OPERATION OF THE TRADE AGREEMENTS PROGRAM

29th REPORT

1977

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

USITC PUBLICATION 1007

1979

United States International Trade Commission / Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

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INTRODUCTION

This is the 29th annual report by the United States International Trade Commission on the operation of the Trade Agreements Program. It is made pursuant to section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 stat. 1978) which directs that the Commission shall submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program.

The report covers events during calendar year 1977, a period of generally disappointing economic performance by the world's trading nations. Most industrial nations had rebounded strongly in 1976 from the disorder and recession of the 1973-75 period. In 1977, the U.S. economy continued its strong performance of 1976, but most other nations experienced a significant slowing in economic growth and lagged far behind the pace set by the United States. Real gross national product in the United States increased by almost 5 percent in 1977, while average real growth in our six major trading partners 1/ was much lower, at 3.3 percent.

The employment situation in the United States improved in 1977 as more than 4 million new jobs were created, and unemployment declined by more than 2 million persons. The employment situation deteriorated in the major trading partners as unemployment was higher than at any point of the 1974-1975 recession; approximately 7 million persons were unemployed in these countries at yearend.

Inflation continued to be a world problem. The rate of inflation in the United States was lower than in most other countries, but price increases had accelerated since 1976. Concern with inflation was partly responsible for the failure of governments to stimulate their economies. The significant level of idle capacity in both the United States and its major trading partners and a reluctance by business to expand capital investment compounded the problem.

These economic imbalances were reflected in the international economic system, as several countries, including the United States, continued to run substantial trade deficits. Problems of oil payments certainly contributed to these deficits, but differing rates of inflation and growth were also responsible. Substantial trade surpluses in certain large industrial countries also exerted great pressure on the deficit countries. Exchange rates responded to these forces, and the U.S. dollar depreciated against several key currencies. In the latter part of the year, exchange-rate movements became very rapid and undisciplined. The U.S. authorities reaffirmed the Government's intention to intervene in the markets to maintain order, but the rapid deterioration of the dollar continued into 1978.

The Multilateral Trade Negotiations continued, but at a slow pace. The goals were not only reduction of tariffs, but the development of improved codes for conducting international trade and the reduction of nontariff barriers. The negotiations are considered a key to the continued expansion of world exports, which grew by about 13 percent to $1.1 trillion in 1977.

1/ The six are Canada, France, Germany, Italy, Japan, and the United Kingdom.

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CHAPTER 1

U.S. ACTIVITIES RELATING TO THE TRADE AGREEMENTS PROGRAM

Introduction

The trade agreements program includes all activities relating to the negotiation or administration of agreements concerning trade which have been concluded under the authority vested in the President by the Constitution, section 350 of the Tariff Act of 1930, as extended and amended, the Trade Expansion Act of 1962, or which may be concluded by him under the Trade Act of 1974. Activities relating to the trade agreements program include, in addition to the agreements and their implementation, actions taken by the United States to buffer or modify the effects of trade agreements on various elements of the U.S. economy, to provide relief from foreign practices found to be unfair to U.S. commerce, and to intervene when imports threaten to impair national security.

Yearend 1977 concluded the third year of operation of the trade agreements program under the Trade Act of 1974, which amended many of the safeguard provisions of U.S. trade law. It was also the second year of operation of the U.S. system of generalized tariff preferences for developing countries provided for under that act. Most trade agreement obligations of the United States were carried out under the General Agreement on Tariffs and Trade (GATT), although remnants of certain bilateral trade agreements concluded prior to the GATT continued in force, 1/ as did the important bilateral agreement with Canada concerning trade in automotive products. In December 1977, the United States and Mexico signed a bilateral trade agreement, the first to be negotiated between an industralized country and a developing country under the so-called Tokyo round of multilateral trade negotiations under the GATT. 2/ In 1977, the United States also participated in several international commodity agreements and in negotiated bilateral agreements to limit certain exports to the United States.

U.S. Actions Under Safeguard and Other Provisions for Import Relief

The trade agreements to which the United States is a contracting party, as well as the domestic legislation implementing these agreements, provide for safeguard arrangements. These arrangements permit trade concessions to be suspended or modified under certain circumstances, and they allow imports to be temporarily restricted. United States actions under these arrangements principally involve use of the so-called "escape clause," the purpose of which

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1/ Such bilateral agreements were with Argentina, El Salvador, Honduras, Paraguay, and Venezuela. For a discussion of the very limited provisions of these agreements remaining in force, see Operation of the Trade Agreements Program, 26th Report, 1974, USITC Publication 765, p. 2.

2/ As of the date of preparation of this report, the bilateral agreement with Mexico had not been implemented by either Mexico or the United States.

is to facilitate orderly adjustment by domestic industries to import competition. In addition, adjustment assistance may be provided to workers, firms, and communities adversely affected by increased imports. U.S. trade law also provides for safeguarding national security from impairment as a consequence of reducing or eliminating the duty or other import restrictions, and for the prevention or remedy of market disruption to a domestic industry resulting from imports of an article from a Communist country.

Relief for industries

Title II, chapter 1 of the Trade Act of 1974 authorizes the President to provide relief for domestic industries when increased imports are found to be a substantial cause or threat thereof of serious injury, such actions to be taken only after affirmative findings have been made by the U.S. International Trade Commission. Relief, to be provided to the extent and for such time (but generally for not more than 5 years) as the President determines necessary, could be in the form of new or modified duties, tariff-rate quotas, quantitative import restrictions, negotiated limits on exports of foreign countries (orderly marketing agreements), or any combination of such measures.

Section 201 of the act provides that an entity, including a firm, trade association, or a group of workers, which is representative of an industry, may petition the Commission for eligibility for import relief. It also provides that the Commission conduct an investigation at the request of the President or of the Special Representative for Trade Negotiations or upon resolution of either the House Committee on Ways and Means or the Senate Committee on Finance. In the event of an affirmative finding of injury, the Commission is to make a recommendation as to the appropriate increase in duty or import restriction or the provision of adjustment assistance to remedy such injury.

In 1977, the Commission completed 13 import relief investigations under the provisions of Title II of the Trade Act. The Commission found serious injury or the threat of serious injury in six cases, no serious injury or threat thereof in six cases, and was evenly divided in voting on the remaining case. Table 1 lists these investigations and the Commission's findings.

At the end of 1977, the Commission had escape-clause investigations underway on citizens band radio receivers, certain stainless steel flatware, and unalloyed, unwrought zinc.

Section 203 of the Trade Act provides that the Commission--upon the request of the President, petition of the industry concerned, or on its own motion--advise the President of its judgment as to the probable economic effect on industries of extending, reducing, or terminating import relief already in effect. In 1977, the Commission completed two investigations under this section: (1) Certain Alloy Tool Steel (Bearing-Type Alloy Tool Steel) Investigation No. TA-203-2, and (2) Stainless Steel and Alloy Tool Steel (Other than Bearing-Type) Investigation No. TA-203-3. In the first investigation, the Commission advised the President that termination of the quotas on bearing-type tool steel would have a negligible effect on the relevant domestic industry. Following receipt of this advice, the President

Table 1.--Sec. 201 investigations completed by the U.S. International Trade Commission, by Investigation Nos., 1977

Investigation No.	Article concerned	Commission vote on injury
TA-201-16	Sugar	Affirmative. 1/
TA-201-17	Mushrooms	Affirmative. 2/
TA-201-18	Footwear	Affirmative. 3/
TA-201-19	Television receivers, color and monochrome, assembled or not assembled, finished or not finished, and subassemblies thereof	Affirmative. 4/
TA-201-20	Low-carbon ferrochromium	Negative.
TA-201-21	Cast-iron cooking ware	Negative.
TA-201-22	Fresh cut flowers	Negative.
TA-201-23	Certain headwear	Negative.
TA-201-24	Cast-iron stoves	Evenly divided. 5/
TA-201-25	Live cattle and certain edible meat products of cattle	Negative.
TA-201-26	Malleable cast-iron pipe and tube fittings	Negative.
TA-201-27	Bolts, nuts, and large screws of iron or steel	Affirmative. 6/
TA-201-28	High-carbon ferrochromium	Affirmative. 6/

1/ In lieu of the Commission's recommendation for reduced quotas, the President instituted an income support program for domestic sugar producers.

2/ The President deemed the Commission's recommended 5-year tariff-rate quota not to be in the national economic interest.

3/ In lieu of the Commission's recommendation for tariff-rate quotas, the President ordered expedited and expanded trade adjustment assistance. In addition, discussions on orderly marketing agreements were begun with major suppliers. Such agreements were concluded during the year with Taiwan and the Republic of Korea. (See section of this report on voluntary export restrictions.)

4/ The Commission's affirmative determination was with respect to color receivers; 3 Commissioners made no finding with respect to monochrome receivers and color subassemblies. In lieu of the Commission's recommended increase in duties, the President directed the Special Representative for Trade Negotiations to negotiate an orderly marketing agreement with the Government of Japan. (See section of this report on voluntary export restrictions.)

5/ The President accepted the finding of those Commissioners who had voted in the negative.

6/ The President had not yet taken action by the close of 1977.

terminated the quota. In the second investigation, the Commission was equally divided as to the effect of termination or reduction of quantitative restrictions on chipper-knife or band-saw steel.

Adjustment assistance

Section 281 of the Trade Act provides for setting up an interdepartmental committee to coordinate trade adjustment assistance policies, studies, and programs. The purpose of this committee, to be chaired by a Deputy Special Representative for Trade Negotiations, is to promote the effective delivery of adjustment-assistance benefits. The Department of Labor administers the program for workers displaced by import competition, and the Department of Commerce administers the programs for firms and communities adversely affected by import competition.

The activities of the Department of Labor involving the adjustment-assistance program in 1977 can be summarized as follows:

Number of petitions received	1,439
Number of investigations instituted to determine eligibility	1,314
Certifications:	
Number of petitions	436
Number of workers found eligible	1/ 104,000
Denials:	
Number of petitions	617
Number of workers affected	1/ 78,000
Number of workers receiving first trade adjustment allowance payment	117,174
Amount paid in trade readjustment allowances (million dollars)	$152.2

1/ Estimated by the U.S. Department of Labor.

The Economic Development Administration (EDA), U.S. Department of Commerce, received 205 petitions for trade adjustment assistance from firms in 1977. 1/ EDA certified 112 firms as eligible to apply for such assistance, and approved the readjustment proposals of 22 certified firms. The amount authorized in adjustment assistance to firms was $24.3 million.

Trade adjustment assistance was only one of several available EDA programs for helping communities. Many communities that have been adversely affected by increased imports also have other economic problems not directly related to the impact of imports. Consequently, EDA has encouraged such communities to petition also under the programs covered by the Public Works and Economic Development Act of 1965, as amended.

1/ Some firms petitioned more than once in 1977.

National security

Section 232 of the Trade Expansion Act of 1962, as amended by section 127 of the Trade Act of 1974, provides for taking action to safeguard national security threatened to be impaired by imports. When the Secretary of the Treasury advises the President that a given article is imported in such quantities or under such conditions as to present a threat to national security, the President may act to control the entry of such article. The President must report to the Congress within 60 days on the action taken and the reasons therefor. During 1977, no request for an investigation regarding safeguarding national security was filed with the Secretary of the Treasury, nor was one initiated or completed.

Market disruption

Section 406 of the Trade Act of 1974 provides for investigations by the U.S. International Trade Commission to determine, "with respect to imports of an article which is the product of a Communist country, whether market disruption exists with respect to an article produced by a domestic industry." Section 406(e)(2) defines market disruption to exist within a domestic industry "whenever imports of an article, like or directly competitive with an article produced by such domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to such domestic industry." If the Commission finds, as a result of its investigation, that such market disruption exists, it must "find the amount of the increase in, or imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such market disruption and shall include such finding in its report to the President."

Following receipt of a petition filed on behalf of the Work Glove Manufacturers Association, the Commission, on December 28, 1977, instituted its first investigation under section 406 to determine whether market disruption exists with respect to certain cotton gloves from the People's Republic of China.

U.S. Actions for Relief From Unfair Trade Practices

Various U.S. trade laws provide remedies or countermeasures when foreign governments, or entities within foreign countries, engage in certain practices that are detrimental to U.S. commerce at home or abroad, or when importers and sellers engage in unfair methods of competition in the importation or sale of foreign merchandise in U.S. markets. The Antidumping Act, 1921, as amended, deals with sales of imports at less than fair value; section 337 of the Tariff Act of 1930, as amended, authorizes the President to deal with unfair methods of competition and unfair acts in the importation of articles; section 303 of the Tariff Act of 1930, as amended, provides for countervailing duties on imports receiving foreign export subsidies; and section 301 of the Trade Act of 1974 is concerned with the elimination of certain trade practices of foreign governments that constitute an unreasonable or discriminatory burden or restriction on the commerce of the United States.

Antidumping investigations

The Antidumping Act, 1921, as amended, is designed to counter unfair competition involving foreign price discrimination practices. The act provides for levying antidumping duties if (a) a class or kind of foreign merchandise is being, or is likely to be, sold in the United States or elsewhere at less than its fair value (LTFV), and (b) an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States. The responsibility for determining whether sales at LTFV are occurring, or likely to occur, is vested in the Secretary of the Treasury. If he makes an affirmative determination, the Commission then determines whether injury or likelihood thereof or prevention of establishment of an industry exists. When an affirmative determination is made by both agencies, a finding of dumping is issued, calling for the assessment of an antidumping duty (in addition to other duties, if any) equal to the difference between the LTFV price and the fair value.

Section 321 of the Trade Act of 1974 directs the Secretary of the Treasury, if he concludes that there is substantial doubt that the requisite injury to a domestic industry exists by reason of possible sales at LTFV, to refer the case to the Commission for a preliminary inquiry. If the Commission determines that there is no reasonable indication of injury or likelihood thereof or prevention of establishment, Treasury's antidumping investigation is terminated. The Commission has 30 days in which to conduct such an inquiry. Table 2 shows the preliminary inquiries and full investigations completed by the Commission in 1977.

At yearend, the following antidumping investigations by the Department of the Treasury were in progress:

Welded stainless steel pipe and tubing from Japan
Carbon steel plate from Japan
Polyvinyl chloride sheet and film from Taiwan
Viscose rayon staple fiber from Austria and Belgium
Motorcycles from Japan
Sorbates from Japan
Cement from Canada
Steel wire rod from France.
Carbon steel sheet from Japan
Carbon steel pipe and tubing from Japan
Carbon steel structurals from Japan
Steel wire rope from Korea
Audible signal alarms from Japan
Steel wire strand from Japan and India
Cold-rolled and galvanized steel sheet from Belgium, France, West Germany, Italy, the Netherlands, and the United Kingdom

Antidumping investigations in progress--Con.

Carbon steel wire rod from the United Kingdom
Pneumatic marine fenders from Japan
Steel wire nails from Canada

Table 2.--Antidumping investigations: Determinations of the U.S. International Trade Commission in preliminary inquiries and full investigations completed, 1977

Merchandise and country of origin	Date of determination	Determination
Preliminary inquiries:		
Impression fabric of manmade fiber from Japan	Apr. 15	1/
Methyl alcohol from Brazil	Oct. 20	2/
Full investigations:		
Clear sheet glass from Romania	Apr. 12	Negative.
Round head steel drum plugs from Japan	June 14	Negative.
Metal-walled above ground swimming pools from Japan	June 29	Affirmative.
Certain parts for self-propelled bituminous paving equipment from Canada	July 7	Affirmative.
Pressure sensitive plastic tape from Italy	Aug. 31	Affirmative.
Pressure sensitive plastic tape from West Germany	Sept. 7	Negative.
Animal glue and inedible gelatin from Yugoslavia, Sweden, the Netherlands, and West Germany (4 investigations)	Oct. 29	Affirmative.
Railway track maintenance equipment from Austria	Nov. 11	Affirmative.
Saccharin from Japan and Korea (2 investigations)	Dec. 9	Negative.

1/ The Commission did not determine there was no reasonable indication of injury.
2/ The Commission determined no reasonable indication of injury.

As indicated above, most of the antidumping investigations initiated during 1977 involved steel. In September of that year, the President established an Interagency Steel Task Force, headed by Under Secretary of the Treasury Anthony M. Solomon, to examine the problems faced by the domestic steel industry. The study culminated in a report to the President in December in which the task force recommended, among other things, stimulation of the industry's efficiency to enhance its competitive position. In the opinion of the task force, attainment of this objective required an increased rate of investment in modern facilities, coupled with assurance that domestic production would not be artificially disadvantaged by imports because of unfair foreign trade practices.

In taking cognizance of the large number of petitions on steel products filed under the Antidumping Act, 1921, in a short time frame, the task force recommended that the Treasury Department establish a system of trigger prices based on full costs of producing steel mill products in the most efficient foreign industry--deemed to be the Japanese--as a basis for monitoring imports of steel, and for initiating antidumping investigations on an expedited basis with respect to below-trigger-priced imports. At the close of 1977, Treasury was in the process of formulating such a system of trigger prices.

Unfair practices in import trade

Section 337 of the Tariff Act of 1930, as amended by section 341 of the Trade Act of 1974, provides for investigations by the Commission to determine whether unfair methods of competition in the importation or sale of articles in the United States exists, the effect or tendency of which is to (1) destroy or substantially injure an efficiently and economically operated domestic industry, (2) prevent such an industry's establishment, or (3) restrain or monopolize commerce in the United States. If the Commission determines that a violation of section 337 exists, and finds that remedial action against the offending imports, or complained-of trade practices, would not have an adverse effect on the public interest considerations enumerated in the Trade Act, the Commission must propose a remedy for the violation. The remedy may be an order excluding "the articles concerned, imported by any persons violating section 337. . . from entry into the United States," or an order "directing such person to cease and desist from engaging in the unfair methods or acts involved. . ." 1/

The Trade Act provides that when the Commission finds a violation of section 337, it shall transmit to the President a copy of its determination, together with the record of its investigation. The act allows the President 60 days after he has received this documentation in which to approve the Commission's determination or, for policy reasons, to disapprove it. If the President takes the latter action, the Commission's determination can have no force or effect. If the President does not disapprove the Commission's determination within the 60-day period, or if he approves the determination, it becomes a "final determination."

During 1977, the Commission completed nine investigations under section 337. At the close of the year an equal number of investigations were in progress. In addition, one investigation (Doxycycline) was in a suspended status because of litigation. No violation of the statute was found in six of the nine investigations completed. Two resulted in the issuance of an exclusion order until the expiration of the pertinent patents, while the remaining investigation was terminated by a consent order. The investigations on which the Commission's findings were made, and those still pending at yearend, are listed in table 3.

1/ The Trade Act provides for entry under bond of excluded articles under certain circumstances.

Table 3.--Sec. 337 investigations completed by the U.S. International Trade Commission during 1977 and those pending at yearend

Status of investigation and article	Finding
Completed during 1977:	
Reclosable plastic bags	Violation. 1/
Certain color television sets	2/
Certain exercising devices	Violation. 1/
Certain above-ground swimming pools	No violation.
Certain solder removal wicks	No violation.
Chicory roots	No violation.
Certain knitting machines and throat plates	No violation.
Certain dot matrix printers and solenoids, and printed assemblies	No violation. 3/
Certain lightshields for sonar apparatus	No violation.
Pending at yearend:	
Stainless steel pipe and tube	-
Toy vehicles	-
Certain machining centers with automatic tool changers	-
Certain golf balls	-
Certain plastic fasteners	-
Certain skateboards	-
Certain food slicers	-
Certain luggage	-
Certain display devices for photographs and the like	-

1/ Issuance of exclusion order until expiration of the pertinent patents.
2/ Terminated by consent order.
3/ Terminated following conclusion of a licensing agreement between complainant and respondent.

Countervailing duty investigations

Section 303 of the Tariff Act of 1930, as amended by section 331 of the Trade Act of 1974, requires the Secretary of the Treasury to levy a countervailing duty if, following an investigation, he finds that a bounty or grant has been paid, directly or indirectly, by a foreign government or other entity on imported merchandise which is a product of the country where the payment occurred. Such a duty shall be levied in addition to any other duty that may be assessed against the article in question, regardless of whether it has been changed in condition after exportation from the bounty-granting country. The purpose of the countervailing duty is to offset the benefit bestowed on foreign producers and/or exporters by subsidies or grants.

If the Secretary makes a final affirmative determination with respect to an article which is free of duty, and only if international obligations of the United States require an injury determination, the Secretary must forward his determination to the Commission. Then the Commission, within 3 months, must determine "whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such article . . . into the United States . . .," and must notify the Secretary of its determination. If the Commission's determination is in the affirmative, the Secretary must order the assessment and collection of the aforementioned countervailing duties.

During 1977, no countervailing duty cases were referred to the Commission, but the Secretary of the Treasury, in investigating complaints on dutiable imports, issued 14 final determinations as follows:

Product	Country	Final determination
Scissors and shears	Brazil	Affirmative.
Bicycles	Taiwan	Negative.
Cotton yarn	Brazil	Affirmative.
Nuts, bolts and cap screws	Japan	Affirmative.
Handbags	Korea	Affirmative.
Handbags	Taiwan	Affirmative.
Certain fish	Canada	Affirmative. 1/
Unwrought zinc	Spain	Affirmative.
Chains and parts	Italy	Affirmative.
Canned tomatoes and tomato products	Italy	Negative.
Silicon electrical steel	Italy	Negative.
Leather wearing apparel	Korea	Negative.
Cordage of man-made fiber	Korea	Negative.
Leather wearing apparel	Taiwan	Negative.

1/ Waiver granted under Trade Act of 1974.

At yearend, the following countervailing duty investigations by Treasury were still in progress:

Footwear from Argentina
Butter cookies from Denmark
Iron and steel chains and parts from Spain
Iron and steel chains and parts from Japan
Leather wearing apparel from Argentina
Leather wearing apparel from Uruguay
Leather handbags from Colombia
Leather handbags from Uruguay
Diuron from Israel
Nonrubber footwear from Uruguay
Bromine and brominated compounds from Israel

Certain practices of foreign governments and instrumentalities

Section 301 of the Trade Act of 1974 directs the President to take appropriate and feasible steps to obtain the elimination of certain trade practices of foreign governments and instrumentalities whenever he determines that such practices constitute an unjustifiable, unreasonable, or discriminatory burden or restriction on the commerce of the United States.

Within this context, commerce includes services related to international trade. If his attempts to have such practices eliminated are unsuccessful, the President is empowered to (1) deny the offending country or instrumentality the benefits of trade agreement concessions, (2) impose special import restrictions, and (3) impose fees or other restrictions on the services of the foreign entity.

The interdepartmental Section 301 Committee conducts investigations (including hearings if requested) based on petitions alleging section 301 violations. If the committee feels that a complaint has merit, it recommends intergovernmental consultation with the foreign country or instrumentality. If the result is unsatisfactory, GATT may be used as a forum for a further attempt to settle the dispute. 1/

The status of cases under section 301, initiated, pending, or terminated in 1977, was as follows: 2/

Egg albumen
Date of receipt of petition: Aug. 7, 1975
The issue: European Community's (EC) levies (various) on imports
Status: Under discussion in the Multilateral Trade Negotiations (MTN).

Canned fruits, juices, and vegetables
Date of receipt of petition: Sept. 25, 1975
The issues: EC's minimum import prices and import license/surety deposit system
Status: Pending before GATT panel under dispute provisions of Article XXIII.

Malt
Date of receipt of petition: Nov. 13, 1975
The issue: EC's subsidization of exports, to the detriment of U.S. exports to Japan and other countries
Status: Under discussion in the MTN.

Wheat flour
Date of receipt of petition: Dec. 1, 1975
The issue: EC's payments of export subsidies to wheat millers
Third-party interest: Following a U.S. request for formal consultations with the EC under GATT, Australia and Canada notified GATT of their desire to join the discussions; request was granted.
Status: Under discussion in the MTN.

1/ The dispute settlement mechanisms of the GATT may be called into play when a member feels that its benefits of GATT membership have been impaired by the failure of another contracting party to carry out its obligations under the General Agreement. The latter party is obliged to give sympathetic consideration to the representations of the aggrieved party. If these parties cannot settle their differences, and if there are serious circumstances, the Contracting Parties, as a group, may authorize the aggrieved party to take retaliatory action.

2/ Status as of Dec. 31, 1977, if not terminated sooner or indicated otherwise.

Sugar added in canned fruits and juices

Date of receipt of petition: Mar. 30, 1976

The issue: Variable levy on added sugar in canned fruits and juices imported into the EC, with impairment of value of concessions under GATT

Status: Under discussion in the MTN.

Soybeans vs. nonfat dry milk

Date of receipt of petition: Mar. 30, 1976

The issue: EC requirement for use of nonfat dry milk, of EC origin, in livestock feed, displacing meaningful quantities of other protein substances including soybeans, soybean cake and meal, imported principally from the United States

Status: GATT panel found in favor of United States, and submitted its findings to the Contracting Parties. (The objectionable practice was terminated before the Contracting Parties adopted the findings of the panel.)

Certain home appliances

Date of receipt of petition: Mar. 15, 1976

The issue: Taiwan's tariff levels on imports of certain home appliances

Status: Taiwan, having reduced the duties (in stages) in response to representations at a sec. 301 hearing, TPSC 1/ decided that dispute had been settled on a bilateral basis. 2/

Steel

Date of receipt of petition: Oct. 6, 1976

The issue: Alleged diversion of significant quantities of Japanese steel to the United States, as a result of a bilateral agreement between the European Coal and Steel Community and Japanese Ministry of International Trade and Industry

Status: Special Trade Representative's (STR) recommendation was before the President (on Jan. 18, 1978, the President determined that there was insufficient merit to the complaint to warrant further sec. 301 review).

Citrus products

Date of receipt of two petitions: Nov. 12, 1976

The issue: EC's preferential rates of duty on imports of orange and grapefruit juices, and other citrus products, from certain Mediterranean countries, to the detriment of U.S. citrus juice producers

Status: Under discussion in the MTN.

1/ Trade Policy Staff Committee.

2/ Termination of review made public on Dec. 1, 1977.

Thrown silk

Date of receipt of petition: 1/ Feb. 14, 1977

The issue: Alleged prohibition of entry of U.S. thrown silk into Japan, coupled with Japanese admittance of imports of such silk from Korea, the People's Republic of China, and Brazil under bilateral agreements

Status: Pending before GATT panel. (Early in 1978, United States-Japanese discussions resulted in a satisfactory solution.)

Leather

Date of receipt of petition: Aug. 4, 1977

The issue: Japan's quantitative restrictions and tariff levels on imports of leather

Status: Bilateral discussions unsuccessful.

Insurance

Date of receipt of petition: Nov. 10, 1977

The issue: Union of Soviet Socialist Republics' requirement that insurance on U.S.S.R. exports and imports be placed with a Soviet insurance monopoly

Status: Being held in abeyance. (Complainant agreed to await outcome of United States-U.S.S.R. meeting on this issue.)

Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act, as amended, is designed to prevent or remedy import impairment of programs of the U.S. Department of Agriculture. The act directs the Secretary to advise the President when he believes such impairment exists or is imminent. If the President agrees that there is reason for such belief, the President directs the Commission to conduct an investigation under section 22, and to report to him its findings and recommendations. 2/ The Commission can recommend, and the President can proclaim, quantitative restrictions, embargoes, or import fees in addition to regular tariff duties, if any. Moreover, he can take emergency action pending the completion of the Commission's investigation.

Following receipt of advice from the Secretary of Agriculture, the President, in November 1977, directed the Commission to make a section 22 investigation to determine whether certain sugars, sirups, and molasses were being or were practically certain to be imported under such conditions and quantities as to render or tend to render ineffective, or materially interfere with, the price-support operations of the U.S. Department of Agriculture for sugar cane or sugar beets, or to reduce substantially the amount of any product being processed in the United States from domestically grown sugar cane or sugar beets.

1/ United States-Japanese discussions had been underway even before the filing of the petition with STR.

2/ Sec. 22 also authorizes the President to direct the Commission to make an investigation to determine whether a restriction, previously imposed under that section, can be suspended, terminated, or modified without inducing the conditions that led to the remedial action.

The President took emergency action to impose import fees on the subject sweeteners pending the report and recommendation of the Commission. Under other authority, the President also increased the regular import duties applicable to such articles. At yearend, the Commission's investigation was still in progress, and the President's emergency actions were still in effect.

U.S. import restrictions imposed in prior years pursuant to section 22 remained in effect during 1977 on certain cotton, peanuts, and most dairy products. In January 1977, the President issued a proclamation making permanent the zero-import quota on certain dried milk mixtures that was temporarily established in 1976.

Voluntary Export Restrictions

The United States has periodically negotiated restrictions with foreign governments or foreign interested parties to voluntarily limit the kinds or amounts of certain exports destined for the United States. In order to protect segments of the domestic livestock industry and to avoid possible invocation of import quotas on certain meats, the United States in 1977 negotiated voluntary export restraint agreements with governments of meat-exporting countries. Similarly, it continued to (re)negotiate bilateral agreements with various foreign exporting countries in conformity with the Arrangement Regarding International Trade in Textiles. In addition, the orderly marketing agreement (OMA) concerning specialty steels negotiated with Japan the previous year continued in effect during 1977. Following affirmative injury determinations by the Commission on escape-clause investigations, OMA's were negotiated during the year with Taiwan and Korea on nonrubber footwear, and with Japan on color television receivers.

Meat restraint program

The Meat Import Act of 1964 provides that most imports of fresh, chilled, or frozen beef and veal, and mutton and goat meat, entered in any calendar year after 1964, should not exceed an adjusted base quantity. The statutory formula for computing the adjusted base quota is 725.4 million pounds, increased or decreased to assure that imports maintain about the same ratio to domestic commercial production of these meats, as they did, on the average, in the years 1959-63.

The meat act further provides that the Secretary of Agriculture estimate and publish, before the beginning of each calendar year and before each calendar quarter, the aggregate quantity of the meats cited above that would be imported in such calendar year were it not for the provisions of this act. If the Secretary estimates that such imports would be equal to or more than 110 percent of the adjusted base quota cited above (the "trigger level"), the President shall proclaim a quota, but he may suspend or enlarge it if he determines any one of the following: (1) that after considering the health of the domestic livestock industry, his action is required by overriding economic or national security interests; (2) that supplies of the quota meats will be inadequate to meet domestic demand at reasonable prices; or (3) that trade agreements, entered into after the meat act, guarantee the implementation of the policy expressed in the act.

Section 204 of the Agricultural Act of 1956, as amended, gives the President authority to negotiate with representatives of foreign governments to develop agreements limiting exportation from such countries to the United States of any agricultural commodity or manufactured product therefrom, or textiles or textile products, and to issue regulations governing the entry of such articles to carry out such agreements. In connection with the exercise of this authority, the Secretary of State has negotiated many bilateral agreements whose annual restraints, in the aggregate, were below the corresponding calendar year trigger levels proclaimed under the meat act. Voluntary restraint levels on entries of meats were as follows in 1977:

Country	Million pounds
Australia---------------	653.0
New Zealand-------------	268.3
Canada 1/---------------	75.0
Mexico------------------	62.1
Costa Rica--------------	55.6
Nicaragua---------------	50.7
Honduras----------------	37.2
Guatemala---------------	35.6
Dominican Republic------	15.0
El Salvador-------------	11.9
Panama------------------	5.0
Haiti-------------------	2.0
Belize------------------	.5
Total---------------	1,271.9

1/ Canada participated in the meat restraint program for the first time in 1977.

Other statistics for 1977, pertinent to the meat restraint program, are as follows:

	Million pounds
Adjusted base quota---------------	1,165.4
Trigger level (adjusted base quota plus 10 percent)----------	1,281.9
Actual imports under TSUS Nos. 106.10 and 106.20---------------	1,237.7

Thus, in 1977 the actual imports of meats covered by the Meat Import Act of 1964 were equivalent to 97.3 percent of the total quantity of meats covered by the bilateral restraint agreements, and to 96.6 percent of the trigger level.

Textiles

The Arrangement Regarding International Trade in Textiles, usually referred to as the Multifiber Arrangement (MFA), was negotiated under GATT auspices to facilitate an orderly expansion of international trade in textiles without market disruption. The arrangement also emphasizes the importance of promoting the economic development of developing countries by enabling them to achieve an orderly increase in export trade and earnings, and to increase their share of world trade in textiles. The MFA initially had a term of 4 years, commencing on January 1, 1974. During 1977, a draft protocol extending the MFA until December 31, 1981, was prepared and opened for signature. On December 29, 1977, the United States informed GATT of its acceptance of the protocol.

The MFA has been accepted or adhered to by about 40 countries that account for the bulk of world trade in textiles. Under the arrangement, participating countries are obliged to bring their textile import restraints into conformity with the MFA's terms, or to justify or terminate such restraints. When the MFA was negotiated in late 1973, the United States had bilateral agreements covering textiles and apparel with 30 countries. By the close of 1977, agreements with 18 countries had been renegotiated in conformity with the MFA. Former bilateral agreements with 10 countries had been replaced with agreements to consult in case of market disruption, and agreements with two countries had been terminated. The 18 bilateral limitation agreements in effect during all or most of 1977 were as shown in table 4.

A new bilateral agreement with Korea was signed on December 29, 1977, and at yearend a number of other bilaterals were being renegotiated. The United States also negotiated an agreement with Czechoslovakia during the year that provided for consultations in case of market disruption.

Specialty steels 1/

In an orderly marketing agreement between the United States and Japan, quantitative limitations were placed on Japanese exports of stainless steel and alloy tool steel to the United States. The agreement runs from June 14, 1976, to June 13, 1979, inclusive, and the limitations apply to three 12-month periods. The base limits are as follows:

Restraint period	1,000 short tons
June 14, 1976- June 13, 1977	66.4
June 14, 1977- June 13, 1978	68.4
June 14, 1978- June 13, 1979	70.4

Maximum permissible percentage increases for individual TSUS items are provided for each restraint period. However, if the Government of Japan requests and is granted an increase over the base limit, there must be an equal tonnage reduction in the quota quantity for one or more of the other items during the same restraint period. In addition to the quantitative

1/ For discussion of specific investigations see earlier section on import relief.

limitations that were negotiated between the United States and Japan, the United States has unilaterally imposed absolute quotas on specialty steels from other countries and the European Community.

Table 4.--Bilateral restraint levels on U.S. imports of textiles, by countries of origin, Oct. 1, 1977

Source	Limitations on import trade	
	For 12-month period beginning--	Aggregate quantity
		Million equivalent square yards
Brazil	Apr. 1, 1977	1/ 122.0
Taiwan	Jan. 1, 1977	2/ 758.9
Colombia	July 1, 1977	2/ 105.0
Egypt	Jan. 1, 1977	1/ 105.0
Haiti	Jan. 1, 1977	3/ 65.3
Hong Kong	Oct. 1, 1976	2/ 1,178.8
India	Oct. 1, 1976	1/ 160.2
Japan	Oct. 1, 1976	4/
Korea	Oct. 1, 1976	2/ 716.5
Macao	Jan. 1, 1977	2/ 35.9
Malaysia	Jan. 1, 1977	2/ 37.8
Mexico	May 1, 1977	2/ 355.0
Pakistan	Jan. 1, 1977	1/ 139.5
Philippines	Oct. 1, 1976	2/ 252.8
Poland	Jan. 1, 1977	1/ 17.2
Romania	Jan. 1, 1977	2/ 5/ 52.6
Singapore	Jan. 1, 1977	2/ 232.0
Thailand	Jan. 1, 1977	2/ 70.0

1/ Limitations cover cotton articles.
2/ Limitations cover cotton, wool, and manmade fiber articles.
3/ Limitations cover cotton and manmade fiber articles.
4/ The agreement pertains to articles of cotton, wool, and manmade fibers, but no quantitative limits are specified. However, consultations are provided for if imports of some articles reach certain levels.
5/ The aggregate of quantities involved in 2 agreements.

Nonrubber footwear

In 1977, the United States negotiated OMA's covering nonrubber footwear with Taiwan and Korea. The agreements run from June 28, 1977, to June 30, 1981.

The limitations are as follows (in millions of pairs):

Restraint period	Taiwan	Korea
June 28, 1977-June 30, 1978--------	122	33.0
July 1, 1978-June 30, 1979--------	125	36.5
July 1, 1979-June 30, 1980--------	128	37.5
July 1, 1980-June 30, 1981--------	131	38.0

Color television receivers

In July 1977, an OMA between the United States and Japan went into effect limiting Japanese exports of complete and incomplete color television receivers to 1.75 million units for each 12-month period during July 1, 1977, to June 30, 1980. 1/ Although Japan was by far the predominant supplier, the agreement contains an "equity clause" whereby the United States agreed to extend import controls to any third country that tries to benefit from Japanese restraint. Imports of color TV's from Korea and Taiwan began to increase by late 1977 at a rate that suggested Japan might ask for consultations under the equity clause during 1978.

International Commodity Agreements

In 1977 the United States continued and expanded its participation in international commodity agreements--attempts by governments to stabilize markets for particular agricultural products or raw materials through cooperative arrangements. Two such agreements, those involving coffee and tin, entered into force definitively for the United States during the year. The United States continued to participate in the 1971 agreement involving wheat and in negotiations to establish a new international grains arrangement. A new 5-year International Sugar Agreement was concluded in October 1977, which became provisionally effective for the United States on January 1, 1978. In addition, the United States engaged in discussions focused mainly on the integrated commodity program proposed by developing countries at UNCTAD IV in 1976, 2/ and on establishing a common fund to finance buffer stocks. The agreements on coffee, sugar, tin, and wheat are discussed in the following text.

1/ The 12-month limits consist of 1.56 million complete, but not necessarily fully assembled, receivers and 190,000 incomplete receivers.

2/ United Nations Conference on Trade and Development, Fourth Session, Nairobi, Resolution 93, Integrated Program for Commodities, TD/RES/93(IV), June 10, 1976.

Coffee

The International Coffee Agreement of 1976 entered into force for the United States on August 1, 1977; it is scheduled to expire in 1982. 1/ In early 1978 there were 66 member countries, of which 42 were net exporters and 24 were net importers. The agreement is administered by the International Coffee Organization (ICO), under rules and regulations established by the International Coffee Council; all members of the Organization are represented on the Council. The Organization also has an executive board consisting of 8 exporting members and 8 importing members. The board works under the direction of the Council, and may have certain powers delegated to it by a two-thirds majority vote of the Council.

Among the stated objectives of the agreement are: (1) Long-term equilibrium between production and consumption of coffee at prices remunerative to producers and fair to consumers; (2) stabilization of supplies and prices; (3) economic growth and development of member countries; (4) increased purchasing power of coffee-exporting countries; (5) promotion of coffee consumption; and (6) facilitation of international cooperation in connection with world coffee problems.

The International Coffee Agreement does not provide for price ceilings or for buffer stocks under central control. However, it does contain an incentive for stockholding by exporting members of the ICO and provides for export quotas based on a complex system of formulas. The price at which export quotas can be triggered ranges from 63 to 77 cents per pound, inclusive, depending upon the circumstances described in article 33 of the agreement. 2/ The range may be revised by September 30, 1978, after which it may be revised again prior to September 1980.

Since the agreement's inception, prices have remained above trigger levels, obviating the need to impose export quotas. The monthly average ICO composite price peaked in April 1977 at $3.33 per pound (basis 1968 agreement) and generally declined thereafter, reaching a level of $2.01 in December. The successive declines of monthly average prices continued into early 1978.

The United States is a major world consumer of coffee and imports are its sole source of supply. However, significantly higher world and U.S. prices for coffee resulted in substantial consumer resistance in 1977 and U.S. imports of green coffee fell 25 percent or by more than 600 million pounds. U.S. imports of green coffee in 1974, 1975, 1976, and 1977 were 2,545, 2,684, 2,617, and 1,959 million pounds, respectively.

1/ Article 68 specifies the conditions under which the agreement may be renegotiated, extended, or terminated. During the year immediately preceding Sept. 30, 1979, members must notify the Secretary General of the United Nations as to their intention to participate during the second 3 years of the agreement.

2/ The prices specified are average composite prices of major varieties of green coffee for 20 consecutive market days.

Sugar

The International Sugar Agreement (ISA), concluded on October 7, 1977, became provisionally effective for the United States on January 1, 1978. 1/ Although the United States was a signatory to the sugar agreements of 1953 and 1958, it did not sign the 1968 and 1973 agreements. Because the negotiators failed to agree on prices, the 1973 agreement was an abbreviated one, providing for little more than the gathering of statistics. The 1977 agreement, which is both comprehensive and complex, runs for 5 years (unless terminated sooner) and may be extended for 2 years.

The ISA has several objectives, including: (1) Increased international trade in sugar to increase the export income of developing sugar-producing countries; (2) the avoidance of excessive price fluctuations, with prices at levels deemed fair to producers and consumers, taking into account world economic conditions and fluctuations in exchange rates; (3) adequate supplies of sugar; (4) growing market acceptance in the developed countries of sugar from the developing countries; and (5) close scrutiny of developments in the use of sugar substitutes, including artificial sweeteners.

The 1977 agreement uses a combination of buffer stocks and export quotas to maintain the free-market price of sugar within a range of 11 to 21 cents per pound. 2/ The agreement defines the free market as the total net imports of the world market except those covered by special arrangements. 3/ These arrangements include those covered by the Lome Convention and those relating to Cuba's exports to Communist countries. When the price of raw sugar is rising from the lower portion of the 11-21 cents-per-pound range, buffer stocks are to be built up. As the price moves into midrange, export quotas are to be suspended. When the price moves into the top portion of the range, buffer stocks are to be released in three installments. If the price subsequently declines to the lower portion of the range, export quotas are to be reimposed and, if the price declines further, buffer stocks are to be replenished.

The agreement provides that members assigned basic export tonnages are to hold special stocks in the aggregate amount of 2.5 million metric tons, pro rated to the export tonnage of each such member. Members assigned an annual export entitlement rather than a basic export tonnage may, if they wish, hold up to 10,000 metric tons as special stocks. 4/ Special stocks are held for domestic requirements or for implementing special arrangements. The ISA also contains provisions for a stock financing fund.

1/ Provisional within the limitation of national legislative and budgetary procedures. Because the ISA is a treaty, the President has sought the Senate's advice and consent to ratification. As part of the legislative process, the Senate was to begin hearings in February 1978.

2/ The minimum and maximum prices may be adjusted provided that the range remains 10 cents per pound.

3/ Insulating such special arrangements, wholly or partly, from the ISA's export quotas limits the effectiveness of the agreement in influencing supplies and prices.

4/ In late 1977, there were 22 countries or territories with annual export entitlements.

The United States is both a significant world producer and importer of sugar. In 1977 U.S. production of sugar both from cane and beets amounted to 6.4 million short tons, while U.S. imports were 6.1 million short tons. U.S. consumption in the period was 11.4 million short tons as stocks increased to a record level of 4.5 million short tons and exports were 0.03 million short tons.

In May 1977, following a Commission recommendation for import relief action on behalf of the domestic industry producing sugar and certain derivatives, 1/ the President decided that the long-run implementation of the then-pending ISA provided a better means for sustaining a viable domestic sugar industry. The President was aware that, for many U.S. growers, the prices of raw sugar were lower than the costs of production. Consequently, he directed the Secretary of Agriculture to establish an income support program to provide additional income to growers of up to 2 cents per pound on sales of raw sugar at market prices below 13.5 cents per pound, the estimated break-even price at that time.

In announcing the President's decision, the President's Special Representative for Trade Negotiations also reported that the President agreed with the Interagency Trade Policy Staff Committee that sugar would continue to receive duty-free treatment when imported from designated developing countries under the Generalized System of Preferences.

For the United States, another instrument for supporting the price of sugar and other products is the Food and Agriculture Act of 1977. With respect to the 1977 and 1978 crops, one purpose of the act is price support for domestic sugar through loans or purchases at a minimum level of 52.5 percent of parity, but not less than 13.5 cents per pound. The price-support program superseded the income-support program proposed by the President. The act permits the Secretary of Agriculture to suspend the price support program if he determines that the International Sugar Agreement assures the maintenance of a U.S. price of at least 13.5 cents per pound raw sugar equivalent.

In 1977, average quarterly prices ranged from 10.29 cents per pound to 11.40 cents per pound. They were considerably lower than quarterly average prices in other recent years, as shown in table 5.

Tin

The Fifth International Tin Agreement (ITA) was entered into force definitively on June 14, 1977, when Bolivia, the second leading primary producer, deposited its ratification. President Carter proclaimed and made

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1/ The Commission determined that increased imports of sugar, sirups, and molasses, provided for in TSUS items 155.20 and 155.30, were a substantial cause of threatened serious injury to the domestic industry producing like or directly competitive articles. Three Commissioners recommended a country-allocated annual quota of 4,275,000 short tons, raw value, for 1977-81. The other Commissioners opted for an annual quota of 4.4 million short tons, but they disagreed as to duration and implementation.

public the agreement, to attest to good-faith observance by the United States, on July 15, 1977. 1/ It is the fifth successive 5-year tin agreement negotiated during the last two decades, but the first in which the United States has actively participated. Like its predecessors, the fifth ITA distinguishes between producing and consuming countries, and is administered by the International Tin Council, of which all participating governments are members.

Table 5.--Sugar: 1/ New York average duty-paid prices, by quarters, 1974-77

(In cents per pound)

Quarter	1974	1975	1966	1977
January-March	15.94	34.91	15.57	11.23
April-June	22.90	20.43	15.31	11.40
July-September	31.55	19.45	11.90	10.59
October-December	47.62	15.09	10.44	10.29

1/ Quarterly data are averages calculated from monthly data which pertain to the following: Data prior to the October-December 1977 are spot prices for Contract No. 12 bulk sugar, delivered to Atlantic or Gulf ports, plus duty where applicable. Data for November and December 1977, reflected in the last figure shown above, are estimates calculated from London Daily Price (spot) adjusted to f.o.b. stowed at Greater Caribbean ports, plus the cost of freight (to New York) and insurance, plus U.S. Customs duty for 96-degree raw sugar.

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

The principal stated objectives of the agreement are the avoidance of imbalances between world supply and demand, and the prevention of excessive fluctuations in tin prices and in export earnings derived from tin. To achieve its objectives, the ITA provides for export controls, floor and ceiling prices, and buffer stocks. The agreement obligates producing countries to make contributions to the buffer stock in tin metal, cash, or both, amounting in the aggregate to the equivalent of 20,000 metric tons of tin metal. Subject to the Council's approval, consuming countries may make similar contributions.

During 1977, a world shortage of tin induced sharply rising prices. The Bureau of Mines noted that "increases in world production were hindered by heavy taxation and land availability problems in major producing countries." 2/ Trade sources indicated there was an annual average deficit between new mine supplies and demand equivalent to more than 12,000 metric tons of tin metal. The impact of this shortfall was eased by sales from the

1/ The fifth ITA was completed in Geneva in 1975, and entered into force provisionally on July 1, 1976. It was signed by the United States in March 1976, ratified in September of that year, and entered into force provisionally for the United States on Oct. 28.

2/ U.S. Bureau of Mines, Mineral Commodity Summaries 1978, p. 177.

ITA's buffer stock and from the U.S. Government's tin stockpile. The small buffer stock of tin remaining at the close of 1976 was exhausted in January 1977, leaving the ITA without an effective tool for intervening against above-ceiling market prices during the remainder of the year. Even after sales of U.S. Government stocks became negligible, however, the anticipation of congressional action to release substantial additional tonnages from existing stocks had a restraining effect on upward price movements. Despite a softening of prices in late 1977, the Penang ex-works average price in December was considerably higher than the buffer ceiling price in effect at that time. 1/ Tin prices during 1973-77 in major markets were as shown in table 6.

Table 6.--Tin: Average prices in principal markets, 1973-77

(Per pound)

Market	1973	1974	1975	1976	1977
New York	$2.28	$3.96	$3.40	$3.80	$5.35
London	2.19	3.71	3.11	3.48	1/ 4.80
Penang	2.14	3.56	3.04	3.39	1/ 4.78

1/ Estimated.

Source: Compiled from official statistics of the U.S. Bureau of Mines.

The United States is largely dependent on imports as a source of tin metal. In 1977, smelter production of primary tin in the United States was 7,385 short tons, while U.S. imports of tin amounted to 54,500 short tons.

Wheat

During 1977, the United States continued to participate in the International Wheat Agreement of 1971 (IWA), 2/ and in discussions regarding the establishment of a new arrangement to succeed the IWA in governing international trade in grains. Since its inception, the IWA has served principally for collecting and exchanging trade data, for providing food aid to developing countries, and as a forum for consultations among members. The agreement contains no provisions for target prices, buffer stocks, or export quotas.

1/ The ITA floor price was increased by 7.5 percent in December 1976 and by 11.6 percent in July 1977 (to the equivalent of $3.64 per pound); corresponding increases in ceiling prices were 10.4 percent and 13.2 percent (to the equivalent of $4.55 per pound). These Council-established prices are to be reviewed every 6 months.

2/ The agreement was originally scheduled to expire in 1974, but it has been extended several times; protocols for the fourth extension expire on June 30, 1979. The IWA consists of the Wheat Trade Convention, which is administered by the International Wheat Council and the Food Aid Convention.

In 1975 the United States proposed that an international reserve of 30 million metric tons of food grains (wheat and rice) be established in order to offset possible future world production shortfalls. Such reserves were to be held in the producing countries, with the costs shared among all participants. Quantitative guidelines were to be established to govern acquisitions to and withdrawals from the reserve. At the 1977 sessions of the International Wheat Council, the United States advocated that the proposed reserve consist only of wheat, and that world prices be used as a trigger for stock actions. In discussions among Council members, the various proposals concerning the size of the proposed reserve ranged from 15 million to 30 million metric tons, with the United States favoring the larger figure.

U.S. and world production and exports of wheat and wheat flour, and prices received by U.S. farmers in the last 3 crop years are shown in table 7.

Table 7.--Wheat and wheat flour: World and U.S. production and exports, prices received by U.S. farmers, crop years 1975-77

Item	Year beginning July 1--		
	1975	1976	1977 1/
Production:			
World----------------million metric tons--:	350.0	415.1	381.6
United States:			
Amount-----------------------------do----:	57.8	58.3	55.1
Share of world total-----------percent--:	16.5	14.0	14.4
Exports:			
World 2/-------------million metric tons--:	66.4	63.1	71.9
United States:			
Amount-----------------------------do----:	31.5	25.7	31.0
Share of world total-----------percent--:	47.4	40.7	43.1
Average price received by			
U.S. farmers 3/-------dollars per bushel--:	3.55	2.89	2.31

1/ Preliminary.
2/ Excluding intra-EC trade.
3/ Under the U.S. Food and Agriculture Act of 1977, the price-support loan rate for wheat was $2.25 in 1977, unchanged from the previous year.

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

Through the Food Aid Convention, members carry out a program of aid based on contributions of wheat, coarse grains, derived products, and/or the cash equivalents, to developing countries. In fulfilling its commitments, the United States makes concessional sales and donations of commodities under Public Law 480. The minimum annual obligations of the member countries and the European Community in 1977 were as follows:

	Metric tons
Argentina----------------------	23,000
Australia----------------------	225,000
Canada-------------------------	495,000
European Community------------	1,287,000
Finland------------------------	14,000
Japan--------------------------	225,000
Sweden-------------------------	35,000
Switzerland--------------------	32,000
United States------------------	1,890,000
Total for listed members--	4,226,000

United States-Canadian Automotive Agreement

The Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada created the basis for an integrated United States-Canadian automotive industry and market. This bilateral agreement was signed by the two countries in 1965, and implemented by the United States through the Automotive Products Trade Act of 1965 (APTA). The agreement provides that each country shall accord duty-free treatment to imports of specified automotive products, for use as original equipment, made in the other country. 1/ Because the United States did not extend this customs treatment to automotive products of other countries with which it has trade-agreement obligations, the United States obtained a waiver of its MFN obligations under GATT insofar as they pertain to automotive products.

Prior to Canada's implementing the automotive trade agreement, Canadian subsidiaries of the Big Four U.S. automobile producers sent Letters of Undertaking to the Canadian Minister of Industry. Among other things, the letters committed these subsidiaries to increase their Canadian production and the Canadian value added in each model year by an amount equal to 60 percent of the growth in the Canadian automobile market. In his 1977 report to the Congress on the operation of APTA, the President said, in part, "The United States Government does not regard the letters (of undertaking) as valid instruments. . . . the letters . . . were originally signed with the tacit approval of the United States Government. The tacit approval was withdrawn in 1970." 2/ Although discussions are held from time to time between the two Governments about the automotive agreement, the United States has not formally requested that Canada phase out the commitments contained in the letters of undertaking.

1/ For a more detailed treatment of the history, terms, and impact of the agreement, see Canadian Automobile Agreement, Committee on Finance, United States Senate, 94th Congress, 1st Sess., January 1976.

2/ Canadian Automobile Agreement: Eleventh Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, Committee on Finance, United States Senate, 95th Congress, 1st Sess., December 1977.

The United States-Canadian agreement has been a great stimulus to trade in automotive products between the two countries. In 1977 such trade was larger than in any previous year. U.S. automotive exports to Canada rose from $0.9 billion in 1965 to $8.6 billion in 1977. They were equivalent to 42 percent of U.S. exports of automotive products to all countries in 1965, and to 65 percent in 1977. In 1965, U.S. imports from Canada were valued at $257 million, and in 1977, at $10.1 billion. They were equivalent to 24 percent of aggregate U.S. imports of automotive products in 1965 and to 49 percent in 1977 (table 8). 1/

Intracompany transfers account for much of the automotive trade between the United States and Canada, leading to alternative methods of valuing the trade. The President's annual reports to the Congress on the operation of APTA, use the import/import method of assessing the balance of automotive trade between the United States and Canada. This method, which is also used by the Canadian Government, compares U.S. import statistics with Canadian import statistics. These data are shown in table 9. Whereas the U.S. import data in table 8 are constructed values, 2/ those in table 9 reflect transaction values 3/ furnished by major automobile manufacturers. Table 9 indicates that the United States had a surplus in its automotive products trade with Canada in 11 of the 14 years of the 1964-77 period.

United States-Mexican Trade Agreement

During negotiations in 1976, under the auspices of the Tropical Products Group in the Multilateral Trade Negotiations, the United States offered concessions on some 150 tariff items of particular interest to developing countries. Although its offer was not implemented during that year or in 1977, the United States continued to hold discussions with beneficiary countries concerning the products included in its offer. Out of these discussions it became evident that an agreement, based somewhat more broadly than the original U.S. offer on tropical products, could be negotiated with Mexico. After further efforts, a bilateral trade agreement between the United States and Mexico, the first negotiated between the two countries in some 35 years, was signed on December 2, 1977. The agreement will enter into force upon ratification by the Government of Mexico and issuance of a proclamation by the President of the United States. 4/

1/ Some parts (notably nuts, bolts, and screws) exported to Canadian producers of motor vehicles are not reported in official U.S. statistics as exports of automotive parts, although they are so identified in the official Canadian import statistics. Consequently, such exports are not included in table 8.

2/ The constructed value is the sum of the cost of materials, the cost of fabrication or other processing, an allowance for general expenses and profit, and the cost of packaging for shipment.

3/ The transaction value is the actual purchase price including the cost of foreign inland transportation.

4/ As of the date of preparation of this report, the agreement had not entered into force.

Table 8.--U.S. automotive trade: U.S. imports for consumption and U.S. exports of domestic merchandise, total trade, and trade with Canada, 1964-77

Year	U.S. imports			U.S. exports			U.S. 2-way trade			Net surplus or deficit (-) in trade	
	Total	From Canada	Percent of total from Canada	Total	To Canada	Percent of total to Canada	Total	With Canada	Percent of total with Canada	Total	With Canada
	Million dollars	Million dollars		Million dollars	Million dollars		Million dollars	Million dollars		Million dollars	Million dollars
1964 1/	823	111	13	3,050	667	22	3,873	778	20	2,227	556
1965 1/	1,063	257	24	2,185	914	42	3,248	1,171	36	1,122	657
1966 1/	1,980	929	47	2,641	1,324	50	4,621	2,253	49	661	395
1967 1/	2,720	1,619	60	3,010	1,798	60	5,730	3,417	60	290	179
1968 1/	4,440	2,633	59	3,707	2,425	65	8,147	5,058	62	-733	-208
1969 1/	5,502	3,509	64	4,166	2,802	67	9,668	6,311	65	-1,336	-707
1970	6,161	3,608	59	3,912	2,514	64	10,073	6,122	61	-2,249	-1,094
1971	8,270	4,650	56	4,659	3,275	70	12,929	7,925	61	-3,611	-1,375
1972	9,724	5,302	55	5,450	3,980	73	15,174	9,282	61	-4,274	-1,322
1973	11,442	5,993	52	6,655	4,763	72	18,097	10,756	59	-4,787	-1,230
1974	12,984	6,260	48	8,709	5,930	68	21,693	12,190	56	-4,275	-330
1975	12,622	6,511	52	10,930	6,748	62	23,552	13,259	56	-1,692	237
1976	17,108	8,926	53	12,118	7,702	64	29,226	16,628	57	-4,990	-1,227
1977	20,417	10,074	49	13,081	8,556	65	33,498	18,630	56	-7,336	-1,517

1/ Partly estimated.

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

Table 9.--United States-Canada automotive trade, 1964-77

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports	Canadian imports minus U.S. imports
1964	76	640	+563
1965	231	889	+658
1966	819	1,375	+556
1967	1,406	1,889	+483
1968	2,274	2,634	+360
1969	3,061	3,144	+83
1970	3,132	2,936	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	+426
1974	5,544	6,777	+1,233
1975	5,801	7,643	+1,842
1976	7,989	9,005	+1,016
1977	9,267	10,290	+1,063

Source: U.S. Department of Commerce.

Note.--Data exclude trade in materials for use in the manufacture of automotive parts.

Pursuant to the agreement, the United States will grant duty reductions on imports under 17 tariff items, including fruits and vegetables, other agricultural products, and handicrafts. In return, Mexico will grant a combination of tariff cuts, bindings, and guaranteed import licenses on 17 products of export interest to the United States, including such items as agricultural products, tools, and electric motors. Concessions granted under the agreement will automatically be extended to all other nations whose exports receive reciprocal most-favored-nation treatment by the United States and Mexico. Since Mexico is not a GATT member, the bilateral agreement sets rights and obligations to protect for both parties the concessions exchanged, and sets up a procedure for consultation and dispute settlement.

The U.S. Generalized System of Preferences

The United States is among the major developed countries that have instituted a system of preferential tariff treatment for products imported from developing countries. The purpose of such preferential treatment, which is granted unilaterally by developed nations, is to stimulate the economic growth and diversification of the developing countries by providing them with greater access to the markets of the more industrialized states.

The authority for the Generalized System of Preferences (GSP) of the United States is provided by title V of the Trade Act of 1974. The statute authorizes the President to grant duty-free treatment to eligible articles imported from designated beneficiary developing countries for a period not to exceed 10 years from January 3, 1975. Since the inauguration of GSP in January 1976, almost 140 developing countries and dependent territories have been designated as beneficiaries. U.S. duty-free imports under the GSP were valued at almost $4 billion in 1977.

The original list of products under GSP numbered more than 2,700. Changes in the list follow review, including public hearings, by the Interagency Trade Policy Staff Committee (TPSC). Before the President may proclaim additions to the list of eligible products, he must seek the advice of the Commission, which then conducts an investigation, including public hearings. Such advice is also sometimes sought before products are removed from the list of eligible articles. By the close of 1977, the President had approved 49 requests for designating products for addition to the original list and 6 requests for deletion of products. In addition, at the end of the year the TPSC had pending some 100 requests for changes in GSP product coverage.

The Trade Act contains criteria for designating countries and products eligible for GSP treatment, and for suspending such treatment if certain developments occur. 1/ Among other things, the purposes of these criteria are (1) to provide that a beneficiary country, or association of countries, accounts for a stipulated percentage of the value of an imported product in order for that product to be treated as having originated in that country or association, (2) to restrict differences in the extent to which beneficiary countries and territories may benefit from duty-free treatment of designated articles under GSP, (3) to prevent these unilateral concessions from having an adverse effect on U.S. industries, and (4) to assure that GSP is consistent with the foreign policy objectives of the United States.

Subject to certain exceptions, if a beneficiary developing country's exports of a designated article to the United States during a calendar year have an appraised value--

(1) whose ratio to $25 million exceeds the ratio of the U.S. gross national product (GNP) of that calendar year to the GNP of the 1974 calendar year, or

(2) whose ratio to the appraised value of total U.S. imports of that article equals or exceeds 50 percent,

the President must suspend GSP treatment with respect to the article, from that country, not later than 60 days after the close of such calendar year. In 1977 there were 300 products removed from GSP treatment when imported from countries that exceeded either the dollar ceiling or the 50-percent ceiling during the previous year; 45 products were added (reinstated) for countries that no longer exceeded the ceiling. The ceiling calculated for 1977 was $29.7 million. A ceiling of $33.4 million was scheduled to go into effect in 1978.

1/ For detailed accounts of eligibility requirements and the reasons for denying preferential treatment, see Operations of the Trade Agreements Program, 27th Report 1975, USITC Publication 791, pp. 26-29, and Operation of the Trade Agreements Program, 25th Report, 1976, USITC Publication 848, pp. 23-24.

Imports of GSP-eligible articles from designated countries are not exempted from the provisions of domestic legislation that afford relief to domestic industries from injury caused by import competition, or from unfair trade practices such as dumping or subsidization. Moreover, GSP imports from beneficiary countries are not exempt from action under section 22 of the Agriculture Adjustment Act.

U.S. Trade with Communist Countries

Section 410 of the Trade Act of 1974 requires the U.S. International Trade Commission to monitor U.S. trade with nonmarket economy countries and to publish a detailed summary of the data on this trade not less frequently than once each calendar quarter. During 1977 the Commission submitted quarterly reports Nos. 9 through 12 to the Congress and to the East-West Foreign Trade Board. These reports detailed leading imports and exports between the United States and the Communist countries, 1/ and analyzed the importation of products of Communist countries that have had a growing significance in U.S. markets. One report also examined certain U.S. export products which account for a significant portion of the value of U.S. exports to Communist countries. 2/ In May 1977 the Commission also published a special report on the implications for U.S. trade of granting most-favored-nation treatment to the People's Republic of China (China). 3/

There were no substantive changes in the commercial relations between the United States and the nonmarket economy countries during 1977. Only three countries--Poland, Romania, and Yugoslavia--received most-favored-nation (MFN) status from the United States. The United States maintained the higher column 2 tariff rates on imports from Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Laos, the People's Republic of China (China), the People's Republic of Mongolia, and the U.S.S.R. In addition, trade embargoes remained in force against Cuba, Democratic Kampuchea, North Korea, and Vietnam.

The volume of U.S. trade with the nonmarket economy countries declined noticeably in 1977, representing only 1.7 percent of total U.S. trade with the world, compared with 2.3 percent in both 1975 and 1976. U.S. imports from the Communist countries in 1977 increased less than 1 percent, from $1.44 billion in 1976 to $1.45 billion in 1977. In contrast, U.S. exports to these countries fell from a record $3.9 billion in 1976 to $3.1 billion in 1977. Changes in the levels of U.S. exports to the Communist countries generally reflect changes in the levels of grain sales to these countries. U.S. noncereal exports to these countries have not varied significantly since 1975, remaining at about $2 billion a year.

1/ The countries included in this grouping are Albania, Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, the People's Republic of China, the People's Republic of Mongolia, Poland, Romania, the U.S.S.R., and Yugoslavia.

2/ Twelth Report to the Congress and the East-West Foreign Trade Board on Trade Between the Nonmarket Economy Countries During July-September 1977, USITC Publication 851.

3/ Special Report to the Congress and the East-West Foreign Trade Board on Implications for U.S. Trade of Granting Most-Favored-Nation Treatment to the People's Republic of China, 1977, USITC Publication 816.

The United States maintained a positive trade balance with most of the Communist countries during 1977. The aggregate positive trade balance was $1.6 billion, which represents a considerable decline from the $2.5 billion surplus registered in 1976. China was the only major Communist trading partner with which the United States sustained a trade deficit in 1977. There were decreases in the value of U.S. exports to six countries in 1977--U.S.S.R., Poland, East Germany, Bulgaria, and the People's Republic of Mongolia. In contrast, imports increased from all Communist countries except Yugoslavia, Hungary, and the People's Republic of Mongolia.

Grain remained the largest single U.S. export item to the Communist countries and accounted for nearly 37 percent of total U.S. exports to these countries in 1977. However, U.S. exports of grain, principally wheat and corn, fell nearly $800 million, from $1.9 billion in 1976 to $1.1 billion in 1977. Generally good harvests in most Eastern European countries in 1977 and adequate Soviet stocks from the record 1976 harvest in that country, combined with the falling unit values of U.S. grain exports during 1977, caused the decline in the value of grain sales. Nonetheless, grain sales represented more than half the value of U.S. exports to the U.S.S.R., and will probably increase in 1978 in view of the disappointing 1977 Soviet grain harvest. The United States-Soviet Grain Agreement, which requires the U.S.S.R. to purchase a minimum of 6 million metric tons of grain annually from the United States through 1980, was renegotiated in 1977 to increase the level of purchases which the U.S.S.R. may make without intergovernmental consultations from 8 million to 15 million metric tons. In 1976, the United States negotiated a 5-year grain agreement with Poland and a 5-year feed grain understanding with East Germany; both remain in effect.

U.S. imports from the three countries receiving MFN status declined slightly in 1977, but still accounted for 62 percent of total U.S. imports from the Communist countries. Canned hams, footwear, and textile products were significant import items from all three countries. Other major import products were fuel oils, gasoline, and tractors from Romania; wood chairs, unwrought copper, cigarette leaf, and ferrochrome from Yugoslavia; and steel plates, gasoline, bentwood furniture, and assorted agricultural items from Poland.

During 1977, China enjoyed its second straight trade surplus with the United States. However, rising U.S. exports cut the Chinese trade surplus from $59 million in 1976 to $26 million in 1977. U.S. exports of such products as soybean oil, polyester staple, soybeans, and raw cotton increased considerably in 1977, but exports of manufactured products decreased approximately 40 percent. Vastly reduced exports of unwrought aluminum and aluminum alloys accounted for most of the decrease in exports of manufactured products. U.S. imports from China increased only slightly in 1977 to $197 million. The principal imports were feathers and down, fireworks, bristles, textile products, and tea.

There were several meetings between U.S. businessmen and Government officials and their counterparts in various Eastern European countries during 1977. The seventh session of the Joint American-Polish Trade Commission met in Warsaw in November to discuss problems of industrial cooperation, trade relations, cooperation in agriculture, U.S. antidumping and countervailing duty laws, U.S. export control regulations, and the multilateral trade negotiations. Four commercial agreements were proposed covering economic and industrial cooperation, tourism, economic and commercial information, and the participation of small- and medium-sized firms in trade. These agreements are to be negotiated in 1978.

The fourth session of the Joint American-Romanian Economic Commission met in Washington in November. At the meeting, the Romanians proposed a number of projects in which they are seeking participation and cooperation by U.S. firms. Also, the Romanian-United States Economic Council, a private group dedicated to the expansion of trade between the two countries, held its fourth session in New York in July 1977. Among the topics discussed were contract fulfillment, market access, and barriers to trade. In another action affecting United States-Romanian commercial relations, the Congress permitted the United States-Romanian bilateral trade agreement to remain in force for another year, thus continuing MFN status for Romania.

Joint United States-German Democratic Republic (East Germany) Trade Councils were established and met for the first time in June to promote long-term economic, scientific, and technological cooperation between the two countries. The two councils, one to be based in the United States and the other in East Germany, are composed of U.S. business representatives and East German Government officials. The councils will seek ways to increase opportunities for commercial contact in the two countries, to reduce or eliminate barriers to trade, to increase the exchange of commercial and technical information, and to encourage the granting of licenses.

The United States-Hungarian Joint Economic Council met in September to discuss ways to increase trade in agriculture, electronics, and medicine. Other actions affecting United States-Hungarian commercial relations included the opening of an office of the Hungarian National Bank in New York, and the launching of an industrial seminar series in four U.S. cities by the Hungarian Chamber of Commerce.

CHAPTER 2

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Introduction

During the three decades since the General Agreement on Tariffs and Trade (GATT) became effective in 1948, this multilateral agreement constituted the focal point of international efforts to reduce or eliminate trade barriers. For the United States, the GATT framework has virtually replaced the system of independent bilateral agreements formerly used to govern trade between the United States and the market-economy countries. The GATT has also given rise to an institution with a complex organization, structured to carry out provisions of the agreement. This organization consists of a secretariat located in Geneva with a substantial permanent staff and numerous standing and special committees, working parties and groups, and study panels.

The main work of the GATT in 1977 centered on the so-called Tokyo round of multilateral trade negotiations underway in Geneva, the seventh round of such negotiations since World War II. The Tokyo round was officially opened in late 1973, but substantive negotiations were delayed until 1975. Unlike previous rounds, the current negotiations are open to all nations, regardless of GATT affiliation.

GATT also has an ongoing role as a locus of discussion, negotiation, and adjudication of disputes and questions that arise among its signatories on trade matters. During 1977, an increased number of trade problems were brought by member countries to the GATT forum. Such problems usually are triggered when a contracting party invokes one of the articles of the agreement in order to take a trade-restrictive action which it considers necessary in its national interest.

Participation in GATT

There were 83 contracting parties to the General Agreement in 1977, the same number as during the previous few years. In addition, three countries had acceded provisionally to the GATT by the close of the year, and 25 others--former territories that became independent states after 1948--were applying GATT rules on a de facto basis pending national decisions on future foreign trade policy.

The GATT budget is financed by contributions from each contracting party and provisional member, with amounts calculated on the basis of each country's share in the total foreign trade of the group. The minimum contribution is 0.12 percent for countries whose trade constitutes 0.12 percent or less of the total trade of the contracting parties and associated governments. The following list shows the countries participating in the GATT during 1977 and the percent of the 1978 GATT budget contributed by full and provisional members. 1/

1/ The 1978 GATT budget is computed on the basis of foreign trade data for 1974-76.

Country	Percent of GATT budget	Country	Percent of GATT budget
Argentina-------------	0.46	Kenya----------------	0.12
Australia-------------	1.55	Korea, Republic of---	.86
Austria---------------	1.14	Kuwait---------------	.72
Bangladesh------------	.12	Luxembourg-----------	.32
Barbados--------------	.12	Madagascar-----------	.12
Belgium---------------	3.36	Malawi---------------	.12
Benin-----------------	.12	Malaysia-------------	.54
Brazil----------------	1.46	Malta----------------	.12
Burma-----------------	.12	Mauritania-----------	.12
Burundi---------------	.12	Mauritius------------	.12
Cameroon--------------	.12	Netherlands----------	4.99
Canada----------------	4.73	New Zealand----------	.38
Central African Empire	.12	Nicaragua------------	.12
Chad------------------	.12	Niger----------------	.12
Chile-----------------	.22	Nigeria--------------	.96
Congo-----------------	.12	Norway---------------	1.09
Cuba------------------	.34	Pakistan-------------	.20
Cyprus----------------	.12	Peru-----------------	.19
Czechoslovakia--------	1.14	Poland---------------	1.49
Denmark---------------	1.26	Portugal-------------	.42
Dominican Republic----	.12	Rhodesia-------------	.12
Egypt-----------------	.30	Romania--------------	.74
Finland---------------	.84	Rwanda---------------	.12
France----------------	7.17	Senegal--------------	.12
Gabon-----------------	.12	Sierre Leone---------	.12
Gambia----------------	.12	Singapore------------	.67
Germany, Federal		South Africa---------	.84
Republic of---------	11.04	Spain----------------	1.56
Ghana-----------------	.12	Sri Lanka------------	.12
Greece----------------	.41	Sweden---------------	2.26
Guyana----------------	.12	Switzerland----------	1.78
Haiti-----------------	.12	Tanzania-------------	.12
Hungary---------------	.70	Togo-----------------	.12
Iceland---------------	.12	Trinidad and Tobago--	.24
India-----------------	.63	Turkey---------------	.40
Indonesia-------------	.80	Uganda---------------	.12
Ireland---------------	.45	United Kingdom-------	7.31
Israel----------------	.50	United States--------	14.40
Italy-----------------	4.84	Upper Volta----------	.12
Ivory Coast-----------	.14	Uruguay--------------	.12
Jamaica---------------	.12	Yugoslavia-----------	.76
Japan-----------------	7.80	Zaire----------------	.12

Countries that acceded provisionally to GATT in 1977 were as follows:

Country	Percent of GATT budget
Columbia	0.20
Philippines	.40
Tunisia	.14

Countries that maintained de facto application of the GATT were as follows:

Algeria
Angola
Bahamas
Bahrain
Botswana
Cape Verde
Equatorial Guinea
Fiji
Grenada
Guinea-Bissau
Kampuchea
Lesotho
Maldives
Mali
Mozambique
Papua New Guinea
Qatar
Sao Tome and Principe
Seychelles
Surinam
Swaziland
Tonga
United Arab Emirates
Yemen, Democratic
Zambia

Although two-thirds of GATT's members in 1977 were developing countries, the list did not include some of the major oil-producing countries--Saudi Arabia, Iran, Iraq, Libya, Venezuela, and Mexico. However, some important oil-producing countries were among the following countries that were participating in the Tokyo round of multilateral trade negotiations, although they were neither contracting parties nor former dependencies applying the agreement on a de facto basis.

Bolivia
Bulgaria
Costa Rica
Ecuador
El Salvador
Ethiopia
Guatemala
Honduras
Iran
Iraq
Mexico
Panama
Paraguay
Somalia
Sudan
Thailand
Venezuela
Vietnam

The Multilateral Trade Negotiations

The Multilateral Trade Negotiations (MTN) had come to a virtual standstill as 1977 began, in large part because of the inability to reach agreement on negotiating procedures in the agricultural area. Slow economic recovery from recession in many countries also contributed to the lack of progress. Meanwhile, the new U.S. Administration was organizing its trade policy decision-making mechanism. A new Special Representative for Trade Negotiations was not sworn in until March 30, 1977, and his deputy in Geneva, with day-to-day responsibility for the conduct of the MTN, was not appointed until July.

At the Downing Street Summit Conference, held in May of 1977, the major Western industrialized nations nevertheless committed themselves to a vigorous pursuit of the MTN in order to achieve the objective of the Tokyo Declaration. Specifically, the Heads of State called for substantive progress in 1977 in achieving three key MTN goals:

> (1) A tariff reduction plan of broadest possible application designed to achieve a substantial cut and harmonization and in certain cases the elimination of tariffs;
>
> (2) codes, agreements, and other measures that will facilitate a significant reduction of nontariff barriers to trade and the avoidance of new barriers in the future and that will take into account the structural changes which have taken place in the world economy; and
>
> (3) a mutually acceptable approach to agriculture that will achieve increased expansion and stabilization of trade, and greater assurance of world food supplies. 1/

The Tokyo Declaration, which officially opened the MTN in 1973, established a Trade Negotiations Committee to plan and supervise the negotiations. This oversight committee, which is composed of all MTN participants, subsequently vested responsibility for work in key areas of the negotiations in seven functional groups--agriculture, tariffs, nontariff measures, safeguards, framework improvement, tropical products, and sectors. Activities in these groups during 1977 are summarized below.

Agriculture

Progress in Group Agriculture nearly halted in 1976 because the positions of the United States and the European Community regarding the procedures to be followed in agricultural negotiations were diametrically opposed. The EC insisted that its Common Agricultural Policy was not negotiable and held that, because of agriculture's "special characteristics," agricultural products should be negotiated separately from industrial products. The United States, on the other hand, insisted that all negotiating groups be permitted to discuss agricultural issues, supported proposals to establish subgroups on variable levies and minimum import prices, and argued that any tariff reduction formula adopted be applied to agricultural and industrial products alike. Against this background, progress was blocked in Group Agriculture. Both sides then were unwilling to move forward in other MTN groups until an understanding on agricultural procedures could be reached.

The impasse was broken in a series of bilateral discussions held between the United States and the EC in early July 1977. The results were adopted by Group Agriculture in a meeting later that month. In essence, the July compromise called for: (1) Negotiations on agricultural tariffs and on

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1/ The Department of State Bulletin, June 6, 1977, p. 583, Downing Street Summit Conference: Declaration, text of summit conference declaration and appendix.

agricultural non-tariff measures not being dealt with multilaterally to be conducted on a bilateral request/offer basis; (2) a general definition of agricultural products to include those falling within chapters 1-24 of the Customs Cooperation Council Nomenclature, with participants to notify any difference between this definition and their own; (3) time limits for making requests, and a date (January 15, 1978) for the submission of offers; and (4) continued work in the Agriculture Subgroups, Meat and Dairy. 1/ A similar request/offer procedure was adopted by the Nontariff Measures Group (see below) for nontariff measures not being dealt with multilaterally so that the compromise on agriculture represented an integrated approach with other areas of the negotiations.

Group Agriculture's Subgroups Dairy and Meat each met for two sessions later in the year. Both the EC and New Zealand made proposals for international commodity agreements for dairy products. The GATT Secretariat was asked to bring major elements of these, and other dairy proposals, into a single paper. Australia and the EC made proposals for international agreements on meat. Again, the Secretariat prepared a point-by-point discussion paper. In both areas the United States was willing to cooperate in the development of the agreements, but was unwilling to commit itself in advance to whatever international commodity arrangements might eventually emerge.

Tariffs

During 1976 Group Tariffs considered alternative proposals for the main elements of a negotiating plan on industrial tariffs--a tariff-cutting formula, rules for exceptions, and special and differential treatment for developing countries.

Though scheduled to meet in March, participants in Group Tariffs allowed the date to be postponed because of major disagreements among countries, particularly the United States and the EC, and members of the Group felt nothing could be accomplished until their key countries were ready to put together a compromise package. The compromise was developed in bilateral discussions. As a result, in tariffs (and in some other areas as well) the emphasis shifted from the large-scale meetings of the Group to bilateral and small plurilateral negotiating forums. 2/

1/ Work in the Subgroup on Grains was in abeyance awaiting the results of negotiations on a new international wheat agreement under the auspices of the International Wheat Council. Subgroup Grains did not meet in 1977.

2/ As Group Tariffs faded into the background, so did Group Sectors. In the latter case, the Group could not agree on which sectors lent themselves to negotiating all tariff and nontariff measures in a single arena. At one time the United States announced its intention to table a steel sector proposal, but the focus for the settlement of steel sector problems shifted to the OECD, and to the establishment of a steel committee under that body.

The U.S./EC bilaterals set a timetable for the first phase of the MTN, lasting through the tabling of offers on January 15, 1978. 1/ This timetable called for agreement on a tariff negotiating plan by early fall. The results of these negotiations were brought to other delegations in an informational session of Group Tariffs held late in September.

This session made it clear that the United States and the European Community were moving toward acceptance of a harmonization-type tariff-cutting formula along the lines of the so-called Swiss formula. The EC favored no exceptions at all with a relatively shallow depth of cut; the United States favored a minimum of essential economic exceptions but a deeper overall average tariff cut. 2/

The EC also sought a two-tranche staging process in which the timing of the second tranche would be tied to general economic conditions. Within these limits, both sides sought support for their respective positions. Finally, on December 23 the major participants agreed to a working hypothesis for tariff reductions which, without ever receiving formal approval of Group Tariffs, became the basis for the tabling of initial offers some 3 weeks later. The working hypothesis called for (1) the use of a Swiss-type harmonization formula, 3/ (2) a 40-percent overall depth of cut to be achieved by some (but not all) participants, and (3) a minimum number of exceptions (which in the U.S. view could be offset by greater-than-formula cuts elsewhere).

Implementation of concessions was to be decided in the last phase of the MTN. For planning purposes, however, an 8-year staging period was envisioned. Left undecided was the conditional staging concept supported by the EC. The last element of the plan, special and differential treatment for products of developing countries and their contributions, was also left to be elaborated.

Although the working hypothesis was drawn in very broad general terms and left several important points open to different interpretations and subsequent dispute, it proved to be a sufficient guide for forward movement in the tariff negotiations.

Nontariff measures

Negotiations on nontariff measures (NTM's), particularly the drawing up of codes of conduct, were conducted in specialized subgroups--Technical Barriers to Trade (Standards), Customs Matters, Subsidies/Countervailing Duties, Quantitative Restrictions, and Government Procurement--under the auspices of the NTM Group. The NTM Group itself considered the establishment

1/ Also see the section on the EC in ch. 3.

2/ Under provisions of the Trade Act of 1974, the United States must except from tariff reduction products on which import relief actions are outstanding.

3/ The formula agreed upon was $Z = \frac{AX}{A + X}$, where Z is the final rate, X is the initial rate, and A is a simple coefficient between 12 and 16, with the possibility of using an unspecified adjustment factor to yield a particular overall depth of cut.

of new negotiating subgroups and adopted negotiating procedures. During 1977, for example, the NTM Group considered, but did not establish, new subgroups on variable levies and antidumping. The NTM Group agreed to pursue a request/offer procedure on all industrial nontariff measures not dealt with multilaterally, under the same timetable that was adopted in Group Agriculture. As part of the efforts to renew the negotiations, accelerated work on all NTM codes was undertaken so that negotiating texts would be on the table by December 15, 1977.

Standards.--Work on the text of a code to insure that product standards and product certification requirements do not become obstacles to international trade was more advanced than other code work, since a draft text had been completed by a GATT committee as early as 1973.

During 1977, the United States was interested in defining more precisely the terminology used in the draft code, and in achieving maximum agreement on a code text. A key substantive issue which the U.S. and others wanted resolved was the question of balance in the code between obligations assumed by federal and unitary governments. Obviously, federal governments could not obligate their state or provincial standards-making bodies in the way that a unitary government could obligate its standards making activities. Other issues, including the appropriate means of granting special and differential treatment to developing countries without destroying the code, also required attention. In March, the Subgroup came to agreement on definitions to be incorporated in the standards code. The subgroup then turned to more difficult issues. At its September meeting, the Subgroup heard a new proposal for dealing with special and differential treatment for developing countries, although major issues remained unresolved. At an informal December session the EC made a proposal that would require countries signing the code to undertake the first level of obligation ("shall ensure") for all standards-making activity within their borders. If a signatory failed to bring local (i.e., city, provincial, or state) standards-making activities into compliance with the code's provisions, other signatories could avail themselves of the code's dispute settlement procedures. This proposal remained informal in 1977, but the proposal focused attention on the code's dispute settlement procedures as a possible solution to the question of the levels of obligation by governments.

Customs matters.--Although the United States favored a single world valuation system for customs purposes, it did not think the Brussels Definition of Value (BDV) used by 80 countries was adequate. While the United States was willing to negotiate toward a single system, it expected reciprocity for changes in its valuation system which might flow from the negotiations and result in a reduction of existing tariff protection to U.S. industries. Other countries saw the negotiations on customs matters as a means of getting the United States to abolish its American Selling Price and "Final List" valuation standards, the first of which is inconsistent with the GATT although permissible under the "grandfather clause" of the Protocol of Provisional Application of the GATT. The high point of the year's activities occurred in November when the EC presented its draft customs valuation code. In tabling the proposal, the EC spokesman explained that the draft code represented an effort to incorporate the best features of the Brussels Definition of Value and the valuation systems of the United States and

Canada. In summary, the draft provided for a positive valuation system, 1/ in which the primary standard would be the price paid or payable for imported goods (i.e., the transaction price) where the buyer and the seller are not related. If the primary standard could not be used, then alternative valuation standards were provided. This draft code became the basis for future negotiations.

Subsidies/countervailing duties.--In late 1975, the United States tabled a concepts paper which, it was hoped, would serve as the basis for negotiations the following year. The United States proposed classifying subsidies into three groups: A prohibited category subject to countervailing duties without conditions; a conditional category, in which subsidies were to be countervailable only if certain conditions such as an injury test were met; and a permitted category where the subsidy had only a de minimis impact on foreign trade. This approach failed to attract enough support to serve as a basis for negotiations.

In February 1977, Canada put forward a proposed formulation that would prohibit export subsidies on industrial products, but would permit export subsidies on certain specified primary (including agricultural) products. The proposal also included provisions for multilateral approval of countervailing measures. Like the U.S. effort, however, it was not accepted as the starting point for code development.

The failure of two major efforts to launch negotiating texts in the Subgroup prompted a reassessment of national positions, since it was well known that the United States considered a subsidies code essential to successful completion of the MTN. With this in mind, possible limits of negotiation were then explored bilaterally. This series of bilaterals, in which those between the United States and the EC figured most prominently, resulted in an outline for approaching the problem. Key concepts were: Recognition that while subsidies are important instruments of national policy, they can cause serious prejudice to others' trade interests; the notion that export subsidies can have harmful effects; and a willingness to seek agreement whereby an injury test would be applied in connection with the imposition of countervailing duties. While negotiations on subsidies/countervailing duties did not result in a common draft text by yearend, the outline represented a guide for 1978 discussions.

Quantitative restrictions.--During 1977, the Subgroup continued its search for procedures under which quotas and other quantitative measures could be negotiated. Debate centered on whether a multilateral approach, such as an

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1/ Customs valuation standards use so-called "positive" and "notional" concepts for determining values. Some systems incorporate both types of standards in a hierarchical arrangement. A "positive" standard defines customs value in terms of the price at which goods are actually sold under specified conditions. A "notional" standard defines customs value in terms of the price at which goods would be sold under specified conditions. The U.S. system, as set out in sections 402 and 402a of the Tariff Act of 1930, is basically positive, with some elements of a notional content. The BDV is a single notional standard.

agreed phaseout of certain quantitative measures, or a bilateral approach, such as a request/offer procedure, would be the most effective. Various proposals remained on the table, but, in fact, negotiations on quantitative measures became generally subsumed under the request/offer procedures adopted in July.

The Subgroup was also charged with developing code texts for licensing measures. These measures were generally regarded as being of two types: First, automatic import-licensing systems that are supposed to be trade neutral and used primarily in information gathering, such as licensing for the collection of statistical data. However, the second type--licensing to administer import restrictions--operates to restrain importation, with common uses being to redress balance-of-payments difficulties, or to bring about some national security objectives. The United States initially suggested that automatic systems should be abolished, but later accepted the position that use of these systems might be justified in a safeguard or presafeguard context. The United States held that licensing schemes for import control should be open and nondiscriminatory.

The Subgroup agreed that the GATT Secretariat should prepare draft texts on both licensing systems. The Secretariat finished its work toward the end of the year, and it was understood that these texts would serve as the basis for future negotiations.

Government procurement.--Within the Organization for Economic Cooperation and Development (OECD) discussions on government procurement practices had been underway intermittently since the early 1960's. While U.S. buy-national practices were highly visible because all were codified in law or published regulations, these OECD discussions revealed that other governments--through less open means--favored domestic sources on a scale even more preferential than in the United States. Thus, the stage had been set to develop a code of conduct to reduce discrimination against foreign suppliers and, by more open procedures, reduce concealed discriminatory procurement practices. A substantial amount of work on a draft code had been completed in the OECD before the issue moved to the MTN.

The developing countries, led by India, supplied, in part, the impetus to begin work on a government procurement code in the MTN. The United States also saw the possibility for broader code participation and for faster progress in the context of the MTN than was taking place in the OECD. In 1976 meetings, the NTM Group agreed to set up a new Subgroup specifically to deal with this topic. After meeting once in 1976, the Subgroup moved into substantive meetings in 1977.

It quickly became evident that the Subgroup did not intend to limit itself to the OECD's draft code. Developing countries were particularly interested in a wider negotiation since the OECD's draft did not provide special and differential measures for developing countries. Certain developed countries also favored an expanded focus.

Participants also realized that those countries with the most at stake in government procurement should work plurilaterally to develop a concensus on the key code elements (nondiscrimination, openness of procedures, and dispute settlement). The GATT Secretariat agreed to keep developing countries informed. The United States saw as its first objective the development of basic code provisions covering practices, procedures, rights, and obligations. Negotiations on the procurement entities to be covered by the code could come later. In any case, entity coverage would be more susceptible to revision than would the basic text. Negotiations proceeded on this assumption, and eventually the GATT Secretariat was asked to prepare a draft code for circulation. Such an integrated draft text was prepared by yearend 1977 and would be the focus of attention in 1978.

Safeguards

The United States considered negotiations on safeguards (i.e., the import relief measures countries adopt in response to injurious import competition) to be one of its chief MTN priorities. During 1976, it tabled a series of proposals aimed at strengthening the GATT safeguard provision (article XIX) and at establishing agreed concepts and procedures for its use. 1/ These concepts and procedures were largely based on those in effect in the United States under the provisions of Title II of the Trade Act of 1974. In early 1977, U.S. objectives were to keep U.S. proposals in the spotlight.

Developed countries indicated that the more radical demands of developing countries--such as a blanket exemption from developed country safeguard actions--were not negotiable.

Early in 1977 the Safeguard Group established a work program to deal systematically with the major safeguard issues. Six key areas were set out:

(1) Criteria and conditions for safeguard action, retaliation, compensation, and adjustment assistance;

(2) MFN versus selective application of safeguard measures;

(3) domestic procedures for safeguard action;

(4) short-term seasonal and cyclical problems;

(5) notification, consultation, surveillance, and dispute settlement; and

(6) other safeguard topics.

Within these areas debate focused on: (1) Bringing such measures as voluntary export restraints and orderly marketing agreements under the safeguard system; (2) defining more precisely such article XIX terms as "serious injury," the "threat" of serious injury, and "critical circumstances;" 2/ (3) whether

1/ See Operation of the Trade Agreements Program (OTAP), 28th Report, 1977, USITC Publication 848, p. 40.

2/ Article XIX:2 permits, "in critical circumstances where delay would cause damage which it would be difficult to repair...," the withdrawal or modification of a concession without prior consultation with other GATT trading partners.

safeguards taken on a selective rather than a nondiscriminatory (MFN) basis would be more or less damaging to liberal trade; (4) whether safeguards should be made contingent upon the introduction of a domestic adjustment program; and (5) the appropriate duration for a safeguard measure. A multilateral surveillance system was also proposed.

Negotiations shifted primarily into a bilateral and plurilateral pattern later in 1977. The year ended without a final negotiating text on the table (although two versions of a "safeguard hypothesis" were circulated at the end of the year), but it was already clear that the selectivity issue would command many negotiating hours in 1978.

Framework improvements

The Tokyo Declaration explicitly recognized that the "international framework for the conduct of world trade" (i.e., the General Agreement) could be improved. The Trade Act of 1974 (sec. 121) also set GATT reform as a U.S. objective. While established MTN groups and subgroups were working on some proposals that would have corrected deficiencies in the GATT, many reform topics remained without a "home" in the negotiations. At the December 1975 meeting of the Trade Negotiations Committee (TNC) Brazil proposed that a Framework Group be etablished. This proposal gave rise to numerous bilateral and plurilateral negotiations since those countries most active on the reform topic had quite different concepts of the nature of the reforms to be sought. After nearly a year of such discussion, in November 1976, the TNC formally established the Framework Group with a proposed five-point program bridging the span of developed and developing country issues. Framework topics would cover not only the permanent legal basis for special and differential treatment for developing countries, but also the concept of graduation from developing country status and the assumption by "graduating" countries of additional GATT obligations. Furthermore, balance-of-payments problems, export controls, and the reform of the GATT dispute settlement mechanism would also be on the agenda. The new group met once in 1976, but left all substantial negotiations for 1977.

Brazil took the initiative in 1977 by tabling sweeping proposals, which, if accepted, would have required a major revision of the existing GATT. The Brazilian proposals, would, among other things, (1) provide in the GATT a permanent legal basis for the Generalized System of Preferences (now GATT-legal because of a ten-year waiver of the MFN requirement of Article I of the GATT), (2) allow developing countries to periodically revise their GATT schedules of concessions to reflect changes in their economies, (3) give greater initiative to the GATT Director General to assist developing countries in dispute procedures, and (4) formally link contributions from developing countries to the additional benefits they might receive in trade negotiations.

U.S. proposals, on the other hand, excluded wholesale reformulation of the GATT. The United States would, for example, examine the legal framework for special and differential treatment, but it would not abandon the MFN principle to some residual role. The United States pointed out that developing countries should be prepared to accept increasing obligations within the GATT as their economies progressed (i.e., a concept of graduation from developing status). The United States expected the Group to explore whether a need existed to bring GATT rules on import and on export restrictions into greater harmony. The United States also made several proposals to improve the GATT dispute settlement mechanism.

As the year progressed, framework improvement proposals were generally considered within bilateral consultations. At its last 1977 meeting, the Group asked the GATT Secretariat to compile an annotated inventory of proposals and comments made by delegations on all elements of the work program. This paper was still being compiled as 1977 ended.

Tropical products

During the first half of 1977, Australia, the European Community, New Zealand, Finland, Norway, Sweden, Switzerland, Canada, Japan, and Austria implemented concessions they had offered in response to requests received in the course of the negotiations under the auspices of the Tropical Products Group. In some instances these new concessions represented improvements in the various generalized systems of preferences employed by these countries. Also, some were, in effect, unilateral tariff reductions witout reciprocal concessions on the part of the developing countries which would benefit from the reductions.

The United States, during the entire course of the negotiations, forcefully stated that it did not intend either to make unilateral concessions or to negotiate its GSP. It did, however, offer concessions on some 150 tariff items with an import value of more than $1 billion. These concessions were offered in exchange for contributions to trade liberalization consistent with the economic development and financial needs of the various beneficiary developing countries. Because developing countries took the position that they could not make such contributions until the end of the MTN, after they had assessed the net benefits to be received, the U.S. offer remained on the table unimplemented. Bilateral and plurilateral negotiations continued during the year, however, and led to a bilateral trade agreement concluded in December between the United States and Mexico. 1/

Other Activities

One of the principal functions of the GATT is to provide permanent machinery for intergovernmental consultations with respect to policies and problems arising in the area of international trade. It does so at several levels, including annual sessions of the Contracting Parties, regular meetings of the Council, discussions of the Consultative Group of Eighteen, specialized work of bodies such as the Antidumping Committee and the Textiles Committee, and various working groups and panels of independent experts established to examine specific trade disputes.

1/ The agreement had not been implemented as of the date of issuance of this report.

The Consultative Group of Eighteen

The Consultative Group of Eighteen (CG-18) high level representatives was established in 1975 to enhance the functioning of the GATT. 1/ The group has some characteristics of a management body, but remains essentially a consultative rather than decision-making body. The main concern of the CG-18 at its meeting in September 1977 was with growing protectionist actions; some concern existed that trade restrictions had a greater and sometimes discriminatory effect on the trade of developing countries. The group also considered procedures for streamlining balance-of-payments consultations and for dealing with problems caused when no conclusions are reached about whether certain practices violate the General Agreement. Such inconclusiveness was found to be particularly disturbing, since it can undermine the authority of the General Agreement, and methods for improving the operation of working parties and panels within the existing structure and procedures of the GATT were suggested.

Antidumping surveillance

As part of the sixth (Kennedy) round of GATT negotiations, a group of major trading countries in 1968 established the Agreement on Implementation of Article VI of the General Agreement--generally known as the Antidumping Code--to interpret the GATT provisions on this subject, and to establish rules for uniform application of these provisions among the signatory countries. In 1977, 17 countries plus the European Community and its member states were parties to the agreement. 2/ The signatory countries participate in the Committee on Antidumping Practices, which issues an annual report on application of the code and changes in relevant national laws and regulations. Following is the committee's summary of the number of antidumping cases reported by countries supplying information for the 12-month period July 1976 through June 1977.

1/ In 1977 the CG-18 was composed of representatives of Argentina, Australia, Brazil, Canada, Egypt, the European Community and its member States, Hungary, India, Japan, Malaysia, Nigeria, Norway, Pakistan, Peru, Spain, Switzerland, the United States, and Zaire.

2/ Parties to the agreement other than the United States and the EC and its member states were: Australia, Austria, Canada, Czechoslovakia, Finland, Greece, Hungary, Japan, Malta, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and Yugoslavia. Poland accepted the GATT Antidumping Code in 1977. Israel introduced new antidumping legislation during the year.

	Australia	Canada	EEC	Greece	Norway	United Kingdom	United States
Cases pending as of July 1, 1976----------	12	11	4	0	0	10	26
Investigations opened---	40	20	9	6	1	20	15
Cases on which provisional action taken---	7	14	2	0	0	5	8
Cases on which final decision reached:							
Antidumping duties imposed-------------	2	9	2	1	0	3	3
Cases settled through "arrangements"------	5	0	3	0	0	15	9
Cases terminated------	29	8	3	0	0	13	13
Revocation of antidumping duties--------	4	3	0	0	0	6	1
Cases pending as of July 1, 1977----------	17	14	5	5	1	3	16

Among the specific cases considered by the committee during 1977, particular interest was focused on the following.

United States.--Questions were raised concerning tentative antidumping action taken by the United States against imports of hot-rolled carbon steel plate from Japan. Information was sought on whether sufficient evidence of injury existed, whether factors other than imports might be responsible for the injury, if any, and why the home-market price had been considered inadequate as a basis in determining the dumping margin. Constructed value calculations were criticized as not being in conformance with the GATT Antidumping Code, since a discretionary determination of profit was involved.

The United States replied that evidence of injury or likelihood thereof by reason of less-than-fair-value sales was found because price suppression, reduced profitability, increased market share by the imported product, and reduced employment had all occurred. In calculating the dumping margin, data on home-market sales were deemed inadequate as a basis of comparison, and export prices to third countries were not available. Therefore, the third criterion--a constructed value--was used. The 8-percent profit ratio included in the constructed value could be supported by U.S. economic data.

Concern also existed over application of section 337 of the Tariff Act of 1930 in the United States and differences between it and the GATT Antidumping Code.

European Community.--The EC, being unable to arrive at an arrangement with exporters, had imposed provisional antidumping duties on imports of ball bearings, tapered roller bearings, and parts thereof, from Japan. The provisional duties covered all types of bearings, although the investigation was limited to 16 categories of such items. The EC reported that it was not possible to examine all types of ball bearings in the preliminary investigation, but a broader range of products was expected to be examined in the definitive investigation. Because of the large number of individual suppliers, they were not named in the investigation.

United Kingdom.--In response to an inquiry regarding the method of calculating dumping margins, the United Kingdom explained that margins of dumping were determined in cases involving state-trading countries by finding, where possible, an analogous product exported from a market economy country, after which appropriate adjustments might be made for different stages of development between the two countries.

Canada.--Canada was questioned as to why it would not settle an antidumping case upon receipt of price assurances from the exporter. In reply, it was stated that Canada has no provision in its antidumping law for settlement of cases when price assurances are received. Consequently, such a solution is never applied, and dumping cases proceed to a more formal end.

Australia.--A large number of antidumping investigations were initiated in Australia in 1976 and 1977, but most were terminated with no action taken.

Textile restraints

International trade in textiles was a major concern of GATT throughout 1977, which ended with the extension until December 31, 1981, of the Arrangement Regarding International Trade in Textiles. This arrangement, also known as the Multifiber Arrangement, or MFA, was negotiated in 1973 under GATT auspices. Its 42 signatories accounted for more than 80 percent of world trade in textiles and clothing in 1977. All signatories are members of the GATT Textiles Committee, which governs the arrangement and in which the negotiations for renewal took place.

Extension of the MFA was by a protocol, opened for signature by all participating governments. No changes were made in the arrangement's text, and the Textiles Committee and the Textiles Surveillance Body are maintained.1/ The key to the extension of the MFA was the confirmation by the protocol of certain understandings set forth in the conclusions of the Textiles Committee at its meeting on December 14, 1977. The committee, in referring to bilateral consultations and negotiations to be undertaken by the EC to relieve what it described as pressing import problems, agreed that such consultations should be conducted with a view to reaching a mutually acceptable solution including the possibility of "jointly agreed reasonable departure from particular

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1/ The Textiles Surveillance Body (TSB) supervises the implementation of the MFA; its functions include reviewing new restrictions imposed and providing a forum for the settlement of disputes. The TSB consists of an independent chairman and eight members nominated by participants in the arrangement. In 1977, the members consisted of nominees of the EC, Colombia, Hong Kong, Japan, Norway, Pakistan, and the United States; the eighth seat rotated among nominees of Austria, Hungary, Malaysia, and Turkey.

elements in particular cases." The conclusions note that such departures are to be temporary and that the participants concerned should return as quickly as possible to the framework of the arrangement.

Export inflation insurance

In 1976, the GATT Council established a working group to examine the effect on international trade of export inflation insurance schemes operated by several European countries--in particular, Finland, France, and the United Kingdom. Such schemes were designed to compensate exporters for losses incurred under fixed-price contracts during periods of increasing input costs. The export inflation insurance maintained by EC countries does not apply to intra-community trade, apparently because the Treaty of Rome contains stricter obligations than the General Agreement.

In the 1977 meetings of the working group, the United States maintained that export inflation schemes were not self-financing, had substantial trade-distorting effects, and were subsidies in contravention of the GATT that should be terminated. The schemes were called a disincentive to control costs that permitted beneficiary exporters to bid more aggressively in international markets, since they would be helped with any inflationary cost increases. The United States further stated that, since inflation insurance applied only to exports, it resulted in lower prices abroad than in domestic markets. Japan stressed that the likelihood of chronic inflation over time meant that insurance theory could not be applied to protection against cost inflation. Canada noted that none of the schemes contained a formula or mechanism for frequent adjustment of premiums or scope of coverage in the event of losses.

Several members of the working group concluded that export inflation schemes were subsidies in contravention of GATT article XVI:4 and should be terminated. Other members--notably those maintaining such schemes--concluded that they operated in long-term financial equilibrium, were not subsidies, and need not be terminated. The working group, and subsequently the Council, was unable to reach a consensus as to the compatibility of the export inflation insurance schemes with the provisions of the General Agreement.

The working group also addressed, but could not reach agreement upon, the question of whether exchange-rate guarantee schemes should be considered together with export inflation schemes. Part of the group claimed that a close correlation existed between inflation rates and currency movements. Others stressed that frequent currency movements created difficulties for international trade and led to modification in export support systems. One problem allegedly created by currency movements was an increase in antidumping cases. Exchange-rate guarantee schemes were pictured as being different from inflation insurance in that the exchange-rate schemes also operate in low-inflation countries when contracts are made in the exporters' currency. In this case low inflation leads to currency appreciation, eroding the exporter's competitiveness.

Switzerland commented that there were more important elements than inflation in determining the exchange rate of a country, such as the trend in the balance of payments, payment modalities for current transactions, capital movements, monetary conditions, and central bank intervention. Exchange-rate guarantee schemes assured the exporter of earnings agreed to in foreign exchange according to the exchange rate at the time the contract was concluded. The exporter was still responsible for any subsequent increase in costs, which was not the case under a cost-inflation insurance scheme.

Consultations on trade with Poland, Romania, and Hungary

Because Poland, Romania, and Hungary are state-trading countries, the protocols for their accession to the General Agreement provide for periodic consultations to review operation of the protocols and the development of trade with other GATT members. 1/ At the ninth annual review in May 1977, the working group established to conduct the consultation with Poland noted that discriminatory quantitative restrictions against imports from Poland were still maintained by the EC, Greece, Finland, Norway, and Sweden, although the number and extent of such restrictions was reduced since the last consultation in 1975. The group noted that Poland, for its part, had considerably exceeded its import commitment under its protocol of accession. Poland instituted a customs tariff in 1976, and some modifications have been necessary to improve its operation. It was felt within the working group that the new customs tariff should be examined by the GATT at a future date. The working group was unable to establish a termination date of the transitional period under the protocol of accession.

At a meeting in January 1977, the working group conducting biennial consultations with Romania reported that trade between that country and the other contracting parties had developed satisfactorily, and that Romania had fulfilled its import commitment under the protocol of accession. It was found that, although most GATT members were not applying discriminatory quantitative restrictions against Romania, the EC and the Nordic countries continued to maintain restrictions incompatible with the GATT.

In November 1977, a working group began the second round of biennial consultations to review the operation of Hungary's protocol of accession and the development of that country's trade with other GATT members. Consideration of the working group's report was expected to be concluded in early 1978.

1/ The accession of Poland in 1967 raised problems unfamiliar to the GATT since, like most state-trading countries, Poland had a foreign trade system in which the customs tariff was not a major instrument of commercial policy. Because Poland was unable to offer tariff concessions in return for the benefits of GATT membership, it undertook instead to increase the value of its imports from GATT members by an average of 7 percent a year. For their part, other GATT members agreed to extend to Poland all previous mutual trade concessions and to progressively relax discriminatory quantitative restrictions on imports from Poland, with the aim of abolishing them entirely at the end of a transitional period. The protocols of accession of Romania in 1971 and Hungary in 1973 were similar to that of Poland, although Hungary was applying a customs tariff at the time of its accession to the General Agreement.

Activities in the interest of developing countries

Approximately two-thirds of GATT's members are developing countries. Three main approaches have been taken within the GATT in recent years for dealing with the trade and development needs of such countries. First, promotion of their trade interests is one of the major aims of the Tokyo round of multilateral trade negotiations (largely through the Tropical Products Group). Second, a number of provisions of the General Agreement afford developing countries greater flexibility in applying certain GATT rules. Third, the addition in 1965 of part IV to the General Agreement committed the more-developed members to aid the developing countries, and recognized the principle that the latter, in the course of trade negotiations, are not expected to make contributions inconsistent with their individual development, financial, and trade needs.

Trade and development.--The Committee on Trade and Development, a standing committee of the GATT, reviews each year the implementation of part IV and considers other matters of interest to developing countries. Deep concern was expressed in the committee in 1977 over the increasing use of import restrictions against products of export interest to developing countries. A number of developing countries proposed that a committee be established to review actions taken by developed countries under article XIX of the GATT (the escape clause) affecting the trade interests of developing countries and to make appropriate recommendations to minimize their consequences on the trade of developing countries.

The United States reported progress under adjustment-assistance efforts and under its Generalized System of Preferences. An improved adjustment-assistance program was implemented in the domestic footwear industry as a pilot project which could form a model for adjustment in other sectors affected by imports. The United States sought to make adjustment assistance a viable alternative to emergency measures that restrict trade; even in cases where such measures were still necessary, adjustment assistance could bring their early removal. The interagency committee charged with reviewing requests for changes in the list of items covered by the GSP had agreed to consider requests for the addition of 92 products. Public hearings under domestic GSP procedures had begun, and countries were invited to make comments.

Protocol relating to trade negotiations among developing countries.--Negotiations to increase trade among developing countries, conducted under GATT auspices, resulted in an agreement that took effect in 1973. The parties to the agreement exchanged trade concessions--principally preferential duty rates or bindings of preferential rates--on more than 500 items, one-third of which were raw materials and agricultural products. By the end of 1977, all but 2 of the 18 signatory countries had ratified the Protocol Relating to Trade Negotiations Among Developing Countries. 1/ Romania applied in 1977 for accession to the Protocol and was accepted in

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1/ The signatory countries were Bangladesh, Brazil, Chile, Egypt, Greece, India, Israel, Korea, Mexico, Pakistan, Paraguay, Peru, the Philippines, Spain, Tunisia, Turkey, Uruguay, and Yugoslavia. Paraguay and the Philippines had not completed ratification procedures by the close of 1977.

early 1978 by the Committee of Participating Countries, on which all signatories of the Protocol are represented. According to GATT publications, data made available by 11 participating countries show that their trade with other participating countries in products included in the schedules of concessions rose from $39 million in 1973 to $133 million in 1976. In committee meetings in 1977, the participants expressed interest in enlarging the concessions contained in the Protocol and in encouraging further accessions. The committee asked the GATT Secretariat to collect technical data that could be useful in assessing prospects for a new round of trade negotiations among developing countries.

Preferential trading arrangements

As an exception to the MFN principle, the GATT permits its members, under article XXIV, to form preferential trading arrangements in the form of customs unions or free-trade areas. 1/ In either case, duties and other barriers to substantially all intragroup trade must be eliminated. Through special working groups, the GATT examines proposed preferential trading arrangements to insure compliance with the provisions of article XXIV and issues periodic reports on their implementation. In 1977, working groups met, issued reports, or were established by the Council in connection with the following arrangements.

European Community.--The EC's network of preferential trade agreements, which encompasses a large number of countries throughout the world, has been substantially expanded in recent years. 2/ The most recent of these agreements, or amendments to existing agreements, examined in the GATT during 1977 were those with Portugal, the Maghreb countries (Algeria, Tunisia, and Morocco), and the Mashrek countries (Egypt, Jordan, Syria, and Lebanon).

The Interim Agreement between the EC and Portugal, which entered into force in 1976, was examined by a working group in June 1977. The Interim Agreement was designed to improve a free-trade agreement concluded in 1972 between the EC and Portugal in the area of trade, and to extend the previous agreement to areas such as economic and financial cooperation, manpower, and social security. The members of the working group could not agree upon whether or not the agreement met the requirements of article XXIV for an interim agreement leading to the formation of a free-trade area, as claimed by Portugal and the EC. The differing opinions reported by the working group were noted by the Council in July.

1/ Each member of a customs union adopts a common external tariff applicable to imports from nonmembers, while each member of a free-trade area maintains its individual tariff toward nonmembers. If a trading arrangement does not meet the requirements of article XXIV, the contracting parties may apply for a waiver under article XXV to permit the exchange of preferential trade concessions.

2/ For a summary of these agreements see Operation of the Trade Agreements Program, 28th Report, 1976, USITC Publication 848, pp. 54, 55, and 70-72.

In November 1977 the Council adopted reports of three working groups set up in 1976 to examine agreements concluded between the EC and Algeria, Tunisia, and Morocco. Implemented with interim arrangements in 1976, the agreements are of indefinite duration. In accordance with their provisions, the EC has been eliminating duties and other restrictions on imports from the three countries for products not covered by the common agricultural policy. Only two temporary exceptions from the policy of liberalization had occurred, involving cork and refined petroleum products. Concern existed among some members of the working groups examining the agreements that no reciprocal concessions appeared to have been made by the Maghreb countries, and therefore, the agreements were not compatible with article XXIV. Other members felt that it would have been better to include the preferential features of the agreements in the EC's Generalized System of Preferences. Some members of the working groups were also concerned that the agreements' complex rules of origin may limit the trade of third countries.

In May 1977 the EC informed the Council that it had signed agreements with Egypt, Jordan, Lebanon, and Syria. Pending ratification of the agreements, which were similar to those concluded between the EC and the Maghreb countries, the parties had also concluded interim agreements, enabling the entry into force of the trade provisions. The Council received the texts of the interim agreements in July and established four separate working groups to examine their compatibility with GATT rules.

ASEAN.--An agreement ratified by the five members of the Association of South East Asian Nations (ASEAN)--Indonesia, Malaysia, the Philippines, Singapore, and Thailand--entered into force in August 1977 and was submitted to the Council for GATT consideration in November. The Council established a working group to examine the arrangement--called the Agreement on ASEAN Preferential Trading Arrangements--for compliance with the relevant GATT provisions, and to report its findings in 1978.

The agreement establishes a number of preferential trading arrangements, including long-term quantity contracts, purchase finance support at preferential interest rates, preference in procurement by government entities, extension of tariff preferences, and liberalization of nontariff measures on a preferential basis. The arrangements are to be applied to basic commodities, particularly rice and crude oil, to products of ASEAN industrial projects, and to other products for the expansion of intra-ASEAN trade. The members are to be notified of procurement requirements by government entities and are to receive a preferential margin of 2-1/2 percent, but not more than $40,000 per tender. In order to qualify for preferential treatment, at least half a product's value must originate in the ASEAN countries; however, Indonesian products must have at least 60 percent of their value originate in the ASEAN nations.

PATCRA.--In November the Council considered a working group's report on the Papua New Guinea-Australia Trade and Commercial Relations Agreement (PATCRA), which had entered into force on February 1, 1977. This agreement is likely to replace a waiver, granted to Australia in 1953, allowing preferential treatment to be given to imports from the then territory of Papua New Guinea for the purpose of promoting economic development in the territory. In return, Papua New Guinea gave Australian products the MFN treatment accorded to third countries.

Australia characterized PATCRA as establishing a free-trade area between the two countries that conformed to article XXIV of the General Agreement, noted that since 1974-1975, more than four-fifths of total two-way trade was duty free and that nearly all Australian imports from Papua New Guinea were free of duty, and held that import and export taxes in Papua New Guinea were revenue taxes which did not restrict trade. The working group considering the agreement found that it was basically designed to aid development of Papua New Guinea, a laudable objective. However, some members of the group felt that the agreement was not fully compatible with the provisions of article XXIV, principally because it did not provide for any reverse preference to Australia by Papua New Guinea and because it did not provide for a significant future liberalization of trade between the parties.

CARICOM.--In March 1977 a working group submitted its report to the GATT Council on the Treaty Establishing the Caribbean Community and Common Market (CARICOM), which took effect in 1973 following ratification by 4 of its current 12 members. 1/ This treaty represents the second major step in the process of integrating these Caribbean countries, the first having been the formation in 1971 of the Caribbean Free Trade Area (CARIFTA). Both were considered interim agreements leading to the establishment of a customs union. The working group principally considered such matters as trade coverage, customs duties, quantitative restrictions, and marketing arrangements. It was generally agreed within the working group that CARICOM constituted an interim agreement leading to the establishment of a customs union consistent with the provisions of article XXIV.

Agreements with Finland.--In May 1977 the Council considered a report by a working group on the agreement between Finland and Hungary, which was signed in 1974. The agreement, one of several concluded between Finland and Eastern European countries, was submitted under article XXIV since the parties claimed that it established a free-trade area. The working group was unable to reach a unanimous conclusion on the compatibility of the agreement with GATT provisions. Questions were raised over the agreement's limited coverage of agricultural products and the prospects for future enlargement of the scope of trade in such items. Several members of the group stated that arrangements with centrally planned, state-trading countries raised serious and novel questions that required thorough exploration. Suspicions existed that factors other than tariffs influenced the selection of imports into Hungary. Other questions related to the establishment of Hungarian export prices by a calculation based on the world market price, which was called the "limit price," rather than on the cost of production. A future meeting of the working group was suggested, but Hungary reserved its position, being unable to accept the request for a continuation of the work of the group.

In March 1977 the Council adopted the interim report of a working group established to examine the agreement between Finland and East Germany. The group limited its work to the preparation of an interim report, since detailed trade statistics and information on East Germany's foreign trade system were not available. The working group is to meet again in 1978.

1/ Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and Trinidad and Tobago. The original CARICOM members--Barbados, Guyana, Jamaica, and Trinidad and Tobago--were joined by the remaining CARIFTA members in 1974.

Trade restrictions and other measures

"Unemployment, inflation, industrial adjustment problems, and balance-of-payments deficits in both developed and developing countries in 1977 led to many countries introducing trade restrictions of one kind or another, both within and outside the reference of GATT rules. The increasing spread of these measures, in spite of considerable efforts by governments to resist pressures for their introduction, caused deep concern among all trading nations." 1/

The main measures notified to and examined by the GATT in 1977 are noted below.

Waivers.--Waiver of GATT obligations warranted by exceptional circumstances is provided for under article XXV of the General Agreement. Waiver decisions require a two-thirds majority of votes cast, such majority to consist of more than half the number of contracting parties. This provision was used in 1977 to extend waivers previously granted to Brazil, India, and Indonesia permitting these countries to apply higher rates of duty than those listed in their schedules of concessions pending the completion of negotiations under article XXVIII to amend the schedules. 2/ In addition, Pakistan requested and was granted a waiver in 1977 permitting it to raise some bound rates of duty before the completion of article XXVIII negotiations. The Government of Pakistan explained that the tariff increases were for the purpose of increased revenue, and were not intended as protective devices.

Balance-of-payments consultations.--Article XII of the General Agreement permits a contracting party to apply quantitative import restrictions to safeguard its balance of payments; a similar provision in article XVIII extends this right to developing countries under less stringent conditions. The Committee on Balance-of-Payments Restrictions consults regularly with countries invoking either article to restrict imports. In 1977, the Committee carried out a consultation with Finland, the only country invoking article XII, and consultations with Egypt, Indonesia, Peru, and Sri Lanka under article XVIII.

Other measures.--Other measures taken in 1977, by countries, are as follows.

Australia--

In July, Australia reintroduced import restrictions on passenger motor vehicles under the provisions of article XIX of the General Agreement. Japan raised the matter in the Council, reserving its rights under the GATT. Both countries indicated that they would consult on the matter.

1/ General Agreement on Tariffs and Trade, GATT Activities in 1977, Geneva, 1978, pp. 66 and 67.

2/ Article XXVIII permits a contracting party to withdraw or modify past tariff concessions if it grants adequate compensation in negotiations with affected countries.

Brazil--

In May, Brazil notified the GATT that it had extended until the end of the year its import surcharge, import deposit, suspension of import licenses on certain products, and the coverage of its import-licensing scheme. Brazil had introduced a number of monetary and trade measures in 1975, citing a deterioration in its balance of payments. In consultations with Brazil during the following year, the GATT Committee on Balance-of-Payments Restrictions expressed concern at the nature and extent of such restrictions and their potential for trade-disruptive effects should they be enforced for long.

Canada--

In February, Canada notified the GATT that in April it would begin imposing a 3-year global quota on double-knit fabrics, under the provisions of article XIX. Some members of the Textiles Committee were disappointed that Canada took action under this article rather than under the provisions of the MFA. In Council meetings, Japan expressed regret at the restrictions. Both countries indicated a willingness to continue consultations.

Finland--

In June, Finland notified the GATT that its article XIX surcharge on imports of women's panty hose, which was imposed in December 1976, had been extended until June 26, 1978.

Israel--

In October, Israel instituted a program that included the introduction of a floating exchange-rate system for the Israeli pound, the removal of most foreign-exchange restrictions concerning trade, the abolition of surcharges on imports, a reduction in government imports, and a reduction in import duties. Israel informed the Council that, because of the 40-percent depreciation of the Israeli pound, changes were to be made in the specific rates of duty bound in its tariff schedule, in accordance with article II of the General Agreement.

Italy--

Italy's 7-percent special tax and 90-day deposit requirement of 50 percent on the purchase of foreign currency were ended in early 1977. Such measures were part of a 1976 program to stabilize the lira and the Italian foreign-exchange market.

Japan--

In July, following fruitless bilateral negotiations, the United States raised in the Council the problems met by U.S. exporters of thrown silk yarn to Japan. The difficulties had arisen largely from a prior permission system applied to such imports that was initiated by Japan in 1976. The EC and other delegations shared the U.S. concerns in the matter. The Council subsequently established a panel which, after hearing statements from both sides, presented its views to the participants in December. Following further bilateral talks, the panel was informed in February 1978 that a successful conclusion had been reached regarding the manner in which Japan would implement the prior permission system.

New Zealand--

In 1977, New Zealand twice extended its import-deposit scheme, which had been introduced in 1976, and it remained in effect at the end of the year. The scheme was subsequently ended in early 1978.

Portugal--

Serious balance-of-payments deficits led Portugal to introduce import surcharges in 1975 and an import deposit requirement in 1976. The latter was eliminated at the end of 1977. Import surcharges continued in effect and were to be examined in consultations with the Committee on Balance-of-Payments Restrictions in early 1978.

South Africa--

In February, South Africa terminated its import-deposit scheme. The program, covering about 60 percent of the country's imports, was instituted in 1976 for balance-of-payments purposes. It was examined by the GATT Committee on Balance-of-Payments Restrictions during the year.

Yugoslavia--

In 1977, Yugoslavia continued a temporary import surcharge which had been installed in 1975. The Committee on Balance-of-Payments Restrictions recommended to the Council in March that the import surcharge be relaxed and eventually removed and that the program of import liberalization be resumed. Yugoslavia contended that growth and stability considerations did not allow the surcharge to be terminated in 1977.

United States--

In April 1977, the U.S. Customs Court ruled that the remission and abatement of consumption taxes on certain electronic products by the Japanese Government constituted the payment of a bounty or grant within the meaning of U.S. legislation, 1/ and that countervailing duties should therefore be assessed. The Secretary of the Treasury then directed customs officers to suspend appraisement and liquidation of the Japanese electronic products and required that entries be covered by a bond equal to the estimated countervailing duties. Japan argued before the GATT

1/ Under the Japanese commodity tax law a consumption tax is levied on an extensive list of consumer goods, including various electronic products. Upon exportation of these products from Japan the consumption tax is either remitted, if previously paid, or the products are exempted from the payment of the tax.

Council in May that exempting exported products from domestic consumption taxes was in accordance with the General Agreement, and that the U.S. actions were impairing Japan's rights under the GATT. A working party subsequently established by the Council to consider the matter reported in June that all members (except the United States) agreed that the Japanese practice was fully in accord with GATT provisions, and that any imposition of countervailing duties would be a prima facie case of nullification or impairment of Japan's rights under the GATT. The United States informed the GATT in August that the U.S. Court of Customs and Patent Appeals had reversed the Customs Court decision, but that the decision was potentially subject to further judicial review.

Other trade disputes examined by GATT panels of experts in 1977 included a complaint by the EC over Canada's withdrawal of tariff concessions on certain EC products in response the EC's conversion of specific duties on lead and zinc to ad valorem duties. The panels report was expected in 1978. A complaint by the United States on import deposits and purchasing requirements affecting nonfat dry milk and certain animal-feed proteins in the EC was also under examination by a panel with a report anticipated in early 1978. Chile made a complaint to the Council in 1977 about EC export refunds on barley malt. The Council recommended that bilateral consultations be pursued. In November 1976, four separate panels of experts reported to the Council on the effects on trade, and the compatibility with GATT rules, of the U.S. Domestic International Sales Corporations and of certain tax practices of France, Belgium, and the Netherlands. Discussions in the Council and among the countries involved continued in 1977, but no mutually satisfactory solutions were achieved.

Restrictions on international trade in beef and veal continued in 1977, although the GATT reported that overall there was a moderate improvement in trading conditions. In April the EC established a new beef import levy system which allows the variable levy on imports to be raised to 114 percent of the normal levy when the domestic market price (reference price) falls below the intervention price; market prices in the EC were below the intervention price for most of 1977. The United States continued to regulate imports of beef and veal with bilateral restraint arrangements. Similarly, Canada ended the meat import quotas that it had established in 1976 and replaced them with bilateral arrangements with Australia, New Zealand, and the United States.

CHAPTER 3

DEVELOPMENTS IN MAJOR TRADING AREAS

Introduction

The operation of the U.S. trade agreements program is affected by developments in the world economy, especially those concerning our major trading partners. Differing rates of economic growth or of inflation, the expansion or contraction of trade, the movements of exchange rates, or actions taken by partners or groups of partners under their trade agreement programs have definite implications for the trade of the United States. This chapter on major trading areas discusses these developments so that actions taken under the U.S. trade agreements program can be considered in the context of world trade.

The European Community 1/

In 1977, as in recent years, the EC's progress toward general integration was mixed. The EC preferential bloc became stronger, and the Economic Community gained stature in external relations, but movement toward economic integration among the Nine came to a virtual halt.

The EC's enlarged customs union was completed in 1977. This union is generally regarded as the major EC achievement, but its functioning was troubled by recently imposed restrictions to free intra-EC trade. Intra-EC trade, a principal yardstick of the customs union's success, slowed in 1977, while EC trade with nonmember countries continued to grow at approximately the same rate as it had in 1976. The reform of the common agricultural policy (CAP) was not achieved in 1977, and stocks of surplus items continued to increase. Neither did developments toward European Monetary Union (EMU) regain momentum. Members generally followed largely uncoordinated national monetary and economic policies, occasionally at cross-purposes with each other. Nor did progress toward a common fishing policy occur during the year; EC members have not agreed among themselves on the division of catch-quotas in the common EC fishing zone, leaving this serious internal conflict unresolved. 2/

1/ In 1977 there were nine member countries of the European Community: Belgium, Denmark, West Germany, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom. The EC consists of three entities: the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community. Frequent reference is made to two EC institutions--the Commission and the Council. The Commission is the administrative branch of the EC and the initiator of the general policies of the EC. The Council reviews the Commission's decisions and has the power to approve or reject policies recommended by the Commission.

2/ Operation of the Trade Agreements Program, 28th report, 1977, USITC Publication 848, p. 65.

Meanwhile, the EC preferential trade bloc gained further strength. Anxious to become full-fledged members of the EC, Portugal and Spain formally applied for membership in 1977. On July 1, 1977, nonagricultural tariffs on all but highly sensitive items were eliminated between EC countries and members of the European Free Trade Association (EFTA). Thus, a European trade area of 16 nations and some 300 million people was established. With the agreement concluded by the EC with Lebanon in 1977, all Mediterranean countries became part of the preferential EC bloc.

In 1977 the EC took part in shaping trade patterns, commercial relationships, and even economic policy on a global scale. In addition to the continued importance of its role in the GATT, the EC participated for the first time in the Conference on International Economic Cooperation. The EC also took part for the first time, albeit in a limited way, at the London economic summit conference of seven leading industrial nations. The EC's importance grew materially in bilateral contacts with third countries as well. Exchanges with the United States intensified, including those on the highest level. The EC represented its members in the discussions of serious trade conflicts with Japan and other countries and concluded numerous bilateral agreements to protect European industries such as steel, textiles, and shipbuilding. The EC maintained a firm position in many of these negotiations, especially those concerning renewal of the Multifiber Agreement. The EC also took unilateral protective action against imported steel from Japan and other countries through antidumping procedures.

Despite the continued impasse on actions toward economic integration, none of the members expressed doubts in the EC as an institution and in its final objectives. They credited the EC's existence with containing the members' protectionist actions against each other, tendencies now more dangerous than before because of the economic slowdown.

The customs union

The transition period of the EC's enlargement ended in 1977. Denmark, Ireland, and the United Kingdom made their final steps in alining their national tariffs with the common external tariff (CXT) of the original six EC members. Thus, a common external tariff for the Nine came into effect. The phased reduction of tariffs on internal trade was also completed in 1977. With the CXT on third-country imports and duty-free mutual trade, 1/ the enlargement of the customs union to nine members was formally completed. 2/

The enlarged EC continued to be plagued with numerous shortcomings that prevented the free movement of goods and the uniform application of the CXT.

1/ An industrial free-trade area encompassing two European trade blocs, the nine members of the EC and the seven members of the European Free Trade Association, was also established in 1977. Thus, 16 European countries enjoyed duty-free industrial trade among themselves except for trade in highly sensitive products, such as paper, cellulose, quality steel, crude aluminum, and ferroalloys.

2/ Concerning the earlier steps in the gradual establishment of the customs union, see <u>Operation of the Trade Agreements Program, 28th report</u>, 1977, USITC Publication 848, p. 61.

New national measures appeared, which were designed to protect the consumer, the environment, or to curb inflation, but which were at the same time effective impediments to intra-EC trade. These measures reflected increased protectionist sentiment in individual EC countries brought forth by their relatively unfavorable domestic economic conditions. In 1977, authorities concentrated on containing these new trade barriers.

EC officials continued to pursue progress in dismantling barriers erected in the past, but encountered greater resistance than before. Examples included simplifying customs formalities at frontiers, further progress in harmonizing standards to cut down on technical trade barriers, and improved procedures of assessing the value-added tax in order to reduce the impediment to intra-union trade of an uneven tax burden. The problem of national preference in public procurement contracts, which is a violation of EC statutes, was also a major concern during the year.

Common agricultural policy

As in earlier years, a solution to the fundamental problems of the common agricultural policy was not achieved in 1977. Surpluses of farm products, such as dairy items, grain, beef, veal, and wine continued to mount. Farm prices remained high and encouraged the buildup of additional structural surpluses.

The EC Council has made a concerted effort to keep prices under control. This could be seen in the Council's determination of an average 3.9-percent increase in the prices of farm products for the 1977/78 marketing year. 1/ This was the smallest determination in years and 6 percent below the EC's rate of inflation in 1977. 2/ In December the EC Commission proposed an even smaller average farm price increase of 2 percent for the 1978/79 marketing year. During the year, the EC continued to encourage the substitution of domestic surplus items for certain imports, for example, domestic beef for imported beef for manufacturing.

The unity of the EC's agricultural market was disrupted in the early seventies as a result of changes in member countries' exchange rates in the new era of floating currencies. The simple system of common farm prices became a complex system with different national prices, because of special agricultural or "green" rates of exchange for each EC currency used in transactions involving farm products. Common farm prices expressed in EC units of account translated into different farm prices on various EC national markets. The green rates, which were determined from time to time by the EC Council, did not reflect actual currency parities, as they lagged behind changes in these parities. In addition, some EC Governments, notably those of the United Kingdom, Italy, France, and Ireland, preferred to protect their consumers from the high prices of imported food by overvaluing their green rates, while other countries, notably West Germany and the Benelux countries, kept their green rates undervalued to maintain farm exports at competitive price levels. Such practices widened the disparities in farm prices

1/ The marketing year is Apr. 1, 1977, through Mar. 31, 1978.
2/ Ibid., p. 64.

throughout the EC. For example, agricultural prices in the United Kingdom were on average almost 40 percent lower than those in West Germany in 1977. To make intra-EC agricultural trade viable in the face of such adverse economic circumstances, the EC adopted a system whereby national governments adjusted the farmers' export revenues by compensatory payments or taxes to counterbalance the difference in prices between EC members.

In 1977 the EC continued to profess its determination to abolish this intricate system, to reestablish a united agricultural market, and to let structural imbalances be corrected by prices. Yet, by the end of 1977 no decisive step had been taken. The EC Council made no determination on the Commission's proposals of 1976 to bring green rates gradually closer to market rates, and on the Commission's amended proposal of 1977 to gradually dismantle the compensatory system.

While the costliness and structural imbalances of the CAP did not change in 1977, EC agriculture generally enjoyed a good productive performance. It recovered from the effects of the 1976 drought and did not suffer from recession and high unemployment of the other sectors of the EC economies.

Economic conditions and policies

An economic slowdown that began in the second half of 1976 continued throughout 1977 (table 10). For the EC as a whole, real domestic product increased by less than 2 percent in 1977, compared with 4.6 percent in 1976. Growth lagged behind that of other leading industrial areas-- 4.9 percent in the United States and 5.1 percent in Japan. Unemployment continued to increase. The average annual rate of unemployment in 1977 was 5.4 percent, while the number of wholly unemployed in the EC was 5.7 million in 1977, compared with 5.5 million in 1976. Inflation persisted in spite of the sluggishness of the economy, although its annual rate slowed to 10.3 percent, compared with 11.5 percent in 1976.

Generally depressed conditions in the entire industrial world gave rise to limited demand for EC export products and were partly responsible for the EC's economic downturn. However, insufficient demand within the European Community for consumers' and especially producers' goods was the principal cause of slow growth. Several EC members, the United Kingdom, France, and Italy, had to follow stabilization policies, whereas West Germany deliberately chose to keep the domestic economy in low gear. EC manufacturing industries were generally working well below capacity, thereby reducing demand for investment goods.

On the other hand, economic stagnation acted as a powerful brake on EC imports, producing a dramatic improvement in the EC's balance of trade and payments. The trade deficit improved from $18.4 to $7.3 billion. The current account deficit of $7.6 billion in 1976 was virtually eliminated in 1977. EC members with the worst payments' position in 1976, Italy and the United Kingdom, attained a payments surplus or virtual balance, respectively. Others, such as France, reduced their deficit significantly. This improved performance resulted in certain currencies appreciating in terms of the

Table 10.--Economic performance of EC countries; various indicators, 1976 and 1977 1/

Country	Change over preceding year: Real gross domestic product		Change over preceding year: Consumer prices		Change over preceding year: Effective exchange rates 2/		Rate of unemployment 3/		Balance of current account		Balance of trade	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Billions of U.S. dollars	Billions of U.S. dollars	Billions of U.S. dollars	Billions of U.S. dollars
Denmark----------	4.8	-1.0	8.5	10.5	7.4	-5.9	4.7	5.9	-2.0	-1.7	-3.3	-3.2
West Germany-----	5.6	2.6	4.4	3.9	15.4	6.6	4.1	4.0	3.7	2.6	14.3	17.2
France-----------	5.2	2.3	9.9	9.3	-9.5	-1.5	4.3	4.9	-6.1	-3.0	-8.6	-7.0
Ireland----------	3.2	5.6	17.0	13.6	-11.7	4.4	9.8	9.7	-.3	-.3	-.9	-.9
Italy------------	5.6	1.8	17.5	18.5	-21.1	6.5	4/ 6.0	4/ 7.0	-2.9	-2.0	-6.5	-2.5
Netherlands------	4.6	2.3	9.2	7.0	10.0	.8	4.4	4.3	2.5	.5	-1.2	-1.9
Belgium----------	3.0	2.4	8.9	6.5	10.7	2.1	6.8	7.8	-.3	-.1	-2.5	-2.8
Luxembourg-------	2.7	1.1	9.8	6.7			.3	.6				
United Kingdom---	1.6	-.1	15.3	14.9	-16.6	5.6	5.3	5.8	-2.2	.3	-9.7	-6.2
EC---------------	4.6	1.9	11.3	10.3	-	-	5/ 5.0	5/ 5.4	-7.6	-.4	-18.4	-7.3

1/ Data for 1977 are estimates, except for balance-of-trade data.

2/ Average annual change in the rate of exchange of the national currencies in terms of all other members' currencies; percent changes weighted in terms of the exports to members.

3/ As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect development within each country.

4/ Unemployment data for Italy in 1977 are not comparable with data for 1976 because of important changes in the definition of unemployment in Italian statistics.

5/ Includes data for Italy which are not comparable in 1976 and 1977 (see n. 4).

Source: Commission of the European Communities, The Economic Situation in the Community, Fourth Quarterly Survey for 1977, December 1977, and Summary Account, COM (78) 1031, March 1978. Source for balance-of-payments data: Organization for Economic Cooperation and Development, Series A, April 1978.

weakening U.S. dollar. The West German mark continued its trend of steady appreciation by increasing in value from 41 cents at the beginning of 1977 to 47 cents by yearend. Even the pound sterling, which had plummeted to an all time low of $1.50 in July-September 1976, regained some of its strength and appreciated to more than $1.80 by the end of 1977. The French franc and the Italian lira continued to be comparatively weak EC currencies, yet they held steady in terms of the dollar.

Several EC countries adopted mildly stimulative measures in the fall of 1977, but the aggregate effect of such measures was expected to produce a slow recovery at best with little immediate improvement in unemployment. The EC Council moved at their Brussels meeting in December to encourage the coordination of the members' separate economic policies, especially to strengthen short- and medium-term monetary solidarity, and to bring Community-level solutions to bear on structural problems, particularly in the areas of steel, textiles, and ship building.

West Germany.--West Germany continued as the strongest economy in the EC in 1977 and maintained its traditional surplus in its trade and current accounts. The German mark appreciated at a 6.6 percent annual rate against the currencies of EC partners, and at an even higher rate against those of all major trading partners. 1/ Inflation was under control at an annual rate of less than 4 percent. The West German economy's principal problems were a general slowdown in growth of GDP to only 2.6 percent and unemployment that persisted at an annual rate of 4 percent. Because of diminished profit expectations, a weakening of private investment incentives was generally regarded as an important factor contributing to diminished growth.

West Germany further increased its trade surplus during the year. Trading partners, within and without the EC, insisted that the West German Government had failed to stimulate domestic demand to the degree necessary to counteract domestic recession and to generate sufficient demand for the products of other economies. The Government reduced the budget deficit for the second successive year in 1977, and its monetary policy was also stability oriented. However, in the fall of 1977 the Government did announce a 4-year public investment program and a tax-relief program to bolster consumer and business demand.

France.--There were definite economic improvements during the year. The stabilization program which the Government had followed since September 1976 cut the 1977 deficit on current account in half and reduced the trade deficit. The French franc appreciated in terms of the U.S. dollar even though its value continued to decline against most EC currencies. However, the Government's stabilization policy was not successful in combating inflation as consumer prices continued to rise at an annual rate exceeding 9 percent, although some improvement was observed in the second half of the year. Moreover, the Government's restrictive financial and monetary policies discouraged investment activity, which was already weak as a result of

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1/ Effective appreciation is defined as parity changes weighted by trade with 22 major partners. This appreciation was 7.2 percent at the end of October 1977, compared with appreciation a year ago.

political uncertainties preceeding the March 1978 elections. These factors contributed to reducing the growth of real GDP below 3 percent in 1977. Unemployment increased to a level of almost 5 percent. The Government maintained its stabilization policy throughout the year in an apparent acceptance of slow growth and unemployment as an inevitable trade-off for more financial stability.

Italy.--The Government's stabilization policy, launched in the second half of 1976, met with some success in 1977. Italy's current account deficit, which had threatened economic disruption the previous year, moved into surplus. This surplus was largely the result of increased tourist revenues, which offset a signficantly smaller trade deficit. The rapid depreciation of the lira that took place in 1976 slowed appreciably. The lira held steady against the U.S. dollar in 1977, although it continued to depreciate against the currencies of the EC and most other trading partners. The Government was able to repay part of its obligations to the International Monetary Fund and the German Bundesbank.

The stabilization measures of 1976-1977 included the raising of certain taxes and a tight credit policy. The predictable result was the curtailment of internal demand and a general slowdown of economic activity. Utilization of plant capacity declined, and investment in new plant and equipment remained below the recessionary level of 1974. The GDP increased by less than 2 percent in real terms. The rate of unemployment reached 7 percent, but the rate for new entrants into the labor force was more than 20 percent. Rapid inflation sustained by high wage increases continued, but the inflation rate decelerated in the second half of the year.

In the fall the Government enacted a new law providing for industrial reorganization and restructuring and set up a special fund for these purposes. The fund was to be allocated according to sectoral priorities in manufacturing and mining, largely to enterprises in which the Government had a holding. The impact of these measures was expected to be felt in 1978.

United Kingdom.--Economic policy in 1977 was developed in accordance with the conditions imposed by the International Monetary Fund (IMF) for granting the United Kingdom a loan of $3.9 billion at the end of 1976. The Government considerably tightened its monetary and fiscal policy, and the pound appreciated in terms of the dollar and other EC currencies. Official reserves increased six-fold. The trade deficit declined markedly as exports increased, supported by the newly available North Sea oil. The current account deficit of 1976 was virtually eliminated.

While the United Kingdom's financial position improved dramatically, other aspects of its economic performance continued to be unsatisfactory. Inflation continued at the high annual rate of 14.9 percent despite a marked slowdown of wage-cost increases during the year. The Government controlled earnings by means of an income policy through July 1977. Predictably, restrictive financial and monetary policy resulted in economic stagnation, and there was virtually no growth of real GDP, while the annual rate of unemployment approached 6 percent. By postwar British standards, this was highly unacceptable. The decline in public sector expenditures depressed fixed investment, 1/ and restraints on disposable income reduced demand for consumer goods.

In the fall of 1977 the Government introduced a set of measures designed to reflate the economy within the limits approved by the IMF. These measures, which are scheduled for the next 18 months, included additional public expenditures, tax relief, and the relaxation of exchange controls.

Other EC countries.--The Benelux countries performed relatively well in controlling inflation and maintaining a favorable international payments position. However, their economies also suffered from stagnation as did the rest of the EC.

Some industries in Belgium, notably textiles, steel, and construction, were especially hard hit. Unemployment at 7.8 percent was among the highest in the EC. Denmark suffered principally from a decline in demand for its exports to the United Kingdom and Sweden and, as in the previous year, ran a large trade deficit. The Danish Government did not follow suit when Sweden let its currency float in August 1977. This further reduced Danish exports to this important market. The Government generally followed restrictive monetary and fiscal policies, resulting in weak economic performance on most counts. Despite some reduction of the current account deficit, Denmark's international indebtedness remained relatively higher than that of other EC countries.

Among all EC countries, the most rapid pace of economic growth was in Ireland where real GDP increased by 5.6 percent. However, Ireland's unemployment of 9.7 percent continued to be the highest in the EC and was the prime concern of the Government's economic policy. Ireland also maintained its lead among EC members in terms of inflation at 13.6 percent, despite a slowdown from the previous year.

Economic and monetary union

The European monetary cooperation system of exchange rates or the so-called "snake" continued to weaken in 1977. 2/ In April, an exchange-rate realinement took place within the system--the Swedish krona was devalued by 6 percent and the Danish and Norwegian krone by 3 percent, in terms of other participating currencies. In August a further devaluation of 5 percent was

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1/ In the United Kingdom the public sector accounts for about 40 percent of fixed investment.

2/ Participants in the European monetary system are committed to limit their parity fluctuations vis-a-vis other participants to 2.25 percent. The system had ceased to be strictly an EC institution when certain EC countries failed to hold their position in the arrangement, while Norway and Sweden had joined. In 1977, four of the nine EC members, France, Italy, Ireland and the United Kingdom, collectively accounting for more than half of the EC's aggregate GNP, did not participate. After Sweden's withdrawal in August, the remaining participants included five EC members (Belgium, the Netherlands, Luxembourg, Denmark, and West Germany) and Norway as the only non-EC country.

necessary for the Danish and Norwegian krone to remain in the snake. Sweden withdrew altogether at that time and devalued further by 10 percent.

Notwithstanding developments concerning the snake, the ultimate goal of the EC's monetary union continued to be pursued in 1977. The attainment of the economic and monetary union (EMU) was originally foreseen for 1980, and EC members had generally agreed that a monetary union would have to follow an extended period of gradual covergence between the members' economies. Yet, in the fall of 1977 the wisdom of the gradual approach was questioned by Mr. Roy Jenkins, President of the EC Commission. He argued that the EMU should precede rather than follow the economic convergence of EC countries, and that it should be made the instrument of a joint EC effort to combat inflation and unemployment. Other elements in the Commission reaffirmed the position that a monetary union is not possible without prior successful monetary and economic cooperation. The EC Commission's official position, eventually submitted to the EC Council in December, reflected a compromise of these opposing views. The EC Council's yearend meeting in Brussels agreed to strengthen monetary coordination between members by approving short- and medium-term credit mechanisms for this purpose.

Enlargement

Portugal and Spain formally applied to join the EC in 1977. This increased the number of new members under consideration to three, as Greece has been a candidate since 1975. The EC continued to take a cautious position on enlargement. 1/ The burden of including relatively underdeveloped partners in the EC budget, still higher costs of the CAP, and a larger regional and social fund became the subject of heated debate in the EC Commission.

Portugal's per capita income is less than one-third of the EC average. As a result of severe balance-of-payments difficulties in 1977, it was apparent that Portugal would become heavily dependent on EC financing, in addition to funds already obtained from the Nine. An influx of new Portuguese immigrants into EC countries was also a matter of some concern.

New immigration was also a concern with respect to the candidacy of Greece. However, the principal problem relating to Greek membership, and of enlargement in general, continued to be the effect of the new candidates' Mediterranean farm products on Italian and French interests. Some feared that protection of French and Italian farmers from the new competition would cause massive surpluses of wine, olive oil, fruit, and vegetables and increase the already large cost of the EC's agricultural policy.

Mediterranean farm products were the principal problem with Spain's accession as well. A special concern to French wine growers was comparatively inexpensive Spanish wine. On the other hand, a potential advantage to the rest of the EC was better access to Spain of temperate climate agricultural products and certain industrial products. Spain's level of development was no

1/ Operation of the Trade Agreements Program, 28th report, 1977, USITC Publication 848, p. 70.

problem, as was the case with Portugal and, to some extent, Greece. On the contrary, Spain as an industrial power produces items such as footwear, steel, and automotive products, which are competitive enough to have a potential adverse effect on some EC members' industrial interests. The enlarged EC would be burdened with certain fundamental weaknesses of the Spanish economy such as serious unemployment, a rapid rate of inflation, and a large trade deficit, all of which would add to the prevailing inequities of the Nine's economies.

Preferential agreements with the EC

Preferential trade agreements between the EC and third countries have created a vast trade bloc covering Western Europe, the Mediterranean, most of Africa, and some of the Caribbean and Pacific area. Nineteen seventy-seven was the second year of the EC's association with African, Caribbean, and Pacific countries (jointly referred to as ACP countries) as a result of the Lome convention. 1/ The association was established in 1975 between the EC and 48 original ACP signatories and had increased to 53 by the end of 1977, including 19 countries considered the poorest in the world. The Lome convention provides for free access to EC markets of virtually all ACP products, a stabilization scheme for ACP export earnings (STABEX), and financial and technical aid from the EC. 2/

In 1977 the EC transferred STABEX loans amounting to 36 million European Units of Account (EUA's) to 12 ACP countries to cover their 1976 shortfalls of export earnings. Transfers in 1976 amounted to 73 million EUA's as compensation for losses suffered in 1975. The loans went primarily to countries which were dependent on the exports of 1 or a few of the 36 commodities specified as eligible under the system. The list includes such products as copra, tea, groundnuts, and cloves. Additional technical and financial aid projects were implemented during the year, bringing their number to some 300 at a cost of more than 1 billion EUA's.

Although the Lome Convention remains in effect through the end of 1979, preparatory negotiations concerning a second Lome convention are due to open some time in 1978. Discussions on matters such as new accessions and the size of the budget are expected to test the EC's readiness to maintain liberal trade and aid relations with their developing country partners.

In May 1977 the EC signed a preferential trade and cooperation agreement with Lebanon. The pact completed the EC network of preferential agreements with Mediterrenean countries which generally provide free access to industrial products and concessional access for agricultural products of the beneficiaries. Virtually all of these agreements also provide financial and technical assistance.

1/ For a summary of the Lome provisions see Operation of the Trade Agreements Program, 27th Report, USITC Publication 791, 1975, pp. 80-81.

2/ Ibid., and Operation of the Trade Agreements Program, 28th Report, USITC Publication 848, 1977, pp. 70-71.

On July 1, 1977, the remaining tariff barriers of the EC and the seven members of the European Free Trade Association for industrial commodities and the industrial components of processed farm products were removed, freeing virtually all industrial trade between the two blocs. The dismantling of duties had taken place gradually since 1973. The last step taken in 1977 created an industrial free-trade area of 16 European countries comprising about 300 million people.

Relations with less-developed countries 1/

For the first time in 1977 the Nine were represented by a single delegation at the Conference of International Economic Cooperation (CIEC), popularly referred to as the North-South dialogue. The Nine thus succeeded in reconciling their position on cooperation with LDC's, which they were unable to accomplish earlier in the framework of the United Nations Conference on Trade and Development (UNCTAD). One of the major EC contributions at the CIEC conference was a proposal the EC submitted for the stabilization of the LDC's export earnings modeled after its own STABEX scheme. The proposal was to be considered in the context of the Integrated Program on Commodities (IPC).

The EC claims to be more sensitive to third-world problems than the United States and attributes this sensitivity in part to Western Europe's traditional dependence on raw materials. Yet, in 1977 the EC instituted measures that conflicted with LDC interests by sharply restricting EC imports of textile and clothing products effective in 1978. Although the EC signed the renewal of the Multifiber Arrangement (MFA) under the GATT, they did so on the condition only that "reasonable departures from particular elements in particular cases" be allowed. Such departures were to be incorporated in new bilateral agreements with supplying countries, both MFA signatories and others, and they were to provide for significantly reduced EC imports, especially of sensitive items.

The EC justified this decision on grounds of severe disruptions suffered in the Nine's textile markets. Beginning in 1978 the annual growth of textile imports was to be limited to the 6 percent specified in the MFA, instead of the 22 percent the EC experienced in the 1973-76 period. LDC's were the most affected by these restrictions, especially Hong Kong, South Korea, and Taiwan. Towards the end of 1977 the EC had concluded bilateral agreements with Hong Kong, South Korea, and other suppliers, following, in some cases, difficult negotiations. Signatories are expected to restrain their supplies voluntarily in accordance with specified ceilings.

The EC's policy under the GSP became more restrictive in 1977. The potential value of imports eligible for GSP treatment in 1978 represented the smallest annual increase in the history of GSP concessions granted by the EC. 2/ The Nine did add a few agricultural products to the GSP list, but froze others, such as textile and refined petroleum products.

1/ LDC's in general, other than preferential partners.

2/ Actual EC trade under GSP is less than one-third of the approved GSP import value, as beneficiary countries are frequently unable to supply the products for which tariff preferences have been given.

Relations with state-trading countries

In 1977 4.3 percent of EC exports went to state-trading countries, and 3.9 percent of EC imports originated there. EC officials met with representatives of the Council of Mutual Economic Assistance (CEMA) in September 1977 to discuss normalization of trade relations between the two groups. Negotiations covering possible areas of cooperation were expected to begin sometime in 1978. EC officials also met with representatives of China during the year, preparing negotiations for a nonpreferential trade agreement to be concluded in 1978. China, seeking a reduction of its trade deficit with Europe, was expected to ask the EC to ease import quotas and other barriers affecting mutual trade. China is considered an important potential export market for European countries, although its significance as an EC trading partner is presently negligible.

Trade relations with the United States

Trade relations between the EC and the United States generally improved in 1977 compared with the previous year, even though many differences remained unresolved. Both parties shared the conviction that rampant protectionism and economic neoisolationism must be prevented. However, each had undertaken trade-restrictive actions during the year in response to domestic pressures.

In the MTN, despite frequent bilateral contacts, the EC and the United States did not resolve their differences on matters such as the tariff-cutting formula and rules on subsidies and safeguard action. 1/ Their positions were closer on the magnitude of the duty reduction they planned to propose, approximately a 40-percent trade-weighted average. However, the EC continued to object to the high U.S. duties on certain sensitive products such as ceramics, cutlery, specified chemicals, and woolen textiles.

On subsidies and countervailing duties, a wide gap remained between the United States and EC positions. The United States continued to object to subsidies granted by EC Governments to certain manufacturing industries and especially to agriculture in the framework of the Common Agricltural Policy. The EC, however, continued to press for U.S. acceptance of subsidization as a matter of national sovereignty or EC authority which should not be circumscribed by any rules of international trade. Accordingly, the EC insisted that countervailing duties be applied only if injury to a domestic industry is established. By contrast, the United States has maintained the legality of countervailing duties to offset subsidies on imported goods regardless of whether injury had occurred. The question of whether the United States would accept an injury test and, if so, what type of restraints in the use of EC subsidies it would demand in return was left open.

On the matter of safeguard action, the EC gained some ground in its differences with the United States. It demanded that GATT rules be changed to allow selectivity in protective action with respect to supplying countries. Prevailing GATT rules (article 19), previously favored by the United States,

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1/ See also the MTN section in ch. 2.

require safeguard action to apply equally to all countries. This condition of indiscriminate application has somewhat discouraged GATT participants from availing themselves of safeguard protection. In its 1977 exchanges with the EC, the United States showed willingness to consider the EC proposal of selective application under conditions to be specified in later negotiations.

U.S. and EC positions on nontariff barriers to trade, such as rules on government procurement, standards, and customs valuation, came sufficiently close to serve as a promising basis for further negotiations.

In bilateral trade matters, disruption caused by increased U.S. imports of steel from the EC continued to be the most important issue during the year. The value of these imports had doubled from 1976 to 1977, and U.S. steel companies demanded protection against alleged unfair EC trade practices in the U.S. market and certain overseas markets in which they both had interests. The U.S. steel industry was also concerned about Japanese steel being diverted to the U.S. market as a result of an earlier bilateral understanding between Japan and the EC to contain Japanese steel exports to the EC. The U.S. Government and EC authorities expressed the idea that, in the long run, international regulation of some kind was needed to avoid a harmful escalation of protectionism.

Nonetheless, there was mutual concern about short-run problems of steel trade in 1977, and both partners indicated that they would pursue a comprehensive and nondiscriminatory program of antidumping protection of their steel industries. In December, the United States announced a program designed to trigger accelerated antidumping investigations of steel imports priced below minimum prices to be later specified. The EC followed shortly with its own, albeit temporary, scheme based on EC antidumping laws. The United States, a minor steel supplier to the EC, was not directly affected by this EC action, which was directed primarily against imports originating in Japan, South Korea, Eastern Europe, Spain, Brazil, and certain EFTA members. However, the U.S. measure was expected to reduce steel imports from the EC to the United States. In 1977, one-third of U.S. iron and steel imports came from the EC. The restrictive impact will depend on U.S. trigger prices not yet specified.

Steel was not the only controversial trade item involving the United States and the EC during the year. Alleged dumping or other unfair trade practices were subject to U.S. investigation in connection with other imports from certain EC members. The EC seemed especially anxious about the position the U.S. Government would take on butter cookies imported from Denmark. If the United States decided that butter cookies competed unfairly in the U.S. market on the strength of heavy CAP subsidies, it would levy countervailing duties on imports. While the trade volume involved in this item was negligible, such a decision would establish a precedent with an implicit threat of future countervailing action against many other processed foods from EC countries. 1/

1/ In February 1978 the Secretary of Treasury temporarily waived the imposition of countervailing duties (section 303(d)(2)) on imports of Danish butter cookies.

Trade relations with Japan

Tension over trade matters continued to increase in 1977 as the EC trade deficit with Japan increased from some $4 billion in 1976 to $5.2 billion in 1977. 1/ The EC had already expressed strongly worded concern over Japanese trade practices in November 1976, calling for unilateral remedial action by EC institutions if necessary.

In 1977, the Nine moved resolutely to restrict imports from Japan when it was deemed that dumping or other unfair trade practices had been involved. Following this policy, restrictive actions were taken on ball bearing and steel imports. A temporary duty was levied on Japanese ball bearings while the antidumping investigation was in progress. In July, following the investigation, a duty was imposed and then suspended in response to strong protests and assurances from Japan that prices would be observed. In December the EC instituted a minimum price system for steel imports under EC antidumping procedures, effective January 1-April 1, 1978. Minimum prices were to be based on the lowest production costs of competitive suppliers such as Japan or Korea, countries against which the new measures were principally directed. The plan provided for the imposition of compensatory duties whenever the prices of imported steel products fell below the calculated base prices. The measure was considered transitional until bilateral trade agreements with steel suppliers could be concluded. In these bilateral agreements, the EC will seek to maintain traditional trading patterns based on 1976 market shares, but will take into account the sluggishness of EC steel consumption.

In addition to unilateral action restricting imports, the EC appealed repeatedly to Japan to promote a balanced trading relationship by restricting its exports. The EC further asked Japan to facilitate EC exports and to control Japanese displacement of European goods in third-country markets. In the past 2 years, the parties have discussed the possibility of increased EC sales to Japan of aircraft, automobiles, chemicals, pharmaceuticals, and especially agricultural products, including meats, dairy items, tobacco, and alcohol.

Shipbuilding continued to be one of the principal areas of tension between the two trading partners. In the seventies, the EC share of the world market has been gradually displaced by lower-priced Japanese ships. In 1975 the world market itself began shrinking, further aggravating the conflict between the two suppliers. In 1976, after Japan had captured more than 90 percent of the world's new shipbuilding orders, the EC pressed for an equal share. Japan refused to comply, but agreed in February 1977 to raise export prices by 5 percent effective January 1, 1978, and to cut back on production.

Foreign trade

Recession, restrictive economic policies, and growing protectionism in EC countries significantly reduced the growth of EC imports in 1977. The volume of imports from non-EC countries increased by only 1.5 percent in 1977 as

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1/ The EC's deficit with Japan has increased steadily since 1970 when EC-Japanese trade was almost in balance.

compared with 13.5 percent in 1976 (table 11). Meanwhile, the volume of EC exports to third countries continued to grow by slightly more than the 6-percent rate of the previous year, and faster than the growth of world trade as a whole. Certain EC countries, notably France, Italy, and the United Kingdom, increased their exports faster than their imports and succeeded in reducing their large payments and trade deficits of 1976. West Germany also increased its exports, adding thereby to its already sizable surplus--a development deemed generally unfortunate from both the collective EC and the global economic point of view.

Table 11.--World and EC trade: Annual growth rates at constant prices, average 1970-74 and 1975-77

(In percent)

Item	5-year average 1970-74	1975	1976	1977
World trade (outside the EC, imports)	8.0	-1.0	9.5	5.5
Intra-EC trade	9.0	-7.0	15.5	2.3
Imports from non-EC countries	7.5	-2.5	13.5	1.5
Exports to non-EC countries	7.8	-3.5	6.0	6.3

Source: Commission of the European Communities, Summary Account, COM (78) 103 final, Brussels, Mar. 13, 1978.

The EC's aggregate trade deficit with third countries amounted to $8.7 billion in 1977, or one-half of the previous year's deficit (table 12). Deficits shrank vis-a-vis all major trading partners and blocs with the single exception of Japan. A notable development is the significant improvement of the EC's trade deficit vis-a-vis the oil-exporting countries from $20.6 billion in 1976 to $12.4 billion in 1977. The reduction of the EC deficit with Canada reflects reduced demand in the EC for minerals and other materials generally supplied by that country. Developments in mutual aggregate trade in 1977 did not show any visible impact of the commercial treaty the EC and Canada concluded in 1976. It should be noted that from the early sixties, the significance of trade between the two areas has dropped sharply in terms of each other's foreign trade with the world. Last year's treaty aimed at the reversal of this decline. Both parties continue to emphasize the importance of monitoring their mutual trade and of establishing industrial cooperation, especially in the areas of computer technology and aerospace.

The traditional EC trade surplus with EFTA increased in 1977 to almost $11 billion. Meanwhile, the EC's surplus vis-a-vis nonmarket economies decreased from $1.9 to $1.2 billion. Intra-EC trade in real terms expanded by slightly more than 2 percent during the year (table 11). EC countries still traded somewhat more with each other than with third countries taken together, but intra-EC trade did lose ground to EC trade with non-EC partners (table 12). After rapid growth following the establishment of the EC in 1957, the relative importance of intra-EC trade has declined in 3 out of the last 4 years.

Table 12.--EC foreign trade: Trade flows and balances with selected trading areas, and intra-EC trade, 1976 and 1977

Item	1977 exports		1977 imports		Balance of trade	
					1976	1977
	Billion U.S. dollars	Percent	Billion U.S. dollars	Percent	Billion U.S. dollars	Billion U.S. dollars
Total trade of EC countries	379.6	100.0	386.9	100.0	-	-
EC trade with non-EC countries	187.3	49.3	196.0	50.7	-17.4	-8.7
EC trade with selected non-EC countries:						
EFTA	43.6	11.5	32.7	8.5	9.0	10.9
Oil-exporting	30.8	8.1	43.2	11.2	-20.6	-12.4
United States	23.4	6.2	29.5	7.6	-9.2	1/ -6.1
Canada	3.4	.9	5.0	1.3	-1.8	-1.6
Japan	3.5	.9	8.7	2.3	-4.0	-5.2
Nonmarket economies	16.2	4.3	15.0	3.9	1.9	1.2
EC trade with EC countries	192.3	50.7	-	-	-	-

1/ Differs from U.S. trade surplus shown in U.S. statistics owing to differences in statistical definition, and valuation of trade flows.

Source: Organization for Economic Cooperation and Development, Statistics of Foreign Trade, Series A, Paris, April 1978, and U.S. International Trade Commission, Operation of the Trade Agreements Program, 28th report, USITC Publication 848, 1977.

U.S. trade with the EC 1/

The traditional trade surplus of the United States vis-a-vis the EC shrank from $7.6 billion in 1976 to $4.4 billion in 1977. 2/ Throughout the seventies the EC lost importance for the United States as a trade partner with

1/ This section is based on U.S. trade statistics.

2/ The only recent year when the United States had a trade deficit with the EC was in 1972.

respect to commodity flows in both directions, although U.S. imports from the Nine increased by 24 percent in current dollars, and U.S. exports to them grew by only 4 percent (table 13, figures 1 and 2). Substantial U.S. purchases in 1977 represented a slight reversal in the long-range decline of the EC's significance as a source of U.S. imports. In 1970 the Nine countries presently forming the EC provided 23 percent of all U.S. imports; this share gradually decreased to less than 15 percent in 1976 and rose again to 15 percent during 1977. As a market for U.S. exports, the relative importance of the Nine continued its moderate decline to 22 percent of total U.S. exports from 26 percent in 1970.

Table 13.--U.S. trade with the EC, 1970-77 1/

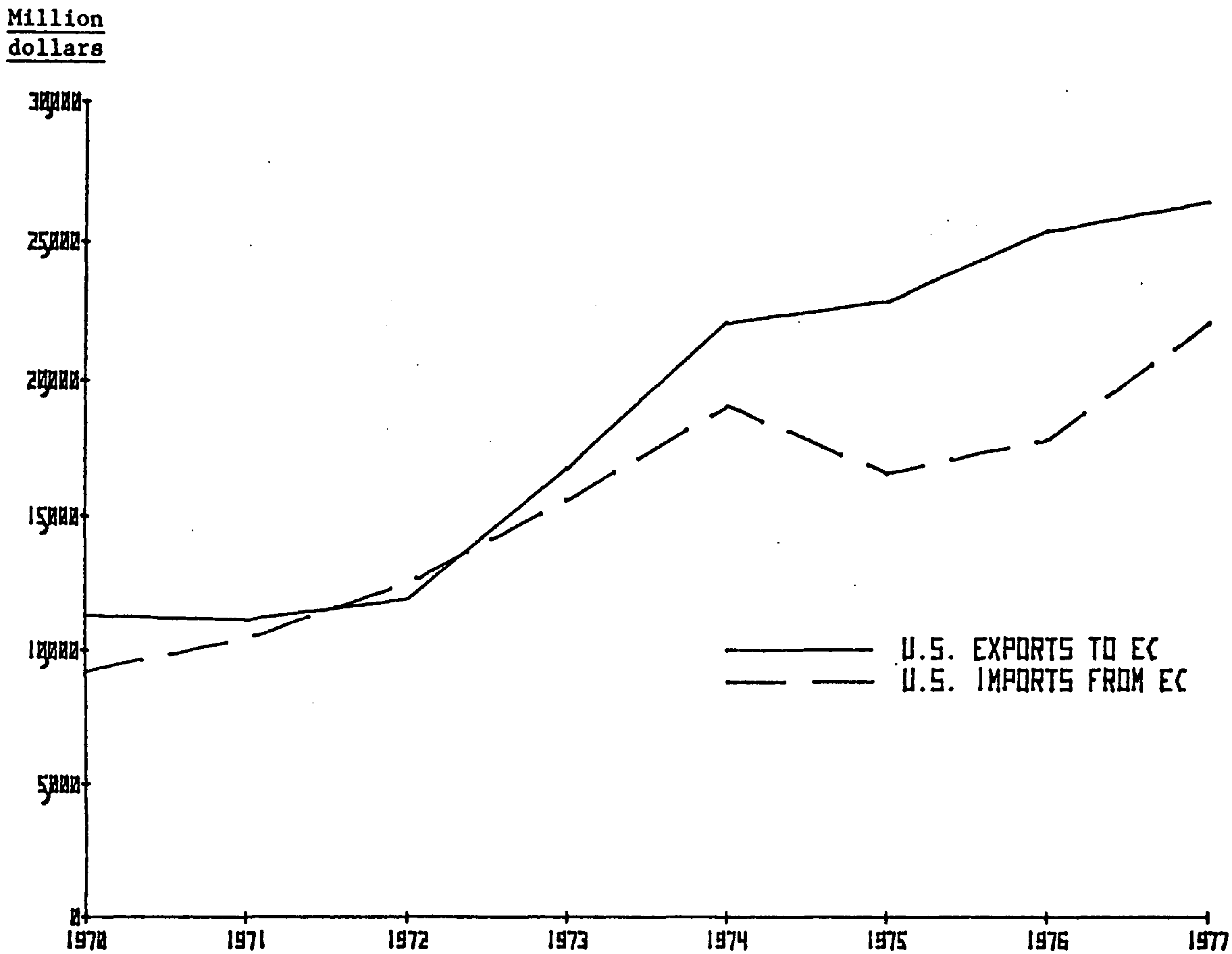
Year	U.S. exports to the EC		U.S. imports 2/ from the EC		Balance of U.S.-EC trade
	Value	Share in all U.S. exports	Value	Share in all U.S. imports	
	Million dollars	Percent	Million dollars	Percent	Million dollars
1970	11,298	26.1	9,222	23.1	2,076
1971	11,141	25.3	10,432	22.9	709
1972	11,900	23.9	12,489	22.5	-589
1973	16,745	23.5	15,606	22.5	1,139
1974	22,068	22.4	19,034	19.0	3,034
1975	22,865	21.2	16,611	17.3	6,254
1976	25,409	22.1	17,844	14.8	7,565
1977	26,476	22.0	22,087	15.0	4,389

1/ All values f.a.s. transaction values.
2/ General imports.

Source: U.S. Department of Commerce, FT 990 series; Overseas Business Reports 77-20; Trends in U.S. Foreign Trade, for 1977, Mar. 3, 1978.

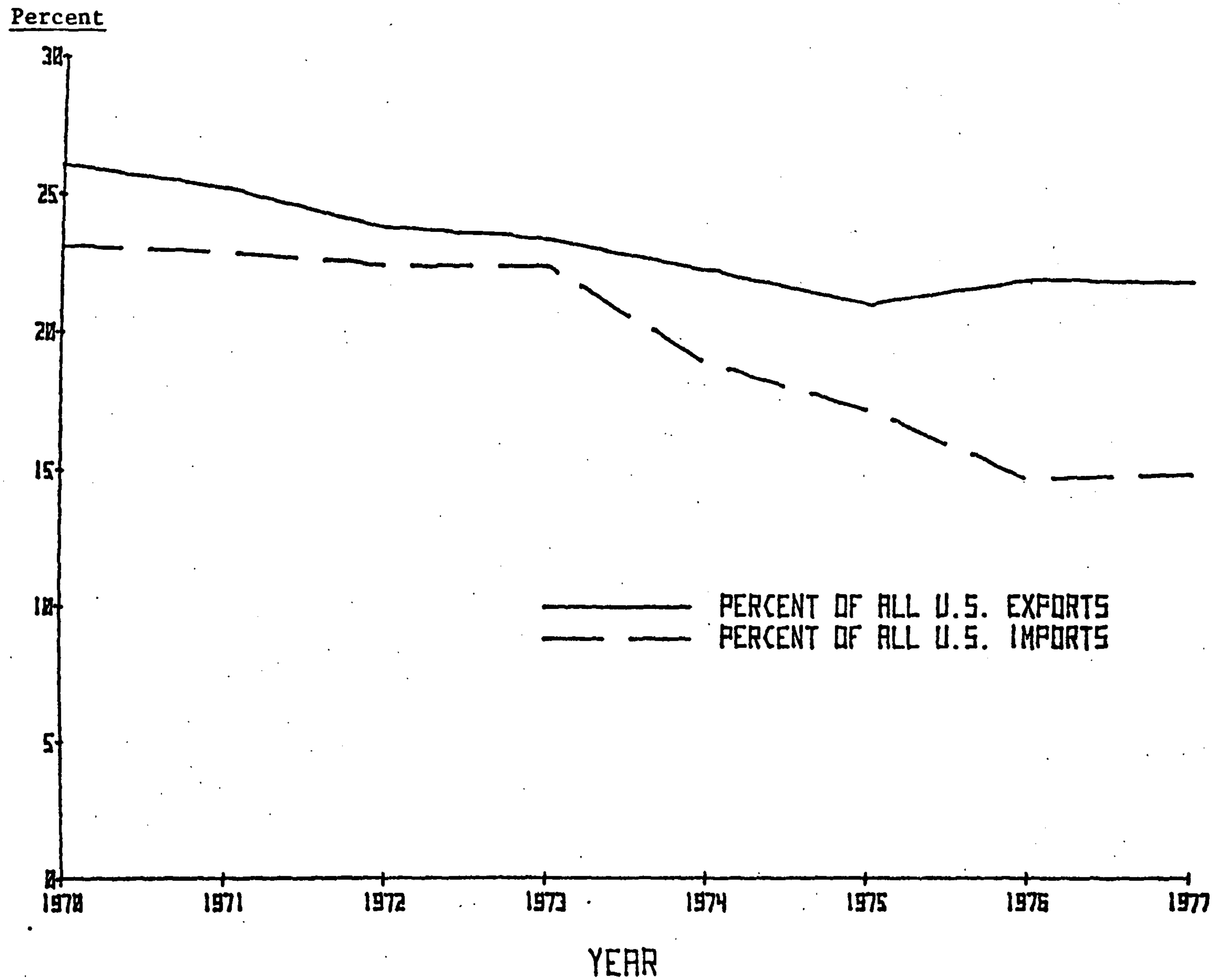
Tables 14 and 15 and figures 3, 4, 5, and 6 present the share of EC countries in U.S. trade with the Community. U.S.-EC trade has always been dominated by West Germany and the United Kingdom, which together account for more than half of U.S. imports from the Nine, and more than 40 percent of U.S. exports to the EC. The ranking of EC members in terms of their relative importance to the United States has hardly changed throughout the seventies. West Germany has always been dominant, providing one-third of all U.S. imports from the Nine and receiving close to a quarter of all U.S. exports to them. The United States consistently runs a trade deficit with West Germany. The United Kingdom, ranking as the United States' second largest EC trading partner, has been providing nearly a quarter of all U.S. imports from the Nine and receiving about one fifth of all U.S. exports to the EC. France and Italy rank third and fourth, respectively, as EC suppliers to the United States with approximately equal shares, followed by Belgium and the Netherlands, also with equal shares. However, as recipients of U.S. exports, the Netherlands surpass

FIGURE 1.—U.S. TRADE WITH THE EC, 1970-77



BASED ON TABLE 13

FIGURE 2.—PERCENT SHARE OF THE EC IN U.S. FOREIGN TRADE, 1970-77



BASED ON TABLE 13

Table 14.--U.S. imports 1/ from the EC by countries, 1970, 1976, and 1977

Item	1970	1976	1977	
	Percent	Percent	Percent	Million dollars
European Community	100	100	100	22,087
Belgium-Luxembourg	8	6	7	1,441
Denmark	3	3	3	584
France	10	14	14	3,031
West Germany	34	31	33	7,215
Ireland	1	1	1	234
Italy	14	14	14	3,038
Netherlands	6	6	7	1,477
United Kingdom	24	24	23	5,068

1/ General imports, f.a.s. transaction values.

Source: U.S. Department of Commerce, Overseas Business Reports, April 1977, No. 77-20, April 1977, and No. 78-21, June 1978.

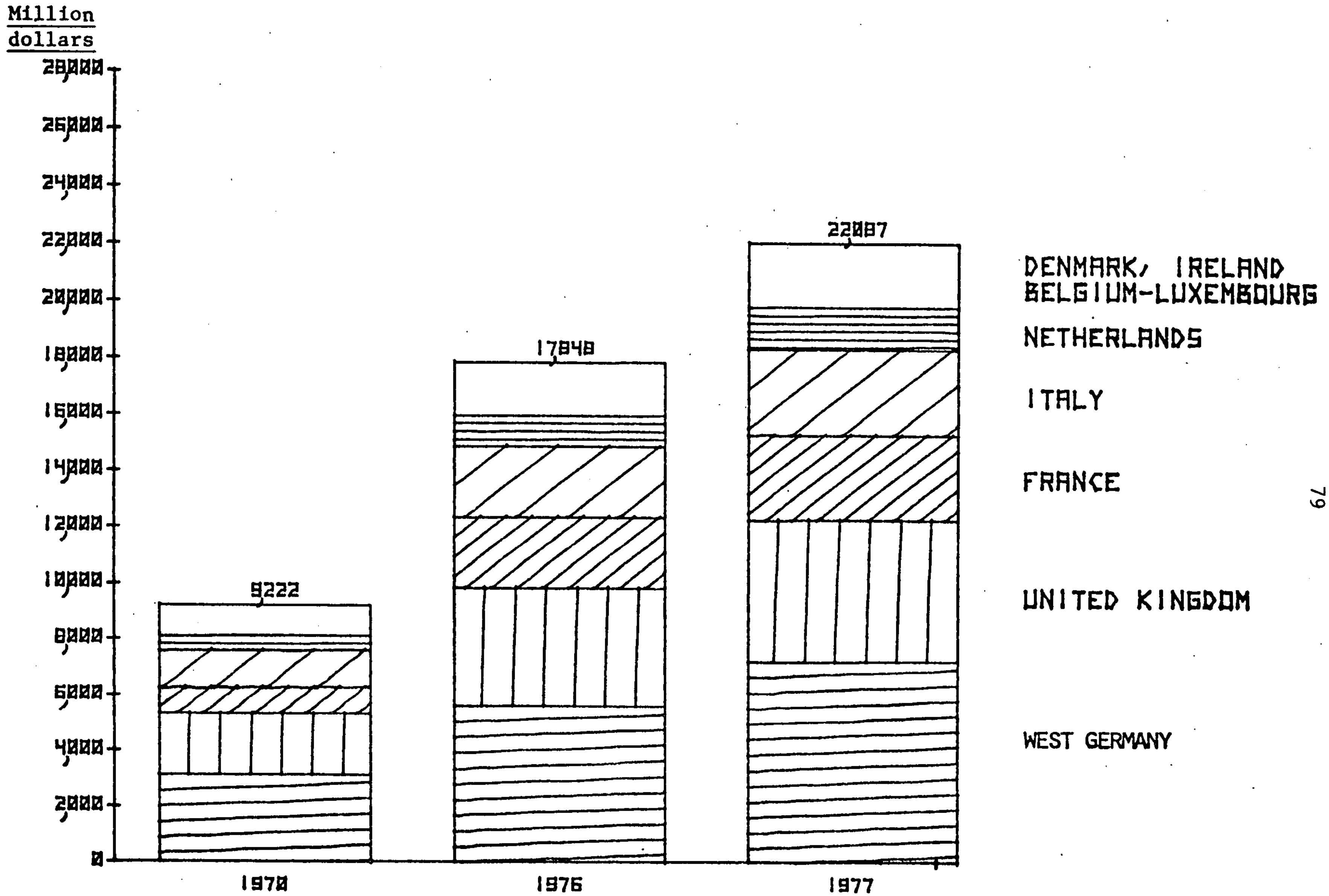
Table 15.--U.S. exports 1/ to the EC by countries, 1970, 1976, and 1977

Item	1970	1976	1977	
	Percent	Percent	Percent	Million dollars
European Community	100	100	100	26,476
Belgium-Luxembourg	11	12	12	3,117
Denmark	2	2	2	532
France	13	14	13	3,503
West Germany	24	23	23	5,982
Ireland	1	1	1	378
Italy	12	12	11	2,788
Netherlands	15	18	18	4,796
United Kingdom	22	19	20	5,380

1/ F.a.s. transaction values.

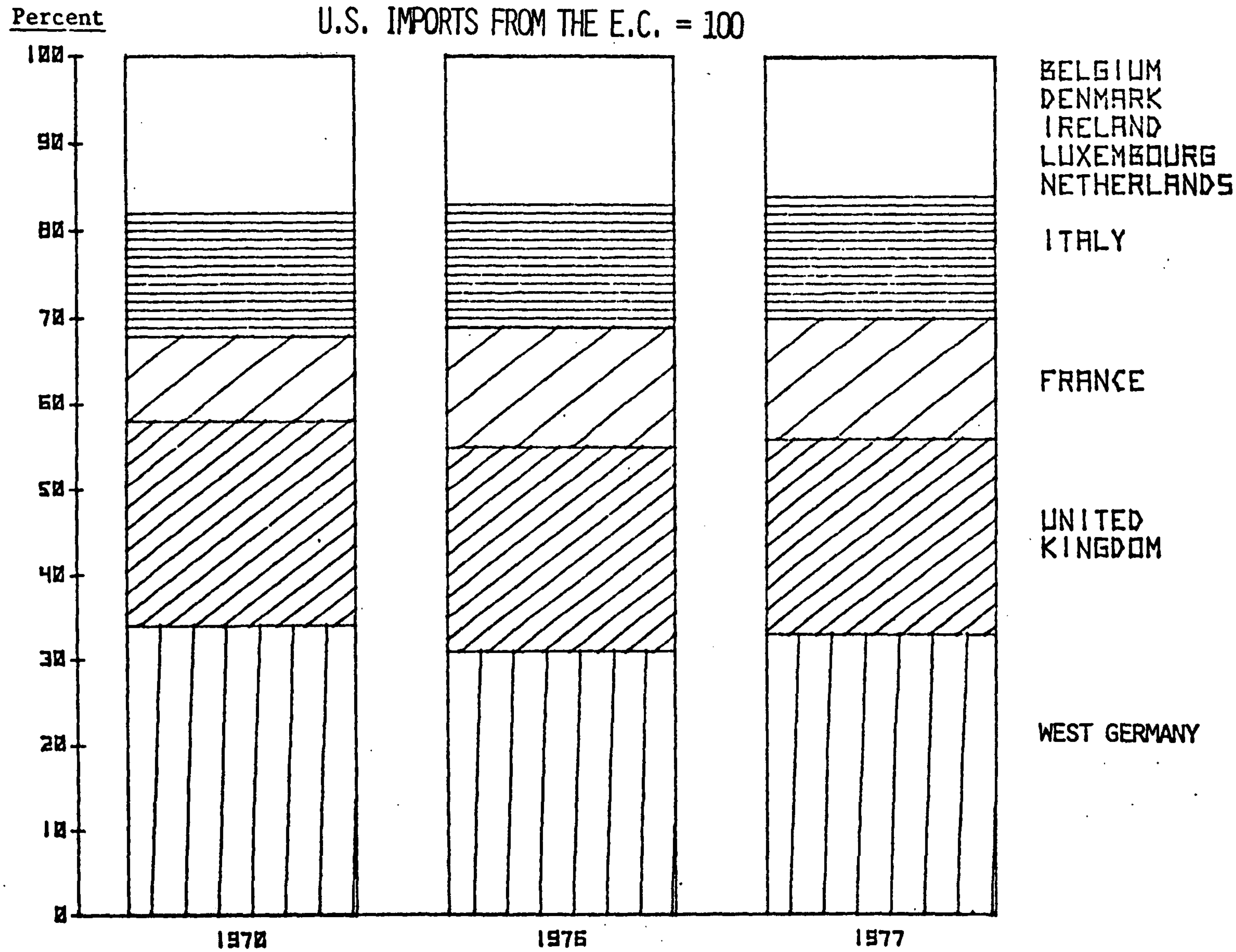
Source: U.S. Department of Commerce, Overseas Business Reports, April 1977, No. 77-20, and No. 78-21, June 1978.

FIGURE 3.—U.S. IMPORTS FROM THE EUROPEAN COMMUNITY AND PRINCIPAL EC COUNTRIES, 1970, 1976, AND 1977.



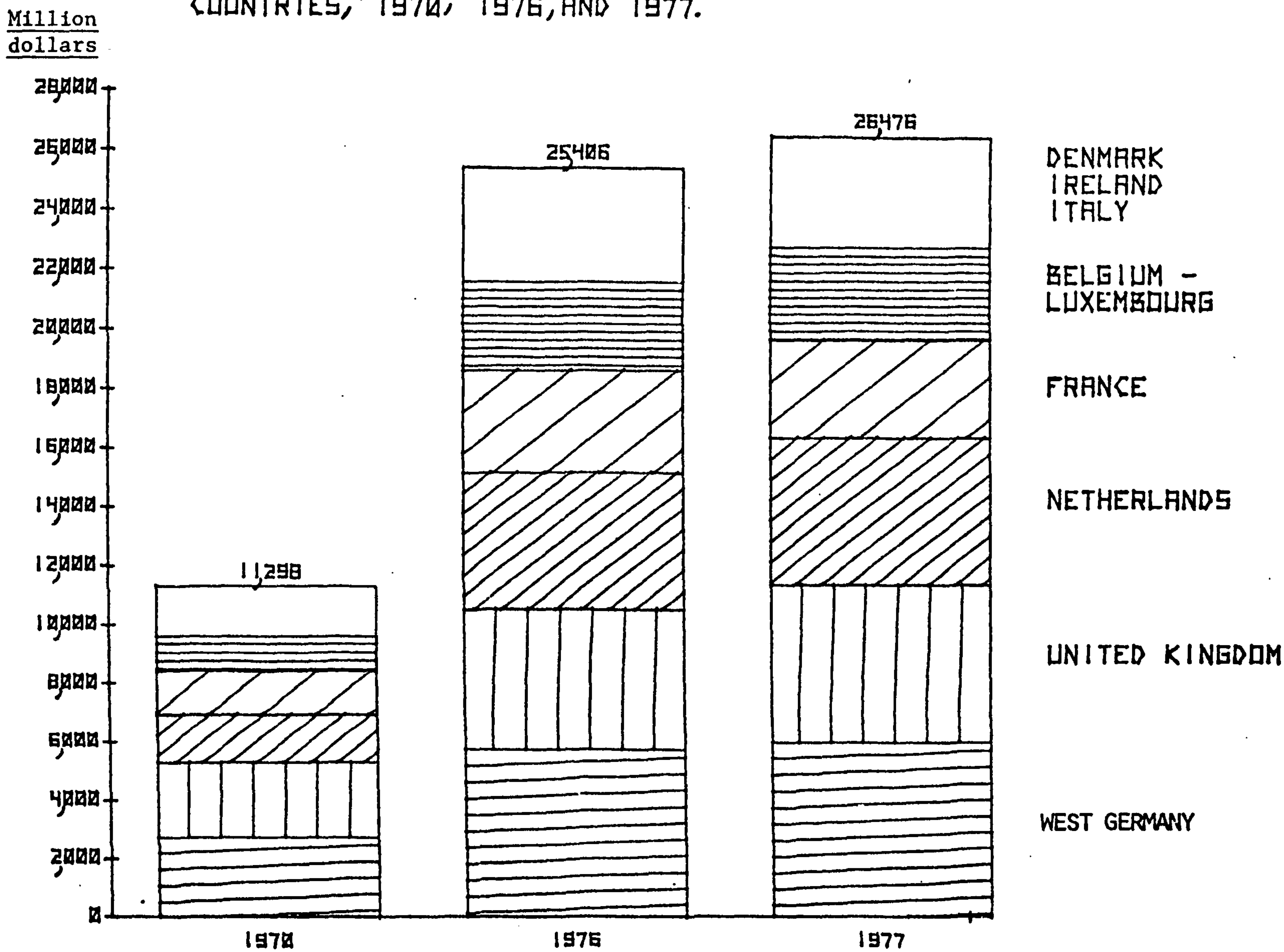
SOURCE: U.S. DEPARTMENT OF COMMERCE

FIGURE 4.—SHARE OF U.S. IMPORTS FROM PRINCIPAL EC COUNTRIES: 1970, 1976, and 1977



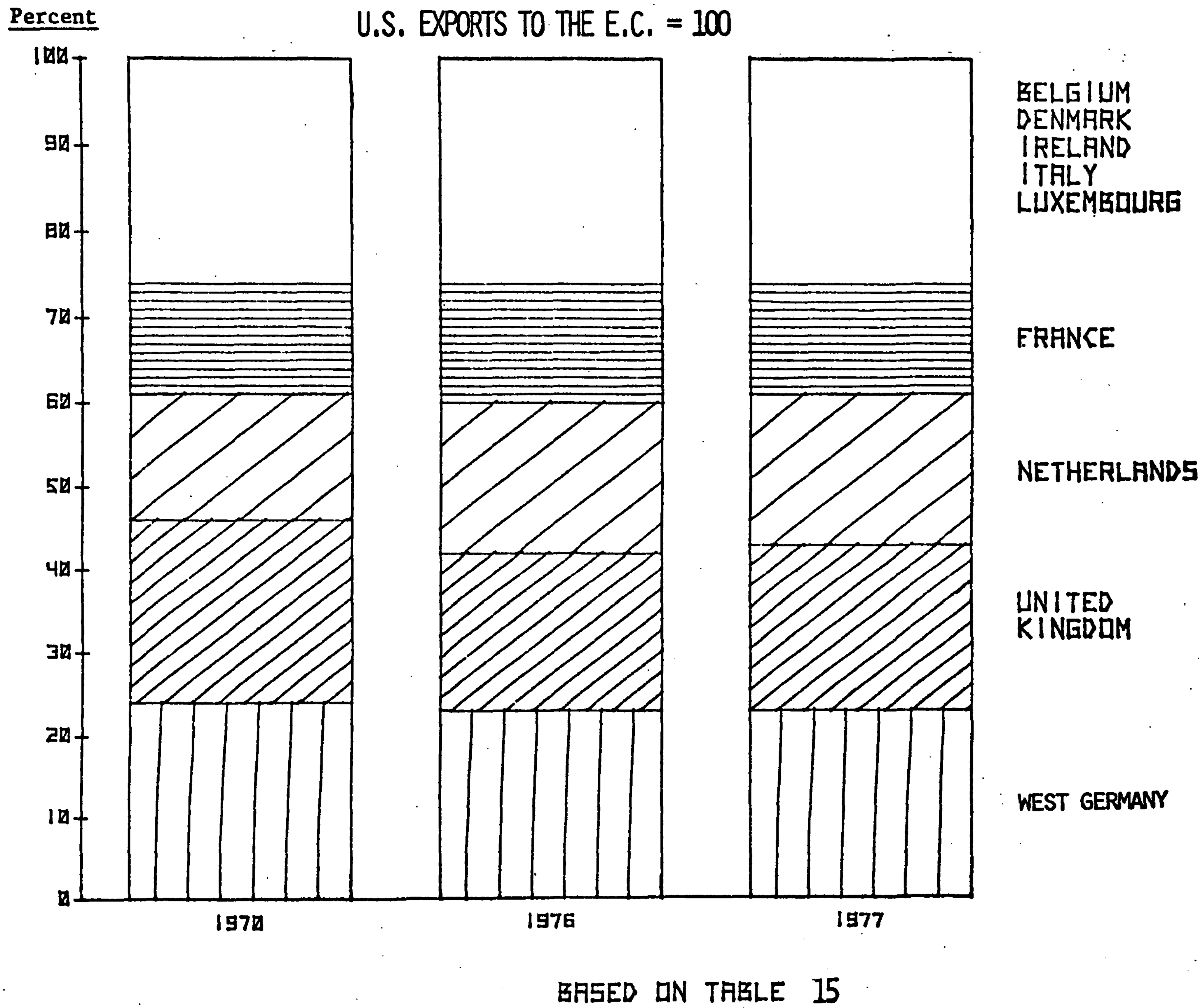
BASED ON TABLE 14

FIGURE 5.--U.S. EXPORTS TO THE EUROPEAN COMMUNITY AND PRINCIPAL EC COUNTRIES, 1970, 1976, AND 1977.



SOURCE: U.S. DEPARTMENT OF COMMERCE

FIGURE 6.--SHARE OF U.S. EXPORTS TO PRINCIPAL EC COUNTRIES: 1970, 1976 AND 1977



France and Italy in importance, ranking as the third EC market for U.S. products. The Netherlands' significance as a market for U.S. exports has been steadily growing (table 15, figure 4). In 1977 the United States had a trade surplus of more than $3 billion with the Netherlands, or three-quarters of its entire trade surplus with the EC.

Even though effectively more expensive as a result of the weakened dollar, U.S. imports from the EC grew substantially in 1977. They amounted to $22 billion and included a wide range of predominantly industrial items with some measure of concentration in nonelectric machinery (15 percent) and passenger cars (12 percent). Table 16 shows U.S. imports from the EC of four selected items which increased notably in value during the year. A doubling of U.S. imports of iron and steel from the EC in 1977, principally from West Germany, Belgium, France, and the United Kingdom, led ultimately to a U.S. import control scheme based on trigger prices. Arrivals in the United States of EC petroleum products increased approximately twofold in value as imports of North Sea crude oil from the United Kingdom quadrupled. The dramatic increase in U.S. imports of gem diamonds, mostly from the United Kingdom and Belgium, possibly resulted from demand for diamonds as a favored form of hedging against inflation. The value of passenger cars imported from the EC as a whole increased by 17 percent. Automobiles imported from West Germany, which continued to account for the major part, increased by 38 percent. These additional West German cars, worth in excess of $600 million, constituted a significant factor in the deterioration of the U.S. trade balance vis-a-vis the EC in 1977. Higher prices, bolstered by the weak dollar, were responsible in part, but the number of imported West German cars also rose in 1977, following a decline in the 2 previous years.

Table 16.--U.S. imports 1/ of selected items from the European Community, 1976 and 1977

Item	1976	1977
	Value (million dollars)	
All U.S. imports from the EC	17,847.9	22,087.0
Petroleum and products	425.9	1,196.5
Gem diamonds	386.0	591.2
Iron and steel	884.8	1,739.1
Passenger cars	2,352.5	2,742.2
	Percent of total	
All U.S. imports from the EC	100.0	100.0
Petroleum and products	2.4	5.4
Gem diamonds	2.2	2.7
Iron and steel	5.0	7.9
Passenger cars	13.2	12.4

1/ General imports, f.a.s. transaction values.

Source: U.S. Department of Commerce, Highlights of U.S. Export and Import Trade, December of 1976 and 1977.

U.S. exports to the EC amounted to $25.9 billion in 1977. Limited demand for imports in EC countries because of the slowing of economic growth outweighed the favorable potential impact of the depreciation of the dollar on this trade flow. U.S. exports to the Nine are concentrated in farm, chemical, and machinery products. Exports of specific U.S. items to the Nine increased materially, such as soybeans (32 percent), computers (29 percent), and electric machinery (14 percent). Table 17 shows U.S. exports to the EC and the two most important EC partners, West Germany, and the United Kingdom.

Table 17.--U.S. exports of selected items 1/ to the European Community, West Germany, and the United Kingdom, 1976 and 1977

Item	European Community		West Germany		United Kingdom	
	1976	1977	1976	1977	1976	1977
	Value (million dollars)					
All U.S. exports to the EC	24,929.9	25,864.0	5,729.8	5,822.6	4,669.6	5,246.0
Corn	1,839.2	1,434.8	637.7	352.4	159.9	276.6
Fruits and vegetables	421.4	396.9	120.0	118.9	105.2	89.2
Tobacco	346.4	380.1	104.0	121.2	108.0	82.3
Soybeans, excluding prepared	1,547.9	2,038.7	302.8	415.4	77.6	138.6
Wood pulp	397.7	392.0	97.6	93.1	89.0	95.2
Chemicals	2,898.9	2,925.7	433.1	450.5	482.6	476.2
Nonelectric machinery	4,361.0	4,765.9	882.5	999.9	1,154.7	1,243.3
Computers 2/	1,196.6	1,548.1	291.7	353.8	305.3	408.4
Electrical machinery and apparatus	1,924.2	2,194.7	507.8	582.2	469.3	546.5
Aircraft and parts	1,020.7	1,082.7	250.2	280.2	195.1	368.9
Scientific measuring and controlling instruments	662.9	780.0	186.3	230.0	159.1	185.8

See footnotes at end of table.

Table 17.--U.S. exports of selected items 1/ to the European Community, West Germany, and the United Kingdom, 1976 and 1977--Continued

Item	European Community		West Germany		United Kingdom	
	1976	1977	1976	1977	1976	1977
	Percent of total					
All U.S. exports to the EC-----	100.0	100.0	100.0	100.0	100.0	100.0
Corn------------	7.4	5.6	11.1	6.1	3.4	5.3
Fruits and vegetables----	1.7	1.5	2.1	2.0	2.3	1.7
Tobacco---------	1.4	1.5	1.8	2.1	2.3	1.6
Soybeans, excluding prepared------	6.2	7.9	5.3	7.1	1.7	2.6
Wood pulp-------	1.6	1.5	1.7	1.6	1.9	1.8
Chemicals-------	11.6	11.3	7.6	7.7	10.3	9.1
Nonelectric machinery---	17.5	18.4	15.4	17.2	24.7	23.7
Computers 2/--	4.8	6.0	5.1	6.1	6.5	7.8
Electrical machinery and apparatus-----	7.7	8.5	8.9	10.0	10.1	10.4
Aircraft and parts---------	4.1	4.2	4.4	4.8	4.2	7.0
Scientific measuring and controlling instruments---	2.7	3.0	3.3	4.0	3.4	3.5

1/ Selected for their importance in terms of trade value and/or percent share of area in all U.S. exports of the item.
2/ This item falls under "Nonelectric machinery," and should not be computed in addition to such.

Source: U.S. Department of Commerce, Highlights of U.S. Export and Import Trade, December of 1976 and 1977, and Overseas Business Reports, September 1977.

European Free Trade Association 1/

Introduction

Two events concerning the European Free Trade Association (EFTA) that will have a long-term significant affect on Western Europe's external trade took place in 1977. One was the end of the application of tariffs to trade

1/ There are seven member countries of the EFTA: Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland.

within a European area comprising 16 nations; the other was Portugal's formal application for accession to the European Community. 1/

On July 1, 1977, the goal of a free-trade area embracing virtually all Western Europe assumed a measure of reality. 2/ On that date, tariffs on most of the industrial goods traded between the EC customs union of nine members and the EFTA free-trade area of seven countries were finally phased out. 3/ Also on that date, the phased extension of the EC common external tariff to cover the newest EC members--Denmark, Ireland, and the United Kingdom--was completed.

The bringing together of the two European trade blocs had been negotiated through two sets of bilateral agreements between the EC and each EFTA member--one with the European Economic Community, the other with the European Coal and Steel Community. In general, these agreements provided not only for phasing out duties on manufactures (including processed foodstuffs), but also for abolishing quantitative restrictions on imports. 4/ Within EFTA, tariffs and quantitative restrictions on most manufactures, including processed agricultural raw materials, had been eliminated by 1966, except for trade between Finland and other EFTA countries. Within the original EC, tariffs on manufactures had been eliminated by 1968. 5/

The EC-EFTA agreements focused on dismantling tariffs, but they also provided for further cooperation in agriculture, thus implying wider acceptance of the EC's Common Agriculture Policy. Although there were some exceptions, the agreements contained so-called evolutionary clauses that reflected EFTA interest in future collaboration on related economic policies, such as those pertaining to monetary and fiscal measures, technology exchange, and possibly even the sharing of production and markets.

1/ In 1977, Spain, not a member of a trade bloc, also formally applied for accession to the European Community.

2/ According to the Stockholm Convention, which established the EFTA in 1960, the original members--Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom--resolved to maintain and develop the cooperation instituted within the OEEC and determined to facilitate establishment of a multilateral association for the removal of trade barriers and the promotion of closer economic cooperation between the members of the OEEC, including members of the EEC. Finland became an associate member of the EFTA in 1961, and Iceland acceded in 1970.

3/ The timetables provided in the agreements with Iceland and Portugal were more lenient.

4/ Tariffs on so-called sensitive products were to be phased out over periods extending beyond July 1, 1977; these products were of particular interest to the EC and included paper and metals.

5/ The Stockholm Convention did not commit the EFTA to removal of restrictions on agricultural products, but did include elaborate provisions intended to facilitate an expansion of trade with reasonable reciprocity to members whose economies greatly depend on the export of such products. The EFTA commitment to liberalize trade in fish and other marine products was similar but somewhat broader.

EFTA's external trade

The EFTA bloc accounts for only between 5 and 6 percent of the value of the world's merchandise exports, but the economies of the EFTA countries embrace some very specialized industries that are highly dependent on foreign markets. In recent years, nearly one-fifth of EFTA exports have moved within its own free-trade area, and about one-half of its total two-way trade has been carried on with EC countries. Growth in EC-EFTA trade has been outpacing that of either bloc's trade with other industrialized countries--a trend that is likely to continue as a consequence of the new, larger free-trade area.

In 1977, the U.S. trade balance with the EFTA, as with the EC, continued to be positive. This trade has trended only moderately upward in recent years and remains relatively small in terms of the total trade of the EFTA as well as of the United States. The values of U.S. imports from and U.S. exports to the EFTA countries for the 3 years 1975-77 are shown in table 18.

Canada

Introduction

Despite vast differences in their economies, the United States and Canada have long been each other's most important trading partner. Currently, about 21 percent of U.S. merchandise trade is carried on with Canada, and the United States accounts for about 70 percent of Canada's trade. On the export side, the Canadian market accounts for somewhat more U.S. trade than does the European Community.

The year 1977 was far better economically for the United States than it was for Canada. Recovery continued in the United States. Although annual growth slowed, it still outpaced the rates of inflation and unemployment. Such was not the case in Canada, where recessionary conditions persisted. Annual real growth has been estimated at no more than 2.6 percent--9.3 percent at current market prices--and the consumer price index increased 9.5 percent. The official unemployment rate stood at 8.3 percent in December.

As the year ended, economic conditions in Canada were deteriorating. Prices and unemployment were still on the rise, and the decline in the value of the Canadian dollar, which began in late 1976, continued. Clearly, the Canadian Government's anti-inflation program, which included mandatory wage and price controls and tax indexation, had not achieved its objectives. Significant Canadian legislation expected in 1977 was postponed. This included amendment of the country's Foreign Investment Review Act and replacement of the expiring Bank Act of 1967. Economic stress was greatly exacerbated by the ongoing movement for an independent Quebec, in which about 27 percent of Canada's 23 million people live. That richly endowed Province accounts for nearly one-quarter of Canada's GNP, most of the country's output of primary aluminum and asbestos, and large segments of its textile, pulp, and paper industries. Quebec's uncertain political future was also beginning to affect the economy of New England, and the Province was initiating steps to acquire the majority interest in some U.S. affiliates in Quebec.

Table 18.--United States-EFTA trade, total and by countries, 1975-77

(F.a.s. transaction value in millions of dollars)

Item	1975	1976	1977
Total:			
U.S. exports	3,489	3,578	4,026
U.S. imports	2,775	3,272	3,691
Balance	714	306	335
Austria:			
U.S. exports	181	197	245
U.S. imports	238	237	281
Balance	-57	-40	-36
Finland:			
U.S. exports	261	243	195
U.S. imports	148	189	276
Balance	113	54	-81
Iceland:			
U.S. exports	32	35	36
U.S. imports	85	124	159
Balance	-53	-89	-123
Norway:			
U.S. exports	510	500	541
U.S. imports	403	651	754
Balance	107	-151	-213
Portugal:			
U.S. exports	427	400	551
U.S. imports	157	128	146
Balance	270	272	405
Sweden:			
U.S. exports	925	1,029	1,099
U.S. imports	877	918	990
Balance	48	111	109
Switzerland:			
U.S. exports	1,153	1,173	1,359
U.S. imports	867	1,025	1,085
Balance	286	148	274

Source: U.S. Department of Commerce, United States Foreign Trade Annual 1971-1977, OBR 78-21, June 1978.

In Canada's relatively small economy, foreign trade accounted for about 41 percent of GNP in 1977, a sharp contrast to foreign trade's 14-percent share in the GNP of the United States, which was roughly 10 times larger than Canada's. For the year, the U.S. current account on international transactions was greatly in deficit, reflecting a sharply increased deficit on the trade account, whereas Canada showed a larger surplus in trade and a larger deficit in its service account than in 1976.

The improved surplus in merchandise trade resulted in part from a cheaper Canadian dollar and stronger U.S. demand, and occurred in spite of a substantial drop in the value of Canadian exports of crude oil and increases in the cost of imports, particularly of food. According to Canadian statistics, about 58 percent of this trade surplus was attributable to trade with the United States, trade that continued to be dominated by exchanges of products of and for the automobile industry. Most of the United States-Canadian trade in these products was subject to the conditions established under the Agreement Concerning Automotive Products concluded by the Governments of the two nations in 1965. 1/

Many aspects of United States-Canadian economic relations are discussed annually within the Canada-United States Interparliamentary Group, one of 18 existing bilateral institutions concerned with matters of common interest to the two countries. The agenda for the group's meeting held in February 1978 included many issues that were important in 1977, among them the pipeline agreement and the energy policies of both countries, some specific reciprocity problems in the multilateral trade negotiations concurrently taking place in Geneva, bilateral fishing problems, the two nations' international competitiveness in trade, the 1977 amendment to the U.S. Export Administration Act, which concerned restrictions on the transfer of U.S. technology, and applicability of U.S. antitrust law to U.S. subsidiaries operating in Canada. In 1977 the United States and Canada concluded bilateral agreements concerning transit pipelines for natural gas and reciprocal fisheries arrangements.

Foreign trade

The relatively small Canadian economy is highly dependent on foreign trade and ranks about sixth on the roster of trading nations. In 1977, however, Canadian exports of resource-based products were not increasing, its manufactured goods were becoming less competitive in some important foreign markets, the home market was stagnating, and the longstanding preferential customs treatment with the British Commonwealth was being phased out. Canada was obliged to renew efforts to diversify and expand export markets, particularly with respect to the European Community, of which the United Kingdom and Ireland had become full members.

The foreign-exchange value of Canada's dollar had been fluctuating widely since May 1970, when the Canadian Government decided not to maintain the dollar's exchange rate within fixed margins. The unit registered at a premium to the U.S. dollar until November 1976 when, following the electoral success

1/ See discussion in ch. 1.

of the Parti Quebecois, it started to drop precipitously. From 1976 to 1977, the average yearly New York buying rate for Canada's dollar declined by about 7 percent--from 101.41 to 94.112 U.S. cents per Canadian dollar. Although the value of the U.S. dollar fell relative to the currencies of several of its most important trading partners, the decline in the value of the Canadian dollar was faster than that of the U.S. dollar, and the latter appreciated vis-a-vis the Canadian dollar.

For the year 1977, Canada's trade account remained firmly positive, with a surplus of 2.9 billion Canadian dollars compared with 1.1 billion Canadian dollars for 1976. The country's two-way trade increased by 15 percent over 1976 trade--exports were up 17 percent and imports, 13 percent. In constant-dollar terms, the annual increase in these values was 16 percent and 12 percent, respectively.

Canada is no longer considered to be a nation dependent on the exportation of resource-based products. The deficit in manufactured products has been growing, while exports of resource-based products have been increasing in price, but not in volume.

Geographical pattern of trade.--In recent years, the U.S. share of Canada's trade has increased, that of Japan has continued virtually unchanged, and the shares of the United Kingdom and of the original EC countries have declined. During 1977, Canada's exports to the United Kingdom and to Ireland became fully subject to the common external tariff of the EC, and the preferential rates that had been applied by Canada to imports of certain products of these trading partners were being withdrawn. On the basis of Canadian data, the shares of Canada's trade (in percent) and the trade balances (in millions of Canadian dollars) with respect to these trading partners are shown below for the years 1975-77:

	United States	Japan	U.K.	Other EC
Percent share of Canada's exports:				
1975	65.3	6.4	5.4	7.1
1976	67.6	6.3	5.0	7.0
1977	70.0	5.7	4.4	6.3
Percent share of Canada's imports:				
1975	68.1	3.5	3.5	6.0
1976	68.7	4.1	3.1	5.4
1977	70.2	4.3	3.0	5.6
Trade balance: (in millions of Canadian dollars):				
1975	-1,919	928	578	284
1976	59	863	716	636
1977	1,347	706	664	416

United States-Canadian trade.--On the basis of U.S. trade data in U.S. dollars, the current value of two-way trade with Canada grew from $50 billion in 1976 to $55 billion in 1977. The U.S. trade deficit with Canada increased by $1.5 billion, as an already sizable deficit of $2.1 in 1976 grew to $3.6 billion.

For about a decade, automotive vehicles, parts, and engines have been a major product category in both U.S. import and U.S. export trade with Canada. The share of exports in this product category increased from 31 percent in 1976 to 32.5 percent in 1977; the increase in the share of imports was from 30 to 31 percent. In 1977, automotive parts, including assembly parts such as engines, bodies, and chassis accounted for 56 percent of the value of U.S. exports of automotive vehicles, parts, and engines to Canada, and 38 percent of the value of U.S. imports. Canada's shares in total U.S. trade of these items are shown in the following tabulation (in percent):

Item	1976	1977
Canada's share in--		
U.S. exports of road motor vehicles and parts	46	46
U.S. imports of--		
New automobiles	39	36
Automotive parts	58	65

The value of U.S. imports from Canada of many product classes increased in 1977, but much of this increase was the consequence of higher prices, not higher volume. The share of crude oil, however, dropped in response to Canada's special measures for restraining exports of energy resources. The distribution of U.S. imports from Canada is given below for 1976 and 1977, f.a.s. basis (in millions of U.S. dollars):

	1976	1977
Total imports	26,238	29,356
Food, feeds, and beverages, total	1,089	1,253
Industrial supplies and materials, total	14,142	15,463
Fuels and lubricants	4,724	4,461
Woodpulp	1,201	1,180
Newsprint	1,727	1,872
Lumber	1,381	2,003
Major nonferrous metals	1,237	1,258
Capital goods, except automotive, total	1,711	1,995
Automotive vehicles, parts, and engines, total	7,846	9,134
Consumer goods (nonfood), except automotive, total	499	557
Imports, n.e.s	950	993

Besides automotive products, the primary U.S. exports to Canada consist of various nonagricultural industrial materials and capital goods, chiefly nonelectrical industrial machinery and parts. A breakdown of U.S. exports to Canada is shown below for 1976 and 1977, f.a.s. basis (in millions of U.S. dollars):

	1976	1977
Total exports	24,108	25,748
Food, feeds, and beverages, total	1,333	1,369
Industrial supplies and materials, total	6,237	6,566
Nonagricultural industrial materials, except fuels	5,043	5,118
Capital goods, except automotive, total	6,142	6,326
Nonelectrical machinery, except consumer-type	4,994	5,114
Automotive vehicles, parts, and engines	7,566	8,383
Consumer goods (nonfood), except automotive	1,692	1,734
Other (special-category, n.e.c., and reexports)	1,138	1,370

Import restraints

As in the case of the United States, Canada's main commercial policy instrument for restraining imports has been the tariff. Canadian trade and tariff law is broad, however, and authorizes the Government to investigate virtually any imports suspected of injuring or inhibiting the growth of domestic production, and to impose surtaxes, dumping duties, or countervailing duties.

Tariff structure.--The Canadian customs tariff is complex in application and is structured to foster growth in manufactures. In 1977, Canada maintained four sets of rates: the British Preferential Tariff, generally applicable to products from British Commonwealth countries, but not from Hong Kong; 1/ the most-favored-nation tariff, applicable to imports from contracting parties to the GATT and certain other trading partners, including most of the nonmarket economy countries engaged in East-West trade; the General Tariff, the highest rate and applicable to products from the few countries with which Canada has not entered trade agreements; and the General Preferential Tariff, introduced in 1974 as part of the generalized system of preferences of the GATT for developing countries. Accordingly, dutiable products from the United States have been generally subject to MFN rates. Canada's national GSP scheme generally provides reduced, but not duty-free treatment.

1/ Although in 1977 Canada's exports to the United Kingdom and Ireland became subject to the common external tariff of the EC, Canada has been only selectively withdrawing its preferences on products it imports from these two countries.

<u>Tariff actions in 1977</u>.--With certain exceptions and modifications, temporary reductions in tariffs on a broad range of foods and other consumer items have been extended annually since their introduction under Canadian budget proposals in 1973. Two exceptions to the extension became effective on June 30, 1977. The duty on light fixtures was allowed to revert from 15 percent to its former 20-percent rate, and that on refined sugar was raised by one-fifth of a cent per pound. Duty-free treatment for petroleum and aircraft and aircraft engines not made in Canada was also extended. Further withdrawals of the British preferential tariff were made with respect to products of the United Kingdom and Ireland, raising the applicable duty on certain equipment and machinery from 2.5 percent to the MFN rate of 15 percent. If so provided in the tariff schedules, duties on specific tariff items can be remitted on products not available from Canadian sources.

<u>Antidumping activities</u>.--Canada's national antidumping system was revised through legislation in 1968 to bring it into conformance with the International Antidumping Code. The system provides for the levying of antidumping duties when the export price is less than the normal value and an injury determination is made according to the wording of the statute. The determination of injury is made by the Antidumping Tribunal. This tribunal, at the request of the Governor in Council, may investigate any matter relative to the importation of goods that may cause or threaten to cause injury to the production of any goods in Canada. It is also committed by Canada's countervailing duty regulations to report to the Governor in Council when the importation of subsidized goods has caused, is causing, or is likely to cause material injury to production in Canada of any goods of that class or kind.

According to the Antidumping Tribunal's report for calendar year 1977, Canada's antidumping activities have increased progressively since 1969, the year when the tribunal was established. In 1977, it initiated 18 inquiries respecting injury from dumping and issued findings in 16 cases, three of which had been opened in 1976. Products exported from the United States were involved in seven of the cases in which findings were issued in 1977, as follows:

Bacteriological culture media from the United States.	Jan. 14----------	No material injury
Polyester filament yarn from Austria, West Germany, France, Hong Kong, Italy, Japan, Switzerland, Taiwan, and the United States.	Mar. 2-----------	Material injury: 101 to 200 denier; likelihood of material injury: 100 denier and less; no material injury: above 200 denier.
Calcium propionate, sodium propionate and sodium benzoate, originating in the United States.	May 3------------	Likelihood of material injury: calcium propionate and sodium propionate; no material injury: sodium benzoate.

Surgical gloves from the United States and the United Kingdom.	May 24---------	Likelihood of material injury.
Disposable electrodes for use with cardiac monitoring and diagnostic systems, originating in or exported from the United States.	June 9---------	Material injury
Natural color acrylic fiber originating in or exported from the United States and Japan.	June 22--------	No material injury except for acrylic fiber in staple form made of the material described in the preliminary determination above 1-1/2 denier to 10 denier per filament produced by Monsanto Co. in the United States.
Acrylic sheet originating in the United States, Taiwan, Japan, and West Germany.	Aug. 10--------	No material injury

Products originating in or exported from the United States were involved in two of the five inquiries that were in progress at year end. These concerned maleic anhydride imported from the United States, West Germany, France, Italy, Belgium, and Japan, and slate-bed billiard, pool, and snooker tables imported from the United States.

At any time the tribunal may rescind, change, alter, or vary any order or finding or rehear any relevant matter. During 1977, it reviewed its findings in three cases, but none of these involved products imported from the United States. During the year the tribunal conducted no inquiries concerning countervailing duties on subsidized imports into Canada.

Other restraint actions.--The International Monetary Fund reported several trade restraint actions by Canada during 1977. Import quotas under GATT article XIX included a 3-year global import quota on double-knit fabrics; a 12-month quota on products of broad-woven, polyester-filament fabrics and on bed sheets from Hong Kong; bilateral quotas on worsted fabrics of 17-percent wool, or more, from Czechoslovakia, Romania, and Uruguay; a 3-year quota for specific types of footwear; and global quotas on clothing. Temporary surtaxes on canned tomatoes and bicycles from the Republic of China were imposed.

United States-Canadian commercial relations: Selected trade issues

Oil and gas policy.--In line with a policy of reducing net dependence on imported oil and maintaining self-reliance in natural gas, Canada had already taken measures for not increasing exports of natural gas and for phasing out exports of oil to the United States. Canada has been the source of virtually all the relatively small U.S. imports of natural gas and for only a minor part of U.S. imports of crude oil. Canadian oil accounted for about 4 percent of the massive U.S. bill for imported oil in 1977, down from its 8-percent share in 1976.

As in most industrialized countries, the Central Government's role with respect to energy development, planning, and regulation has been increasing in Canada. Most Governmental activities concerning energy have been centered in the Ministry of Energy, the National Energy Board, and more recently, Petro-Canada. Petro-Canada is a Crown corporation set up in 1975 to carry out a program for increasing exploration and development of oil and natural gas and to increase the Canadian presence in the petroleum industry, which has been largely dominated by the major U.S. companies.

Potash.--As a potash-producing nation, Canada ranks second to the U.S.S.R. Based in Saskatchewan, the relatively young Canadian industry has, until recently, been dominated by U.S. firms. At the beginning of 1976, however, the Province's Government embarked on a program to acquire at least 50 percent of the industry's producing capacity and by the end of 1977 had, through acquisitions, reached the halfway mark in achieving this objective.

Canada's industry is highly dependent on foreign markets and has been supplying the United States with the bulk of its domestic requirements. For about a decade, however, the marketing of Canadian potash has been the subject of controversy and litigation. In 1977, one of the several Canadian companies that was found to have been selling potash at less than fair-value prices in the U.S. market in 1969 was still being required to report sales prices to the U.S. customs. At yearend, two class-action suits were pending; these had been brought by U.S. consumers following indictment of several companies and some individuals for conspiring to coordinate U.S. and Canadian production and to fix prices. During the year, the five companies that had been indicted in a criminal suit by the Antitrust Division of the U.S Department of Justice were acquitted, and a civil suit that had been brought against the same companies was dismissed.

U.S. actions with respect to Canadian products

In 1977 the following initiatives were taken with respect to U.S. imports from Canada.

Cattle and meat of cattle.--The United States and Canada exchanged letters in 1976 in which each country informally agreed to limit the exportation of certain categories of beef and veal to the other's markets. 1/

1/ At yearend 1976, the emergency quotas on meat imports Canada had imposed under GATT article XIX were terminated and replaced by bilateral arrangements with Australia, New Zealand, and the United States. Canada's global quota levels for 1977 and 1978 were set at 144.75 and 146.92 million pounds.

The maximum levels agreed to in 1976 for the year 1977 and in 1977 for the year 1978 were as follows (in millions of pounds):

	Canada to the United States	United States to Canada
1977--------------	75	25
1978--------------	76	25

The restraints on imports from Canada were considered by the United States to bring that country into the general program for limiting imports through a negotiated agreement with supplying countries as authorized under the U.S. Meat Import Act of 1964.

Efforts were made in 1977 to restrain meat imports further. The U.S. International Trade Commission conducted two statutory investigations: one was undertaken under section 201 of the Trade Act of 1974 in response to a petition from a segment of the domestic industry for more import relief; the other was an industry study on the Commission's own motion under section 332 of the Tariff Act of 1930. In the first investigation the Commission did not find injury; 1/ accordingly, no additional restraint was imposed. In the second investigation no conclusions were reached that prompted action. 2/

Fish.--The New England fishing industry has long been concerned about imports of groundfish from Canada, and in past years the U.S. Government has conducted a number of investigations concerning the effect of such imports on the domestic industry. 3/ Extension of the jurisdiction of Canada's coastal fisheries to 200 nautical miles and changes in fishing zones were becoming of great concern to New England fishermen. On the basis of an investigation made in 1977, the Department of the Treasury determined that the Government of Canada was subsidizing the manufacture, production, and exportation of certain fish. Countervailing duties were waived, however, in view of actions taken by the Canadian Government to reduce the relevant bounties and grants. Before yearend the case had not been referred to the Commission for a determination of injury with respect to those types of fish which were duty free under the Tariff Schedules of the United States.

Industrial fasteners.--In recent years, Canada and Japan have become the chief sources of U.S. imports of industrial fasteners, a significant share of which are produced by affiliates of U.S. firms. In 1977, responding to a petition for relief from the effects of increasing imports of bolts, nuts, and large screws, the Commission conducted an investigation (TA-201-27) under

1/ Investigation TA-201-25, Live Cattle and Certain Edible Meat Products of Cattle, USITC Publication 834.

2/ Investigation 332-85, Conditions of Competition in U.S. Markets between Domestic and Foreign Live Cattle and Cattle Meat Fit for Human Consumption, USITC Publication 842.

3/ According to data published by the Bank of Montreal, the value of Canada's fish exports has increased dramatically in recent years. In terms of Canadian dollars, exports of fish, excluding shellfish and roe, rose from $194 million in 1970 to $540 million in 1977; the share of the U.S. market dropped, however, from about 71 to 56 percent.

section 201 of the Trade Act of 1974. The Commission found injury to the domestic industry according to the criteria under the statute, but explicitly stated that it had made no determination with respect to imports of Canadian articles admitted free of duty as original equipment for motor vehicles as provided for under the Automotive Products Agreement of 1965. 1/

Paving equipment parts.--Following advice received from the Department of the Treasury that certain paving equipment parts imported from Canada had been or were likely to be sold at less than fair value within the meaning of the U.S. Antidumping Act, 1921, as amended, the Commission conducted an investigation of injury to a U.S. industry. The sales were made during the period January-September 1976, and the Treasury Department withheld appraisement beginning in April 1977. In early July the Commission made an affirmative determination of injury by virtue of an evenly divided vote of participating commissioners.

Steel.--Canada has been an important supplier of some of the steel mill products that became subject to quantitative import restrictions through Presidential proclamation, effective June 1976. During 1977, in response to requests of the President's Special Representative for Trade Negotiations, the Commission conducted two investigations relating to the probable economic effect of reducing or terminating such import relief.

Zinc.--Canada is the world's leading exporter of zinc. Roughly one-half of its mine output and 60-90 percent of its refined metal output go to foreign markets. The United States is by far Canada's chief market for metal, with Belgium the largest for ores and concentrates. At the end of 1977, a year when U.S. imports of zinc metal had been outpacing domestic production for the second consecutive year, U.S. lead-zinc producers filed a petition with the Commission for import relief under section 201 of the Trade Act of 1974, requesting establishment of quotas and tariff quotas. Public hearings were scheduled for the following March.

Other.--In addition to these actions, two complaints of dumping were filed with the U.S. Department of the Treasury--one concerned steel wire nails, the other portland hydraulic cement. Treasury also received a complaint that optic liquid level-sensing systems imported from Canada had been developed with Governmental support under a program for advancing industrial technology. The latter complaint is analogous to the case concerning Michelin tires on which it was determined that a bounty or grant had been bestowed by virtue of regional development assistance. On January 1, 1977, countervailing duties on tires were lowered.

1/ In this investigation, the Commission recommended a substantial increase in applicable tariff rates. The President had not taken action by the close of 1977.

Japan

Economic situation

The domestic economy showed gradual improvement in 1977 as gross national product increased to approximately $610 billion, although this rate of growth was 1.2 percentage points below that of the previous year. The 5.1 percent real growth in GNP was short of the target rate of 6.7 percent and far below the 10.5 percent annual average growth rate during the decade before the 1973 oil crisis. Much of the increase in 1977 came during January-March. In April-September 1977, growth turned sharply downward, but recovered in October-December as increased Government spending started to affect the economy. Exports continued to be the biggest contributor to growth during the year, expanding by 20.1 percent. By the third quarter, however, Government expenditures, primarily for public works projects, took the lead. Improvement could also be seen in private capital formation.

Industrial production was generally sluggish during the first 10 months of 1977, as inventories were adjusted downward. A 2.7-percent improvement in production during November and December boosted the annual rate to 4.1 percent. Consumption, which makes up about 50 percent of GNP, rose only 3.2 percent compared with consumption in 1976, as the Japanese consumer continued to show caution about the economic outlook and to maintain an extremely high rate of saving. The lack of spending is perhaps partially responsible for the record 18,471 business failures in 1977, or 46 percent above the level of the recession year 1974. The official unemployment rate remained near the 2.0 percent level for the year, with approximately 1.1 million workers seeking employment.

The consumer price index for all commodities rose 8.1 percent for the year, well within the Government's target. The index in December 1977 stood only 4.8 percent above the level of December 1976, indicating that the higher annual rate had developed in the earlier part of the year and that inflation had subsided to a manageable level. Inflation has been continually declining since 1974 when the oil crisis had pushed the rate to more than 24 percent. The wholesale price index showed similarly favorable movements, as the annual rate rose only 1.9 percent and actually declined 1.8 percent on a December-to-December basis.

Foreign exchange

The market rate for the Japanese yen stood at 292 yen per dollar at the start of 1977. The yen steadily appreciated during the year, with the exception of May, August, and September. In these months the central bank of Japan entered the market in a departure from the stated policy of refraining from substantial intervention in the exchange markets except to smooth more violent fluctuations.

The appreciation of the yen vis-a-vis the dollar seemed to be founded primarily upon the unusually high U.S. trade deficit with Japan and upon a genuine sense of yen undervaluation. By yearend, the market value of the dollar was 240 yen, representing a decline of about 18 percent since January 1977. Although it was predicted that this realinement would bring about an eventual adjustment of the trade accounts after a lag of approximately 18 months, the initial effect appeared to have been to accentuate the imbalance. The apparent willingness of Japanese exporters to cut profits and that of American importers to pay higher prices resulted in higher dollar levels of U.S. imports from Japan.

United States-Japanese bilateral negotiations

Official announcements in April 1977 observed that the surplus on the Japanese merchandise trade account was expected to be relatively small for the year and that a deficit of $700 million was anticipated in the current account. By the third quarter of the year it was generally acknowledged that a substantial miscalculation of magnitude had occurred. The response of the Government of Japan was a plan for advance purchases of raw materials such as crude petroleum, copper, zinc, and uranium and for increased stockpiles of imported feedgrains. It was believed that these measures in combination with the appreciating value of the yen would be sufficient to reduce the growing trade surplus and would convince foreign critics of Japanese intentions to be a responsible trading partner.

In September, the United States-Japan Joint Trade Facilitation Committee, consisting of representatives of both nations, was established to overcome specific problems of market access, to establish a study group for the exploration of problems in certain sectors, and to undertake general trade promotion activities. A series of market seminars and reciprocal trade missions were to be sponsored by this group in 1978.

Agricultural products

Japanese agricultural policy is generally based on a high level of self-sufficiency and on stable imports. Import quotas are set to maintain prices or to meet shortfalls in production, and there is only moderate consideration of consumer interests. The result is a heavily protected and largely inefficient agricultural sector. The constituency of many of the members of the dominant Liberal-Democratic Party is based upon this sector so that any attempt to liberalize agricultural policy becomes a major issue in domestic politics and leads to substantial political resistance. Accordingly, U.S. efforts in late 1977 to obtain a relaxation of quotas on certain products, especially citrus and beef, took on symbolic importance disproportionate to the economic value of these trade concessions. 1/

Color television receivers

On May 20, 1977, the Governments of the United States and Japan signed an orderly marketing agreement (OMA), effective July 1, 1977, limiting the export of color television receivers from Japan to the United States. Japan promised

1/ Developments in 1978 resulting from these efforts will be covered in the 1978 report.

to export no more that 1.75 million units per year for a 3-year period. This action was taken after a finding by the Commission that increased imports were a substantial cause of injury to the domestic industry. Imports from Japan in 1976 had totaled approximately 2.9 million units, accounting for nearly 35 percent of U.S. apparent consumption. Imports from Japan in 1977 amounted to slightly more than 2 million complete color television receivers, valued at $406 million, or about 80 percent of all color television imports in that year. More than 1.4 million units were imported in kit form or as unfinished units for final assembly in the United States. The OMA permitted receivers with more than 40 percent U.S. value added to be entered without being subject to the volume restraints. Subsequent to this accord, at least two major Japanese electronics firms announced plans to establish American production facilities or to participate in other arrangements involving U.S. firms, thus joining the four Japanese manufacturers already producing in the United States.

Fisheries agreement

The United States unilaterally established a 200-mile fishing zone effective March 1977. Foreign vessels are allowed to fish in this zone subject to certain regulations, including catch limits set on specific species of fish and fee payments based upon the dockside value of the alloted catch and the size of the vessel. Further charges are made to help defray the cost of placing U.S. observers on board fishing vessels. Japanese quotas, negotiated between the United States and the Government of Japan, were set at 1.19 million tons for the zone, including west coast and Alaskan waters. This quota level is a reduction of approximately 11 percent from the actual catch from this zone in 1976. Japan is the second largest fishing nation in the world after the U.S.S.R. and depends upon fish as a major source of nutrition for its people. 1/

Textiles

In September 1974, Japan and the United States reached a bilateral agreement on voluntary restraints upon the level of exports of certain textiles determined by the U.S. to be import sensitive. Since that time, Japanese producers have generally not filled the allocations for most items as permitted by the accord. In February 1977, the United States announced that the agreement would not be applicable to Japan retroactively to October 1976. Subsequent to this announcement, the level of Japanese textiles rose some two-thirds above the 1976 level, reaching the highest volume of imports of these items into the United States since 1972. Manmade filaments and yarns, for example, increased from $45 million to $75 million, or by 60 percent for the year. As a result, the United States determined not to decontrol the textile trade between the two nations and extended the existing agreement for 3 months to provide time to negotiate future allocations.

1/ Japan also reached a tentative agreement with the U.S.S.R. concerning fishing rights off the Soviet Pacific coast, which limits their permissible catch in that zone to 1.7 million tons, mostly of Alaskan salmon.

Trade developments

Japanese exports increased 20.1 percent, to more than $79.3 billion in 1977. The value of exports of automobiles and other motor vehicles reached $11.5 billion, an increase of 30 percent compared with the value in the previous year. This was the first year in which automobile exports exceeded the value of exports of iron and steel products. The volume of automobile exports, however, increased only 15 percent while the unit value rose 13 percent. The value of exports of iron and steel products remained relatively stable at $10.5 billion, while the volume actually declined by 6 percent to 34.3 million metric tons. Ships were the third leading export item, earning $8.1 billion.

Japanese imports can generally be classified as food, raw materials, or high-technology products more advanced than those currently produced by Japanese firms. Japanese imports, on a c.i.f. basis, were valued at $70.8 billion, up 9.3 percent from 1976. Japan is completely dependent upon foreign sources for its petroleum and imported mineral fuels, valued at $31 billion, or an increase of 10.1 percent compared with the value in 1976. Petroleum imports were approximately 44 percent of total imports during the year. Imports of manufactures remained very low at approximately 21.4 percent of total imports, reflecting Japan's economic structure as an importer of raw materials and an exporter of finished goods. This is a far lower portion than that of any other industrialized nation.

Trade with the United States

The United States continued to be Japan's largest single trading partner in 1977, taking 24.5 percent of Japanese exports and supplying 17.5 percent of Japan's imports. Japan was the second largest U.S. trading partner, after Canada, supplying the United States with 12.7 percent of its imports and taking 8.8 percent of U.S. exports. Total U.S. imports from Japan in 1977 were $18.6 billion, representing an increase of 20.1 percent for the year and in proportion with the overall increase of Japanese exports to the world as a whole (tables 19 and 20).

Japanese exports of automobiles to the United States reached 1.7 million units in 1977, valued at $3.9 billion, or an increase of 22 percent by volume and 34 percent by value over the totals for 1976. The United States imported more than one-third of all automobiles shipped from Japan in 1977, or 37 percent of total U.S. imports of complete automobiles. This was a larger share than that of any other country including Canada, with which the U.S. has special arrangements in automobile commerce. Imports of compact trucks and special-purpose vehicles reached $754 million, or an increase of 13 percent over the 1976 level. More than 90 percent of these vehicles are entered in an incomplete form with some minimal assembly operations performed in the United States. This arrangement avoids a relatively high duty of 25 percent ad valorem on complete units, as such a vehicle is subject to a duty of only 4 percent ad valorem. U.S. imports of automotive parts from Japan decreased 35 percent in 1977 to $795 million.

Table 19.--U.S. exports to Japan, by Schedule B descriptions, f.a.s., 1976 and 1977

(In millions of U.S. dollars)

Description	Exports 1976	Exports 1977
Food and live animals	2,195	2,236
Meat and meat preparations	213	190
Grains and cereal preparations	1,559	1,445
Wheat (unmilled)	522	375
Corn (unmilled)	752	816
Fruits, nuts, and vegetables	195	193
Beverages and tobacco	245	296
Tobacco	223	260
Crude materials, except fuel	2,588	2,931
Soybeans	675	938
Logs and lumber	893	928
Mineral fuels and lubricants	1,234	1,110
Anthracite and bituminous coal	1,028	894
Animal and vegetable oils and fats	56	60
Chemicals	852	977
Chemical elements and compounds	374	458
Manufactured goods classified by chief material	581	549
Machinery and transport equipment	1,727	1,672
Nonelectric machinery	876	848
Electronic computers	240	280
Electric machinery	445	453
Transport equipment	407	371
Aircraft and parts	274	221
Miscellaneous manufactures	492	526
Scientific instruments	157	180
Commodities and transactions not classified according to kind	23	23
Total	10,028	10,414

Source: U.S. Department of Commerce publication FT990, table E-6.

Iron and steel products were the second largest U.S. import from Japan in 1977, reaching $2.3 billion, 7.6 percent above the previous year. Japan supplied approximately 40 percent of all U.S. imports of such products in 1977. Imports of all television receivers from Japan were $523 million, down 11 percent from imports in 1976. Citizen Band radio transceivers, which had increased phenomenally in recent years, declined sharply to $371 million, or by about 50 percent. Watches, clocks, and parts continued to be imported in increasing quantities, although the 46-percent growth rate in 1977 was less than the 70-percent rate of the previous year.

Table 20.--U.S. imports from Japan, by Schedule A descriptions, f.a.s., 1976 and 1977

(In millions of U.S. dollars)

Description	Imports 1976	Imports 1977
Food and live animals	258	243
Fish	205	184
Beverages and tobacco	6	5
Crude materials, except fuels	52	63
Mineral fuels	1	6
Animal and vegetable oils and fats	4	5
Chemicals	398	465
Organic chemicals	212	237
Manufactured goods classified chiefly by material	3,827	4,305
Textiles	344	376
Glass, pottery, and china	211	265
Iron and steel mill products	2,056	2,268
Metal manufactures, n.e.s	720	851
Machinery and transport equipment	8,727	10,670
Radio, TV, and other telecommunications equipment	2,207	2,070
Television sets	586	523
New passenger cars	2,904	3,889
Motorcycles, scooters, and parts	455	591
Miscellaneous manufactured articles	2,090	2,701
Scientific instruments	480	670
Musical instruments, including phonographs, recorders, records, etc	793	1,030
Commodities and transactions not classified according to kind	143	160
Total	15,504	18,633

Source: U.S. Department of Commerce publication FT990, table I-7B.

U.S. exports to Japan increased only slightly in 1977 to $10.4 billion, or by less than 4 percent. The continued slow growth in the Japanese economy held down the production of steel and resulted in reduced demand for coal and coking coal, formerly the major U.S. export to Japan. Also contributing to this decline was the U.S. coal strike at the end of 1977 and a move by Japanese importers to diversify their sources of supply. Exports of chemicals rose 15 percent to $977 million, nearly half of which were crude or unfinished rather than more advanced products.

Soybeans became the leading U.S. export to Japan, surging 39 percent to $938 million. The United States supplied an estimated 94 percent of Japanese imports of soybeans in 1977 (Brazil is the other leading supplier). Exports of food and live animals increased modestly, although meat and meat preparations declined by 11 percent to $190 million. Also showing declines in sales were wheat (down 28 percent to $375 million) and grain sorghums (down 8 percent to $241 million). Increased sales were registered by exporters of unmilled corn (up 8.5 percent to $816 million) and animal feeds (up 47 percent to $124 million). Tobacco showed strong gains of 17 percent to $260 million. Logs and lumber exports rose slightly to $928 million, possibly reflecting the sluggishness in the Japanese construction industry. Exports of tractors increased 19 percent to $514 million. Raw cotton climbed 20 percent to $313 million.

Exports of machinery, transport equipment, and miscellaneous manufactures declined slightly in 1977 to $2.2 billion. Computer exports from the United States to Japan remained a growth leader, increasing 17 percent to $280 million and showing continued technological superiority in this product in spite of the growing competitiveness of the Japanese computer industry.

Japanese trade with the People's Republic of China

Japan and the People's Republic of China began negotiations in early 1977 to establish a long-term trade agreement. In addition to political considerations, Japan wanted to gain a reliable source of raw materials and petroleum. Japan also wished to establish a long-term market for industrial plants and technology, which are becoming an increasing share of its exports. In February 1978 an agreement was reached accomplishing these goals over an 8-year period. Total two-way trade is planned to be $20 billion more than the term of the agreement, with each nation taking equal shares. Japan will purchase mostly fossil fuels, crude petroleum, coal, and coking coal, while providing higher technology plants. Trade between these two countries reached approximately $3.5 billion in 1977, or an increase of 15 percent over the 1976 levels. In that trade, Japan held a $391 million surplus.

Latin America 1/

Overview

Most of the Latin American and Caribbean countries registered a further improvement in their trade and current accounts in 1977. The economic progress achieved in 1976 was sustained in 1977, as real gross domestic product of the area again increased an estimated 4.5 to 5 percent.

The reversal in 1976 of the deterioration of the area's trade balance and growth rate largely reflected both an increase in the volume of exports and higher world market prices for several of the region's principal primary-commodity exports. A leveling off of imports also contributed to the substantial reduction in the trade and current account deficit. Latin America's balance of merchandise trade turned from a deficit of $5.0 billion in 1975 to a surplus of $184 million in 1976, reducing the combined deficit on

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1/ Including the Caribbean Community.

current account from $13.9 billion to $9.7 billion. 1/ Yet, although data for 1977 indicate a continuing improvement in the trade position, balance-of-payments difficulties are far from being resolved.

Latin America's large deficit on current account stems primarily from the interest payments on its formidable foreign debts. Following the oil crisis, a number of countries--notably Mexico, Brazil, Argentina, Peru, and Chile--substantially increased external borrowing to finance their higher energy bills, to offset export losses, and to replenish international reserves. As a result, the oil-importing countries, in particular, still face a serious limitation to future economic growth without further adjustment of their balance of payments.

Given this burden of foreign-debt servicing together with extremely high rates of domestic inflation, especially in the larger countries, economic adjustment took precedence over growth as Government austerity programs were undertaken or further strengthened in 1977. The success of the various measures employed to restrain domestic demand in order to combat inflation, while promoting exports and containing imports, is reflected in the U.S. merchandise trade account with Latin America.

Trade with the United States

Although efforts have been directed toward expanding Latin America's trade with other industrial nations in recent years, notably the European Community and Japan, commercial ties with the United States continue to be strong. Approximately one-third of Latin American exports are sold to the United States, and about the same proportion of its imports are still supplied by this country. The U.S. share of the region's exports averaged 33.4 percent over the period 1966-75; for imports, the 1966-70 average was 40.4 percent, and for the period 1971-75, 35.1 percent. While the European Community ranks second in relative importance, with about 24 percent of Latin America's trade in both directions, the decline of imports from the United States in the seventies is accounted for primarily by a sharp increase in imports from Japan.

Table 21 gives a breakdown by countries and by the four integration or regional trading groups of the value of U.S. imports from and exports to Latin America in 1977. The duty-free portion of the imports from each country and group, expressed as a percent of total value, and the U.S. trade balance with each are also shown.

In 1977 the United States experienced a trade-account surplus with 15 of the 26 countries covered. Although in this respect the result was comparable to the situation in 1976, when the bilateral balance was favorable with 17 of these countries, the overall U.S. trade balance with Latin America and the Caribbean Community underwent a considerable deterioration in 1977.

1/ Inter-American Development Bank (IDB), Annual Report, 1977, table 3, p. 82. Based on International Monetary Fund (IMF), Balance of Payments Tapes, December 1977.

Table 21.--U.S. trade with Latin America, 1977

Integration group and country	Imports	Percent of duty-free imports	Exports	U.S. trade balance
	Million U.S. dollars		Million U.S. dollars	Million U.S. dollars
Latin American Free Trade Association	13,748.4	37.8	13,895.4	147.0
Argentina	386.0	39.4	731.1	345.1
Brazil	2,230.7	74.1	2,482.3	251.6
Chile	229.4	44.3	520.2	290.8
Mexico	4,647.3	31.9	4,806.1	158.8
Paraguay	23.4	87.2	50.7	27.3
Uruguay	88.2	39.2	74.3	-13.9
Andean Common Market	6,143.4	28.4	5,230.7	-912.7
Bolivia	160.3	75.4	214.2	53.9
Colombia	824.7	78.9	782.0	-42.7
Ecuador	604.0	52.7	564.5	-39.5
Peru	488.9	63.4	499.5	10.6
Venezuela	4,065.5	8.5	3,170.5	-895.0
Central American Common Market	1,533.1	74.5	1,477.8	-55.3
Costa Rica	293.9	74.5	323.4	29.5
El Salvador	426.2	74.1	314.1	-112.1
Guatemala	377.5	82.0	377.1	-.4
Honduras	255.3	77.6	240.4	-14.9
Nicaragua	180.2	55.4	222.8	42.6
Caribbean Community	2,117.9	21.4	793.7	-1,324.2
Barbados	32.3	40.9	59.4	27.1
Belize	18.3	50.8	31.1	12.8
Guyana	55.9	89.1	62.1	6.2
Jamaica	346.3	93.5	270.5	-75.8
Leeward-Windward Islands (Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent)	9.2	51.1	64.9	55.7
Trinidad-Tobago	1,655.9	3.2	305.7	-1,350.2
Nonintegrated Latin American Republics	1,075.0	60.8	1,091.4	16.4
Dominican Republic	625.7	59.9	423.6	-202.1
Haiti	169.9	42.7	203.1	33.2
Panama	158.9	61.9	345.9	187.0
Surinam	120.5	89.8	118.8	-1.7
Total	18,474.4	40.3	17,258.3	-1,216.1

Source: U.S. Bureau of the Census, Highlights of the U.S. Export and Import Trade, Report FT990, December 1977, tables E-3 and I-4A.

Note.--Imports are for consumption, customs value basis; exports are f.a.s. value basis.

To illustrate, the 1976 and 1977 U.S. trade balances with each group of countries listed in the above table were (in millions of U.S. dollars):

	U.S. 1976 trade balance	U.S. 1977 trade balance	Difference
LAFTA-----------	2,243.2	147.0	2,096.2
ANCOM-----------	-838.2	-912.7	74.5
CACM------------	-36.5	-55.3	18.8
CARICOM---------	-1,146.6	-1,324.2	177.6
OTHER	135.0	16.4	118.6

U.S. sales to Latin America increased by only $873.6 million while imports from these 26 countries rose $3,284.8 million. The result was a deficit with the area of $1.2 billion in 1977, compared with a surplus of $1.2 billion in 1976.

The deterioration of the U.S. trade account with Latin America in 1977 was the result of (1) the slow growth of exports to the region and (2) a significant increase in imports, with oil by far the largest single import item. While both are factors underlying the overall U.S. merchandise trade deficit in 1977, the poor export performance can be explained primarily in terms of the economic policies currently pursued by some of the Latin American countries, in particular, Mexico and Brazil.

The slow growth of U.S. exports.--The overall increase in U.S. sales to Latin America was 6 percent in 1977, a modest gain in part supported by larger purchases from the oil-exporting nations. Exports to Bolivia rose from $133.3 million in 1976 to $214.2 million in 1977, or by more than 60 percent; sales to Ecuador increased by $150 million, and Venezuela emerged as the second largest Latin American market, purchasing $3.2 billion of U.S. goods, or $542.7 million more than in 1976.

Among the oil-importing countries, U.S. exports to Argentina improved the most, an additional $187.4 million; increases of more than $50 million were made in sales to El Salvador, Colombia, Honduras, Costa Rica, Nicaragua, and Haiti. These substantial gains were largely offset, however, by a decrease in exports to Mexico and Brazil, which are traditionally the largest U.S. markets in Latin America. Although the United States experienced a surplus in its trade account with both countries in 1977, sales to Mexico declined from $5.0 billion in 1976 to $4.8 billion in 1977, and Brazil's purchases from this country dropped from $2.8 billion to $2.5 billion, for a combined U.S. export loss of $510.4 million last year.

To a large extent, this decline in U.S. exports to Mexico and Brazil in 1977 attests to the progress of the Government austerity programs designed to reduce balance of payments and inflationary pressures. Both Mexico and Brazil have employed monetary and fiscal measures to maintain a moderate rate of economic growth and dampen import demand while diversifying and promoting exports.

Brazil has also added to its direct-import restrictions. These measures include a 100-percent, 12-month, noninterest-bearing advance deposit requirement, which applies to a wide range of imports; prohibition of certain nonessential imports, consisting of about 500 items in 1977; an increase in duties of 30 to 100 percentage points applied to a large number of consumer and intermediate goods; and quantitative limits on Government-sector imports. Some liberalization measures, relatively minor in scope, were announced in the latter half of 1977.

Mexico, however, has depended primarily upon its comprehensive monetary-fiscal program and the support provided by abandonment of a fixed exchange-rate policy in August 1976 and subsequent depreciation of the peso by 45 percent from its old level of 12.5 pesos per dollar. Under a floating system, the peso exchange rate has remained relatively stable since January 20, 1977, fluctuating within a range of less than 1 percentage point of the 22.736 pesos per dollar at which it closed the year. A 35-percent increase in exports of petroleum and petroleum derivatives, Mexico's fastest growing industry, further improved its balance-of-payments position in 1977 and, in turn, contributed to the deficit in the U.S. trade account with Mexico.

U.S. imports of oil.--U.S. purchases of petroleum and petroleum products from Latin America's major net oil-exporting countries--Venezuela, Trinidad-Tobago, and Ecuador--totaled an estimated $5.7 billion in 1977. In 1977, oil was 94.4 percent of the value of U.S. imports from Venezuela 96.9 percent of the total from Trinidad-Tobago, and 43.2 percent from Ecuador. Yet, exports from Venezuela, Trinidad-Tobago, and Ecuador accounted for only 64 percent of the crude petroleum, petroleum products, and natural gas imported by the United States from Latin America and the Caribbean area last year.

Bolivia's role as a net oil-exporting nation has been curtailed by reduced production and increased domestic consumption, but it added another $26.6 million to U.S. oil imports in 1977. On the other hand, Mexico's exportable oil surplus has grown rapidly, with U.S. imports reaching an estimated $840.7 million last year, or more than three times the value of U.S. purchases of oil from Ecuador. Other Caribbean islands (not included in table 21) should be considered in this context, notably the Netherlands Antilles--where the economy is based almost entirely upon the refining of Venezuelan oil on the islands of Curacao and Aruba--and the Bahamas, which exports both petroleum and petroleum products.

Because of the participation of U.S.-affiliated companies in petroleum exploration and production in the region, some of the net oil-importing countries are among those which export to the United States. A country-by-country breakdown of U.S. imports of oil and total U.S. imports from Latin America and the Caribbean area in 1977 is listed on the following page:

Country of origin	U.S. imports (millions of $US) Oil	Non-oil	Total
Venezuela	3,836.4	229.1	4,065.5
Trinidad-Tobago	1,603.4	52.5	1,655.9
Netherlands Antilles	1,214.0	71.8	1,285.8
Bahamas	971.6	77.9	1,049.5
Mexico	840.7	3,806.6	4,647.3
Ecuador	260.9	343.1	604.0
Colombia	80.3	744.4	824.7
Peru	35.3	453.6	488.9
Panama	33.4	125.5	158.9
Bolivia	26.6	133.7	160.3
Other 1/	6.2	1,134.7	1,140.9
Total	8,908.8	7,172.9	16,081.7

1/ In descending order of the value of U.S. imports: Chile, Argentina, Haiti, French West Indies, Bermuda, and Jamaica.

U.S. oil imports from Latin America and the Caribbean area in 1977 consisted of crude petroleum ($3.4 billion), petroleum products ($5.4 billion), and natural gas and products ($119.0 million). Of the total, $6.7 billion represented the amount imported from the countries included in table 21 and was 36.4 percent of the value of all merchandise purchased by the United States from this group of nations. The remainder of the oil, amounting to $2.2 billion, came from other Caribbean islands. The regional total, $9.0 billion, accounted for approximately 20 percent of all U.S. oil imports last year. 1/

Operation of the U.S. Generalized System of Preferences 2/

Nineteen of the western developed countries have preference programs under which a broad range of manufactured goods and some agricultural products can be imported duty free or at reduced rates from the developing nations. The three basic objectives are: (1) to increase the export earnings of the beneficiary countries, (2) to promote their industrialization, and (3) to accelerate their rates of economic growth. Since the United States is the single largest market for the exports of the Latin American and Caribbean countries, the operation of the U.S. GSP program is for them the most important of any of the industrialized nations' GSP programs. The U.S. system began operation on January 1, 1976, following its authorization by the Trade Act of 1974. Thus, after only 2 years of operation, an evaluation of its effect upon U.S. imports from Latin America is necessarily limited.

1/ U.S. imports of oil in 1977 totaled $43.7 billion.
2/ See general discussion of program in ch. 1.

The GSP provisions.--The U.S. program provides for the duty-free entry of specified manufactured and semimanufactured products from designated developing countries. Some agricultural commodities--small in number but significant as exports of the region--are also included in the GSP coverage. Because of their membership in the Organization of Petroleum Exporting Countries (OPEC), Ecuador and Venezuela, are excluded from the list of designated beneficiaries. 1/ The GSP privileges of beneficiary countries can be withdrawn and subsequently reinstated on an item-by-item and country-by-country basis under the provision known as the competitive-need formula.

The competitive-need provision sets the following limits on imports of otherwise eligible articles supplied by the beneficiary countries: If (1) imports of an item from an individual country exceed a certain dollar limit, which is revised each calendar year ($29.7 million in 1977), or (2) more than 50 percent of the U.S. imports of a particular item come from one country during the year, 2/ then the GSP privilege is withdrawn from that country on any article to which either limit applies. These items, which are removed from the GSP list within 60 days after the end of a calendar year, are then dutiable at the most-favored-nation rate. Whether they are reinstated the following year depends upon the volume and value of trade at the MFN rate.

The effect on U.S. imports.--Although only 2 years of operation does not permit a complete evaluation of the impact of the GSP, some analyses of the flow of U.S. imports from Latin America under the program have been made. In 1977, the total value of Latin American products which entered the United States duty free under GSP increased 27.1 percent to $1.0 billion, as compared with 850 million dollars' worth in 1976. The value of Latin American goods eligible for GSP treatment in 1977 was $1.6 billion; the figure was $1.4 billion in 1976. Reasons for the gap between potential and actual GSP benefits include lack of sufficient information on the part of Latin American exporters and U.S. importers, and the complexity of the rules governing the origin of products and the amount of value added in the beneficiary countries.

A total of 117 items from specified Latin American countries were removed from the GSP list for one year--or, in some cases, continued to be excluded for another year--as a result of imports which exceeded the limits of the competitive-need formula in 1977. 3/ Included in this total were 112 tariff items, 110 of which involved only one country. Two products, sugar and unwrought copper, involved more than one country. Imports of sugar from Argentina, Brazil, Dominican Republic, Guatemala, and Peru exceeded $33.4

1/ In addition to specifying that the members of OPEC and 26 other countries are not to be designated beneficiaries, sec. 502 (b) of the Trade Act of 1974 established standards for excluding others, none of which conditions presently applies to any of the Latin American countries.

2/ The 50-percent limitation may be waived in the case of items not produced in the United States and not competitive with U.S. products.

3/ Executive Order 12041 (Federal Register, Feb. 28, 1978).

million, as did U.S. purchases of copper from Chile and Peru. 1/ The country most extensively affected by the competitive-need formula in 1977 was Mexico; of the 117 items exceeding either the percentage or the dollar limit, 64 were imports from Mexico. Another 16 items were from Brazil.

The program as now constituted has proved a useful instrument for gaining access to the U.S. market, but the debate over certain of its provisions continues. This debate centers on the limitations built into the system, especially the competitive-need formula. The relatively less-developed beneficiary countries are favored by this provision while some of the more advanced beneficiary countries in the region have found that a number of their manufactures and processed products have been subject to the loss of GSP benefits. Criticism is directed both to the effect the competitive-need formula has had in limiting export expansion and to the market interruption that has characterized its application. Benefits withheld in one year because either annual limit has been exceeded may be reinstated the following year and then withdrawn the next. Some of Latin America's major primary-commodity exports which were designated GSP items also have been effectively excluded from the program. U.S. imports of copper from Chile have been ineligible since the program began, and copper from Peru has been suspended from GSP treatment since March 1977. Benefits were also withheld or withdrawn from 11 countries with respect to sugar. In 1976, as the program began, $1,074 million in Latin American exports were ineligible for GSP on the basis of the competitive need formula; in 1977, $1,216 million in Latin American products were excluded.

Another issue of note involves the provision barring Venezuela and Ecuador from GSP treatment because of their membership in OPEC. This exclusion is objected to on the general grounds of being discriminatory. In addition, it is contended that exclusion of their exports is exerting an adverse effect on their economies. In the case of Venezuela, a relatively small 8.5-percent share of U.S. imports in 1977 was duty free (table 21); the value of the remainder, or 91.5 percent, was approximately equal to U.S. purchases of oil from Venezuela less the value of imports of natural gas products which are a duty-free item. As oil revenues continue to be plowed back into a program of industrial development and export diversification, Venezuela faces difficulties in marketing its manufactures without the GSP benefits available to the infant industries of other developing nations. A comparable situation exists in Ecuador, where manufacturing has been vigorously promoted since 1973 under a program of tax exemptions and tax credits to designated industries with export potential. Nevertheless, the country remains largely dependent upon petroleum--48 percent of total export revenue in 1977--and other primary commodities--coffee, cocoa, bananas--for its foreign-exchange earnings. 2/

1/ In fact, sugar from all of the following countries was excluded from GSP benefits in 1977 and again in 1978: Argentina, Brazil, Colombia, the Dominican Republic, El Salvador, Guatemala, Guyana, Jamaica, Nicaragua, Panama, and Peru. In most cases, GSP privileges have been withheld since the program began because of the volume of sugar sales to the United States in 1975.

2/ Ecuador and Venezuela now depend primarily upon the other member countries of the Andean Common Market as an export outlet for their processed and manufactured products.

The rule of origin is also considered a problem by some countries. This provision specifies that at least 35 percent of the value of a GSP-eligible item must originate in the beneficiary country in order to qualify for duty-free treatment. It is designed to prevent countries excluded from the GSP program from receiving benefits by channeling their exports through a beneficiary country. However, the primary problem with the provision is its complexity, often requiring a ruling on each shipment entering the United States.

Among the Latin American countries, Mexico is the most concerned about the rule of origin because of the large segment of its industry devoted to U.S. offshore assembly. 1/ Under this program, articles that have been manufactured in the United States are sent abroad for further processing or assembly of the components and then returned to the United States. Although all such imports were previously subject to the applicable U.S. duty on that portion of the value added offshore, 2/ a large number of these articles are now eligible for duty-free entry under the GSP program. Yet in many cases beneficiary countries have not taken advantage of duty-free treatment because of the difficulties involved in demonstrating compliance with the rule of origin.

Recent trade developments in primary commodities

Although considerable progress has been made in increasing exports of manufactures in recent years, primary commodities still account for approximately one-half of Latin America's exports. 3/ In addition, a number of the export-oriented industries which have been developed involve the processing of these products. Therefore, foreign-exchange earnings continue to be strongly affected by cyclical factors which characterize the production and trade of these basic foods and industrial raw materials.

1/ Other countries engaged in offshore assembly include Brazil, Haiti, El Salvador, the Dominican Republic, Costa Rica, Colombia, Barbados, Jamaica, Honduras, and Nicaragua.

2/ The general provision for assessing duties on articles returned to the United States following further processing or assembly offshore is stated under item numbers 806.30 and 807.00 of the Tariff Schedules of the United States. Item 806.30 covers a large number of metal products; item 807.00 covers a wide range of products, the most important of which are textiles and electronic equipment, and has accounted for more than 95 percent of the value of all offshore assembly under this provision.

3/ The Inter-American Development Bank has defined the main primary-commodity exports of Latin America as crude petroleum, coffee, sugar, copper, beef, cotton, iron ore, soybeans, corn, bananas, bauxite, cocoa, and fish meal. Together these 13 commodities represented 53.7 percent of the total regional export earnings during 1970-74; but primarily because of growth in sales of manufactured products--mainly by Argentina, Brazil, and Mexico--the contribution of the 13 basic commodities to Latin America's total value of merchandise exports declined to less than half for the first time in 1976 and dropped to 47.5 percent in 1977, IDB, Economic and Social Progress in Latin America, 1977, pp. 47, 50-51.

The recovery in 1976 from the depressed export earnings of 1975 largely reflected a turnaround in both the volume and world market prices of several of Latin America's major primary-commodity exports. Increases in the prices of products in which there were supply deficiencies--coffee, cocoa, fishmeal, cotton--were particularly large. The price of sugar, however, was severely depressed. Because most countries that export coffee also export sugar, the latter exerted some dampening effect on their trade receipts in 1976 and 1977.

During January-June 1977, markets for most of the region's principal basic commodities continued to expand. The exceptions--because of surplus problems--were sugar, corn, and copper. However, by the second half of the year, a reversal of this upward trend was evident. As growth in most of the industrialized countries reached a plateau or declined, Latin America's commodity prices reflected cyclical reduction in demand. Other influences were the consumer resistance to the higher prices of coffee 1/ and cocoa in 1976-1977 and the increased availability of competitive substitutes, which had already exerted some downward pressure on earnings. Consumption of both coffee and cocoa declined markedly in 1977 and raised the question of whether the reduction would be permanent.

Nevertheless, the combined export earnings of the region from the 13 major primary commodities are estimated to have increased approximately 16 percent in 1977, or by 23.6 percent if crude petroleum exports are excluded. The annual gains varied greatly from country to country, with those heavily dependent on coffee experiencing the largest increases--Brazil, Colombia, Haiti, and most of the Central American countries. Ecuador was next because of both the larger volume of its oil exports and, to a lesser extent, higher cocoa prices.

Two situations in particular were a source of concern in 1977: (1) Prices of a few primary products remained depressed throughout the 1976-1977 upturn because of surplus problems; and (2) additional trade restrictions were imposed or have been proposed against some of the region's major commodity exports. Sugar is the most important example. 2/

The large number of countries which depend on sugar for a significant portion of their export earnings as well as the critically low price of sugar has made the controversy surrounding this commodity one of the most important trade issues currently confronting Latin America. Although the Dominican Republic is the largest Latin American supplier of U.S. sugar, almost all of the countries in the region export sugar. U.S. imports of sugar from the Dominican Republic were $162 million in 1977. Sugar imports from four other Latin American countries exceeded $45 million on an individual basis, with Brazil supplying $90.1 million. Imports from an additional 15 countries totaled $144.9 million, making a total from the area of $549.4 million, or 53.6 percent of the value of all sugar imported by the United States. This level represents, however, a decline in Latin America's share of the largest

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1/ Coffee tripled in price between mid-1975 and July-September 1976.

2/ See general discussion of developments involving sugar and trade agreements program in ch. 1.

market for its sugar exports since the termination of the U.S. Sugar Act in 1974; in the period 1971-74, the Latin American countries accounted for 61 percent of the U.S. import market.

Fluctuations in the price of sugar aggravated this situation. After reaching a peak of 65 cents per pound in November 1974, the world price of raw sugar had declined sharply. By January 1976, the price was 14.5 cents per pound, and it then dropped to the range of 7 to 9 cents per pound in July-December 1977 and early 1978. Because of its vital importance as a source of foreign exchange, sugar was probably exported at a net loss for Latin American producers throughout most of 1977, with a series of actions taken by the United States serving to compound the problem. 1/

The United States is not only one of the largest consumers of sugar, but one of the largest producers, in some years ranking first in both respects. Although sugar was designated a GSP item, duty-free treatment was withdrawn from the majority of the beneficiary countries on March 1, 1976, and has not been reinstated. 2/ Thus, of the 20 Latin American countries supplying sugar to the United States in 1977, 12 of them--accounting for $466.8 million of imports or 85 percent of the sugar purchased from Latin America last year --did not receive GSP treatment. 3/ These imports were subject to the tariff which, after being tripled in September 1976 from 0.625 cents to 1.875 cents a pound, was raised another 50 percent in November 1977.

As the market price of sugar continued to decline, the U.S. Government adopted a series of measures on behalf of American producers in the second half of 1977, one of which was revised in early 1978. The actions taken included both a domestic price-support program and, in conjunction, changes in import restrictions.

(1) <u>The U.S. price-support program for sugar</u>.--Following a finding by the Commission that imports were causing injury to domestic producers of sugar cane and sugar beets, President Carter rejected the Commission's recommendation of a lower import quota. 4/ His decision was based in part upon his belief that additional import restraints would adversely affect the export earnings of developing countries. As an alternative, two domestic

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1/ For example, the State Sugar Council, the Dominican Republic's largest producer, reported selling at an average annual price of 9.3 cents per pound, 1.2 cents below production cost (U.S. Department of State, <u>Economic Trends Report for the Dominican Republic</u>, Mar. 7, 1978, p. 4).

2/ Designated beneficiary countries which have been ineligible for GSP treatment of sugar because of the competitive-need formula since Mar. 1, 1976, are (listed in descending order of the value of U.S. imports in 1977): the Dominican Republican, Brazil, Peru, Argentina, Nicaragua, El Salvador, Panama, Jamaica, Guyana, and Colombia. Guatemala, which ranked third among the Latin American countries as a supplier in 1977, was added to the ineligible list on Mar. 1, 1977.

3/ Total includes $8.4 million of imports from Ecuador, excluded from eligibility for GSP treatment because of its membership in OPEC.

4/ Imports were 4.7 million short tons in 1976 and 6.1 million tons in 1977, considerably below the U.S. global quota of 7 million short tons per year.

price-support programs were instituted. The first, an interim measure put into effect on September 15, 1977, provided for compensatory payments for the difference between current market price and 13.5 cents per pound; authorization was eventually given to permit payments for all of the 1977 crop marketed prior to that time. The second, implemented on November 8, 1977, to cover sugar marketed for the remainder of the crop-year, was a loan program which in effect provided for the same level of price support, i.e., together the two programs guaranteed domestic producers a return of 13.5 cents per pound of sugar for their 1977 crop.

(2) Changes in U.S. import restrictions on sugar.--With market prices critically low and continuing to weaken in the last half of the year, an emergency increase in the tariff was imposed. This attempt to close the gap between the market price and the support price aimed at substantially reducing the cost of the domestic price-support program. On November 11, two Presidential proclamations were issued. One proclamation increased the duty on imported sugar from 1.875 cents per pound to 2.813 cents per pound (raw value). The second proclamation imposed an import license fee of 50 percent ad valorem on raw sugar not valued at more than 6.67 cents a pound, with the fee decreasing as the value of the imported sugar rose to 10 cents per pound, above which no fee was to be charged. In turn, in a proclamation issued on January 20, 1978, President Carter replaced the variable import-fee system with a fixed fee of 2.7 cents per pound on raw sugar imports and added a fixed fee on refined sugar of 3.22 cents per pound. Under the new system, both charges--the tariff and the import fee--apply regardless of the level of the market price of sugar. Those countries still eligible for GSP benefits are subject to the import fee, although receiving duty-free treatment.

In summary, the overall result of the U.S. sugar policy was that of placing Latin American producers in a highly unfavorable competitive position vis-a-vis the U.S. industry. As 1978 began, Latin American producers faced the prospect of a marked decline in their exports, coupled with added downward pressure on world market prices. Two other factors contributed to the unfavorable outlook in both the shortrun and longrun: (1) Excessive inventories of sugar had been accumulated as U.S. importers stockpiled an unprecedented amount late in 1977 in anticipation of the higher tariff and the imposition of import fees; and (2) high-fructose corn syrups had become an increasingly significant substitute for sugar as an industrial sweetener. 1/ What may be an important positive factor, however, was the negotiation of a new 5-year International Sugar Agreement, which was completed in October 1977 and entered into force on January 1, 1978. 2/ The United States signed the agreement on December 9, 1977, and has accepted it provisionally.

The International Sugar Agreement is designed to stabilize prices within a range of 11 to 21 cents, allowing market forces to operate freely between these levels. The price range objective is to be reached and then maintained by the imposition of export quotas and supported by the creation of a buffer

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1/ Sales of high-fructose corn syrups in the United States have risen from zero in 1971 to 1 million tons in 1977.

2/ The prior agreement was in force from 1968 to 1973. The new agreement had not been ratified by the U.S. Senate as of Jan. 1, 1978.

stock, which will serve to absorb excess sugar in periods of oversupply and release it in short-crop years. The effectiveness of the agreement in improving the situation of Latin America's sugar producers depends, however, upon its ratification by the U.S. Senate. This action is in turn contingent upon the United States establishing a domestic sugar price-support program consistent with the price range provided for in the agreement.

Integration groups: Intra-area trade and trade-related activities

The regional integration groups of Latin America have served an important function in increasing Latin America's role in the world economy in recent years, as well as in expanding trade within the area. The easing of import barriers among the member countries in each group, particularly in manufactures, has provided markets sufficiently large in scale to encourage the development of a modern industrial base. Inter-country agreements to complement, rather than compete with, one another in a number of production projects have enhanced the process. The economic diversification realized through intra-area trade has not only strengthened Latin America's position in the international economy but has increased the potential for sustaining foreign-exchange earnings at levels necessary for future economic growth by reducing its reliance upon primary-commodity exports.

Nevertheless, the four integration groups--the Latin American Free Trade Association, the Andean Group, the Central American Common Market, and the Caribbean Community--have experienced serious problems, aggravated by the oil crisis and by the world recession which followed in 1974-1975. The process of adjusting to their institutional goals continued with varying degrees of success. One group, the Caribbean Community, experienced a major setback in 1977.

Table 22 presents trade shares for intra-area trade. Percentages are used to indicate the relative importance of intra-area trade and the participation of each member country in the integration group. These percentages show (1) the ratio of each group's and member country's intra-area exports (imports) to its total exports (imports), and (2) the ratio of a country's exports (imports) to its group's total exports (imports).

Latin American Free Trade Association .--Intra-area exports reached a value of $4.4 billion in 1976, or about 3.4 times the level in 1970. As has been traditional, much of the trade within the market was accounted for by the flow of merchandise between Brazil and Argentina. Brazil was first in both exports and imports, even though intra-LAFTA trade represented only 11.9 percent of its total exports and 9.5 percent of total imports. Argentina ranked second in terms of the value of its regional trade. In recent years, however, Chile's role has become increasingly important. In 1976, 31.9 percent total intrazonal exports and 33.9 percent of imports consisted of the trade of these three countries with one another. The exports of Brazil and Argentina to the other nine countries in the group made up 50.6 percent of the intra-area total; their imports from the others were 45.2 percent of all

Table 22.--Latin American integration groups: Intra-area trade by group and by member countries, 1976

(In percent)

Integration group and country	Intra-area exports: Share of group's or country's total exports	Intra-area exports: Country's share of group total	Intra-area imports: Share of group's or country's total exports	Intra-area imports: Country's share of group total
Latin American Free Trade Association	13.1	100.0	12.4	100.0
Argentina	26.3	23.4	26.7	17.5
Bolivia	33.0	3.1	36.9	4.7
Brazil	11.9	27.2	9.5	27.7
Chile	26.6	12.1	32.0	12.0
Colombia	13.3	5.7	10.8	4.2
Ecuador	17.0	4.7	12.0	2.8
Mexico	9.4	7.1	4.1	5.3
Paraguay	26.3	1.1	45.5	2.0
Peru	14.7	5.0	21.4	9.2
Uruguay	22.0	2.6	31.9	4.3
Venezuela	4.1	8.0	7.1	10.3
Andean Common Market	3.6	100.0	4.1	100.0
Bolivia	6.1	5.1	3.3	3.9
Colombia	10.2	38.7	3.8	13.4
Ecuador	8.6	21.4	5.8	12.5
Peru	3.0	9.0	11.2	44.0
Venezuela	1.5	25.8	2.0	26.2
Central American Common Market	17.1	100.0	16.1	100.0
Costa Rica	19.4	21.4	17.4	23.6
El Salvador	16.1	22.2	20.3	28.0
Guatemala	21.6	34.1	12.8	20.6
Honduras	3.7	2.9	6.0	5.3
Nicaragua	19.1	19.4	23.1	22.5
Caribbean Community 1/	8.3	100.0	6.9	100.0
Barbados	25.3	8.2	18.1	17.8
Guyana	14.5	16.4	23.5	33.9
Jamaica	7.1	16.4	6.9	26.5
Trinidad-Tobago	7.0	59.0	2.7	21.8

1/ Data presented relate only to the region's 4 more-developed countries because comprehensive statistics on the trade of Belize, and the 7 Leeward and Windward Islands in this group (Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent) are not available. Data reported by these 4 countries include, however, their trade with the less-developed members of the EC.

Source: IMF, Direction of Trade: Annual 1970-76.

intra-area imports. 1/ Adding Chile's share, their combined trade within the LAFTA constituted 62.7 percent of the exports and 57.2 percent of the imports.

The importance of intra-area trade to the individual member countries is reflected by the fact that for 5 of the 11 countries--Argentina, Bolivia, Chile, Paraguay, and Uruguay--intra-LAFTA trade accounted for more than 20 percent of total exports as well as more than 25 percent of their total imports. Bolivia was first in exports in this respect, with intra-area sales amounting to one-third of its export total; Paraguay was first in imports, purchasing 45.5 percent within the market.

Despite the favorable impression of these trade statistics, failure to reach consensus on the future direction of the LAFTA has led to the virtual stagnation of LAFTA's liberalization program during the past decade. Although meetings were held in 1974 in an effort to revitalize institutional goals, no common basis for negotiating the restructuring of existing mechanisms could be established. Any action, it was decided at that time, would have to be taken by the Council of Foreign Ministers of the Member Countries of LAFTA, the association's highest authority. Yet, the Council has never met and is unlikely to do so because the LAFTA countries that are also members of the Andean Common Market continue to contend that the technical conditions do not exist for a useful meeting. On the other hand, only the Council can provide the technical solutions which will satisfy the Andean countries and provide the basis for a meeting. Attempts to resolve this dilemma failed again in 1977, as they had in 1975 and 1976.

Five tariff concessions were granted in the national schedules during 1977, and 45 concessions were granted in the lists of exclusive advantages which cover concessions granted only to the less-developed member countries--Bolivia, Ecuador, Paraguay and Uruguay. The number of concessions are not a measure of the increasing liberalization of intra-LAFTA trade, however, since in recent years almost all of the concessions cover only a 1- or 2-year period, i.e., although some concessions represent the addition of new products to the lists, the majority are renewals granted from among those agreements that would otherwise expire each year. Moreover, in contrast to the practice in the 1960's, when a concession was extended to all other members or to all the less-developed member countries, most of the agreements are now bilateral.

During 1977, two complementation agreements were concluded by Argentina and Mexico. 2/ One involves the generation, transmission, and distribution of electricity and includes 15 products. The second relates to electronic and electrical communications equipment and includes 14 products. The newly approved agreements were to become effective March 1, 1978.

1/ Although the dominance of Argentina and Brazil reflects their size and more advanced industrial development, these factors also apply to Mexico. In that case, however, distance from the other LAFTA countries has been the predominant factor, and Mexico's neighbor, the United States, remains by far its most important trading partner.

2/ For a discussion of complementation agreements see Operation of the Trade Agreements Program, 25th Report, USITC Publication 708, 1973, p. 122.

These arrangements for dividing the various production facilities of an industry between two or more countries include a provision to exchange freely the products or, in some cases, the product parts in which each country has specialized. Some of the agreements essentially consist of an arrangement between the subsidiaries of a major foreign producer. Others are more significant in that they represent coordination to assure complementation, rather than competition, in production as a strategy of industrial development. Perhaps the best example of the latter is to be found in the agreements among the countries of the Andean Common Market, which until 1976 maintained a highly restrictive policy toward foreign-owned investment.

Andean Common Market .--The Andean subregional group was formed under the Cartagena Agreement of 1969 in response to LAFTA's major problem--the large differences among the 11 member countries in both size and stage of development. As a more homogenous group of participants, the five initial members of Andean Common Market (ANCOM)--Bolivia, Chile, Colombia, Ecuador, and Peru--have endeavored not only to increase the pace but also the degree of integration, with particular emphasis upon the close coordination of projects in capital-intensive industries and of controls over foreign investment. Venezuela has been actively involved from the beginning, but did not formally join the group until 1974. Chile, however, began unilaterally to reduce its tariffs and to encourage investment by foreign companies following the overthrow of the Allende government in 1973; these policies, which were essentially in conflict with those of ANCOM, led to Chile's withdrawal from AMCOM in October 1976. 1/

Although intraregional exports accounted for only 3.6 percent of the Andean countries' total exports in 1976, ANCOM serves as an important outlet for the processed goods and other manufactured products of the member nations. Data released by the Junta of Cartagena show that when trade in primary products is excluded, the region absorbed approximately 25 percent of its exports in 1976; as a share of all commodities traded within ANCOM, manufactures amounted to 20 percent in 1976, compared with only 4 percent in 1969.

However, the growth of trade within ANCOM has been unbalanced. Colombia was the largest intraregional exporter in 1976 and accounted for 40 percent of the trade in processed goods. Venezuela and Ecuador ranked second and third, respectively; although ANCOM countries are the most important outlet for their manufactures, oil is a substantial portion of their exports to the other

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1/ The Chilean Government cut tariffs of more than 90 percent on average in 1972 to less than 32 percent in 1976 and to 16 percent by the end of 1977. By June 1979, all but nine dutiable products will be subject to a uniform tariff rate of 10 percent. In turn, a substantial portion of the large volume of foreign capital now flowing into Chile, i.e., since its withdrawal from ANCOM, is being invested in export-oriented industries such as food processing, paper goods, metal fabrications, and petroleum products. In contrast to Chile's open-door investment policy, the changes made by ANCOM in 1976 eased controls over direct foreign investment only to the extent that member countries are now permitted greater flexibility in adapting the group's rules to their individual economic realities so long as the basic principles of the system are not undermined.

members of ANCOM. Together the three countries accounted for 85.9 percent of intraregional exports in 1976. Peru was the principal importer, making 44 percent of all intra-ANCOM purchases, yet accounting for only 9 percent of the export sales. Because Bolivia is the least developed member country, its contribution to trade within the region continues to be small.

The sectoral program dealing with the development of the automotive industry was approved at the Nineteenth Special Meeting of the Andean Commission, held September 12 and 13, 1977. Although a number of production and exchange agreements were still required, the announcement of a general accord among the five nations represented a major breakthrough after more than 4 years of difficult negotiations. Under the basic plan, each country will be responsible for the production of two or three types of cars or trucks, 1/ but is not required to produce all of the parts of the vehicles assigned to it. Rather, in order to take advantage of economies of scale as well as differences in the skills and availability of labor in member countries, some parts can be made anywhere within the subregion. Plans include making arrangements to purchase some vehicle parts from other LAFTA or third countries where lower costs have already been realized through the economies of scale attained in larger markets. 2/ To comply with the condition of national origin, the country assigned the vehicle is required to manufacture its more complex components, including engines, transmissions, and steering mechanisms. Thus bilateral arrangements--most of which at the end of 1977 remained to be worked out--will permit, for example, the assembly of a car in the assigned country from components produced in two or more countries; or, on the other hand, the assigned country may authorize the assembly of a vehicle by another country within the subregion.

The automotive project is the third Sectoral Program of Industrial Development to be approved. The two earlier programs, providing for the joint development of the metalworking and petrochemical industries, must be rewritten to reflect the departure of Chile from ANCOM in October 1976, i.e., Chile's assignments must be divided among the remaining members. Negotiations to include Venezuela in the metalworking program, which was initially approved before Venezuela joined the Market, are also continuing. No concrete progress was made in settling these issues in 1977.

Central American Common Market.--Intraregional exports were \$534.7 million in 1976, or about 17 percent of the total exports of the five nations. Guatemala continued to lead in value of sales and was the only

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1/ Four types of automobiles (categorized on the basis of cylinder displacement), six types of trucks and one four-wheel drive vehicle (all categorized by weight) have been allocated among the five countries. The program schedule designated Dec. 31, 1978, as the date by which members were to select the basic models and makes that they intend to produce under the assigned categories.

2/ On the other hand, a number of automotive parts are already being produced by the transnational companies operating within ANCOM. These American and foreign companies have been influential in formulating the sectoral program and will play an integral role in managing the production process.

country with a favorable balance of trade within the Central American Common Market (CACM), with its exports accounting for more than one-third the intra-area total. The products of El Salvador ranked next in value followed by the exports of Costa Rica and Nicaragua, with each country representing in the range of 20 percent of the area's trade. The participation of Honduras has been small since its withdrawal from the group in 1969 following an armed conflict with El Salvador; however, trade between Honduras and the CACM members, with the exception of El Salvador, has continued on the basis of bilateral treaties.

Almost 95 percent of CACM trade consists of manufactures, reflecting the impetus provided by the market in attaining the region's present level of economic diversification under a policy of import substitution. Without access to the CACM, which provides a market of 18 million people, most of the industrial projects undertaken by these countries would not have been feasible, and the CACM still remains the major outlet for their manufactured goods. On the other hand, the continued growth of Central American industrial capacity in the 1970's has resulted in significant excess capacity, leading to an increasing tendency of these countries to raise barriers to the trade of import-sensitive products--primarily textiles, shoes, wearing apparel, and processed foods--as they each seek to protect their domestic businessmen and labor forces from regional competition. Such protective barriers have been a major cause of the weakening of the CACM institutions in recent years.

The result has been an increase in the relative importance of extraregional exports, with intraregional trade declining from 23 percent of the five nations' exports in 1970 to 17 percent in 1976 and an estimated further decrease as a percentage of total exports in 1977. At the same time, the economic growth of the region has continued under the impetus of new international export ties. High prices for traditional export products--in particular, for coffee--have further increased Central America's extraregional export earnings, especially in 1976 and 1977.

With this shift in emphasis, recent efforts to revitalize the integration process have focused upon developing a unified international commercial policy to protect and promote extraregional exports. Projects underway in 1977 included a new tariff nomenclature based on the Brussels international system, a new common external tariff on imports, and the coordination of other customs reforms. The Central American Governments also initiated or renewed joint efforts to promote the development of the agricultural sector, particularly the production and marketing of basic grains.

Caribbean Community.--Intra-area exports of the four more-developed Caribbean Community (CARICOM) countries--Barbados, Guyana, Jamaica, and Trinidad and Tobago --amounted to $264.7 million in 1976, representing an increase in value of only 1.5 percent as compared with exports in 1975 and a slight decline in regional trade as a percentage of their total exports. This relationship exemplifies the overall trend in the trade of the CARICOM countries since the Caribbean Community's inception.

A major factor limiting the growth of trade within the Caribbean Community is reflected by the relative share of each country. Trinidad-Tobago has consistently commanded the largest share of intra-area exports and accounted for 59 percent in 1976, with such exports consisting not only of oil, its major export commodity, but also of a number of industrial products for which the other CARICOM countries are the primary export outlet. On the other hand, Guyana and Jamaica not only depend upon imported oil, but normally have led in total imports of regional products; together they accounted for 60.4 percent of the intra-area import total in 1976, while their combined share of export sales to the region amounted to only 32.8 percent. Barbados also consistently imports more from the region than it exports. Although Barbados is the most dependent of the four key members upon CARICOM as an outlet for its products, with the region accounting for about one-fourth its total exports, Barbados' annual share of export sales has been the smallest (8.2 percent in 1976) while imports as a share of total intra-CARICOM imports have been considerably larger (17.8 percent in 1976). By the end of 1976 an acute shortage of foreign exchange forced both Jamaica and Guyana to impose limitations on the quantity of their imports from other CARICOM members. More recently and partly as a result of this action, Barbados has experienced a serious balance-of-payments problem.

The problems of the Caribbean Community continued to deepen throughout 1977. The trade barriers Jamaica and Guyana were obliged to erect had a severe effect upon the exports of Trinidad-Tobago in particular. Trinidad's nonoil exports to the region in January-June 1977 are estimated to have been less than its imports from the other CARICOM countries, with sales to Jamaica declining by more than 65 percent. Although the loss of foreign exchange, resulting from the fall in Trinidad's regional exports, was absorbed by an increase in both the price and production of crude oil, production and employment in its manufacturing industries declined sharply.

Since growing free trade in hundreds of manufactured goods is CARICOM's major achievement, the quantitative restrictions imposed by Guyana and Jamaica represent a serious setback in the integration process. 1/ In addition, cooperation in finance and aid came to a standstill, plans for joint projects were shelved, and efforts to hold a conference of heads of government for the first time since December 1975 failed.

Association of Southeast Asian Nations 2/

Following the considerable progress of 1976, the Association of Southeast Asian Nations (ASEAN) settled down in 1977 to reconcile a regionally integrated organization with the realities of national priorities and world politics. The dramatic breakthroughs which emerged from the Bali Conference in February 1976 were diluted during the following year as the Governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand submerged themselves in the slow process of producing tangible trade and infrastructural advances. The similarities of the member states, excepting Singapore, as

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1/ By the end of 1977 an official committee of the Trinidad and Tobago Governments had drawn up a proposal to erect a system of selective import controls on goods from Jamaica and Guyana.

2/ There are five member countries of the Association of Southeast Asian Nations: Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

rural economies with similar resources and similar exports have limited the ability of the five to reach accord on either trade concessions or regional projects. Nevertheless, the willingness of the five to persevere in their movement toward economic integration and social cooperation has led to strong expressions of support from other nations with interests in the region.

The most important expression of support was the conference in 1977 between Prime Minister Fukuda of Japan and the ASEAN foreign ministers, in which Japan committed itself to financial support for regional projects. Japan would improve market accessibility for ASEAN exports through its general system of preferences, in which a cumulative rule of origin would be established for the group. Continued Japanese support is generally seen as a basic requirement for the success of the group as an economic entity and as a stabilizing influence in a region which has suffered from significant destabilizing political developments since 1975.

Industrial projects

The major accomplishment at the 1976 meeting of ASEAN ministers was the decision to support the development of a regionally-integrated industrial base. Initially the plan was to complete five projects distributed among the member states: urea plants in Indonesia and Malaysia, a superphosphate plant in the Philippines, a diesel engine plant in Singapore, and a soda ash plant in Thailand. The output from these plants would be eligible for preferential tariff treatment and preferences in Government procurement in all ASEAN nations and would receive special tax incentives as well.

When ASEAN ministers met again in 1977, only the Indonesian plant received final approval. Feasibility studies were to continue on the other projects. The plant in Indonesia is expected to begin production in 1981. It was in the planning stage on a national level before being offered the support of ASEAN as a whole. Financing is expected to be arranged on the basis of a 75-percent loan/25 percent equity. Indonesia will have three-fifths of the equity, and each other member state will have 10 percent. Prime Minister Fukuda of Japan gave a substantial boost to the solution of the financing problem when, in meeting with ASEAN leaders, he extended a pledge of $1 billion in aid. These funds are to become available for project financing contingent upon the official designation of a project by ASEAN and upon final confirmation of its feasibility.

Some difficulties in planning have been raised because of the conflict between national interests and the goal of regional integration. The decisions to grant tariff and procurement preferences for the output of the plants are two areas of contention. It is expected that the tariff preferences will be in the neighborhood of 10 percent and that the procurement advantage will be 2 to 3 percent.

Each of the plants has private competition--and, especially in the case of Indonesia, Government-owned competition--in one or more of the ASEAN countries. There is great concern that such competition should be granted some form of compensation for the adverse effects of the preferences.

Discussions have also been held concerning the possibility of limiting the output of the projects to items which will not compete with existing or planned production from other plants, e.g., Singapore will not produce diesel engines of less than 500 horsepower for sale in Indonesia. Such restrictions may result in failure to achieve economic levels of production and might ultimately lead to the withdrawal of support for some projects if reconciliation is not achieved. To this end, further consideration of alternative projects is being given in several of the ASEAN nations and planning groups.

Tariff concessions

ASEAN ultimately expects to become a free-trade area in the manner of the European Community. Its first step in this direction was agreement on preferential tariffs for 71 products covering about 3 percent of intra-ASEAN trade, effective January 1978. The margin of preference on these items is mostly in the range of 5 to 10 percent. Although this is a very limited step, it is hoped that a much larger set of items will be agreed to in the near future.

One difficulty facing the negotiations is the relative competitiveness of the output of the member states. Only Singapore depends more upon its processing and manufacturing industries than upon its raw materials industries for its export earnings. These similarities in production have caused the first steps to be carefully considered in order to minimize the adverse effect of tariff concessions upon each country's domestic industries. Singapore has, however, concluded a series of bilateral agreements with Thailand and with the Philippines to reduce tariffs on nearly 1,800 items of interest. These reductions have not yet been granted to either Malaysia or Indonesia.

Compensatory financing and export stabilization

Prior to the ASEAN summit in Kuala Lumpur, officials of the organization proposed to Japan that an arrangement between ASEAN and that nation be established with the purpose of providing stabilization of export earnings from certain commodities. This arrangement was to be modeled after the STABEX facility of the Lome Convention between the EC and certain African, Carribbean, and Pacific nations. The initial proposal was for a $300 million to $500 million fund financed by Japan to cover any shortfall in earnings from about 25 commodities, including palm oil and sugar, which are not covered by a similar UNCTAD scheme. Japan expressed interest in the proposal but gave no firm commitment. ASEAN officials put forward the proposal in meetings with U.S. representatives, but received rejections based on the existence of the UNCTAD scheme and the more comprehensive facility of the International Monetary Fund.

Trade developments

ASEAN trade with the world has continued to grow at a substantial pace as the economic improvement in several industrial nations has increased demand for the raw materials which form the backbone of the region's production.

Two-way trade increased by 19 percent over 1976 levels, with exports increasing by 22 percent. The region as a whole maintained a positive trade balance, mainly because of the large surplus of Indonesia as a result of its oil exports. ASEAN trade with the world in 1977 was as follows (in millions of dollars):

	Exports	Imports	Total	Balance
Indonesia-----	10,852.6	6,230.3	17,082.9	4,622.3
Malaysia------	6,088.1	4,468.3	10,556.7	1,619.8
Philippines---	3,151.0	4,269.7	7,420.7	-1,118.7
Singapore-----	8,246.0	10,471.0	18,717.0	-2,225.0
Thailand------	3,491.0	4,579.0	8,070.0	-1,088.0
Total-----	31,828.7	30,018.3	61,847.3	1,810.4

ASEAN supplies approximately 87 percent of the world's natural rubber, 70 percent of its copra, 56 percent of its palm oil, and a large share of exports of rice, bananas, and coffee. About 70 percent of the world's tin originates in the ASEAN countries as well as substantial shares of tungsten, copper, and nickel. Although the region is a major source of unprocessed and semiprocessed commodities, manufactures have increased as a share of exports to more than 28 percent, largely from Singapore and Malaysia.

Japan continued as the largest single trading partner of ASEAN with two-way trade of $15 billion in 1977. About one-half of Japanese imports from the region is Indonesian petroleum. The United States follows closely behind Japan in its ASEAN commerce with nearly $11 billion in goods and commodities changing hands, accounting for 18 percent of all ASEAN trade. The region serves as a major market for U.S. machinery, food, and semiprocessed goods. ASEAN trade with the the United States in 1977 was as follows (in millions of dollars):

	Exports	Imports	Total	Balance
Indonesia------	3,011.4	777.3	3,788.7	2,234.1
Malaysia-------	1,104.6	560.4	1,665.0	544.2
Philippines----	1,113.6	880.7	1,994.3	232.9
Singapore------	1,279.0	1,324.0	2,603.0	-45.0
Thailand-------	333.5	569.2	902.7	-235.7
Total	6,842.1	4,111.6	10,953.7	2,730.5

Intra-ASEAN trade increased by 27 percent in 1977. It is anticipated that as tariff reductions are extended to more items, the natural complementarity of agricultural and manufactured goods produced by member states will lead to an even more substantial expansion of regional trade in the next several years. Singapore continued to have the largest share of intra-ASEAN trade as Indonesia and Malaysia again shared the second position in volume of ASEAN trade, as shown in the following tabulation (in millions of dollars):

	Exports	Imports	Total	Balance
Indonesia------	888.6	1,154.9	2,043.5	-266.3
Malaysia-------	663.7	1,150.6	1,814.3	-486.9
Philippines----	112.3	109.5	221.8	-2.8
Singapore------	1,723.0	1,534.0	3,257.0	189.0
Thailand-------	246.2	706.3	952.5	-460.1
Total	3,633.8	4,655.3	8,289.1	-1,027.1

Library Cataloging Data

U.S. International Trade Commission.
Operation of the Trade agreements program, 29th report, 1977, prepared in conformity with section 163(b) of the Trade act of 1974. Washington, 1979.

125 p. illus. 28 cm. (USITC Publication 1007)

1. Trade agreements program. 2. Contracting Parties to the General Agreement on Tariffs and Trade. 3. European Economic Community--Commerce. 4. Canada--Commerce. 5. Japan--Commerce. 6. Latin America--Commerce. 7. Tariffs--U.S. I. Title.

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