictions that they had imposed for balance-of-payments reasons. Some have taken such actions in their own self-interest, with a view to expanding their trade. Fear by European countries of the adverse effects of a "recession" in the United States on their trade-and-payments balances and on their reserves was widespread in 1952–53, but less so in 1953–54. This uncertainty has been advanced by some governments as a reason for not relaxing their restrictions on dollar imports even though their dollar position was constantly improving—in some instances substantially.

For each of the OEEC countries with which the United States has trade agreements, the principal recent developments with respect to balances, reserves, plans for general currency convertibility, and relaxation of quantitative restrictions on dollar imports are discussed later in this section of the report. The following discussion presents statistical information for the OEEC countries as a group. The data relate to "OEEC countries" rather than to "EPU countries," since attention is directed to their external relations as a group rather than to their operations with each other within the Payments Union. In considering the external relations of the OEEC countries as a group, transactions between them are excluded. Thus it is possible to observe trends in the balance-of-payments position of these countries as it is affected by their trade and financial relations with the rest of the world—particularly with the dollar countries, as represented by the United States and Canada. As it is also important to show the balance-of-payments trends of individual OEEC countries so that comparisons may be made in their relative positions, a later section of this report discusses that phase of their operations.

Balances for OEEC countries as a group

Table 1 shows the balance of payments of the OEEC countries with the United States and Canada, and with other non-OEEC countries, for the period 1951–53. The data show that the deficit in the combined trade balance of the OEEC group with the rest of the world declined from 3 billion dollars in 1951 to 700 million dollars in 1952, and to 400 million dollars in 1953.[11] Inasmuch as United States military expenditures and

[11] Except in a few instances, the total merchandise imports of each of the OEEC countries exceeded total exports in every year of the period 1950–54. The exceptions were as follows: France in 1950; Belgium-Luxembourg and Sweden in 1951; Germany in 1952; Germany and Switzerland in 1953; and Germany and Austria in 1954.

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TABLE 1.—*OEEC countries: Balance of payments with the United States and Canada, and with other non-OEEC countries, 1951–53* [1]

[In billions of United States dollars]

Item	1951			1952			1953 [2]		
	United States and Canada	Other non-OEEC countries	Total	United States and Canada	Other non-OEEC countries	Total	United States and Canada	Other non-OEEC countries	Total
A. Goods and services:									
Exports, f. o. b.	2.5	11.7	14.2	2.4	11.8	14.2	2.8	10.9	13.7
Imports, f. o. b.[3]	−5.0	−12.2	−17.2	−4.6	−10.3	−14.9	−3.9	−10.2	−14.1
Trade balance	−2.5	−.5	−3.0	−2.2	1.5	−.7	−1.1	.7	−.4
U. S. military expenditures	.3		.3	.7		.7	1.2		1.2
Other services [3]	−.3	.9	.6		.5	.5	.2	.3	.5
Total	−2.5	.4	−2.1	−1.5	2.0	.5	.3	1.0	1.3
(Military goods and services received under aid, net)	(−1.3)		(−1.3)	(−2.4)		(−2.4)	(−3.7)		(−3.7)
B. Private donations	.2		.2	.2		.2	.2	.1	.3
C. Private capital	−.2	−.4	−.6	.1	−.2	−.1	−.2		−.2
D. Miscellaneous (official donations [4] and capital)	−.3	−.5	−.8	−.3	−.7	−1.0	−.3	−.5	−.8
E. Total (A through D)	−2.8	−.5	−3.3	−1.5	1.1	−.4		.6	.6
F. Net errors and omissions, and multilateral settlements	−.2	.3	.1	.3		.3	1.0	−.8	.2
G. Cumulative balance (E plus F)	−3.0	−.2	−3.2	−1.2	1.1	−.1	1.0	−.2	.8

H. Economic aid:									
Grants and credits received	2.4		2.4	1.6		1.6	1.0		1.0
Aid extended by United Kingdom		−.1	−.1		−.1	−.1		−.1	−.1
Total	2.4	−.1	2.3	1.6	−.1	1.5	1.0	−.1	.9
I. Monetary movements:									
IMF sales of sterling								−.1	−.1
United Kingdom sterling liabilities		.3	.3		−.8	−.8		.7	.7
United States dollar holdings (increase —)	.1		.1	−.8		−.8	−1.0		−1.0
Other short-term capital	.1		.1	.1	−.1			.1	.1
Monetary gold (increase —)	.4		.4	.3	−.1	.2	−1.0	−.4	−1.4
Total	.6	.3	.9	−.4	−1.0	−1.4	−2.0	.3	−1.7

[1] Absence of sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Excludes imports of military goods and services, which are shown below in parentheses.
[4] Excludes grants for imports of military goods and services (see footnote 3).

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 5, 1947–53 (Washington, 1954).

Note.—Transactions between OEEC countries are not reported in the table; also, net transactions between OEEC countries and EPU (the latter is treated as a member of OEEC) are excluded, except for gold and dollar settlements. Net transactions of EPU with the United States are included; this affects only items H and I. The "cumulative balance" (item G) indicates the overall balance-of-payments position of the area, and gives an approximation of changes in the area's structural deficit. In 1951 the total cumulative balance is offset principally by economic aid (mainly grants and credits received from the United States), and to a lesser extent by official monetary movements, which cover changes in gold and dollar reserves and similar transactions in sterling, etc. In 1952, economic aid and monetary movements are about equal. In 1953, the total cumulative balance is offset principally by monetary movements, rather than by economic aid.

earnings on invisible services show a surplus for the years given in the table, the total balance for goods and services appears much more favorable. Thus the balance for goods and services combined shows a deficit for OEEC with the rest of the world of 2.1 billion dollars in 1951, a surplus of 500 million dollars in 1952, and a surplus of 1.3 billion dollars in 1953. These figures indicate mainly the effect of United States military expenditures (not including military goods and services received under aid), which increased from 300 million dollars in 1951 to 700 million dollars in 1952, and to 1.2 billion dollars in 1953. In 1952 these expenditures exactly offset the deficit in merchandise trade, and in 1953 they were three times as great as the deficit in trade.

The balance-of-payments position of the OEEC countries (group G of table 1) shows that the overall position of the area greatly improved between 1951 and 1953. In 1951, there was a balance-of-payments deficit with the rest of the world of 3.2 billion dollars; the deficit declined to 100 million dollars in 1952, and in 1953 there was a surplus of 800 million dollars. The deficit with the dollar area (represented by the United States and Canada) was 3 billion dollars in 1951 and 1.2 billion dollars in 1952; in 1953 there was a surplus of 1 billion dollars with the dollar area.

Items H and I in table 1 (economic aid and monetary movements) indicate the way in which cumulative balances were settled. Entries under these headings cover official economic grants and loans extended or received, and official monetary movements; the latter include reserves and similar transactions. The totals under these headings are, therefore, equal to the cumulative balances.

A concise and longer range summary of the transactions shown in table 1 is given in table 2.

TABLE 2.—*OEEC countries: Cumulative balances and financing, 1947–53* [1]

[In billions of United States dollars]

Item	1947	1948	1949	1950	1951	1952	1953
Cumulative balance	−8.3	−5.3	−3.7	−2.0	−3.2	−0.1	0.8
Economic aid	5.8	5.2	4.5	3.0	2.3	1.5	.9
Monetary movements	2.5	.1	−.8	−1.0	.9	−1.4	−1.7

[1] Absence of sign indicates credit; minus sign indicates debit.

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 5, 1947–53 (Washington, 1954).

Table 2 shows the overall balances of the OEEC countries from 1947 to 1953, as well as the economic aid and monetary movements by which the balances were financed. The debit balance of the OEEC area de-

clined in each year from 1947 to 1952, except in 1951, and a surplus position was reached in 1953. During most of this period, economic aid received from the United States was the principal means by which the OEEC countries were able to balance their external-payments deficits; this aid declined from 5.8 billion dollars in 1947 to 900 million dollars in 1953. Monetary movements representing changes in reserves (mostly gold and dollar and similar sterling transactions) changed from a deficit of 2.5 billion dollars in 1947 to a surplus of 1.7 billion dollars in 1953. In 1953, for the first time, monetary reserves exceeded economic aid.[12]

The data shown in tables 1 and 2 give some indication of the success of the OEEC countries as a group in building up their reserves and in reducing their dependence on economic aid from the United States and other sources. These trends are particularly significant for the OEEC countries, since it is in this area that the balance-of-payments problem—particularly with the dollar countries—has been concentrated.

Balances of individual OEEC countries

Changes in the payments balances of individual OEEC countries for the period 1951–53, shown in table 3, indicate the position of these countries in relation to each other in their transactions with their own group (the OEEC) and with all non-OEEC countries (i. e., with the rest of the world), as well as the overall balances.

[12] The International Monetary Fund, which supplied these figures, points out that the balances represent only an approximation of the structural deficit of the OEEC countries, and should not be taken as a precise measure of the dollar-payments problem of these countries. The transactions contributing to the balances and those financing the balances cannot be precisely separated and placed on one side or the other. Some of the transactions included in the balances were themselves balancing items, and a number of transactions excluded from the balances were taken independently of balance-of-payments considerations. Transactions of a balancing nature included in the balances—rather than counted as balancing items—include certain United States military expenditures that were made abroad rather than in the United States (off-shore purchases), primarily in order to relieve the dollar shortage. Transactions excluded from the balances because they were undertaken independently of balance-of-payments considerations include such transactions as development loans made by the International Bank for Reconstruction and Development and the Export-Import Bank of Washington, and relief grants of various kinds. Moreover, the balances take no account of newly mined gold that may have been added to the reserves. For the world's gold reserves as a whole, the addition of newly mined gold is estimated to have been equivalent to about 500 million dollars a year. Lack of data on the international transactions of the entire dollar area is another obstacle to presenting a complete survey of the magnitude of the "dollar problem" and the way in which it was handled. Data are available on the transactions of the United States and Canada, but not for other dollar countries as a group. While the transactions of the latter are relatively small, their inclusion with the data on the United States and Canada (which would thus reflect the position of the dollar area) would increase somewhat the OEEC balances shown in table 1 for the "United States and Canada," and proportionately decrease the OEEC balances for "Other non-OEEC countries."

TABLE 3.—*OEEC countries: Cumulative balances of individual countries, by areas, 1951–53* [1]

[In millions of United States dollars]

Country	1951			1952			1953 [2]		
	OEEC countries	Non-OEEC countries [3]	Total	OEEC countries	Non-OEEC countries [3]	Total	OEEC countries	Non-OEEC countries [3]	Total
Austria	−88	−107	−195	22	−67	−45	82	22	104
Belgium-Luxembourg	520	−296	224	268	−163	105	−115	45	−70
Denmark	−2	−41	−43	5	36	41	−46	40	−6
France	−480	−349	−829	−513	−160	−673	−325	109	−216
Germany, Federal Republic	398	−345	53	284	120	404	471	345	816
Greece	−121	−142	−263	−34	−49	−83	−27	18	−9
Iceland	−6	−2	−8	−4	−3	−7	−10	2	−8
Ireland	−88	−25	−113	43	−1	42	34	----------	34
Italy	202	−268	−66	−112	−215	−327	−303	117	−186
Netherlands	27	−144	−117	313	113	426	67	200	267
Norway	−6	−13	−19	−4	−7	−11	−90	1	−89
Portugal	61	−34	27	−27	3	−24	−15	2	−13
Sweden	175	23	198	35	−15	20	6	61	67
Switzerland	41	−135	−94	102	65	167	134	15	149
Turkey	−94	−46	−140	−156	−10	−166	−34	20	−14
United Kingdom	−791	−1, 261	−2, 052	−182	260	78	110	−216	−106
Total	−252	−3, 185	−3, 437	40	−93	−53	−61	781	720
Intra-OEEC errors and omissions	252	----------	252	−40	----------	−40	61	----------	61
Item G, table 1	----------	−3, 185	−3, 185	----------	−93	−93	----------	781	781

[1] Absence of sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] The total balances with non-OEEC countries correspond with the combined balances (Item G) shown in table 1 for the "United States and Canada" and "other non-OEEC countries."

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 5, 1947–53 (Washington, 1954).

Between 1951 and 1953, 9 of the members (Austria, France, Federal Republic of Germany, Greece, Ireland, the Netherlands, Switzerland, Turkey, and the United Kingdom) improved their balances with OEEC; France, Greece, and Turkey, however, had deficits with OEEC in both periods. For 7 members (Belgium-Luxembourg, Denmark, Iceland, Italy, Norway, Portugal, and Sweden) the balance-of-payments position with OEEC deteriorated; of these, Denmark, Iceland, and Norway had deficits with OEEC in both periods. The balance with OEEC for all the countries combined improved between 1951 and 1953.

All the countries improved their balance-of-payments position with non-OEEC countries. In their overall balances, Austria, Denmark, France, Federal Republic of Germany, Greece, Ireland, the Netherlands, Switzerland, Turkey, and the United Kingdom showed improved positions, whereas the positions of Belgium-Luxembourg, Italy, Norway, Portugal, and Sweden deteriorated. Iceland showed no change. Countries with overall deficits in both periods, but with smaller deficits in 1953 than in 1951, were Denmark, France, Greece, Turkey, and the United Kingdom. Only Italy and Norway, with deficits in both periods, had larger deficits in 1953 than in 1951.

Changes in reserves of OEEC countries

The total gold and dollar reserves of the member countries of the Organization for European Economic Cooperation and the sterling-area countries associated with them through the United Kingdom's participation in the European Payments Union increased by 40 percent between 1951 and March 1954 (see table 4). The continental OEEC countries increased their reserves by 55 percent and the United Kingdom by 17 percent; the continental countries and the United Kingdom together increased their reserves by 43 percent. The other sterling countries, on

TABLE 4.—*Continental OEEC*[1] *countries, the United Kingdom, and other sterling-area countries: Holdings of gold and dollar assets by central banks, stabilization funds, and other governmental institutions, Dec. 31, 1951–53, and Mar. 31, 1954*

[In billions of United States dollars]

Country or area	Dec. 31, 1951	Dec. 31, 1952	Dec. 31, 1953	Mar. 31, 1954
Continental OEEC countries	5.1	6.1	7.7	7.9
United Kingdom[2]	2.3	1.8	2.5	2.7
Total	7.4	7.9	10.2	10.6
Other sterling-area countries[3]	.8	.8	.8	.8
Total	8.2	8.7	11.0	11.4

[1] Organization for European Economic Cooperation.
[2] United Kingdom official reserves of United States and Canadian dollars.
[3] Excluding colonies.

Source: International Monetary Fund, *Annual Report*, Washington, 1954.

the other hand, showed no change in reserves, although the reserves of the entire sterling area increased by 13 percent.[13]

All the continental OEEC countries, except Turkey, shared in the 55-percent increase in the gold and dollar holdings of this group between December 1951 and March 1954. By far the greatest increase was shown by Western Germany, which had no gold and relatively few dollars in 1951, but—next to Switzerland—was the largest holder in the group in 1954. Substantial increases also occurred in the gold and dollar holdings of Denmark, Portugal, and Sweden, with smaller increases in the holdings of Belgium-Luxembourg, France, Italy, and Norway. Switzerland's holdings, which were by far the largest of any continental OEEC country in 1951, and still the largest—but by a much narrower margin—in 1954, did not show much increase between the two periods. Receipt of dollar aid from the United States was mainly responsible for making it possible for some of the countries—notably France and Italy—to maintain their reserves in the face of the heavy gold payments necessary to settle their continuing deficits with the Payments Union.

The greatly improved reserve position of the OEEC countries in recent years (total reserves as well as gold and dollar reserves) indicates their progress toward the goal of general currency convertibility. Since the total trade of these countries also increased, however, the adequacy of reserves for meeting deficits cannot be judged solely by the absolute size of the reserves in any one year. Attitudes toward reserves vary markedly in different countries. To some the holding of reserves is less important than the goods and services that can be procured with the reserves.[14]

[13] Total reserves (gold, dollars, and other currencies) of the continental OEEC countries increased as follows, in billions of dollars (equivalent): 1951, 7.4; 1952, 8.6; 1953, 10.1; and March 1954, 10.6.

[14] As a general principle, in order to be adequate, reserves must be sufficient not only to finance current deficits that may periodically arise, but also to maintain confidence in the currency. This concept of adequacy clearly does not apply to the reserves of countries that are badly and chronically out of balance in their external payments. Even for countries in a strong or fairly balanced payments position with relatively high reserves, a substantial decline in exports may threaten their reserves. The directors of the International Monetary Fund point out that, although the reserves of most European countries are adequate (as in mid-1954), or almost adequate, for an attempt at general currency convertibility, a considerable decline in United States imports, especially if prolonged, would jeopardize the prospects. In estimating the prospects for convertibility and trade liberalization, European countries, in particular, are greatly influenced by the possibility of a decline in United States economic activity. The Fund has established standby credits to assist members contemplating a significant movement toward convertibility; if large enough, this assistance not only could underwrite the demands on convertible currencies, but would encourage confidence in the currencies. (See International Monetary Fund, "Prospects for Exchange Convertibility," *International Financial News Survey*, Mar. 26, 1954.)

The ratio between the official gold and foreign exchange reserves and the merchandise imports of countries over a period of years provides a useful common denominator for making comparisons and for indicating their capacity to meet the demands on the reserves under conditions of general currency convertibility. (See International Monetary Fund, "The Adequacy of Monetary Reserves," *Staff Papers*, October 1953.)

Changes in the Discriminatory Application of Quantitative Restrictions and Other Developments in Individual OEEC Countries

In their latest report on the discriminatory application of import restrictions maintained for balance-of-payments reasons,[15] the Contracting Parties to the General Agreement report that, as of October 1953, 22 of the 33 contracting parties to the agreement maintained restrictions on imports to safeguard their balance of payments, and were exercising some degree of discrimination between sources of supply as is permitted for balance-of-payments reasons under the agreement. All the contracting parties to the General Agreement that were members of the OEEC group, except Belgium and Luxembourg, reported that they were applying quantitative import restrictions (mainly against dollar goods) for balance-of-payments reasons.

The situation with respect to quantitative restrictions and exchange controls in individual OEEC countries is discussed below on the basis of the reports submitted by those countries to the Contracting Parties in October 1953, supplemented by information from the Contracting Parties on later developments up to the middle of 1954. Especially noted are the factors responsible for increased dollar earnings and for increases in dollar reserves, including not only restrictions on dollar imports, but also special devices for expanding exports to the dollar area, such as "export drives" and the "dollar retention" plans employed by some countries. However, the improved dollar position of any particular country, taken as a statistical fact, is not in itself an indication of its ability or willingness to relax restrictions on dollar imports; other considerations of a commercial nature (and sometimes of a political nature) enter into the picture.

Most countries in the OEEC group that have attained an overall surplus in their balance of payments and increased their exchange reserves have tended to relax their quantitative trade restrictions more promptly than those that are in a less favorable position. Most of the principal trading countries have become increasingly aware of the steps that must be taken to prepare their economies for general currency convertibility, especially the necessity of reaching and maintaining a strong reserve position. Those that have linked their restrictions on external trade to their internal economic controls are faced with the problem of relaxing one set of controls without affecting the other. Because of the considerable differences in their external financial positions and differences in the types of controls employed, countries have differed widely in their progress toward the relaxation of restrictions—especially those applicable to dollar goods. The extent to which quotas and other restrictions on dollar imports were

[15] Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments . . .*, Second Supplement, Sales No.: GATT/1954–2, Geneva, 1954.

relaxed in 1953–54 by most of the OEEC countries can be indicated only in a general way, since there are virtually no precise data on the total dollar imports freed from quantitative restrictions. Reports on individual countries by the United States Department of Commerce and by the International Monetary Fund [16] show that, in the second half of 1953 and the first half of 1954, a number of European countries relaxed their quantitative restrictions on dollar imports, and that some of them announced further relaxations for the second half of 1954. While the United States Government has welcomed these relaxations, it has continued to urge further relaxation in many individual instances, especially when the remaining restrictions do not appear to be justified for balance-of-payments reasons.

Although not having any direct or immediate effect on the pattern of trade or on the application of discrimination, general extension of the system of currency arbitrage (transactions between one country and another via the currency of a third) was an important step designed to facilitate exchange operations among European countries through increased participation of commercial banks in such operations. It represented an additional means of restoring the techniques and facilities for trading in currencies, and thus may be regarded as one of the steps in the direction of general currency convertibility. Before May 1953, the exchange of currencies between European countries could be arranged only on a bilateral basis. For example, a United Kingdom bank could buy and sell Belgian francs only from or to another bank in the United Kingdom or Belgium. Beginning in May, the United Kingdom, Belgium, Denmark, France, the Federal Republic of Germany, the Netherlands, Sweden, and Switzerland made arrangements whereby the trade in their currencies could be conducted on a multilateral basis. Thus a United Kingdom bank could trade in Belgian francs in a third market, such as Amsterdam. For the first few months the trading in currencies on a multilateral basis was limited to spot transactions, but in October 1953 forward transactions also were permitted. The chief significance of the system of currency arbitrage thus established was that the participating countries were able to offset on a day-to-day basis part of their bilateral accounts which otherwise would be settled through the European Payments Union at the end of each month. It is apparent that, if arbitrage arrangements were extended to cover all member countries of OEEC, they would take over most of the clearing functions of the Payments Union.

Austria

As an EPU debtor from 1950 until it became a creditor in 1953, Austria was granted special privileges because of the "distress" conditions under

[16] U. S. Department of Commerce, *Foreign Commerce Weekly*, and International Monetary Fund, *International Financial News Survey*.

which it was obliged to operate. It was exempted from the general obligation of EPU members to remove quantitative restrictions on imports and, therefore, benefited from the trade liberalization of other members without having to reciprocate. Its quota in EPU, originally fixed at 70 million units of account, was blocked (deemed to be zero) during the first 2 years of EPU operations, and its deficits were settled largely by an initial credit balance and by special United States aid. During this period, therefore, Austria was not a full-fledged member of EPU.

By the end of 1953 Austria had made a marked economic recovery. Its currency had been established on a firm basis, its volume of trade had increased, and its budget had been balanced. From a deficit in its overall balance of payments in 1952, Austria moved to a large surplus in 1953. In both years, it had a surplus with the OEEC countries and in 1953 it achieved a surplus with non-OEEC countries. It still was in deficit with the dollar area, but the deficit was much smaller in 1953 than in 1952, and was more than offset by its surplus with other countries outside OEEC, particularly with those with which it had bilateral trade and payments agreements. The general improvement recorded in Austria's balance of payments in 1953 continued into 1954; its gold and dollar reserves increased greatly in 1953 and 1954.

With these developments Austria was no longer dependent on special aid and consideration from the Payments Union. As an extreme EPU creditor in early 1954, Austria was granted special settlement arrangements on condition that it would undertake to reach a 75-percent liberalization of its imports from EPU countries by June 30, 1954. This objective was reached by stages—35 percent liberalization on July 1, 1953, 50 percent on December 15, 1953, 60 percent on March 1, 1954, and 75 percent on June 30, 1954.

Despite its improved dollar position, Austria continued to apply severe restrictions on dollar imports while still counting on financial aid from the United States to help close the dollar gap. Austria not only reduced the deficit in its balance of payments with the dollar area in 1953; on trade account (goods and services) it moved from a heavy deficit to a small surplus with this area and the improvement continued into 1954. During this period of economic recovery, Austria's import trade underwent a marked shift from the dollar area to the EPU area. In 1950, almost one-fourth of Austria's imports were from the United States and Canada; in 1953 about one-fifth of its imports were from these two countries. In 1953 and 1954, however, only 13 to 14 percent of Austria's imports came from the United States and Canada. Since 1950 about 5 to 6 percent of Austria's exports have gone to the United States and Canada. The decline in dollar imports was largely offset by an increase in imports from the EPU countries.

From the viewpoint of the United States Government, Austria did not relax its restrictions on dollar goods to the extent that seemed justified by its improved dollar position. According to Austrian sources, import controls are administered in such a way that 30 to 35 percent of dollar imports are in fact (if not officially) free from quantitative restrictions. Nevertheless, Austria continued to discriminate against dollar imports generally, as is evidenced by published instructions from official and semiofficial Austrian sources requesting firms to import as freely as possible from OEEC countries and to import goods payable in dollars only if such goods were not available against payment in EPU currency.

Discrimination against dollar goods is also related to the way in which Austria conducts its trade under bilateral trade and payments agreements, of which some twenty were in operation in 1954. Austria appears to have diverted purchases to certain of the countries with which it has such agreements, on the ground that the purchases are necessary in order to utilize quotas established in the agreements. This action apparently has been taken even though neither party to the agreements is obligated to purchase all or even any part of the quotas listed; in some instances, the commodity in question might be purchased at a lower delivered price from the United States. Imports of some dollar goods have been restricted on the ground that they can be supplied from domestic sources. Austria also has made some use of the argument that continuation of the restrictions on dollar imports is necessary because the country's favorable trade balance may be temporary, and also in order to give additional protection not afforded by its outmoded tariff system. Pending a thorough revision of its basic tariff, Austria has from time to time—twice in the first half of 1954—amended its tariff in order to give increased protection to domestic industry.

United States protests to Austria against its discriminatory treatment of dollar imports has resulted in some relaxation of the licensing restrictions on specific commodities, but, as of mid-1954, Austrian general policy with respect to the entire question of discrimination still remained unsatisfactory to the United States. The Austrian Federal Chamber of Commerce—a semiofficial body exercising strong influence on Austria's foreign-trade policy—has publicly stated that Austria expects in time to remove all restrictions on dollar trade.

The Benelux countries

Since they have acted in concert in relaxing quantitative import restrictions on dollar goods, the Benelux countries—Belgium, the Netherlands, and Luxembourg—may be considered as a group. Both Belgium-Luxembourg and the Netherlands experienced substantially the same trend in their trade and payments balances during the period 1952–54, so that they were more or less in similar positions respecting the use of trade restrictions.

Belgium-Luxembourg's balance-of-payments surplus in 1953 was very much under the high level reached in 1952. The decline was due principally to a shift in its trade balance from a surplus in 1952 to a deficit in 1953; the trend continued during the early months of 1954. The decline in Belgium-Luxembourg's overall balance of payments, however, was not due to its trade with the dollar area; trade with the dollar area still showed a deficit in 1953, but the deficit in that year was much smaller than in 1952. The decline resulted from its trade balance with EPU countries, which shifted from a large surplus in 1952 to a deficit in 1953. The Netherlands' surplus on goods and services accounts was smaller in 1953 than in 1952, but its dollar position improved, changing from a deficit in 1952 to a surplus in 1953. For the Benelux countries as a whole, the balance-of payments position with the non-OEEC countries improved; that with the OEEC countries deteriorated. The share of imports from the United States and Canada remained about the same in 1953 as in the 3 preceding years (10 percent for Belgium-Luxembourg and 12 percent for the Netherlands), whereas the share of exports to the United States and Canada increased.

The gold and dollar reserves of Belgium-Luxembourg were about 10 percent higher in 1953 than in 1952, and those of the Netherlands about 30 percent higher; for the Benelux countries combined, the increase was approximately 20 percent. Total gold and foreign-exchange reserves increased slightly for Belgium-Luxembourg, but they increased by 25 percent for the Netherlands, and by about 12 percent for the Benelux countries combined.

In 1953–54 the three Benelux countries, acting in concert, made such progress in relaxing their restrictions on dollar imports that discrimination was virtually eliminated. This was accomplished by applying to dollar imports the same "liberalization list" (the list of goods on which quantitative restrictions have been removed) as was applied to imports from the OEEC countries, and by permitting dollar imports to circulate freely in the three Benelux countries. In the latter part of 1952 Belgium and Luxembourg relaxed their overall trade restrictions, and in 1953 relaxed them still further as their balance-of-payments position continued to improve. In March 1954, these two countries extended the list of goods that could be imported without restriction from any source. Finally, in May 1954, by the removal of exchange restrictions, they abolished all discrimination against the licensing of dollar goods. There was, however, considerable discussion in 1953 and 1954 between the United States and Belgium regarding Belgian restrictions on the importation of certain United States products, especially coal. Belgium had intensified its restrictions on imports of United States coal in October 1953, and the restrictions were still in effect throughout 1954. The United States regarded these restrictions—which had been imposed in order to encourage

imports of coal from the OEEC countries—as inconsistent with Belgium's obligations under the General Agreement. Belgium eased the situation, at least temporarily, by undertaking to increase its imports of coal from the United States. At various times Belgium also gave assurance that goods not appearing on its nondiscriminatory liberalization list would be freely licensed.

By October 1953 the Netherlands had freed about one-third of its dollar imports from licensing restrictions, and had freely licensed most of the remainder. It also had relaxed, for all countries, the restrictions on invisible transactions and capital transfers. The Netherlands also abolished its export bonus dollar system. Late in 1953, under this system, which had been in force since 1949, Netherlands exporters of domestically produced goods were allowed to retain 10 percent of the dollar proceeds for use in the importation of otherwise restricted dollar imports—mainly luxuries. No such system has been used by Belgium-Luxembourg.

Early in 1954, the Committee of Benelux Ministers decided to establish a common trade-and-payments policy for third countries, starting with countries of the OEEC group. The Benelux countries first drew up a common list of commodities for which restrictions would be removed for imports from the OEEC countries; this was followed by a common list of nonrestricted imports from the dollar area. The two lists covered substantially the same commodities, so that almost the last vestiges of discrimination were eliminated. The Netherlands Government estimated that 85 percent of Netherlands imports from the United States were covered by the list, and that most of the remaining dollar commodities not on the list could be imported without restriction. Thus it appears that about 95 percent of Netherlands dollar imports would be unrestricted, and that substantially the same share of the dollar imports of Belgium-Luxembourg likewise would be free of restriction. The three Benelux countries also agreed on a more-or-less common policy for relaxing restrictions on invisibles and capital movement; there was, however, one set of arrangements for the Benelux area as a whole and another for the relations between Belgium-Luxembourg and other OEEC countries.

Denmark

After a surplus in its balance of payments in 1953, Denmark had heavy deficits in 1954, and was thus faced with a serious crisis in its external-payments position. Denmark has been in a debtor position with EPU since the Payments Union began operations in the middle of 1950; its debt to EPU increased sharply in 1953–54. Denmark has made special efforts to encourage exports to the dollar area, with the result that it has been able to build up its dollar reserves. The share of Denmark's exports to the United States and Canada increased each year from 1950 to 1954, reaching 6 percent of total exports in the first quarter of 1954. The share

of its imports from these countries declined from 11 percent in 1951 to 5 percent in 1953.

Denmark is a country with special problems because it is, and long has been, in a strong position vis-a-vis dollar countries but in a comparatively weak position in relation to other countries—especially those of the OEEC group. About one-third of its total imports are from these countries and about one-fifth to one-fourth of its exports are to them. With some minor exceptions, Denmark continues to exercise stringent licensing control over imports, irrespective of the currency required for payment. Quotas are used chiefly for goods imported on the basis of bilateral trade and payments agreements. Although Denmark has made special efforts to increase its exports to the dollar area, it has severely restricted imports from that area. It has also undertaken in special ways to protect its trade and commerce from competition arising out of the practices of certain European countries, especially the Netherlands.

Although Denmark's net foreign-exchange holdings declined each month from September 1953 to June 1954, the decline was due entirely to its increase in liabilities, primarily to EPU; its holdings of United States dollars increased during this period. The principal factor in the increase of dollar holdings was Denmark's "dollar retention," or "dollar export incentive," plan for stimulating exports to the dollar area, including United States forces in Germany. Under this plan, as it was first introduced in August 1952, only European goods benefited from the increased dollar earnings resulting therefrom. Exporters of Danish goods to the dollar area (mainly dairy products, canned meats, and canned fruit and vegetables to the United States) were granted an import license, equivalent to 10 percent of their dollar exports, for the purchase of European goods still under domestic rationing or price control. This plan enabled Denmark to import from European sources large quantities of automobiles and other consumer goods that otherwise would have been excluded by import controls. Transactions in so-called switch dollars,[17] supplied by Netherlands exporters from dollar earnings resulting from their own dollar-retention facilities, also enabled Denmark to import goods originating in the dollar area without affecting its own dollar position. Under the Danish retention scheme (unlike that of the Netherlands and certain other countries), Danish holders of dollars accumulated through dollar-retention operations were not permitted to import dollar goods directly from dollar sources, but only from third countries.[18] Danish merchants,

[17] Such transactions—which must of course be made with the permission of the exchange-control authorities of the countries involved—are simply sales of nonconvertible currencies for dollars. The dollars thus obtained may be used to make direct purchases from dollar countries or, as in the case cited, to take dollar goods off the hands of the country selling the dollars.

[18] The Danish authorities, in adopting the dollar-retention plan, stated that it was adopted as a purely defensive plan for neutralizing the competitive advantages obtained by other countries (especially the Netherlands) through the adoption of similar plans.

therefore, imported dollar goods (primarily tobacco) from the Netherlands, paying in EPU currencies for the Netherlands "switch dollars" necessary for the transaction. Danish importers did, however, have to pay a premium in the nondollar currencies for the Netherlands "switch dollars." Nevertheless, the Danish authorities preferred to permit certain dollar imports in this indirect and more costly manner in order not to "waste" dollar receipts under the dollar-retention plan. The effect, however, was substantially the same as a relaxation of restrictions on direct imports from the dollar area. Moreover, the plan contributed considerably to Denmark's ability to export to United States forces in Germany in competition with other countries—particularly the Netherlands. The increased dollar receipts made possible by the plan also made it easier for Denmark to repay its prewar and postwar dollar debts.

During the first 2 years that the Danish dollar-retention plan was in operation, exporters were permitted to export to any country that would pay in dollars. By paying in dollars, these countries were able to obtain substantial price reductions for Danish goods, ranging up to about the 8-percent premium received by Danish exporters through sales of the import rights to which they were entitled under the dollar-retention plan.[19] As long as the reduction in price was less than the 8-percent premium, exporters had an incentive to sell Danish products at reduced prices, because their total proceeds in Danish kroner by sale against dollars were greater than by sale against currencies for which there was no premium. In April 1954, the Danish authorities—on the ground that Denmark was not interested in making bargain sales to countries outside the dollar area—restricted the sales (for which import rights were given) to the United States, to United States forces in Germany, and to Canada and certain Latin American countries.

As it became increasingly easier for Denmark to purchase commodities from sources other than the dollar area—as was true after EPU was established—the premium on dollar import rights tended to decline. This reduced the incentive to sell Danish products at bargain prices, whether to the dollar area proper or to other countries willing to pay in dollars.

By mid-1954 Denmark's chief problem was no longer that of how to increase exports to the dollar area, but how to arrest the continued decline in its nondollar exchange reserves. In December 1953 Denmark made it easier to import automobiles—the largest single item imported from EPU sources with dollar receipts under the dollar-retention plan—by

[19] The 8-percent premium developed in the following manner: Exporters were permitted under the dollar-retention plan to retain 10 percent of the proceeds from their sales to the dollar area. Thus from $10,000 proceeds an exporter could retain $1,000; under the 80-percent premium which these certificates commanded on the market after the first few months of the plan (during which the premium was considerably more) the exporter made a profit of $800 on the $1,000 retained, or 8 percent on his $10,000 proceeds.

reducing their price. This was done by requiring buyers of imported automobiles to provide dollar-export premium certificates to the extent of only 75 percent of the c. i. f. import value of the vehicles, instead of 100 percent as previously required. Since dollar-export premium certificates were currently marketed at a premium of about 80 percent of their face value, this resulted in a considerable reduction in the price of automobiles imported from Germany and other OEEC countries. In June 1954, however, the coverage for automobile purchases in dollar-export certificates was increased to 100 percent, thus increasing their selling price.[20] Goods other than automobiles that could be freely purchased with receipts of dollars under the retention plan have always been subject to 100-percent coverage.

Other steps were taken in June and July 1954 to arrest the decline in Denmark's exchange reserves. Military expenditures were cut, private building activity was reduced, and other internal economy measures were adopted.

A year earlier, Denmark had abolished its control over exports of industrial products to OEEC countries and to the dollar area, but had tightened its control over such exports to other areas. One purpose of these export controls is to enable Denmark to maintain a better trade balance with countries where inflation is serious enough to make it difficult for Denmark to import enough goods to offset exports that would occur without the restrictions; in this way Denmark seeks to avoid the accumulation of claims that cannot readily be liquidated. Another purpose of the export controls is to prevent third countries from using Denmark as a channel through which to expand their own exports to EPU and dollar countries to which Denmark no longer restricts exports.

As its dollar position improved—mainly as a result of its export drive under the dollar-retention plan—Denmark relaxed its quantitative restrictions on the importation of some dollar goods. Early in 1954 it was reported that Denmark had relaxed its restrictions on imports of various types of office machines from the United States by making exchange available for this purpose, with indications that additional

[20] In order to buy an automobile imported from an OEEC country under the 100-percent coverage, the purchaser had to obtain a dollar-export premium certificate increased to 180 percent of its face value by the addition of the 80-percent premium required to obtain such certificates. Under the 75-percent coverage the purchaser was required to obtain a dollar-export premium certificate increased to 180 percent of only three-fourths of its face value, leaving one-fourth of its purchase price unaffected by the premium. Actually, of course, the transactions are in Danish currency. In terms of dollar equivalents, the right to purchase an automobile with a value equivalent to $1,000 under the 100-percent coverage would cost the purchaser 180 percent of the value, or the equivalent of $1,800. Under the 75-percent coverage the certificate to make the purchase would cost 180 percent of $750, or $1,350; the remaining "uncovered" part of the purchase price ($250) would bring the total price to $1,600.

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exchange would be made available. This was the first time since World War II that substantial allocations of dollar exchange had been made for office machinery, although licenses had been issued for imports from the United States of spare parts and for special types of essential machines that could not be obtained elsewhere.

Although Denmark did not relax its restrictions on most imports from the United States, Danish imports from the United States increased by about 12 percent between 1952 and 1953; Danish exports to the United States also increased by about 12 percent during the same period. In both years Denmark's imports from the United States were three-fourths as large as its exports to the United States. The dollar balance, as has been mentioned, was used in part to pay Denmark's debts to the United States, and in part to build up Denmark's dollar reserves. Like other Western European countries, Denmark regards a strong dollar-reserve position as of primary importance as the time approaches when general currency convertibility may be feasible.

It is questionable, however, whether Denmark has relaxed its quantitative restrictions on dollar goods to the extent that may be warranted by the strength of its dollar position. The policy of restricting imports of citrus fruits and dried fruits from dollar sources because they are considered luxuries and of making it easier to import automobiles and coal from European sources than from the United States at a time when EPU currency is scarce and prices are generally higher for these and other commodities in Europe than in the United States has prompted United States authorities to question whether the Danish restrictions on dollar goods can be justified on balance-of-payments grounds. Relaxation of restrictions on imports of automobile parts for assembly was ordered in 1953 because American-owned assembly plants were considering closing permanently because of lack of business—a prospect which led to strong protests to the Danish Government by the labor force employed in the plants. Relaxation of the restrictions took the form of allocating considerable dollar exchange for the importation of parts for assembly. In the first half of 1954, however, similar imports from the Federal Republic of Germany greatly exceeded in value those permitted from the United States. During this period, Denmark had a strong surplus of dollar exchange and a large deficit with EPU, to which its deficit with Western Germany largely contributed. The deficit with EPU apparently was responsible in part for Denmark's decision, late in 1953, to liberalize the importation of raw materials and industrial equipment from the dollar area if the dollar goods could be obtained at a saving of 8 percent or more compared with the prices of competitive EPU products. Before that time, dollar licenses were not issued unless there was a price differential of about 25 percent in favor of the dollar products.

France

In the accounting period 1953–54 France continued to be in a deficit position with the European Payments Union, but its deficit in those years was only about half as large as in 1952–53. This improvement enabled France to relax its restrictions on imports from other OEEC countries. France's overall balance-of-payments position was substantially better in 1953 than in 1952; and although France had a deficit in both years, it was much smaller in 1953 than in 1952. Gold and foreign-exchange reserves increased, largely because of a substantial increase in dollar receipts. The large volume of dollar aid received from the United States in 1953 was in great part responsible for France's ability to meet its foreign-exchange requirements and to increase its reserves.

In 1953–54 there was a general improvement in government finances and increased confidence in the currency. France still remained handicapped in export markets because French prices were too high in relation to prices in other countries, and because France lagged considerably behind most other OEEC countries in expanding production. The proportion of French exports going to the United States and Canada in 1953 was 5 percent, compared with 4 percent in 1952; the proportion of its imports from these countries declined from 12 percent in 1952 to 10 percent in 1953. About one-third of France's exports go to other OEEC countries; less than one-fourth of its imports come from those countries.

The large French deficit with the sterling area—which France has not been able to cover with its surplus with other OEEC countries—has been one of the main reasons for France's reluctance to increase its liberalization of EPU imports. French authorities have also been reluctant to liberalize imports extensively until more progress has been made in stimulating exports, which in turn depends on reducing the disparity between French and foreign prices. When French imports from other OEEC countries were given additional liberalization in April 1954 (from 18 percent to 53 percent), France took action simultaneously to place in effect increased import charges, which partly offset the effects of the new relaxation of quantitative restrictions. For the stated purpose of equalizing foreign and domestic prices, France in April 1954 introduced a "special temporary compensation tax" of 10 to 15 percent on about one-third of the products for which imports from OEEC countries were liberalized. The tax applies to non-OEEC imports as well as to those from OEEC countries, but does not apply to imports from French North Africa and other French overseas areas. For example, with regard to fruits (which are subject to the tax) the effect of the tax is to widen the margin of preference for fruits from French dependencies, which already enter the French market free of import duty and quantitative restriction. The proceeds from the tax were to be used to promote the efficiency of French industries and thereby to make them more nearly competitive with foreign producers; part of

the proceeds were allocated for the reconversion of enterprises and the relocation of labor, and part to equalize the prices of certain domestic raw materials with the prices of imported raw materials.

Should action similar to that which France took become widespread, the trade-liberalization program of OEEC obviously would be in danger of failure. The Italian Government submitted a complaint to the Contracting Parties regarding the action by France, charging that it had violated the General Agreement by increasing the incidence of customs charges in excess of maximum rates bound under article II, and by increasing the incidence of preference in excess of the maximum margins permissible under article I. The Contracting Parties, after regretting that the French Government had imposed the tax without first presenting its case to them for their consideration, took note of the French Government's declaration that the tax was intended solely as a temporary and transitional device designed to facilitate the removal of quantitative restrictions on imports of the goods affected, and that it would be removed as soon as possible in the interest of promoting a more liberal system of trade. The Contracting Parties requested the French Government to report to them its progress in removing the tax; further review of the matter was scheduled for the 10th Session of the Contracting Parties in 1955.

Two other taxes used by France have been regarded by the United States as inconsistent with the obligations of France under the General Agreement. One of these is the so-called statistics and customs-control tax levied for the stated purpose of establishing a fund for social security benefits to agricultural workers. The tax was imposed in 1952, and amounted to 0.40 percent ad valorem on all imports and exports of the metropolitan and overseas territories; it was increased to 0.75 percent in March 1954. The United States complained that this tax nullified or impaired the concessions made by France under the General Agreement, since it had the effect of increasing import charges on products whose tariff rates had been bound. At the Eighth Session of the Contracting Parties (1953) the French Government acknowledged that the tax was inconsistent with the agreement, and undertook to have it removed from the national budget. No action was taken, however, until about a year later, and in the meantime the tax had been increased as indicated.[21]

The other French action regarded by the United States as inconsistent with France's obligations under the General Agreement was that of increasing the "stamp tax" from 1.7 percent to 2.0 percent of the total amount of customs charges in March 1954. France claimed that the increase in this tax was covered by article II: 2(c) of the agreement, which provides that a contracting party may not be prevented from imposing fees or other charges commensurate with the cost of services rendered.

[21] In September 1954 the French Government announced that the tax would be suspended from October 1 to December 31, 1954; the tax was abolished as of January 1, 1955.

Upon assurance that the French Government did not intend to vary the amount of the tax beyond the limit authorized, the United States withdrew its complaint.

Since 1951 France also has employed a tax-rebate system as part of the plan to improve its balance of trade. For export goods that benefit from the system, the government refunds payroll taxes and social security charges paid in connection with the last stage of manufacture, and rebates a single fixed percentage of the value of the exports to compensate for certain taxes paid in earlier stages of manufacture. Less privileged exports benefit only from refunds of payroll taxes and social security charges, whereas more privileged exports receive an additional refund based on the invoice value of exported products. The size of the refund varies for different categories of exports.[22]

In the latter part of 1953, France modified the system under which exporters were permitted to retain 15 percent of their dollar proceeds and 10 percent of their other proceeds. Under this system, 3 percent of the dollar proceeds could be used without restriction, whereas 12 percent were subject to restriction. On November 1, 1953, the issuance of "3-percent dollars" for unrestricted use was discontinued, so that the entire 15 percent of retained dollar proceeds could be used only for normal export accessory expenses and to import goods for the direct use of the exporting firm. Whereas under the old system 3 percent of dollar proceeds could be used for the importation of, say, United States canned fruits, under the new system such importations with retained dollars no longer were permitted. It was still possible, however, to import such otherwise prohibited commodities as fruit through the use of government-sponsored compensation deals, whereby the government made dollars received from certain exports (sugar, for example) available at premium rates for the importation of fruit. Action of this kind, of course, meant a substantial tightening of the restrictions on dollar imports. United States exporters thus appear to have been placed in an additionally disadvantageous position at a time when a substantial improvement was taking place in France's dollar position.

In general, France has concentrated heavily on plans for encouraging exports, additional incentives having been established in 1953 and 1954. Largely under pressure from EPU authorities France has relaxed quantitative restrictions on imports from other members of the European Payments Union, but not to the extent that most other EPU members have. At the same time, France has tended to retain its dollar restrictions (and even to tighten them) for the period that seems necessary to

[22] Some countries have taken a strong position against practices of this kind on the ground that they represent a form of unfair competition. (See also the action on this kind of export assistance by the Federal Republic of Germany and the United Kingdom in the following section on the Federal Republic of Germany.)

equalize French prices with foreign prices and to build up the country's dollar reserves to what appears to be a safe level. For a number of years France has financed its trade deficits largely from direct United States aid.

Federal Republic of Germany

Western Germany's large surplus in EPU, its strong dollar position, and its large reserves, reflect one of the most flourishing and stable economies in Europe. The creditor status of Western Germany in EPU, however, has created special problems for the authorities of the Payments Union—including those of keeping the Federal Republic within EPU and keeping it from independently embarking on a policy of currency convertibility.

The West German authorities abandoned their export-incentive (dollar-retention) plan in 1953, after the request of the International Monetary Fund that its members abolish such plans.[23] This action by Western Germany (and similar action by other European countries that operated plans to expand exports to the dollar area) was particularly gratifying to the United Kingdom and other European countries that do not use these competitive methods of obtaining dollars. Western Germany also undertook to abolish its practice of subsidizing exports by the refund of various taxes, which had resulted in export prices being as much as 10 percent below domestic prices for the same commodities. By agreement with the United Kingdom, Western Germany undertook to eliminate this form of export assistance by the end of 1955. This agreement, under which the United Kingdom made similar commitments, resulted from the decision of industrialists in various European countries to avoid "unfair" competition in their rivalry for foreign markets. Abolition of the dollar-retention plan and the practice of subsidizing exports by tax refunds was only one phase of a general campaign to bring Western Germany's exports closer into equilibrium with its imports.

In 1952–53 and 1953–54, Western Germany's balance of payments with the non-OEEC (largely dollar) countries greatly increased, as did its total gold and foreign-exchange (largely dollar) reserves. Its balance with the OEEC countries showed such a large increase that special efforts had to be made to reduce its growing EPU surpluses. About 7 to 8 percent of Western Germany's exports go to the United States and Canada; in 1952, 19 percent of its imports came from these sources, and, in 1953, 13 percent.

[23] Western Germany found it easy to abolish the plan because it had become relatively unprofitable to traders. The plan allowed German exporters to retain 40 percent of the proceeds from exports to the dollar area; these retained proceeds could be used for imports from hard-currency countries. These retention rights were negotiable and, during the early period of operation of the plan, they commanded a high premium which the exporters were able to deduct from their export prices, thus giving them a considerable advantage over United Kingdom exporters and others in the export market. By 1953 the premium had almost disappeared, thus making the plan unattractive.

More than half of Western Germany's exports go to other continental EPU countries and more than 40 percent of its imports come from these countries.

Western Germany's large and growing surplus with EPU in excess of its quota has been one of the chief problems with which the EPU authorities have had to deal. Another aspect of the problem facing Western Germany arises from the fact that its large credit with EPU induces the application of restrictions on imports of German goods by other EPU members, thus limiting the prospects for German exports in this area and inducing German exporters to seek markets in Latin America and other parts of the world. Extreme creditors in the Payments Union are expected to follow a "good creditor" policy and to take all reasonable steps to increase their imports from other members. This is clearly the only alternative for creditors since they cannot be expected to keep down exports as a means of reducing their surpluses. Indicative of partial compliance with the "good creditor" policy is the fact that Western Germany has freed from quantitative restrictions 90 percent of its private imports from other EPU countries; only 7 percent of its total imports remain on government account. Moreover, in an effort to raise the level of domestic consumption and thereby to increase the demand for imports, Western Germany has extended credit widely and reduced taxation substantially; domestic capital expenditures have been high. These measures, however, have not been sufficient to reverse the upward trend in its surpluses with EPU, and various attempts have been made to find other solutions to the problem. Some adjustments—which helped temporarily—were made in the German EPU quota and in the methods of settling its EPU surpluses. More significant was the solution applied to Western Germany's debts to certain European and other countries, which did not directly concern EPU operations.

Payment by Western Germany of its prewar debts and of debts growing out of the war was an important means whereby the country could reduce its surplus with EPU countries and others. Relaxation of German restrictions on imports and invisible transactions were closely linked to the settlement of these debts. Until this matter was settled and increased facilities were provided for making transfers abroad of Germany's blocked marks, it was necessary to retain strict control over external capital transactions because of the danger of the flight of capital from the country. As long as capital transactions were controlled, it also was necessary to control transactions in goods and services in order to prevent the movement of capital in the guise of current commercial transactions. This situation accounted for Germany's requirement for purchase authorizations besides the regular licensing requirement, and the requirement that all foreign-exchange receipts be reported and surrendered to the exchange-control authorities. Once the matter of capital transfers was settled,

Germany was in a position to relax its quantitative restrictions on imports.[24]

The London Debt Agreement, which became effective in September 1953, provides for the settlement of numerous categories of Germany's prewar external debts, and for transfer to the Federal Republic of Germany of full control over foreign exchange. The agreement made possible the granting of increased facilities for the utilization of blocked marks ("Sperrmarks") by permitting the gradual removal of restrictions on the transfer abroad of earnings on investments and other invisibles. This meant that, under specified conditions, foreigners and former German residents living abroad could get their money out of Germany (including restitution and compensation for confiscation or war damage) or take steps to do so.

Besides the blocked accounts for which the restrictions on transfer were relaxed, there are three other main categories of nonresident deutschemark accounts—freely convertible accounts, partially convertible accounts, and accounts related to payments agreements.[25] On April 1, 1954, the German authorities considerably extended the possibility of using these accounts for making payments abroad, and at the same time increased from 84 percent to 90 percent the unrestricted coverage of imports on private account from OEEC countries. It is estimated that about 80 percent of the imports from countries with which the Federal Republic of Germany has bilateral agreements are not restricted. Even the relatively few import restrictions that remained at the beginning of 1954 evidently were not retained for balance-of-payments reasons, but to protect certain sectors of the German economy, particularly agriculture.

As a result of Western Germany's strong dollar position and the enlarged possibilities of making transfers abroad, the German authorities in February 1954 further removed restrictions on dollar imports so that (based on private dollar imports in 1953) about 48 percent of such imports were covered. According to German reports, about 40 percent of the dollar goods imported in 1953 had been freed of quantitative restrictions.

Before, and even during, the period in which Western Germany was relaxing its quantitative restrictions on dollar imports, the United States Government had been urging the German authorities to move as far and as rapidly as possible in this direction. It urged, in particular, that

[24] Western Germany's import procedure was further simplified on August 1, 1954, so as to facilitate the importation of commodities from all countries. After that date, importers could obtain a general import authorization for all imports on which quantitative restrictions had been removed, thus terminating the requirement (in force since 1934) of obtaining a previous authorization from the government for each import transaction. It was estimated that about 70 percent of total imports would enter under this procedure.

[25] International Monetary Fund, *Fifth Annual Report on Exchange Restrictions*, Washington, 1954.

Germany add numerous items to the "dollar liberalization" list. It also suggested—as a means of removing or lessening the discriminatory effects of some restrictions—that global import quotas be fixed for each product for a given period, thus enabling importers to choose freely among sources of supply.

The groups of commodities the importation of which is most severely restricted by Western Germany are agricultural products, including grain and feedstuffs; milk and milk products; livestock, meat, and meat products; and sugar. German authorities concede that the control boards set up to regulate imports and to engage in stockpiling discriminate against dollar imports, particularly in the aforementioned categories. The discrimination is largely in favor of imports of these commodities from countries with which the government has purchasing commitments under bilateral trade and payments agreements, of which there were about 30 in 1954. These arrangements include wheat and feed grains from Argentina, Bulgaria, Hungary, Rumania, Sweden, and Turkey; they also apply to citrus fruits and dried fruits imported from southern European and Near East countries. Furthermore, it has been West Germany's practice to import various manufactured goods more freely from OEEC countries than from the dollar area. Such United States products as cotton, tobacco, inedible tallow, and lard, on the other hand, have derived some benefit (although limited) from the German import relaxations. Fruits, vegetables, and some other products which can be grown domestically are not on the list of freely imported products, not even for the OEEC countries. West German discriminatory restrictions on imports of coal from the United States have led to complaints by this country, but the issue has subsided, at least temporarily, as the result of increased imports of United States coal by Western Germany in 1954.

The German justification for the type of restrictions mentioned above is not on balance-of-payments grounds, such as are permitted by the General Agreement. The justification is based largely on protectionist grounds, as in the case of most domestic agricultural products. Where discrimination against United States products is involved (citrus fruits and dried fruits, for example), the most important consideration is probably that inclusion of such items in bilateral agreements with other countries supplying these items helps to facilitate German exports of industrial products to these countries. Sometimes the restrictions involve a substantial element of price control; by controlling the quantity of imports, and by the additional use of flexible import charges and temporary changes or suspensions of import duties, the authorities are able to keep the prices of imported articles in line with the prevailing or desired market prices of the domestic products.

Greece

After the drastic devaluation of the drachma in April 1953,[26] Greece removed its quantitative restrictions on all imports except 9 "super luxury" items, including grains and flour and high-priced automobiles and similar articles. Greece also unified its exchange system by eliminating multiple-currency practices. Except for the relatively small amount of trade represented by the commodities still under restriction, Greece therefore had by early 1953 eliminated its discriminatory treatment of imports, and had placed most dollar goods on a competitive basis with goods from other sources. There appears to have been no serious discrimination by Greece in the application of import restrictions.[27]

The devaluation of the drachma had the effect of raising prices of both imported and domestic goods, but by credit restriction, increased taxes, and other measures the government was able to keep the price increases within moderate limits. The restrictive effect of the devaluation on imports and the stimulation that it gave to exports resulted in a considerable improvement in Greece's trade and payments balances. Greece substantially reduced the deficit in its trade balance and in its balance of payments in 1953 and 1954; continuation of United States financial aid, although on a reduced scale, helped greatly in enabling Greece to improve its external financial position. Its gold and foreign-exchange reserves increased.

As a result of the devaluation, the ad valorem rates of duty in the Greek tariff were automatically increased, and in addition the government generally revised the specific duties upward. These actions, which subsequently were approved by the Contracting Parties to the General Agreement, would eventually increase duties by approximately 100 percent, thus compensating for the 50-percent devaluation of the currency.

To minimize the effect of duty increases on the price of certain commodities, the government established import subsidies on a small number of highly essential foodstuffs and raw materials, but eliminated them a few months after devaluation. It also established a system of exchange taxes on exports of cotton, rice, olive oil, and iron scrap to discourage the exportation of these commodities and to keep down their prices. The exchange taxes subsequently were reduced, but the system was retained as a temporary measure; it constitutes the only special exchange practice still in effect in Greece.

[26] The currency was devalued from 15,000 drachmas to 1 United States dollar to 30,000 drachmas to 1 United States dollar. The action was taken in agreement with the International Monetary Fund.

[27] In September 1954 Italy filed a memorandum with the Contracting Parties protesting as discriminatory a Greek "luxury" tax imposed on imported artificial textile products but not on similar domestic products. Italy also complained of modifications in certain Greek import duties as being in violation of the General Agreement. Italy and Greece reached agreement on these matters during the Ninth Session of the Contracting Parties.

Italy

During the first 2 years of EPU operations, Italy had heavy surpluses with the Payments Union and removed virtually all of its quantitative restrictions on imports from EPU countries. United States financial aid to Italy was still very large during this period and stimulated heavy imports of dollar goods. Italy's exports to the dollar area cover only about one-fourth of its dollar imports, and as dollar aid declined Italy's dollar crisis became increasingly acute. Italy responded to this situation by increasing its quantitative restrictions on dollar imports, with the result that by 1953 its balance of payments with the dollar area was approximately in equilibrium. Although Italy's trade deficit with the dollar area continued in 1954, it was considerably lower than in 1953, owing largely to reduced purchases of dollar wheat, cotton, and coal. Italy's gold and dollar reserves steadily increased in 1953 and 1954. In 1953 its dollar resources were sufficient to cover its deficits with EPU and still permit the increase in reserves.

With declining dollar income and dollar imports, Italy turned more and more to the OEEC countries, especially Western Germany and the United Kingdom, for its import requirements. This shift in trade forced Italy from a large surplus position with EPU to a heavy deficit position, which continued into 1953–54. In the first 7 months of 1953, Italy's imports from the EPU area were 31 percent larger than in the corresponding period of 1952, and its imports from the United States and Canada were 42 percent smaller. In the first 5 months of 1954, more than 70 percent of Italy's import trade and 68 percent of its export trade were with the EPU countries.

The lack of balance in Italy's EPU trade that has persisted since 1950 is largely a reflection of its own high degree of trade liberalization with respect to EPU imports and the generally high degree of restriction of imports by other EPU members. The fact that Italy freed almost 100 percent of the EPU imports from quantitative restrictions early in the period of EPU operations and has not reversed this action notwithstanding its extreme debtor position reflects Italy's great dependence on imports of raw materials and industrial equipment to keep its economy operating at a high level. The relative severity (until recently) of the United Kingdom's restrictions on EPU imports has been especially serious for Italian exports. Another handicap to Italian exports has been their relatively high prices.

In contrast with virtually unrestricted imports from the OEEC area, all imports into Italy from the dollar area are subject to license, except about 65 items, imports of which are admitted without restriction. These items consist of commodities that are regarded as essential and that are not available from domestic production, from OEEC countries and bilateral-agreement countries, or from nondollar countries, or are available

in Italy only at prices considered "unreasonably" higher than dollar prices. All other imports—those subject to license—have, in general, been licensed only sparingly. Italy still takes the position that liberalization of dollar imports should not be extended so far as to jeopardize the flow of Italian exports to nondollar countries that are able to supply Italy with goods that dollar countries also are able to supply.

At the same time, the financing of Italy's overall deficit in its balance of payments has been largely covered by United States aid and, in the year 1953–54, by offshore orders from the United States. As United States direct and indirect aid declines, and as the dollar gap remains or threatens to increase, Italy no longer finds it possible, as it was in former years, to utilize dollars from United States aid to reduce or cover its deficit with the dollar area; instead it has tended to use the available dollars to settle its EPU deficits.

The long period of difficulties experienced by United States and other dollar exporters to the Italian market brought repeated insistence from the United States Government that the restrictions were not justified by the steady improvement in Italy's dollar position.[28] A few examples will illustrate the nature of the difficulties faced in recent years by exporters of certain dollar commodities to the Italian market.

Italian imports of cotton from the United States have been restricted in favor of imports from Egypt, the Soviet Union, Turkey, Pakistan, and other supplying countries. The chief reason for encouraging imports of cotton from these sources has been the desire of the Italian Government to expand exports of domestic products, or to utilize bilateral credit balances already accumulated under some of its 30 bilateral trade and payments agreements. Italy continues to import United States cotton, and the United States is still the principal supplier, but Italian imports of cotton from this country have steadily declined. In 1953 the Mutual Security Agency allotted 25 million dollars to Italy for the purchase of dollar cotton from the 1953–54 crop. In 1953, Italian imports of American cotton were 207,000 bales (500 pounds gross weight per bale), compared with 402,000 bales in 1952, and 594,000 bales in 1951.

[28] On August 10, 1954—after the period covered by this report—Italy added some 500 commodities to its list of liberalized imports (those not requiring a validated import license) from the dollar area. The list is made up almost exclusively of raw materials and semimanufactures. Added to the list were such important items as coal and derivatives, oil and derivatives, and ferrous and nonferrous ores. Cotton and wheat, which are the two largest single import items from the United States, were not placed on the list and therefore remained subject to license. The bulk of the trade in the newly liberalized list (coal, petroleum, and ferrous scrap) still had to have a customs clearance document from the Ministry of Industry and Commerce before importation. However, the Ministry announced that this requirement, as applied to coal, was solely for the purpose of statistical control, and that clearance would be automatically granted to all commercial and industrial companies upon application.

Imports of wheat are similarly affected by Italy's policy of obtaining a large part of its requirements through the operation of bilateral trade agreements, such as those with the Soviet Union and Argentina. Italy thus undertakes to expand its markets for Italian products and to facilitate transfer of emigrants' remittances to Italy, by agreeing to import wheat from nondollar sources, even though the nondollar price may be considerably higher than the dollar price. The Italian domestic wheat price is supported by government purchases of part of the crop at a high level.

The restrictive treatment of dollar imports of passenger cars and trucks and of certain types of printing machines—on both of which items Italy has granted tariff concessions to the United States—has resulted in complaints from the United States that European sources of supply obtain most of the trade in these items through the operation of bilateral trade agreements. On the other hand, United States printing and typesetting machines of a kind which do not compete with those made in Italy are imported without restriction.

Italy continues to operate a dollar-retention plan under which the recipient of United States or Canadian dollars may retain 50 percent of the proceeds. All foreign-exchange proceeds must be surrendered, however, so that "retention" in this instance means that the retained exchange is credited by the banks to the recipient. It may be used by the recipient or sold; in either case the exchange may be used for authorized import transactions during a period of 60 days. The "free" rate for dollar exchange thus made available remains relatively stable and is recognized as the official rate. It is subject to little fluctuation because the authorities employ quantitative restrictions and exercise control over the terms of payment in order to maintain equilibrium between the supply of dollar proceeds from exports and invisibles and the demand for imports and payments for invisibles.

Unlike retention systems used by some other countries (e. g., Denmark), the Italian system does not give the holder of exchange thus acquired any special import privileges; imports are restricted to those that are specifically permitted. The system does make it possible for holders of "50-percent account" dollar exchange to import what they like within the prescribed limits, since without this arrangement exporters would be required to observe the general rule requiring the surrender of all dollar proceeds to the authorities. To this extent the system tends to encourage exports to the dollar market.

The Italian Government also employs other special arrangements to promote exports of commodities paid for in United States or Canadian dollars or in freely transferable Swiss francs. Certain commodities subject to export license are exempted from the requirement if paid for in these currencies. Special credit facilities are granted for exports payable in dollars and Swiss francs, and on a few commodities the government allows certain specified tax rebates for exports paid for in these currencies.

Norway

Norway has freed from quantitative restrictions a large part of its trade with OEEC countries and certain other countries.[29] Despite the improvement in Norway's dollar position, however, imports from the dollar area continue to be severely restricted. Except for about 75 percent of private imports from OEEC countries—and certain other imports that have been freed of quantitative restrictions—all imports are subject to license. Imports payable in dollars and other hard currencies are generally limited to commodities considered essential to the Norwegian economy, and the permitted imports are subject to quotas. By restricting dollar imports and by promoting exports to dollar countries, Norway has acquired a dollar surplus in its balance of payments. It has long had a deficit in its overall balance, however, largely because of a chronic deficit position with EPU.

The Norwegian authorities do not claim that Norway's stringent restrictions on dollar goods are due to dollar balance-of-payments difficulties; the restrictions are maintained in order to achieve an overall balance. Norway's gold reserves and dollar holdings tended to increase in 1953 and 1954.

Norway continued to import the major part of its cotton and tobacco from the United States, as well as considerable quantities of grain, oilseeds, and fruits. On the other hand, it imported large quantities of grain from the Soviet Union in exchange for fish products, and imported some automobiles from Eastern Europe and Israel under its policy of opening new markets for fish products. Restrictions are still maintained on imports of automobiles from the OEEC countries, and such imports as are admitted from these countries and other sources are based on quotas fixed in bilateral arrangements. Early in 1954, Norway concluded a barter agreement with Argentina which provided for the exchange of specified amounts of Norwegian dried cod and Argentine apples. Some of the barter deals involve dollar products in a roundabout way. For example, Norway arranged early in 1954 to reexport some of the products it had acquired in Eastern Europe for payment in United States dollars, which in turn were to be used to buy United States oranges. Part of the funds realized from reexports were to be used to increase Norwegian imports of automobiles from Western European countries. Deals of this sort, of course, reflect the desire of the Norwegian Government to expand its trade in all directions under serious and complex trade and payments difficulties.

Sweden

Sweden's basic instrument for the control of imports payable in dollars and other relatively scarce currencies is the so-called import budget. This

[29] The liberalization measures apply to the OEEC countries and their associated areas (including the overseas territories, and the sterling area), and also to Czechoslovakia, Finland, Hungary, Israel, Poland, Spain and its associate areas, and Yugoslavia.

budget is determined 6 months in advance and is based on estimates of the currencies that will be available during the period. Under this program imports are subject to individual license and are limited by quotas to goods officially regarded as essential, with priority for raw materials and capital goods. Licensing and quotas are also applied to imports admitted under bilateral agreements. Based on the trade in 1948, about 91 percent of Sweden's private imports from the OEEC countries and associated territories and from Finland and Yugoslavia have been freed of such quantitative restrictions as individual licensing and quotas. The remaining, or unliberalized, part of the imports from these countries still is subject to restriction.

In 1954 Sweden continued in an adverse balance-of-payments position with EPU, chiefly because of its adverse balance with Western Germany; its imports from the EPU members increased from 69 percent of its total imports in 1952 to about 75 percent in 1953 and the first quarter of 1954. On the other hand, Sweden has a surplus in its overall balance of current payments. This surplus increased in the second half of 1953, as compared with the first half; most of the 1953 surplus was in dollars. In 1953 and 1954, in an effort to be in readiness for general currency convertibility, Sweden substantially increased its gold and dollar reserves.

During 1953 and the first half of 1954, Sweden continued to follow its usual cautious policy of severely limiting dollar imports. This was done on the ground of uncertainty as to its ability to expand exports to the dollar area and to increase shipping income from this area. Nevertheless, the restrictions on dollar goods were considerably more severe than appeared justified by Sweden's improved dollar position.[30]

Sweden conducts some of its trade under bilateral trade and payments agreements; as of mid-1954 it had 23 agreements of this kind. An agreement with Western Germany, for example, governs the exchange of commodities that are not covered under each country's OEEC program for trade liberalization. This agreement, which represents a protocol to the Swedish-German exchange agreement of 1951, provides for quotas on Swedish imports of German passenger automobiles, chemicals, and numerous other products during the first half of 1954. Swedish exports

[30] Recognition of this situation was reflected in the action that the Swedish Government took on October 1, 1954, when restrictions were entirely removed on some dollar commodities, including certain raw materials, semimanufactures, and a large number of finished goods, consisting of a majority of the commodities on which Sweden had granted tariff concessions to the United States under the General Agreement on Tariffs and Trade. On another list (including tobacco and tobacco products, fresh fruits, coal and coke, tires and tubes for automobile assembly, and numerous other products), however, on which quantitative restrictions were removed, an element of restriction still remained, in that payment for the goods must be made in so-called transit dollars, that is, dollar exchange obtained from abroad by Swedish commercial banks at a premium price. The actual liberality of this action will, of course, depend on the availability of transit dollars and the amount of the premium.

to Germany under quota include wheat, meat, fish, paper, and other commodities. Under a similar protocol to an old trade-and-payments agreement, Sweden and the Soviet Union also agreed on a much larger volume of trade for 1954 than took place in 1953. Under this arrangement Sweden will import from the Soviet Union under quota chrome and manganese, petroleum, furs, automobiles, cotton, tobacco, and numerous other commodities. The Soviet Union in exchange was to receive Swedish butter, fish, paper and board, iron and steel, and various kinds of capital equipment.

Switzerland

Switzerland is the only European country with which the United States has a bilateral trade agreement.[31] As a member of OEEC and a participant in the European Payments Union, Switzerland operates as a hard-currency country. It has full convertibility for residents, and actually could have it for nonresidents as well, but has departed from full convertibility to this extent because of the lack of full convertibility in other countries. Thus, any Swiss resident can convert any amount of Swiss francs into dollars or any other currency, and may use the proceeds for imports from or capital exports to any country. Convertibility for nonresidents of Switzerland is confined to residents of countries with convertible currencies.

Switzerland employs few of the trade restrictions that are utilized by most other European countries. It has no overall system of exchange control, although exchange transactions actually are controlled with respect to countries with which Switzerland has bilateral trade and payments agreements and countries which restrict their own payments. Switzerland has bilateral agreements covering its trade and/or payments with 22 countries or monetary areas, and regulates its payments with 3 others with which it has no agreements. Some of these arrangements cover the unliberalized trade with other OEEC countries. Payments are freely made and accepted with the rest of the world. Import licenses are granted without quantitative restriction (quotas) for all except a few of the commodities subject to import control. The imports for which quotas are established include certain agricultural imports and heavy motor vehicles and agricultural tractors. Switzerland regards quotas on some agricultural imports as absolutely essential to protect domestic production during certain periods of the crop year. Reluctance to abandon the use of quotas for protectionist reasons has been an important consideration in keeping Switzerland from becoming a party to the General Agreement. However, Switzerland relies mainly on its tariff to protect its agriculture and industry, and from time to time levies additional or supplementary fees on imports. Effective April 1, 1954, for example,

[31] Switzerland is not a contracting party to the General Agreement on Tariffs and Trade, nor is it a member of the International Monetary Fund.

the Swiss Government substantially increased the "price supplement fees" on wheat, rye, barley, oats, corn, and other coarse feeds.

In general, Switzerland's trade controls represent standby arrangements that are kept in force for bargaining purposes and for handling a few special circumstances (relating mostly to conditions in other countries), rather than for payments reasons, since it has few payments problems that it cannot meet by conventional methods. Switzerland usually has large trade deficits, but these are more than offset by surpluses in invisible transactions, mostly arising from the tourist trade. In 1953, however, for the first time in this century except the war years 1916 and 1945, Swiss visible exports exceeded visible imports. Switzerland's gold and dollar reserves have remained strong in recent years and showed further increase in 1953–54; its creditor position with EPU also increased. Private exports of capital and long-term loans to foreign countries have remained high for a long time.

Turkey

Internally and externally Turkey has been confronted with a serious economic crisis, marked by a lack of foreign exchange to meet its foreign obligations, high domestic prices, and difficulty in finding export markets. The situation has deteriorated during the past 2 years, and the Turkish Government has undertaken to prevent further deterioration by suspending imports of goods that cannot be obtained on credit.

For several consecutive years Turkey has had deficits in its trade balance and in its balance of payments. The payments deficit has been covered by United States aid, foreign loans, and other capital transactions. Turkey's gold and dollar holdings increased in 1953, but declined in the first half of 1954. A large part of the gap between Turkey's trade balance and its balance of payments is represented by an accumulation of commercial debts; these have caused concern to the directors of the International Monetary Fund, since the Fund has had to make its resources available to assist in easing the crisis created in large part by these arrears. In 1954 Turkey concluded agreements with Western Germany and Sweden—and was considering similar agreements with the United Kingdom and Italy—to settle, by exports of Turkish products, a 3-year accumulation of debts owed to these countries. It had 25 bilateral trade and payments agreements in effect in 1954. Turkey also was granted long-term credits by Western Germany and France—for use in public works and industrial expansion—in return for which Turkey agreed to take certain types of capital equipment from these countries. Turkey also concluded a barter-type agreement with France providing for the exchange of Turkish cotton, tobacco, ores, and other products for French producer and consumer goods.

In view of Turkey's difficult external trade and financial position, the EPU authorities and the United States Government have placed less

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emphasis on the urgency for the relaxation of Turkey's trade restrictions than they have for those of most other EPU countries. Rather, as urged by the International Monetary Fund, the emphasis has been on the need for Turkey to take short-run as well as long-run internal measures to improve its capacity to compete more successfully in foreign markets so that it will be in a better position to relax its foreign-trade restrictions. Turkey has undertaken to expand the domestic production of steel, cement, textiles, footwear, petroleum, and electric power, and to improve its communications system. This program, however, is largely long-run, and requires heavy capital outlays; measures to give more encouragement to foreign investments in Turkey are expected to facilitate financing. Measures of more immediate effectiveness include domestic price control and credit restrictions which are designed to halt the rise in prices and to curb purchases of luxury goods. These measures, together with an intensified policy of restricting imports to products needed for the country's economic development, had not been in operation long enough to have any appreciable effect on Turkey's 1953–54 financial position.

Turkey officially suspended its trade-liberalization measures on imports from EPU countries in April 1953; actually, such imports had been subject to control since September 1952. Before the latter date Turkey had freed from quantitative restrictions 63 percent of its imports from EPU countries. In September 1953, the Turkish Government issued a list of liberalized imports, with new foreign-trade regulations, to become effective on a date to be determined later. Pending the establishment of the effective date, applications to import goods on this list are considered for licensing on the basis of available exchange. The government also published other lists of goods for which exchange allocation would be made; these lists became effective on November 1, 1953. As a general rule, licenses for dollar imports are granted only when the products are considered essential and are not available from nondollar sources. This treatment, of course, is the basis for present discrimination against imports from the United States and other dollar countries.

Individual licenses are required for most Turkish exports. The main purpose of this requirement is to prevent payment to Turkey in soft currencies for goods finally sold to third countries for hard currencies, thus assuring that Turkey will receive payment in the desired currency. Certain exports are subsidized from taxes of 25, 50, or 75 percent on specified imports of goods regarded as luxury or nonessential. Receipts from these taxes are deposited in a fund ("equalization account") from which payments are made to exporters of the subsidized commodities in the form of premiums on export proceeds—50 percent for "free" dollars, 40 percent for EPU currencies, and 25 percent for settlements in other currencies through clearing-agreement accounts. In September 1953 this system of subsidizing certain exports from taxes on specified imports

replaced the Turkish retention-quota system whereby exporters of certain goods for which it was difficult to find foreign purchasers had been permitted to sell their foreign-exchange proceeds without restrictions to importers of luxury-type goods. Italy protested the use of export bonuses, especially those applied to certain products—including bitter almonds, lemons, wine, chestnuts, and olives—which also are exported by Italy, on the ground that the practice is injurious to Italian exportation. Italy's complaint was dropped during the Ninth Session of the Contracting Parties after the two governments reached agreement on the matter at issue.

Under new legislation effective in June 1954, Turkey revised its tariff by replacing all specific rates of duty with ad valorem duties. The change to ad valorem rates involved increases for most unbound items in the tariff. Turkey requested permission of the Contracting Parties to change to ad valorem rates the specific rates of duty provided for in its schedule of concessions in the General Agreement. The request was granted during the Ninth Session of the Contracting Parties.

United Kingdom

During 1953–54 the United Kingdom foreign-trade authorities and financial press were preoccupied with the growing prospects for more general currency convertibility, and the United Kingdom adopted certain measures to extend the area of transferability for the pound sterling.[32] The United Kingdom's balance-of-payments position had improved somewhat, its gold and dollar reserves (for the entire sterling area) had increased, and an additional share of imports had been freed from quantitative restrictions. Nevertheless the United Kingdom was still faced with difficult problems in its external financial relations. One of these problems centered on its large debts to the Payments Union. The measures adopted by the United Kingdom for reducing those debts were involved in changes made in the Payments Union when it was renewed for 1954–55, after prolonged negotiations to put the Payments Union in a

[32] The term "convertibility" is not generally understood—in the context of the present situation in international trade and finance—to mean the complete removal of exchange control and quantitative trade restrictions as soon as the general convertibility of currencies is launched. Although the ultimate aim is to obtain the objective of freedom from such controls and restrictions, the present "realistic" approach to the problem envisages the maintenance for some time after convertibility of at least some of the present types of controls and restrictions on the exchange of nondollar currencies for dollars. The term "transferability," as generally understood, refers to the interchange of nondollar currencies within a limited area—such as the sterling area or the EPU system—under supervision of the exchange-control authorities. Quantitative trade restrictions might be eliminated or greatly reduced and still leave transfers subject to exchange control. Transferability is regarded as a step toward convertibility, and is commonly referred to as "limited convertibility." One of the principal issues that has developed in the last year or two is whether general currency convertibility should be preceded, followed, or accompanied by the removal of quantitative trade restrictions.

better position to handle the problems created by extreme debtors and creditors.

The United Kingdom's official gold and dollar reserves declined from a postwar high of 3.9 billion dollars in June 1951 to 2.3 billion at the end of the year, and to 1.8 billion at the end of 1952. They increased to 2.5 billion dollars at the end of 1953, and to 2.7 billion by March 1954. (See table 4.) The United Kingdom's merchandise imports (c. i. f.[33]) increased from 7.3 billion dollars in 1950 to 9.4 billion in 1953, and to 9.6 billion in 1954; thus imports increased nearly one-third between 1950 and 1954.

At the beginning of 1953–54, the United Kingdom had reduced its deficit on current account with the dollar area, had considerably reduced its surplus with the rest of the sterling area, and was almost in balance with the rest of the world. During the financial year 1953–54 the United Kingdom's trade balance with all countries combined improved over the corresponding period 1952–53, in that the deficit was reduced as a result of increased exports. United Kingdom exports to other parts of the sterling area increased, partly as a result of the relaxation of import restrictions in the sterling countries. Exports to the dollar area also increased. Exports to countries outside the European Payments Union, sterling, and dollar areas also increased, in part as a result of the use by those countries of some of their foreign-exchange reserves for the purchase of foreign goods. For the first 3 quarters of 1952–53 the United Kingdom ran monthly deficits with EPU, but during the first 3 quarters of 1953–54 its balance of trade with the EPU countries showed monthly surpluses.

The United Kingdom's main contribution to the freeing of imports from quantitative restrictions has been reflected in increases in its trade liberalization percentages with the EPU area. In November 1953 additional private imports on current account from the EPU area were freed of restrictions when the liberalization was increased from 59 to 75 percent; it was increased to 80 percent in January 1954 and to 82 percent the following July. France and Italy were the principal countries that benefited by these relaxations. As the more recent liberalization measures were accompanied by the freeing of additional imports from government account and opening them to private trade, the figures actually represent a larger volume of trade than similar figures for earlier periods (including the 59-percent figure before the liberalization percentages were raised in November 1953). As of March 15, 1954, about 11 percent of the United Kingdom's intra-European trade was still carried on by the government. By July 1954, however, the share had declined still further as a result of the transfer of additional trade to private hands; this step followed the abolition of the system of bilateral agreements (see below) under which the government had been the principal buyer of numerous commodities on a bulk basis.

[33] Cost, insurance, and freight.

In 1953–54 there were no major changes in the United Kingdom's policy of restricting dollar imports to the level considered appropriate for the security of the official gold and dollar reserves of the sterling area.[34] Although these reserves did increase substantially in 1953 and early 1954, there were setbacks in the upward trend at various times during this period. On the whole the view prevailed that the increase in reserves had not yet brought their total to a level that would warrant making sterling convertible. It is not likely, however, that the United Kingdom would want to commit itself to the complete elimination of quantitative restrictions on dollar imports until a considerable time after its reserve position improved to the point where convertibility could be undertaken. Concern that the 1953 recession in United States economic activity might grow worse had a very strong influence on British and sterling-area policy.

Emphasis on the need to expand exports as the best means of increasing gold and dollar reserves was more prevalent in the United Kingdom in 1953–54, as in other recent years, than was the emphasis on restriction of dollar imports. With the decline in dollar aid, the United Kingdom became increasingly dependent on dollars earned from the export of goods and services to pay for its imports from the United States and other dollar countries. The general policy was to postpone relaxation of restrictions on dollar imports, except in a few exceptional circumstances, until the reserve position improved still further; imports of consumer goods from the dollar area are virtually banned, although there has been some relaxation of imports of such goods by a moderate extension of the "token import" plan, discussed below. In the meantime, the United Kingdom tended to rely increasingly on the sterling area as a source of food and other agricultural commodities, and on European sources for other essential goods. The considerable relaxation of restrictions on imports from the European, or OEEC, area was by no means matched by relaxation of restrictions on dollar imports.

According to official British statements, about 45 percent of total United Kingdom imports come from the overseas parts of the sterling area, with virtually no restrictions. Approximately half of the remaining 55 percent are also imported without restriction, including imports from the OEEC countries on which increased liberalization was made in 1953–54, and imports from the dollar area, of cereals and certain industrial materials, including metals and petroleum. These commodities comprise about half the United Kingdom's imports from the dollar area.

Action taken by the United Kingdom exchange-control authorities in the spring of 1953 to permit importers to purchase grain regardless of the currencies in which payments have to be made, represented a further

[34] The official gold and foreign currency reserves of the sterling area are held in the United Kingdom's Exchange Equalization Account ("dollar" pool). There are no other official reserves for the United Kingdom, but other countries of the sterling area have their own independent reserves of dollars, and—for most of them—gold as well.

relaxation of state trading. This action, however, was not likely to have much immediate effect on imports. Despite the greater trading freedom resulting from the reopening of the grain markets to private trading after many years of bulk buying of imported grain on government contracts, there still remained considerable control over the transactions. Importers recommended to the Bank of England by the National Federation of Corn Trade Associations were to be granted permission to buy grain freely from any source, provided it is intended for consumption in the sterling area. Reexport of such grain from the United Kingdom remained subject to export licensing, and its resale outside the sterling area was permitted only against payment in United States or Canadian dollars, or in sterling held by the dollar countries. However, in much the same way that currency arbitrage was a step toward convertibility, commodity arbitrage of this sort was a step toward greater multilateral trade.

In May 1954 the United Kingdom also began to "decontrol" fats, oils, meat, and raw jute by returning these commodities to private trading channels after 14 years of government trading. Supplies were to be taken off rationing and prices freed of control as various marketing problems were worked out. One of the problems involved in returning the commodities to free-market conditions was to reach agreements with Australia, New Zealand, Ireland, and other countries regarding the means of honoring the long-term government purchasing contracts still in effect with these countries. It was anticipated that the United States products most likely to benefit from the return to competitive buying by private United Kingdom traders were soy beans and linseed oil (which had previously been decontrolled), cottonseed oil, and tallow. Actually, butter and cheese were among the first of the newly decontrolled products for which quotas were established for imports from the United States and Canada. However, these products were to be importable under specific licenses and not under the more liberal open general license applicable to imports of such products from the sterling area and certain other nonsterling countries. Butter and cheese continued to be bought under long-term contract from Australia, New Zealand, and Denmark and sold on the market in competition with privately imported butter and cheese.

Liberalization of the British token-import plan in mid-1954 was another evidence of the United Kingdom's policy of relaxing trade restrictions—on a moderate scale, however, so far as dollar imports were concerned. The United Kingdom's token-import plan had been established with the United States in 1946 in order to permit eligible United States firms to export to the United Kingdom "token" shipments of specified commodities—consisting principally of consumer goods—otherwise generally prohibited by the United Kingdom if from dollar sources. The total quantities that could be imported were, as the terminology indicates, kept at a very low value figure. The purpose was to keep established trade channels open

so that contact between United States manufacturers and United Kingdom importers and consumers would not be entirely lost. Under the plan, as it was originally established, those eligible to make shipments to the United Kingdom were firms that had a record of prewar trade with the United Kingdom in the specified commodities. Under the new regulations of 1954, any United States manufacturer of an item in a specified commodity group—regardless of his record of prewar exports to the United Kingdom—became eligible to participate, in that he could apply for quota balances not used by those eligible under the original arrangement. The quota balances announced as available in 1954 were for more than 100 commodities, including canned vegetables, tobacco manufactures, leather footwear, apparel, textiles, electrical appliances, paints, medicinal preparations, sporting goods, artificial teeth, and dental equipment and instruments.

The foregoing actions of the United Kingdom—the decontrol of many important commodities by returning the trade in them to private hands, the greater freedom thus allowed private traders to purchase commodities in any market, establishment of the system of currency arbitrage, and the slight relaxation of the conditions of the token-import plan—were more important as symptoms of the United Kingdom's desire to free its trade of restrictions than as contributions to any immediate substantial increase in imports. More important than any of these steps were the measures that the United Kingdom adopted to carry out longstanding commitments to move as rapidly as possible toward the restoration of general convertibility of sterling.

In December 1952 the United Kingdom Government and the other Commonwealth governments issued a joint statement in which the restoration of sterling as a convertible currency was given high priority. The conditions set forth for realizing this objective included the building up of adequate reserves, the avoidance of inflation, expanded output of exportable goods, and a general relaxation of quantitative import restrictions. In some respects the Commonwealth countries seemed less prepared for convertibility in 1953–54 than they had been in 1952. However, increased interest in convertibility in various countries that were in a strong external-payments and reserve position prompted the United Kingdom to take certain steps that would be necessary in the event it was decided to undertake convertibility. The main step in this direction was to widen the area of sterling transferability without, however, directly affecting the restrictions on sterling-dollar convertibility. This action reflected the increasing emphasis of the United Kingdom Government on multilateral trading, involving a refusal to enter into bilateral agreements that restricted United Kingdom exports to particular markets and imports from any particular source. The other principal measure adopted was the reopening of the London gold market.

This cautious step-by-step approach by the United Kingdom authorities to the problem of convertibility of sterling into dollars has been influenced to a considerable extent by the experiences connected with the abortive attempt at convertibility in 1947.[35] Plans made and steps taken since then to widen the area of sterling transferability have been linked to efforts to widen the use of sterling without endangering the gold and dollar reserves of the sterling area, for which the United Kingdom exchange-control authorities act as custodian. Under the Anglo-American Loan Agreement of 1946, the United Kingdom undertook to carry out its main objective (convertibility) by negotiating agreements regarding the transferability of sterling with two main groups of countries—the American- and Canadian-account countries (the dollar area) and the transferable-account countries. With the dollar countries it was agreed that the United Kingdom authorities would freely convert into dollars on demand all sterling paid into the American or dollar account.[36] This arrangement has continued to the present time. It was also agreed that current payments could be freely made into the American account both from accounts of residents of the sterling area and from accounts of residents of the transferable-account countries. These rights, which committed the United Kingdom authorities to convert into dollars all the sterling thus transferred, resulted in such a great demand for the conversion of sterling into dollars that it soon brought on a crisis (August 1947) which was resolved only by the suspension of these rights by the United Kingdom. The rights withdrawn in August 1947 have remained suspended for residents of the transferable-account countries, and have been effectively restricted for residents of the sterling countries. Residents of the dollar countries still retained, as before, the legal right to exchange their sterling for dollars on demand, but it was no longer possible for them to earn sterling from the transferable-account countries on their own initiative because the latter were forbidden to convert their sterling into dollars without the permission of the United Kingdom exchange-control authorities. Rights of residents of the sterling area to exchange their sterling for dollars were restricted in a different way—by reimposing discriminatory quantitative restrictions on imports of goods from the dollar area.

From August 1947 until March 1954, when a considerable change was made in the roster of countries being prepared for a new attempt at sterling convertibility, the United Kingdom exchange-control regulations recognized four large groups of countries—the sterling area,[37] the dollar

[35] See *Operation of the Trade Agreements Program* (second rept.), ch. 6.

[36] Including the Canadian account, which was separate from the American account.

[37] Called "scheduled territories" in the British exchange-control accounts, namely: The United Kingdom and British colonies, trust territories, protectorates, etc.; other Commonwealth countries—Australia, Ceylon, India, New Zealand, Pakistan, Southern Rhodesia, and the Union of South Africa; and certain non-Commonwealth countries—Burma, Iceland, Iraq, Ireland, Jordan, and Libya.

area,[38] the transferable-account countries,[39] and most of the remaining countries of the world, known as "bilateral" countries.[40]

There was a so-called residual group of countries unable or unwilling to operate an exchange-control system.[41]

The "control" part of this system of exchange control consists of placing restrictions on the use of sterling outside, or between, these various groups, while promoting its maximum convertibility into nondollar currencies. The dollar countries, besides using sterling freely among themselves, may also use it freely to make payments to the sterling area and to any nonsterling group except the bilateral countries. Nondollar countries, however, are not permitted to make transfers in the opposite direction without special authorization; that is, they are not allowed to convert their sterling holdings into dollars except with approval for each individual transaction.

Overseas members of the sterling area, or their central banks, have the legal right to use sterling to make payment to any country for any purpose. Actually, however, the full rights of convertibility which the Bank of England passes on to the central banks of the sterling-area countries are not transmitted to the residents of these countries. In the common interest of protecting the area's gold and dollar reserves, all sterling countries limit the use of sterling by quantitative import restrictions.

The significant changes made in March 1954 in the grouping of countries for exchange-control purposes were the abolition of the bilateral accounts (affecting about 25 countries or areas) and the placing of all the bilateral countries (except Hungary, Iran, and Turkey, which were temporarily kept on a bilateral basis), as well as most countries formerly in the residual group, in the transferable-account group [42] along with the

[38] Besides the United States (and its dependencies) and Canada, the dollar countries—for British exchange-control purposes—are Bolivia, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, the Philippine Republic, Venezuela, and the former Japanese Islands under United States trusteeship or military administration.

[39] The Anglo-Egyptian Sudan, Austria, Chile, Czechoslovakia, Denmark (including the Faeroe Islands and Greenland), Egypt, Ethiopia, Finland, the Federal Republic of Germany, Greece, Italy (and its monetary area), the Netherlands (and its monetary area), Norway, Poland, Spain (and its monetary area), the Soviet Union, Sweden, and Thailand.

[40] Argentina, the Belgian monetary area, Brazil, Bulgaria, China, Formosa, France and the French monetary area, French Somaliland, the Eastern Zone of Germany, Hungary, Iran, Israel, Japan, Lebanon, Paraguay, Peru, the Portuguese monetary area, Rumania, Switzerland and Liechtenstein, Syria, Tangier, Turkey, Uruguay, Vatican City, and Yugoslavia.

[41] Including Afghanistan, Albania, Andorra, Eritrea, Liberia, Nepal, Saudi-Arabia, and Yemen.

[42] Hungary was placed in the transferable-account group in September 1954, and Iran in November 1954. Liberia, formerly in the residual group, was put in the American and Canadian group. Thus only payments with Turkey continued on a bilateral basis.

18 countries already in that group. Also of great importance was the decision to permit capital transactions in sterling.

The former bilateral countries were those which, when the system was adopted, did not care to assume the responsibilities or obligations of the transferable-account system, or which were regarded by the United Kingdom control authorities as unlikely to maintain a reasonable balance in their sterling receipts and payments. Some countries—for example, Argentina—tended to accumulate such large sterling balances in their trade with the United Kingdom and other sterling countries that they were unwilling to obligate themselves to accept sterling from outside the sterling area, as was required of those in the transferable-account group. Other countries with a persistent tendency to accumulate sterling were excluded from the transferable-account system—as Belgium, Portugal, and Switzerland were—because, beyond a certain point, they required settlement of their sterling balances in gold. Still others were excluded because of a chronic tendency to be short of sterling; granting to such countries the right to settle their accounts in sterling outside the sterling area would have aggravated their difficulty in making settlements in sterling with the sterling area. For these countries the United Kingdom provided its own supervision, by granting transferability as a matter of administrative decision—and not as a matter of right—for bilateral transactions in sterling among themselves and with other countries outside the sterling area. The "administrative transferability" applied to the bilateral countries permitted, of course, a much more stringent form of control than the "automatic" transfer enjoyed by the transferable-account countries. In their transfers with the sterling area, however, the countries in the bilateral group were permitted to transfer sterling without any exchange-control restriction.

The countries of the transferable-account group—which since March 1954 has included virtually all nonsterling countries other than the dollar countries—have from the first assumed an obligation not only to use sterling as an international currency (except that they are barred, without special permission, from using it to obtain dollars) but also to hold or "absorb" it until they are ready to use it in payment for imports of goods and in making other current transactions and (since March 1954) for capital transactions. These countries originally also assumed the obligation to supervise the operation of their exchange transactions, as far as it affected their own nationals, in order to prevent capital transfers from taking place in the guise of current transactions. Since capital transactions in sterling are now permitted, however, this obligation no longer exists.

In extending the area of sterling transferability by bringing more countries into the transferable-account group, and by adding capital transactions, the United Kingdom not only simplified the administration

of its exchange-control system, but also moved a considerable way in creating conditions necessary for making sterling freely convertible into dollars. As far as the formal arrangements are concerned, they provided no additional convertibility for the system, and were not officially announced as being a step toward convertibility. The restrictions on convertibility between the dollar countries and the nonsterling nondollar countries—virtually all of the latter are now in the transferable-account group—still remain. Up to this point the British exchange-control system has been designed simply to encourage the widest possible use of sterling as an international currency without permitting its use to draw dollars from the sterling area's reserves beyond the point regarded as consistent with safety. This gradual process of removing restrictions from the use of sterling is sometimes described as "limited" or "creeping" convertibility, to distinguish it from the disastrous move of 1947 to attain convertibility without adequate preparation. The principal step still to be taken to turn this limited convertibility into full convertibility outside the sterling area is the removal of restrictions on the movement of sterling between the two major currency areas, the nondollar countries and the dollar countries.

Removal by the United Kingdom of the last vestiges of bilateral trade—by abolition of the "bilateral" part of its exchange control and substitution of the multilateral system used by the transferable-account countries—entails certain risks which have led some to feel that the government has gone too far in this direction.[43] Officially the British action was presented as being in the interest of strengthening confidence in sterling as an international currency, and therefore beneficial on its own account. It does enable the United Kingdom to avoid the payments crises which periodically developed with some of the bilateral countries. With the government no longer a party to bulk-buying arrangements under which numerous commodities were purchased from the bilateral countries, private traders were able to resume buying in the cheapest foreign markets. On the other hand, the United Kingdom's trade with certain countries, which had been on a two-way basis under the bilateral system, tended to decline when the bilateral restrictions were removed. This development appears to have been an important factor in the decline of the United Kingdom's trade with Argentina, Brazil, Chile, Egypt, Turkey, and some other countries. It is pointed out that some of the trade that the United Kingdom lost with these countries has been taken over by Western Germany, and that Western Germany has succeeded in its operations because of its more flexible exchange-rate policies and because it has made other adjustments to overvalued foreign currencies in Latin America and elsewhere.

[43] See *The Statist*, International Banking Supplement, Dec. 11, 1954, pp. 3–5.

The opening of the London gold market in March 1954—at the same time that the transferable-account system was extended—was also designed to strengthen the position of sterling in international finance. Transactions in gold by private individuals were prohibited at the outbreak of the war in 1939, and the Bank of England became the sole buyer and seller of gold for the United Kingdom. As long as gold was at a premium over sterling—and thus implied a depreciation of the pound—the Bank of England retained its monopoly of gold operations. By 1954, however, the premium had virtually disappeared. Under the new arrangement of March 1954 any person or institution in the world is permitted to sell gold in the London market. The unrestricted purchase of gold in the London market, however, is limited to residents of the dollar area and to residents of other nonsterling countries who hold sterling on "registered account"; residents of the sterling area are allowed to purchase gold only under special license and after meeting certain specified conditions. "Registered" sterling—which may be acquired only through the sale of dollars or gold—thus represents a new kind of sterling account created by the opening of the gold market, and takes its place with resident sterling (sterling belonging to residents of the sterling area), dollar-account sterling, and transferable sterling.

STERLING AREA OTHER THAN THE UNITED KINGDOM

Although the overseas countries of the sterling area are associated with the operations of the European Payments Union by virtue of the United Kingdom's membership in the Union, they are nevertheless more closely associated with the United Kingdom as members of the sterling area than with the continental members of the Union. The United Kingdom is, of course, the most important member of the sterling area, not only because of its leading trade position but also because it is "banker" for the area and repository of the area's official foreign-exchange resources. Other countries of the sterling area hold the bulk of their exchange reserves in sterling, and settle most of their international transactions in sterling. They also contribute to and draw upon the United Kingdom's Exchange Equalization Account for gold and dollars; in addition some of them have considerable reserves of their own. Therefore, trends and developments in the overseas sterling countries—particularly those relating to balances and reserves—cannot be considered independently of trends and developments in the United Kingdom. Its obligations and responsibilities as a member of the European trading community largely explain the significant steps—already discussed—taken by the United Kingdom in the direction of currency convertibility and more widespread multilateral trade outside the sterling area. At the same time, however, the United Kingdom had in mind the interests of the entire sterling area and acted on these matters in consultation with other members of the area. By reason of the close

ties between the United Kingdom and other parts of the sterling area, it is particularly important to discuss such matters as balances and reserves for the sterling area as a whole. This part of the discussion will be followed by a review of major developments in the individual overseas countries of the area.

Balances and Reserves of the Sterling Area as a Whole

Each member of the sterling area establishes its own foreign-exchange regulations and determines the extent to which it must apply quantitative restrictions on imports to protect its own balance-of-payments position. Nevertheless, all members cooperate and act more or less in concert in such matters, particularly with respect to dollar balances and dollar reserves.[44] The United Kingdom has virtually no quantitative restrictions on imports (which are chiefly of essential raw materials and foodstuffs) from the other sterling countries. Most of the latter tend to buy more from the United Kingdom than they sell, and make considerable use of quantitative restrictions—for balance-of-payments reasons—to control and restrict imports from the United Kingdom. They all make considerable use of tariffs to protect their industries from foreign competition generally, including competition from United Kingdom industrial products. At times, United Kingdom exports to certain other sterling countries have been severely restricted by quotas and licensing, which adversely affected the United Kingdom's balance with the entire area. This was particularly true in 1952–53, especially as a result of restrictions imposed by Australia and New Zealand. In 1953–54, however, these countries relaxed their restrictions considerably.

The general trade policy of the sterling area is determined at the annual conferences of the Commonwealth finance ministers. The conference in December 1952 emphasized the need to build up adequate reserves, to avoid inflation, to expand exports, and—in these and other ways—to lay the groundwork for a general relaxation of quantitative import restrictions. These objectives were reaffirmed at subsequent conferences, the latest of which was held in January 1954. At this conference the ministers agreed that domestic policy must continue to be determined by each country's balance-of-payments position, and that sterling-area reserves must be substantially increased before they can be subjected to increased drain—such as might result from a relaxation of restrictions on dollar imports—or before convertibility can be undertaken. On the other hand, the finance ministers were highly critical of the general public discussion of an impending economic recession in the United States as a threat to the world's reserves. They pointed out, as evidence that these fears were greatly exaggerated, that the flow of dollars from the United

[44] The Union of South Africa (see below) follows a different policy from that of the other countries of the sterling area with respect to reserves.

States to the rest of the world was so large (2.5 billion dollars net in 1952–53) that it would have to be drastically reduced before the reserves were seriously threatened. As far as the sterling area was concerned, they placed emphasis on the need to expand exports as the desirable means of increasing reserves, rather than to further restrict imports. In particular, they stressed the need to expand exports to nondollar countries, including China and the Soviet bloc. In large part this position was taken with a view to restoring London as the world's banking and trading center. The action of the United Kingdom in extending the area of sterling transferability was directly in line with this objective.

The constant objective of the entire sterling area is to be in surplus with the nonsterling world. There is a general tendency for the balances of the United Kingdom with the nonsterling world to run parallel with the balances of the non-United Kingdom sterling area with the nonsterling world, but the fluctuations in the balances of the non-United Kingdom sterling area tend to remain much smaller than those of the United Kingdom, and—in recent years—to remain on the surplus side while the United Kingdom is almost always in deficit. Under these conditions, the entire area's hope for maintaining a surplus position with the nonsterling world appears to depend on the outweighing of the United Kingdom's deficits by the surpluses of the non-United Kingdom sterling area, as occurred in 1953. (See table 5.) The United Kingdom's balances (usually deficits) with the nonsterling world tend to fluctuate with changes in the terms of trade more than do the balances (usually surpluses) of the rest of the sterling area with the nonsterling world. Although the balances of both parts of the sterling area with the nonsterling world are also influenced by the use of quantitative import restrictions, these restrictions appear to have more influence on the balances of the non-United Kingdom sterling area than on those of the United Kingdom.

The balance of payments of the sterling area as a whole with the rest of the world improved greatly between 1951 and 1953—from a deficit of 1.97 billion dollars (equivalent) to a surplus of 540 million. Moreover, the improvement occurred in the balances with all three nonsterling areas shown in table 5 (dollar area, OEEC countries, and other). The balance with the dollar area changed from a deficit of 1.08 billion dollars in 1951 to a surplus of 160 million in 1953. Improvement in the dollar balance resulted from a sharp decline in the United Kingdom's deficit; the rest of the sterling area (colonies and other sterling-area countries) had about the same surplus in both periods. The sterling area moved from a large deficit with the OEEC countries to a substantial surplus, almost entirely as the result of an improvement in the United Kingdom's balance. On the other hand, the sterling area's improved position with the nonsterling world other than the continental OEEC countries resulted from a large

increase in the surplus of the outer sterling area; this offset the continued, though sharply decreased, deficit of the United Kingdom with the non-sterling countries other than those in the continental OEEC so that the entire sterling area shifted from a deficit to a surplus with them.

TABLE 5.—*Sterling area: Balance of payments, by areas, 1951–53* [1]

[In billions of United States dollars]

Country or area, and year	Rest of sterling area	Nonsterling area				Total, all areas
		Dollar	OEEC countries [2]	Other	Total	
United Kingdom:						
1951	0.49	−1.52	−0.67	−0.35	−2.54	−2.05
1952	.79	−.83	−.15	.25	−.73	.06
1953 [3]	.09	−.24	.17	−.13	−.20	−.11
United Kingdom colonies:						
1951	.02	.49	.03	.02	.54	.56
1952	−.09	.39	.06	−.09	.36	.27
1953 [3]	−.01	.31	--------	−.08	.23	.22
Other sterling-area countries:						
1951	−.51	−.05	.08	--------	.03	−.48
1952	−.70	−.28	--------	.18	−.10	−.80
1953 [3]	−.08	.09	.08	.34	.51	.43
Entire sterling area:						
1951	--------	−1.08	−.56	−.33	−1.97	−1.97
1952	--------	−.72	−.09	.34	−.47	−.47
1953 [3]	--------	.16	.25	.13	.54	.54

[1] Absence of sign indicates credit; minus sign indicates debit.
[2] Continental members only; data include transactions with dependencies of OEEC countries, and United Kingdom transactions with EPU.
[3] Preliminary.

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 5, 1947–53 (Washington, 1954).

The general recovery in the balance of payments of the non-United Kingdom sterling area, which began in the middle of 1952, continued in 1953. All the countries, except Burma and Iraq, showed an improvement in their overall balances; those two countries had surpluses both in 1952 and 1953, although their surpluses were smaller in 1953 than in 1952. The improvement in the balance of the non-United Kingdom sterling area as a whole with the sterling area itself took the form of a smaller deficit in 1953 than in 1952. Individual countries that had smaller sterling deficits in 1953 than they had in 1952 were Australia, Ceylon, New Zealand, Pakistan, and Southern Rhodesia. Among those whose sterling balances deteriorated between 1952 and 1953 were Burma (from a surplus to a deficit); India (a reduced surplus); and Ireland and the Union of South Africa (increased deficits).

Of greatest significance for the United States and other dollar countries was the fact that all the non-United Kingdom sterling countries (as well as the United Kingdom itself) showed an improvement in their dollar balances in 1953, compared with those in 1952. As a group they moved from a deficit to a surplus position. Individual countries which changed from a deficit to a surplus dollar position were Australia, India, and Southern Rhodesia. Other countries, including Ceylon, Iceland, and New Zealand, had dollar surpluses in 1952, but increased them in 1953. Four countries—Burma, Ireland, Pakistan, and the Union of South Africa—reduced their dollar deficits.

The gold and dollar reserves of the entire sterling area (excluding colonies) declined from 3.1 billion dollars in 1951 to 2.6 billion dollars in 1952; they increased to 3.3 billion dollars in 1953, and to 3.5 billion dollars in March 1954 (see table 4). About three-fourths of the total reserves are held in the United Kingdom's Exchange Equalization Account. The remainder are held by various other sterling countries; India and Australia are by far the largest holders.

Changes in the Discriminatory Application of Quantitative Restrictions and Other Developments in Individual Sterling-Area Countries

Australia

Australia increased its discrimination against dollar imports early in 1953 by relaxing its quantitative restrictions on goods from countries other than those in the dollar area and Japan. These and later relaxations (quota increases, more liberal licensing and exchange allocations) for nondollar imports were particularly beneficial to United Kingdom exporters, and assisted the United Kingdom in improving its balance-of-payments position with Australia. Since April 1953, Australia has removed quota restrictions from a considerable number of import commodities, especially such materials as raw cotton, crude rubber, and rock phosphate, but they remain subject to license. Australia does not discriminate in applying quantitative restrictions on imports from countries other than Japan and those in the dollar area, although imports from all sources are subject to license. Only essential goods or goods not available from other sources in adequate quantities or on satisfactory terms are licensed for importation from the dollar area.

In October 1953, and again in April 1954, Australia relaxed its restrictions on Japanese goods, but did not relax them on dollar imports. This relaxation followed a considerable period during which Japanese goods had been virtually excluded from the Australian market; the relaxation came with the increase in Australian exports to Japan in 1952–53, in which year Japan became Australia's second largest export market. The Australian authorities apparently feared that Japan might curtail

its imports of Australian wool, barley, and other commodities unless they took action which was conducive to increased Japanese exports to the sterling area. Japan has been chronically short of sterling exchange. The relaxations on Japanese goods were also calculated to benefit other "good customers" of Australia, notably France and Italy. Australia has been charged—by some domestic interests that favor a further relaxation of quantitative import restrictions on dollar imports—with retaining for protective purposes a large number of the restrictions originally adopted for balance-of-payments reasons. Australia increased its import duties on various products in 1953 and 1954. The major items affected were certain cotton and paper products, certain motor-vehicle parts, electrical equipment, and other manufactured products. Official Australian policy is to protect soundly established industries.

New Zealand

In 1953–54 New Zealand relaxed its quantitative restrictions on certain dollar and nondollar imports—on dollar goods by more liberal licensing, and on nondollar goods by increased exchange allocations. The criteria for licensing dollar imports are that the goods must be essential to New Zealand's economy and not available in any soft-currency country. Very few exceptions have been made to this rule since 1952, but the relaxations announced for 1954 did provide for certain exceptions. Limited imports of automobiles from the United States and Canada, not previously permitted, were authorized in 1954. At the same time, however, increased imports of automobiles were authorized from soft-currency sources through larger exchange allocations. New Zealand also issued a list of new items for which it would consider applications for licenses to import from the United States and Canada, and another list of old items for which it would issue additional licenses to import from these sources. It also expanded from 6 to 30 the number of tariff items not subject to licensing when imported from any source.[45] In making these relaxations, the New Zealand Government emphasized that they were made in the interest of the domestic economy, and that it was still necessary to maintain restrictions on dollar imports. During 1953–54 there was also increased interest in New Zealand in obtaining capital from the dollar area to finance capital improvements, as it had not been possible to obtain sufficient investment capital from the United Kingdom.

Ceylon

During the period covered by this report Ceylon relaxed some of its quantitative restrictions on imports, increased its import duties on a number of products, and reduced the export duties on some. Imports now are freely admitted under general license from sterling-area countries,

[45] Late in July 1954 the number of items for which no licenses are required for imports from any source was increased to 90.

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but not from the dollar-area and certain European countries. Imports from Japan of basic consumer goods, such as textiles, are treated more favorably in the application of quantitative restrictions than are dollar and European goods. Essentiality is the principal criterion applied to imports from the dollar area.

In 1953 Ceylon shifted a number of items from its individual-import-license list to its open-general-license list and added some new items, thus permitting much greater freedom to import. On the other hand, certain items shifted to open general license excluded dollar countries and a number of other countries from the privileges of the open general license. Ceylon also added some items to the list of products importable from the dollar area under individual license, but also removed certain items from the list of permitted imports. No licenses are issued for imports of certain commodities that are produced in Ceylon. Some essential commodities, such as sugar, flour, and rice, are imported only on government account. These and other food products have been heavily subsidized by the government for several years (chiefly by rationing at below-market prices), but the subsidies were reduced in 1954. This action was taken to reduce the drain on the country's finances and to improve its external balance of payments. Reduced imports of sugar, flour, and rice, as well as of machinery, automobiles, and textiles, enabled Ceylon to increase its trade surplus with the dollar area in the first half of 1954.

In 1953, Ceylon reduced the export duties on cardamoms and pepper in order to facilitate the exportation of these commodities. It increased import duties on the more important commodities imported from the United States, including automobiles, batteries, cotton piece goods, canned fish, confectionery, electric-light accessories, writing and printing paper, and haberdashery.

India

In 1953–54 India continued the policy—established the year before—of relaxing quantitative restrictions on imports from the dollar and non-dollar areas. This action reflected a continuing improvement in India's overall balance-of-payments position, which resulted chiefly from a shift in its dollar balances from a large deficit in 1952 to a sizable surplus in 1953. Its surplus with the sterling area declined, and its deficit with the continental OEEC countries increased, but its surplus with the rest of the world increased.

In the second half of 1953 and the first half of 1954 India's import policy remained substantially the same as it had been under the extensive liberalization that occurred in the first half of 1953. In the second half of 1954 import restrictions were further relaxed. All imports are subject to license, but more and more goods have been shifted from individual license (subject to quota) to open general license without quantitative limitation. In general, dollar imports are more strictly controlled than

are those from other monetary areas, but some of the lines of demarcation between soft-currency and hard-currency goods have been wholly or partially removed in recent months. For control purposes, distinction is made between soft-currency licenses, applicable to imports from soft-currency areas, and general licenses, applicable to imports from both soft- and hard-currency areas. One action that India took toward a more liberal treatment of dollar imports for 1954 was to permit the use of import quotas for certain commodities from soft-currency countries (up to specified limits) for the importation of such commodities from the United States and other hard-currency sources. In addition, hard-currency quotas were established for certain commodities for the first time, and certain existing hard-currency quotas were liberalized. On the other hand, some hard-currency imports were reduced by less liberal licensing. License quotas for soft-currency imports were reduced for some commodities and increased for others, but left unchanged for most items on the soft-currency list. Earlier liberalization measures in the fall of 1953 affected dollar goods chiefly by enlarging a number of existing quotas for dollar goods, and by authorizing more liberal licensing under the "general" licensing procedure. A wide range of manufactured goods came under these various liberalization measures in 1953 and 1954. A much smaller range of products was subjected to reduced quotas, less liberal licensing, or—in a few instances—a complete embargo. On the whole, India's import policy is very flexible, and is quickly adjusted to the country's exchange situation and domestic requirements. India appears more reluctant than some countries to employ quantitative restrictions for purely protective purposes, although it has done so in some instances.

In 1953–54, in the interest of expanding exports, India reduced or abolished a number of export duties, and adopted new measures—such as the creation of export production councils—to consolidate and extend advances already made in the export field. It also reduced a number of import duties; the reductions on a long list of automotive vehicle parts was of principal interest to the United States. On the other hand, India requested renegotiation of a small number of tariff concessions that it had made in the General Agreement on Tariffs and Trade in 1947 and 1951.

Pakistan

The general improvement in Pakistan's overall balance—from a large deficit in 1952 to a small surplus in 1953—resulted from reduced deficits with the dollar and sterling areas and a greatly increased surplus with the rest of the world. The improvement resulted largely from the severe restrictions placed on imports in 1952; at that time drastic declines were developing in Pakistan's foreign balances because of a decline in the demand for and prices of its principal export commodities, especially cotton

and jute. As a long-run solution of its financial problem, Pakistan began to place more emphasis than it formerly had on increasing domestic production—through an accelerated program of capital investment—and by reducing domestic consumption and expenditures for social services. This policy entailed an increase in imports of capital equipment and a curtailment of imports of consumer goods. Private imports declined as a result of the additional restrictions placed on imports of consumer goods and also because of price-control measures that discouraged the building up of inventories. On the other hand, imports on government account increased.

In October 1953, Pakistan reduced from 53 to 20 the number of items that could be imported from the dollar area. The 33 items that no longer were licensable from that area included certain iron and steel products and other industrial equipment. The 20 items that still could be imported from the dollar area were chiefly industrial products. In December 1953, in announcing its import program for the first half of 1954, Pakistan added a number of industrial items to the list for which dollar licenses would be issued; these additions exceeded the number of items that were transferred from the dollar-area list to the nonlicensable list. All commodities importable from the dollar area, except three (certain medicines, gas black and carbon black, and synthetic rubber) are also importable from other areas. A large share of the imports of the items that could be licensed for importation were to be purchased on government account. The effect of Pakistan's action in making these changes in its import program was to greatly reduce imports of consumer goods and to keep imports of capital goods at a relatively high level.

Union of South Africa

The overall balance-of-payments position of the Union of South Africa improved but little between 1952 and 1953; the country had an overall deficit in both years, but a moderately lower deficit in 1953 than in 1952. The Union had a deficit in both years with the dollar area (reduced in 1953), the rest of the sterling area (increased slightly in 1953), and the continental OEEC group (the same in both years, but much smaller than the dollar and sterling deficits). Only with the rest of the world did South Africa have a surplus in both years, but even this was somewhat lower in 1953 than in 1952.

The Union of South Africa regarded its extensive relaxation of import controls in 1951 as principally responsible for the growing deficits in 1952. In 1952, therefore, it began to restore some of the controls previously relaxed and to apply new ones. Although South Africa still restricted total imports in 1953 almost as severely as it did in 1952, it took action favorable to dollar imports by removing the discrimination against them. Actually, because of its special and relatively independent position in the sterling area (relating to its freedom of action with respect

to gold), South Africa has never practiced the same degree of discrimination against dollar imports as have other members of the sterling area. South Africa's freedom of action with respect to gold consists of providing its own dollar requirements either by selling domestically mined gold to the United States directly in exchange for dollars or by settling in gold with the Bank of England for any dollars acquired through London. South Africa does not turn its gold over to London, and does not draw on the central reserves of the sterling area for its dollar requirements. This practice has left South Africa in a position to import more freely from the dollar countries than can other sterling countries. By virtue of its arrangements to sell to the United Kingdom a fixed minimum of gold each year, however, South Africa does discriminate against dollar goods in order to help maintain and protect the sterling area's gold reserves.

In abolishing discrimination against dollar goods, which it accomplished by freely issuing permits for imports from either hard- or soft-currency countries, South Africa ran the risk of serious drains on its gold and dollar reserves. On the other hand, the government regarded this risk as offset by the advantages it gained by permitting importers freedom to buy in the cheapest market, since this was calculated to reduce the country's cost structure and thereby improve its export potential. The government still clung to the hope, however, that the United States would increase the price of gold. The South African Government stated that a successful continuation of the policy of nondiscrimination would depend on cooperation from other countries, especially the United States, either with respect to the price of gold or by increased purchases of South African products.

The exchange allocations that South Africa originally announced would be issued to importers for various categories of goods in 1954 were substantially smaller than the allocations in 1953. In March 1954, and again in July, the allocations were increased. These increases probably left total imports in 1954 still somewhat below the 1953 level. Since South Africa's reserves were increasing as its balances continued to improve, the government announced in mid-1954 that it was considering still further relaxations. The effect of the abolition of discrimination against dollar goods, while potentially of considerable interest to the United States, was offset to some extent by reduced quotas for 1955 for certain imports, including a variety of industrial raw materials and maintenance parts. Imports of consumer goods in 1955 were given more liberal treatment than in 1954.

In 1953–54, South Africa also revised a large number of its import duties—mostly upward. Some of the increases represented restoration of the 3-percent ad valorem intermediate and maximum rates previously suspended on some semifinished iron and steel products. Duties on a variety of other semifinished iron and steel products—that previously had

been suspended—were not restored. Duties already in effect on a large number of consumer goods were revised; with few exceptions the rate changes represented duty increases. With a view to according greater tariff protection to the domestic textile industry, South Africa imposed a dumping duty on imports of woven cotton piece goods from Japan. It also brought into operation maximum duty rates—of 15 percent ad valorem plus an additional "suspended" duty of 30 percent ad valorem—on certain woven or knitted cotton piece goods; these duties are applicable to imports from all countries except those that benefit from most-favored-nation rates as a result of trade agreements. The rate for the United States and other most-favored nations is 10 percent plus a "suspended" duty of 20 percent. In addition, South Africa imposed additional "special suspended" duties, ranging up to 35 percent ad valorem, on a wide range of woolen, cotton, and rayon textile products. These additional duties were not levied on imports from the United States and other countries entitled to most-favored-nation rates.

Southern Rhodesia [46]

Imports into Southern Rhodesia which are the product or manufacture of the sterling area are not subject to control. For all other imports distinction is made, for control purposes, between imports from the dollar area and those from all other nonsterling sources. Separate allocations of foreign exchange are made for imports from these two nonsterling areas. Since 1951 Southern Rhodesia has progressively allocated more exchange for dollar imports, but has tended (as in 1953) to allocate less for non-dollar, nonsterling purchases. In the second half of 1953 Southern Rhodesia relaxed import controls on a wide range of nonsterling goods that are not available from sterling sources. These goods, formerly under quota, were relieved of quota limitation, and licenses were increased for imports of the goods. A further relaxation was made by removing goods from the prohibited list and placing them under quota, with assurances that licenses would be automatically issued to applicants. The government announced that the new relaxations were partly designed to permit domestic industries to purchase raw materials from the cheapest sources. Another objective was to make certain essential goods available at lower prices and thus reduce living costs. A year later—in mid-1954—the restrictions on dollar and other nonsterling imports were further relaxed. The prohibited list of imports was substantially reduced, and dollar exchange allocations were increased for some items, including commercial vehicles and office equipment.

[46] In 1953 Southern Rhodesia joined with Northern Rhodesia and Nyasaland, to form the Federation of Rhodesia and Nyasaland.

NONDOLLAR COUNTRIES NOT IN OEEC OR THE STERLING AREA

The nondollar countries—other than those in the Organization for European Economic Cooperation and the sterling area—with which the United States had trade agreements on June 30, 1954, were Argentina, Iran, and Paraguay (all parties to bilateral agreements), and Brazil, Chile, Indonesia, Finland, Peru, and Uruguay (all contracting parties to the General Agreement).[47] All of these countries except Finland operate multiple-exchange-rate systems, and all except Argentina are members of the International Monetary Fund. They all restrict dollar imports and imports payable in other scarce currencies, although Peru exercises a minimum of such restraints. In some countries commodities are classified in categories in descending order of essentiality, with low rates of exchange applicable to the more essential products, and high rates, to nonessential and luxury goods. Some countries also maintain a list of prohibited imports. On the buying side the more favorable exchange rates are accorded exports that the government wishes especially to stimulate, usually because they cannot compete successfully on the export market without a subsidy of this kind; commodities that are more readily marketable abroad without subsidies are accorded a lower rate. As a rule there are fewer selling rates than buying rates, since other measures, such as quantitative restrictions and licensing, are commonly employed to supplement the exchange-rate differentials in controlling imports. In some countries the sale of exchange for more than is paid for it is a source of considerable revenue. In some multiple-exchange-rate systems an important objective is adjustment of the relationship between domestic costs and foreign prices of particular commodities. Multiple-exchange-rate systems sometimes are operated in such a way as to protect domestic industries.

During 1953–54, the situation with respect to the multiple-exchange-rate practices of various countries was substantially the same as was outlined in the Commission's report for 1952–53.[48] During the year the International Monetary Fund continued its campaign to induce members that employ such systems to simplify them and place them on a more stable basis. An important means of simplification is to reduce the number of exchange rates. In 1953–54, however, Argentina, Brazil, Paraguay, and Uruguay further complicated their multiple-exchange-rate systems by adding new rates and changing some old ones.[49] The principal

[47] Uruguay became a contracting party to the General Agreement on December 16, 1953. Before that date it had a bilateral trade agreement with the United States; the bilateral agreement became effective on January 1, 1943.

[48] See *Operation of the Trade Agreements Program* (sixth report), pp. 136–147.

[49] For details regarding exchange rates and other developments in financial and trade policies, see the International Monetary Fund's annual reports on exchange restrictions.

features of Iran's rate structure remained unchanged. Chile reduced the number of its rates by unifying its exchange-rate structure around a new par value, but its exchange-rate structure still remained highly complex. Peru, which does not manipulate its relatively simple two-rate system in favor of certain exports or imports, did not alter its policy. Indonesia made no substantial changes in its rate structure, but did intensify its import restrictions.

For Argentina and Brazil the balance of payments—both overall and with the dollar area—improved substantially in 1953 compared with 1952. On the basis of partial data, it appears to have improved for Paraguay and Uruguay. However, it deteriorated for Chile and Peru.

Argentina was somewhat more liberal in granting import licenses in 1953 than in 1952, but placed much greater emphasis on measures to expand exports, especially by applying more favorable exchange rates to certain products. This action added to the complexity of Argentina's export exchange-rate structure.

Brazil increased the complexity of its exchange-rate structure more with respect to imports than with respect to exports. Several new selling rates were created to correspond to five categories of imports classified on the basis of essentiality. The new rates were much higher than the previous ones because of the addition to the basic rates of a surcharge, a remittance tax, and auction premiums. For most imports the cost of foreign exchange to the importer was thus greatly increased. New and higher rates also were established for exports—one for coffee [50] and a still higher rate for all other exports. These changes in selling and buying rates were stated to be emergency and temporary measures designed to enable Brazil to bring about a better balance between its exports and imports.

The United States and certain other contracting parties to the General Agreement have had long-standing complaints against Brazil's failure to conform to two agreement obligations. In 1948 Brazil had withdrawn concessions granted at Geneva on powdered milk, penicillin, and calendars and almanacs. At the Annecy Conference, the Contracting Parties permitted Brazil to apply ordinary rates of duty on these products, and Brazil agreed—as compensation for the increase of duties on these products—to modify duties on 15 subclassifications of its concessions and to add one item (tetraethyl lead) not formerly a concession item. The items on which Brazil agreed to modify the rates of duty included oat flour; 7 earthenware articles; parts, accessories, and fittings for ambulances, lorries, omnibuses, and other motor vehicles; 3 steam-generator items; and 4 grading-machine items. As of the end of the period covered by this

[50] Before October 16, 1953, the official export (selling) rate for Brazilian coffee was 18.36 cruzeiros per United States dollar. On October 16, 1953, the effective rate was increased to 23.36 cruzeiros per dollar by the addition of a 5-cruzeiro bonus to the official rate of 18.36.

report (June 30, 1954), Brazil had not put into effect the tariff concessions agreed to in compensation for those it had withdrawn, and the matter was again put on the agenda for the Ninth Session of the Contracting Parties.[51]

Brazil's violation of article III of the General Agreement in applying discriminatory internal taxes, discussed in previous reports of the Commission,[52] had not been removed during the period covered by this report (July 1, 1953–June 30, 1954). In June 1950, the Government of Brazil had sent a message to the Brazilian Congress requesting action to correct the discrimination in favor of domestic products that had been adopted or increased since October 1947. The Brazilian Congress, however, did not comply with this request. The discriminatory taxes—which are higher on imported articles than on those produced in Brazil—apply to clocks and watches, playing cards, numerous tobacco products, and other articles.

The principal change made by Chile occurred in October 1953 when, with the concurrence of the International Monetary Fund, it changed the par value (official rate) of its currency from 31 pesos to 110 pesos per United States dollar; most imports and exports take place at the official rate.[53] This step was taken as one means of enabling Chile to overcome the internal and external financial difficulties resulting from inflationary pressures and a serious deterioration in its export proceeds, especially those from copper. The apparent advantage of the new rate to exports was not great enough, however, to overcome Chile's export difficulties, in view of depressed markets for copper and other commodities. Nor was the devaluation sufficient in itself to result in lowering imports to the desired level, as evidenced by Chile's continued restriction of imports by other means, including the addition of many commodities to its already long list of prohibited imports.

With the concurrence of the Monetary Fund, Paraguay also devalued its currency (from 6 to 15 guaranies per United States dollar, par value, effective January 1, 1954). Actually, the country's basic buying and selling rates had been 15 guaranies per dollar since August 1952; these rates were accompanied by export taxes and subsidies for certain exports and imports, and also by high exchange surcharges on all but the most essential imports. In the Paraguayan system, imports and invisibles are

[51] During the course of the Ninth Session, which began in October 1954, Brazil made the compensatory concessions effective, thus settling this issue.

[52] See *Operation of the Trade Agreements Program*, third report, p. 128; fourth report, p. 95; and fifth report, pp. 169 and 170.

[53] The Chilean exchange-rate structure still remains highly complex despite the reduction in the number of rates as expressed in terms of United States dollars. This results from the fact that, whereas the banking rate of the free United States dollar (corresponding to the par value) remains stable at 110 pesos per dollar, the rates for other currencies fluctuate, thus creating a multiplicity of effective rates. For United States objections to the discriminating effect on United States trade produced by this structure, see the discussion on Chile in the section on miscellaneous matters regarding trade-agreement obligations.

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now classified into five groups on the basis of descending essentiality, with an ascending scale of effective rates resulting from the addition of surcharges to the basic exchange rate for three groups; in addition, there is a high controlled free-market rate for a fourth group of imports, and a still higher fluctuating free-market rate for certain imports and invisibles in a fifth group. The exchange-rate structure is more complex under these arrangements than it was before. The new arrangements reflect a further effort by Paraguay to combat inflation, stabilize the country's economy, and improve its balance of payments.

Early in 1954 Peru made a standby credit arrangement with the International Monetary Fund to draw on any currency held by the Fund up to a specified total amount; it also concluded a stabilization credit arrangement with the United States Treasury for a similar amount and secured a line of credit from a private United States bank. The purpose of these arrangements was to assist the country to stabilize its fiscal position. By drawing on the resources of the Fund—if necessary—to smooth out exchange fluctuations, the Peruvian Government hoped to maintain its policy of avoiding direct exchange restrictions. Peru did not alter its relatively simple exchange-rate structure in 1953–54. The sol has an initial par value of 6.50 soles per United States dollar—established in 1946—but this value is not applied to any transaction under the country's exchange system.

Peru makes no attempt to apply any fixed rate to exports or imports, but undertakes to prevent or control fluctuations in the rate by the kind of operation indicated above. It does, however, operate its exchange system in such a way as to permit two slightly different buying and selling rates: one for exchange transactions in the fluctuating "exchange certificate" market—applicable to most exports and imports—and another for exchange transactions in the fluctuating "draft" market—applicable to all other exports and imports.[54] Although Peru does not use its exchange system as a means of favoring certain exports or imports (except to the small degree inherent in the slight difference between the certificate and draft rates), it does sometimes resort to temporary prohibitions on imports of such items as automobiles. Otherwise imports are permitted freely, except from Eastern Europe and Communist China. No licenses or other controls are applied to payments for imports. All exports require licenses in order to assure the necessary supply of exchange for the certificate market.

Uruguay's complex structure of export and import rates underwent no fundamental change in 1953–54, but its complexity was somewhat in-

[54] Importers are free to use either of these two exchange markets to pay for imports. In the certificate market, however, they can obtain only United States dollars, pounds sterling, French francs, or Argentine pesos. Other currencies must be obtained through the draft market or by converting certificate currency into the currency required.

creased by a number of minor changes in the export rates. These changes consisted of increasing the extent to which export proceeds from the sale of certain products could be retained for use in the free market. More favorable rates were established for some exports. Some essential imports and some nonessential and luxury imports were subjected to less favorable rates than before by the addition of an exchange tax to the old rates. The requirement of licenses for all exports and virtually all imports remained, as in previous years. In general, Uruguay continued its policy of restricting imports, not only to cope with the problems created by inflation and variations in export earnings, but also to further the country's economic development and to protect certain industries. During 1953–54 Uruguay's trade balance and external reserves tended to improve, but not enough to allow for any general relaxation in import restrictions.[55]

Indonesia and Iran operate multiple-exchange-rate systems, and Finland, a single-rate system. No one of these three countries made any fundamental changes in its trade policy in 1953–54. Finland and Iran showed substantial improvement in their overall balance of payments. Finland moved from a deficit in 1952 to a surplus in 1953, and Iran greatly reduced its deficit in 1953 and moved towards a large surplus in 1954. Both countries improved their dollar positions.

Finland has improved its dollar position mainly by severely restricting dollar imports, and has used the foreign exchange thus saved to build up its exchange holdings. Restrictions on imports of United States automobiles have been particularly severe, as also have been the restrictions on the use of sterling—of which Finland also has a surplus—for such purchases from the United Kingdom. The restrictions were increased in 1954. Finland's large trade clearing debts with Western Germany and France also preclude reliance on those sources for automobiles and other products. On the other hand, Finland has an export surplus with the Soviet-bloc countries and, therefore, relies mainly on these sources for automobiles and some other requirements. Early in 1954 the United States Foreign Operations Administration agreed to provide Finland with about five million dollars to finance purchases of United States cotton and tobacco; the local currency proceeds from the sale of these commodities to Finnish importers was to be used for United States purchases of Finnish products. Finland has hesitated to relax its import restrictions until the inflated structure of internal prices and costs can be adjusted so as to place its producers in a stronger competitive position in the export market, and at the same time lessen the impact of foreign competition on its own high-cost domestic industries. A 50-percent increase in basic import duties has been proposed as one means of restricting imports in order to

[55] For further discussion of Uruguay, concerning United States charges of violations by Uruguay of its trade-agreement obligations, see section on miscellaneous matters regarding trade-agreement obligations.

safeguard the country's foreign currency reserves and to protect domestic industries.[56]

Because it continues to export more to than it imports from the United States, Indonesia has no dollar-gap problem, as such. However, it converts large amounts of its dollar and other hard currencies into soft currencies when there is a dearth of the latter. Therefore it has to restrict the use of its remaining dollar exchange to purchases of particularly needed commodities from the United States, such as capital goods for development purposes. Indonesia's overall trade balances and payments balances have tended to deteriorate sharply since the export boom for raw materials collapsed with the end of the hostilities in Korea. Faced also with serious internal inflation—closely associated with budgetary deficits—the government has turned increasingly to quantitative restrictions and exchange-control measures in an effort to restrict imports. Indonesia employs a much higher exchange rate for luxury imports than for other imports; it requires large advance deposits on the nominal value of most imported goods, and excludes certain "super luxury" goods from the domestic market by refusing to provide the necessary official exchange. It also has an ascending scale of additional import levies for goods other than prime necessities for local industry, and certain other essentials. For a time Indonesia undertook to stimulate exports to the dollar area (while at the same time discouraging dollar imports) by allowing a small exchange differential on dollar exports; this practice was ended at the beginning of 1954. In October 1953, however, Indonesia introduced a system whereby exporters of certain Indonesian products are allowed to retain a proportion (ranging between 5 percent and 10 percent) of the value of their export proceeds for use in importing certain luxury and semiluxury goods.

Iran greatly reduced its overall balance-of-payments deficit in 1953, and attained a surplus position in 1954. As a result of financial assistance from the United States Government in September 1953, additional United States aid in March 1954, and large credits from France and Western Germany, Iran was placed in a position to increase its imports and, accordingly, took steps to relax its import restrictions. The rate of exchange was reduced with a view to increasing imports and attracting foreign capital. Import quotas were increased for some goods, and restrictions on certain exports were relaxed. Severe restrictions were maintained on luxury imports, and imports of a considerable number of commodities were completely prohibited. The various efforts by the United States and other countries to assist Iran coincided with improved prospects of reaching a solution to Iran's oil problem.

[56] At their Ninth Session, the Contracting Parties granted Finland authority to adjust the specific rates of import duty bound under the General Agreement in view of the devaluation of the Finnish markka in 1949, which resulted in a total increase of approximately 70 percent in the markka equivalent of the United States dollar.

DOLLAR COUNTRIES [57]

Dollar Countries Other Than Cuba

Between July 1, 1953, and June 30, 1954, there was no change in the status of the trade agreements between the United States and the 10 "dollar" countries, and no outstanding developments in the trade policies and practices of these countries. The trade agreements continued on a bilateral basis with Ecuador, El Salvador, Guatemala, Honduras, and Venezuela, and on a multilateral basis (under the General Agreement on Tariffs and Trade) with Canada, Cuba, the Dominican Republic, Haiti, and Nicaragua. The trade-control regulations of these countries, as described in the Commission's report for 1952–53,[58] have undergone no substantial changes, and there have been no outstanding new developments in their trade relations with the United States. Special attention, however, is given below to the United States-Cuba negotiations—begun some years ago—regarding the Cuban rice quota and other matters.

Of the dollar countries, only Ecuador, Nicaragua, and Venezuela employ multiple-exchange-rate systems, and therefore have at least the framework associated with exchange restrictions. Venezuela has no exchange problems. It has only one exchange rate for private imports, and virtually only one rate in operation for exports, although provision is made for several buying rates. There are only a few quantitative restrictions on imports, principally of a protective nature. Although the currencies of Ecuador and Nicaragua are "substantially convertible," these countries retain a few restrictive practices. Ecuador's multiple

[57] The term "dollar countries" is applied somewhat arbitrarily. The International Monetary Fund's *Balance of Payments Yearbook*, vol. 5, 1947–53 (issued in 1954), does not distinguish the dollar area as a separate group in the presentation of balance-of-payments data. As stated in the *Yearbook*, "The definition of that area varies from country to country, depending on the payments arrangements in force between the reporting country and individual foreign countries, and the definition may change from time to time for any one country. However, the classification does provide for showing separately data for the United States and Canada, which ordinarily constitute the main members of the dollar area." In the Fund's *International Financial Statistics* the Latin American dollar countries are listed as Bolivia, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Venezuela. The United Kingdom exchange-control regulations list as "American and Canadian account countries," in addition to the United States and its dependencies, Canada, and the Latin American countries named above, Liberia, the Philippine Islands, and Pacific islands formerly under Japanese but now under United States administration. Latin American countries listed in *International Financial Statistics* as nondollar countries are Argentina, Brazil, Chile, Paraguay, Peru, and Uruguay. In its *Fifth Annual Report on Exchange Restrictions* (1954), the Fund states that the currencies of five Latin American countries—Colombia, Costa Rica, Ecuador, Nicaragua, and Peru—"might appropriately be characterized as in fact substantially convertible, although a few restrictive practices remain." In the Commission's present report Peru is treated as a nondollar country, and Ecuador and Nicaragua as dollar countries; this follows the Fund's classification in *International Financial Statistics*.

[58] See *Operation of the Trade Agreements Program* (sixth report), ch. 6.

exchange rates arise from the coexistence of an official rate and a free exchange market. In several respects Nicaragua is in a class by itself among the Latin American dollar countries. It has no exchange problems in the usual sense of having to apply exchange restrictions for balance-of-payments reasons. Its multiple exchange rate structure consists of two official rates and various surcharges. These rates and surcharges are applied to three categories of imports—essential, semiessential, and nonessential. Nicaragua also requires a deposit, in domestic currency, of a high share of the calculated value of imports in the various categories. There has been considerable criticism by domestic trade organizations of the government's policy of controlling imports through multiple exchange rates and the prior-deposit system. Nicaragua does not, however, employ quantitative restrictions or prohibitions to restrict imports.

Canada has no exchange problems and employs no exchange controls; the same is true of Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, and Honduras. Cuba levies a 2-percent exchange tax, but it is of minor importance, and the International Monetary Fund has not objected to its temporary continuation. Guatemala resorts extensively to quantitative import restrictions and prohibitions. As pointed out in previous Tariff Commission reports on the operation of the trade agreements program, Guatemala's trade practices and tariff treatment have been a source of considerable difficulty in its relations with the United States.

Cuba

The Governments of the United States and Cuba have negotiated at length regarding certain matters connected with Cuba's commitments under the General Agreement on Tariffs and Trade. Since these problems are of interest primarily to the United States and Cuba, the Contracting Parties have left it to the two countries to work out solutions which are mutually satisfactory to them. While agreement has been reached on some of the matters at issue—notably Cuba's quota treatment of rice imports from the United States—certain other issues, some of which are related to the rice question, have not been resolved.

The main problem has centered on the operation of Cuba's tariff quota on rice. Negotiations between the two countries, with a view to clarifying this issue, began at Torquay in the spring of 1951. They continued at Havana in May and June 1951, and then lapsed. The negotiations were resumed in Havana in November 1952, and culminated, on December 17, 1952, in an exchange of notes setting forth the terms of agreement with respect to the rice trade between the two countries. In 1953 Cuba and the United States notified the Contracting Parties that they had reached a satisfactory solution to the problem.

Under the arrangement resulting from these negotiations, the Cuban rice-quota year begins on July 1 rather than on January 1, as originally

agreed to at Geneva in 1947. A new formula is now employed for computing Cuba's total annual consumption and import requirements of rice, and for determining the size of the "preliminary deficit quota" and of the "additional supplementary deficit quota." Imports under the deficit quotas are dutiable at the same low rate that applies to the basic tariff quota agreed upon in 1947. Another feature of the new arrangement, which was first made operative for the quota year beginning July 1, 1953, concerns the timing of announcements by the Cuban Government regarding the rice quotas.

In administering its rice-quota system during the year ended June 30, 1954, Cuba in general carried out satisfactorily the provisions of the 1952 exchange of notes.[59] Nevertheless, certain features of Cuban import controls on rice have been represented by the affected Cuban importers and United States exporters as being unduly restrictive in practice. The system of individual quotas for licensed importers of rice from the United States is considered burdensome.[60] Moreover, the required advance registration of purchase contracts by rice importers at times delays and complicates imports under quota allocations. A more significant complaint with respect to Cuban customs treatment of imports of United States rice is a matter of several years' standing and one that involves not only rice but almost all other Cuban imports of agricultural products. This unresolved issue concerns the levying by Cuba of a gross sales tax on imported foodstuffs at the rate of 6 percent of the duty-paid value and the exemption from the tax of like products grown in Cuba. On agricultural products other than foodstuffs the tax on imports is 9 percent ad valorem. It has been the view of the United States that this discriminatory tax treatment constitutes an infringement of the national-treatment provisions of article III of the General Agreement.

A related and also unresolved issue exists because Cuba still subjects imported books to the full 9-percent Cuban gross sales tax, whereas books printed in Cuba are tax exempt. In its representations concerning these particular problems, [61] the United States has also taken the position that the 20-percent reduction—which, in effect, is allowed on all Cuban products subject to the gross sales tax—constitutes unequal tax treat-

[59] The requirement of a Cuban decree of March 13, 1954, that imports under the deficit quota of 600,000 Cuban quintals (approximately 606,476 cwt.) of rice be restricted to entries into, and provisional storage in, the Free Zone of Matanzas, was considered as contravening the spirit of the 1952 agreement. The decree was amended, retroactively as of April 1, 1954, to provide for imports of the rice through the normal ports of entry and into consumption channels.

[60] And no longer necessary, since United States export control over rice to Cuba and other countries was terminated in November 1953.

[61] After discussions with the United States, Cuba took corrective action to equalize the tax treatment of imported articles and Cuban products with respect to lumber, and butter and cheese.

ment of like articles imported from the United States. The latter are taxable at the full rates based on the duty-paid value of the goods at the time of customs clearance.

During the period covered by this report, the United States again brought certain other matters to the attention of the Cuban Government because, in the view of the United States, they impinged on Cuban commitments in the General Agreement. Some of these problems arose after the imposition by Cuba of new or increased import taxes or fees on products of the United States for which the negotiated rates of duty—in Cuba's schedule IX of the General Agreement—were bound against increase. The new levies were established to provide revenue for specified retirement and pension funds. One such tax affects imports of all concession items, inasmuch as it is a charge collected on import documents. Another affects a broad category of goods—pharmaceutical specialties—on which the registration fee was increased despite a commitment that no such fee should be greater than that existing on October 30, 1947. With respect to alcoholic beverages (except beer), the retirement-fund levy was established, in December 1950, as a "luxury consumption tax" on imported and Cuban products. In March 1953 (effective retroactively to January 1, 1953), a system of differential tax rates was adopted whereby Cuban alcoholic beverages of "ordinary" class are taxed at 1½ percent (based on the producers' invoice valuation), and those of "fine" class, at 5 percent. On imported products, however, the tax is collected by the customs at the uniform rate of 6 percent ad valorem (based on the duty-paid value, exclusive of gross sales tax). Still another instance of what the United States has considered a contravention by Cuba of certain of its commitments under the General Agreement, and one which has been the subject of discussions and correspondence between the two Governments for several years, is a special tax on imported steel reinforcing bars. This tax was established by Cuba in November 1949 as a means of providing revenue for a newly created retirement and pension system for Cuban architects. Inasmuch as the specified bars were included under a tariff item on which Cuba had granted a bound rate of duty in the negotiations at Geneva in 1947, the additional import tax appears to be in contravention of Cuba's commitments under article II of the General Agreement with respect to the binding of concession rates of duty.

The matters at issue between the United States and Cuba that have been discussed above did not first arise during the period covered by this report but rather were a continuation from some earlier period covered by the Tariff Commission's reports on the operation of the trade agreements program. A somewhat different type of problem arose, however, during the period here covered. This issue concerns the withdrawal of particular products from a broad commodity classification under a tariff item included as a concession in Cuba's schedule under the General Agreement.

The products involved were either transferred to another existing item of the Cuban tariff or were specifically provided for under a newly established item. In either case, the resulting applicable rate of duty represents a material increase over the rate formerly applied. One such reclassification, in the 1953–54 period, had the initial effect of increasing tenfold the Cuban import duty on imports of United States mill products of extruded aluminum suitable for the production of windows, railings, furniture, and other manufactured articles. After discussions between the two Governments, and after petitions of representatives of United States trade and industry in Havana, Cuba gave sympathetic consideration to a proposal to establish a new tariff item and classification for the specified aluminum products. The appropriate tariff amendment was adopted by a Cuban Presidential decree which became effective July 1, 1954. The new duty on these articles (products of the United States) represents a doubling of the rate applicable before the first change in classification was made in May 1953.

Another tariff reclassification that resulted in a very material increase in the Cuban import duty on a product of the United States was that adopted in April 1954 for plastic hose. Before that time, plastic hose was classified for duty purposes under the Cuban tariff item that provided broadly for hose made of rubber or any other material; it was reclassified as a nonspecified plastic product. The change in classification resulted in an increase in the duty on plastic hose imported from the United States from 4 cents per kilogram to 90 cents per kilogram. This matter was brought to the attention of Cuba by the United States Government shortly after the Cuban action was taken, but the situation was unchanged at the end of the period covered by this report.

SUBSIDIES

Under the present provision of the General Agreement, contracting parties are simply required to submit reports to the Contracting Parties on their subsidies; subsidies are defined in article XVI as any form of income or price support—used by a contracting party—"which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory." There are no provisions for limiting the use of subsidies as thus defined, except in the sense that a contracting party granting a subsidy that is determined to cause or threaten serious prejudice to the interests of any other contracting party, shall, upon request, discuss with the other contracting party or parties concerned, or with the Contracting Parties, the possibility of limiting the subsidization.

The nature and extent of the subsidies employed by various contracting parties to the General Agreement, as defined in article XVI, have not changed appreciably since they were first reported to the Contracting

Parties in 1951.[62] On the basis of the 1951 report and subsequent reports (the latest of which was issued by the Contracting Parties in December 1954), the contracting parties with which the United States has agreements, and which employ subsidies as defined in article XVI, are the following: Australia, Belgium, Canada, Cuba, Denmark, Finland, France, Italy, the Netherlands, Sweden, Turkey, the Union of South Africa, and the United Kingdom; the United States also employs subsidies as they are defined by article XVI.[63] Those countries which have reported at one time or another that they are not employing such subsidies are Austria, Brazil, Burma, Ceylon, Chile, the Dominican Republic, the Federal Republic of Germany, Greece, Haiti, India, Indonesia, Luxembourg, New Zealand, Norway, Pakistan, and Southern Rhodesia.

Foreign countries which employ subsidies, as defined by article XVI, for a relatively large number of commodities—and these countries include Australia, Belgium, Canada, and the United Kingdom—indicate that some of the subsidies have had negligible effects. The other foreign countries that employ subsidies report that they affect a very small number of commodities, or emphasize the negligible effects of their subsidies on international trade.

The reports to the Contracting Parties on the use of subsidies are often inconclusive as to whether, or to what extent, such measures actually operate directly or indirectly to increase exports or to reduce imports. In their reports on international trade for 1952 and 1953, the Contracting Parties indicate that "frequently the facts of subsidization are not well-known outside the countries in which the subsidies are granted since the actions of governments in this field receive less publicity than measures, such as tariffs and quantitative restrictions, which act as direct controls on the flow of trade. . . . In a world free from import restrictions, subsidies on their present scale would be a far more important factor in international trade than they are today. Countries which apply quantitative restrictions because of balance-of-payment difficulties can ward off the competition of a subsidized foreign product in their own territories by maintaining restrictions on its importation, but their producers cannot compete on equal terms with the subsidized product in other markets. It is in these third markets that the effects of subsidies are mainly felt in present circumstances." [64]

Most subsidies that are reported as falling within the scope of article XVI are on raw materials and foodstuffs; relatively few are on highly manufactured products. During the last year or so the question of subsidies has become a highly controversial one among the contracting

[62] For a discussion of subsidies as they existed in 1951, see *Operation of the Trade Agreements Program* (fourth report), pp. 106–109.

[63] See ch. 3.

[64] Contracting Parties to the General Agreement on Tariffs and Trade, *International Trade 1952*, Sales No.: GATT/1953–2, Geneva, 1953.

parties to the General Agreement, largely because of a general tendency toward increased use of export subsidies, and a corresponding increase in sentiment that the contracting parties to the General Agreement should relax rather than intensify their restrictions on the use of such practices. The United States, the United Kingdom, and other highly industrialized countries tend to favor confining the use of subsidies to primary products. Countries that are less highly industrialized, on the other hand, generally tend toward the view that manufactured products are as deserving of subsidization as primary products.

MISCELLANEOUS MATTERS REGARDING TRADE-AGREEMENT OBLIGATIONS

Various kinds of problems that arise between contracting parties to the General Agreement on Tariffs and Trade are examined by the Contracting Parties at their periodic sessions; problems that were examined by the Contracting Parties during the period July 1, 1953–June 30, 1954, are discussed in chapter 3 of this report. Some matters at issue between contracting parties are not formally examined at the periodic sessions of the Contracting Parties—at least not immediately—but are first taken up on an informal basis by the parties concerned. This practice is followed in matters relating to violations of provisions of the General Agreement, since countries are understandably sensitive on issues of this kind. Issues are, therefore, usually first explored by the interested parties, and many of them are resolved without recourse to formal action by the Contracting Parties. Failure to reach a solution by these informal methods usually is followed by formal presentation of the case to the Contracting Parties for study and consideration. Problems that arise between the United States and countries with which it has bilateral trade agreements are, of course, taken up directly with the countries concerned.

For the most part, countries abide scrupulously by the commitments they have made in trade agreements, and modify or withdraw concessions or other commitments only through the channels, and by the methods, provided for in the agreements. At times an infringement of an agreement may be inadvertent, and such an infringement is readily corrected. Of course, what may be regarded as an infringement of the terms of an agreement by one party to the agreement may not be so regarded by the other party, and thus prolonged controversies often arise. Sometimes a country will readily admit that it has violated an agreement, but will plead that—in view of its balance-of-payments position or its commitments in other agreements—it had no choice but to take the action in question.

The United States Government may, of course, terminate a bilateral trade agreement which has not operated satisfactorily because of the failure of the other party to live up to its obligations, or it may make

some adjustment in its own concessions which will compensate for the objectionable action of the other party. It has not been United States policy, however, to take drastic action in handling such cases, but to rely on representation through diplomatic channels to bring about the corrective action desired. In numerous instances the United States has pursued this policy with countries in which internal political or economic difficulties may be regarded as extenuating circumstances calling for patience and understanding. Some countries have readily promised to take corrective action, when called upon to do so, but have been slow to carry out their commitment. In numerous instances, protests by the United States against the actions of other parties to trade agreements have involved a failure to abide by the spirit of an agreement rather than outright infringement of specific provisions. In general, the United States has not been disposed to protest formally against action by other parties to an agreement that appears inconsistent with their obligations until it is confronted with evidence of injury to its interests, or evidence that United States products have been accorded unreasonable or arbitrary treatment.

Some of the issues that have arisen between the United States and certain other contracting parties to the General Agreement are discussed earlier in this chapter and in chapter 3 of this report. Special attention was given earlier to issues between the United States and Cuba. Another example is the issue that arose between the United States, Canada, and certain other dollar countries, on the one hand, and Belgium, on the other, regarding Belgian discriminatory import restrictions on dollar goods. By May 1954, as far as the United States was concerned, the issue had narrowed down to Belgian restrictions on imports of United States coal, as Belgium had ceased to apply discriminatory quantitative restrictions to other dollar goods. A similar issue arose between the United States and Western Germany with respect to coal. In view of the fact that both Belgium and Western Germany had displayed a willingness to take energetic steps toward the removal of restrictions on dollar goods in general and had gone at least part way in meeting the United States objections regarding their treatment of coal, the United States Government has been inclined to let the issue over coal work itself out during the coming year.

The most persistent instances of trade-agreement violations by foreign countries have been those that have already been discussed in previous reports of the Commission on the operation of the trade agreements program. These violations have mainly involved countries with which the United States has—or at one time had—bilateral trade agreements. Several of these issues have never been settled to the satisfaction of the United States. For example, Guatemala has repeatedly failed to correct violations to which attention has been called by the United States Government. Charges of violation of trade-agreement obligations previously

reported with respect to Argentina, Paraguay, and Turkey—and from time to time with respect to certain other countries—while not as numerous as those made against Guatemala, also have remained unresolved.[65] This report does not undertake to review the violations and other controversial issues previously reported concerning the countries named above, but does review some of the more outstanding controversial issues between the United States and Uruguay and Chile.

During the last few years that the bilateral trade agreement between Uruguay and the United States was in force, a number of matters were at issue between the two countries; the agreement was terminated in December 1953 when Uruguay became a contracting party to the General Agreement. In 1951 Uruguay assured the United States that it would remove certain taxes which it had imposed on concession items in 1950 and which the United States had pointed out were in violation of provisions of the bilateral trade agreement. Uruguay not only did not eliminate the taxes but adopted some additional measures which the United States also regards as violations of the agreement. The 1950 Uruguayan actions—which the United States has repeatedly protested—consisted of the application of a tax of 1 percent on the "real" value of imports, and another tax of one-fourth of 1 percent on the import values declared in import permits. Except for certain imports described as "prime necessities," the taxes applied to all imports—to concession items as well as those on which Uruguay had not granted concessions to the United States.

Another Uruguayan measure which the United States has protested as being in violation of Uruguay's trade-agreement obligations consisted of the application early in 1953 of a total 6-percent tax on the transmittal of funds.[66] Uruguay took no corrective action in response to the United States protest; it took the position that the tax in question did not constitute a violation of the agreement.

In July 1953 Uruguay established a schedule of luxury taxes—with a basic rate of 15 percent of the c. i. f. cost of specified articles, plus customs duties and other customhouse charges. The taxes applied to a number of items on which Uruguay had granted concessions to the United States, including all automobiles except those used for public transportation, electric ranges, electric or kerosene refrigerators, washing machines, phono-radio combinations, hair dryers, massage machines, electric sandwich grills, automatic toasters, and electric blankets. The violation consists of applying the taxes to the specified articles only when they are imported; similar domestically manufactured articles are exempted from the taxes. This action is contrary to provisions of the bilateral agreement,

[65] See *Operation of the Trade Agreements Program* (fourth, fifth, and sixth reports), ch. 6.

[66] Actually two taxes—one of 1 percent earmarked for a low-cost housing development, and one of 5 percent for general revenue purposes. Certain imports were exempted from the 5-percent tax.

which prohibits this type of discrimination against imported articles specified in the agreement.

Uruguay appears also to have made frequent unilateral interpretations of the provisions of the bilateral agreement by denying trade-agreement benefits to certain concession items, such as used automobiles, refrigerators, and typewriters, despite the fact that the agreement makes no distinction between new and secondhand goods. Also there have been frequent reports that Uruguay has arbitrarily shifted concession items to tariff classifications that provide for higher rates of duty than do those on which the original concession was made.

With respect to some United States complaints regarding Chile's obligations under the General Agreement, Chile has acted promptly, but with regard to other matters—particularly measures which Chile claims are necessary because of its unsatisfactory dollar position—it has undertaken to justify its action. In 1952 and 1953, for example, Chile cited a serious decline in its reserves as justification for prohibiting the importation of a long list of United States products. Even if some restriction on dollar imports was justified for balance-of-payments reasons, the United States Government did not concede that Chile was justified in adopting such severe restrictions. Contracting parties to the General Agreement are obligated not to apply restrictions in such a manner as to interfere unreasonably with the importation of goods in minimum commercial quantities, when the exclusion of such goods would impair the regular channels of trade. The Chilean imposition of restrictions on imports from the United States was probably due mainly to the desire of the authorities to force the liquidation of large credits which had been built up with soft-currency countries. By 1954 Chile had become somewhat more lenient in its treatment of United States goods, and had declared its intention of abstaining from any action that might result in favoring other countries at the expense of the United States.

A related practice that the United States undertook to induce Chile to abandon was discrimination against United States goods as a result of the operation of Chile's multiple-exchange-rate system. The United States had understood that after Chile became a contracting party to the General Agreement it would not broaden its multiple-exchange-rate system in such a way as to discriminate against United States goods. Chile has maintained, however, that its multiple exchange rates have been an indispensable step toward attaining the goal of a single rate structure, and that, in fact, a single rate applies to almost all types of imports and to most exports. In July 1953 Chile simplified its rate structure by eliminating the granting of preferential rates for most payments. According to the International Monetary Fund, however, "subsequent decrees largely re-created the situation which had existed before that date, although nearly all private imports continued to be

effected in the banking rate sector . . . ." [67] Discrimination against United States goods has resulted from the fact that the banking rate of the free United States dollar (corresponding to the par value) is stabilized, whereas the rates for other currencies are allowed to fluctuate. This results in a cross rate for free United States dollars that is higher than the rate of other currencies.

Chile has a trade agreement with Argentina—dating from 1933—in which margins of preference for duties or other charges are bound by Chile on certain import commodities. One of these commodities is inedible tallow. At Geneva, in 1947, Chile bound against increase the existing margins of preference on these articles, including the margin of preference it had granted to Argentina on inedible tallow. At that time Chile levied a surcharge of 100 percent of the duty on inedible tallow when imported from Argentina and of 540 percent when imported from other countries. Subsequently, the surcharge on Chilean imports of inedible tallow from the United States was found to be much higher than the 540-percent rate bound in the agreement. In this instance the United States suggested that Chile cease the violation by reducing the surcharge to the level at which it was bound in 1947.

[67] International Monetary Fund, *Fifth Annual Report on Exchange Restrictions*, Washington, 1954, p. 78.

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